

Title Chat

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“Appraisal Inflation” What is It?

Let us Chat about something that is not title or closing related but is part of the real estate sales and closing process. We all know that in the normal real estate transaction we have a seller who wants to sell the property for a certain amount of money and a buyer who wants to buy the property for less than the amount the seller wants. Through the process of negotiation they may reach an agreement on the sales price. This price takes in many factors, such as condition and size of the improvements, location of the property, etc.

Is the property worth the price the parties have agreed to?

If the purchaser applies for a loan to assist in purchasing the property, one of the things the lender will do is to verify that the property is worth at least the amount of the sales price. One way they verify this is by having an appraiser give a written report on what the appraiser has determined to be the current market value of the property.

What happens if the appraiser is pressured to report a value greater than would be determined by using normal appraisal techniques? Obviously, based upon normal lending rules and the appraisal, the lender is normally willing to approve loans in amounts up to some percentage of the appraised value. If the appraisal is inflated, then the loan could be for an amount in excess of what the lender would normally be willing to loan.

The phrase “appraisal inflation” has been coined to describe this process. It is getting much notoriety recently. If you are interested in reading more about appraisal inflation we would refer you to the American Land Title Association website at <http://www.alta.org>. Look in the 2005 *Industry News* section for a three-part article on Appraisal Inflation, a major real estate problem.

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