CONSTRUCTION LOAN APPRAISAL PROCESS

An appraisal is a key step in many large, financed purchases, from homes to major equipment to commercial or farming facilities. Their purpose is to make sure that the collateral for the loan has an appropriate value to cover the amount of the loan. But what about when there's no collateral to appraise?

"It may seem strange, but a loan for a home that isn't even built yet still requires an appraisal before the lender will agree to finance your project," says Allison Sechrest.

To accomplish the appraisal, the borrower will need to provide house plans or blueprints, a specifications sheet listing all the materials to be used, and a line-item cost estimate for the house being financed. The appraiser will then complete an "as will be" appraisal of the house, assuming it is finished exactly as planned.

The appraiser will look at three things to assess the value of the future house. First is the cost of building as provided by the contractor. Second, the appraiser reviews comparable homes in the area, comparing both the land and the planned house, considering things like the number of bedrooms and bathrooms. Finally, they'll look at overall demand for housing in the area. The appraiser will also typically visit the build site to view the land, and may call the contractor or homeowner with additional questions.

Ideally for all parties – borrower, contractor and lender – the appraisal results in a value that matches or exceeds the cost estimates. If the appraised value is significantly lower than the estimated cost, the lender may agree to loan only on the appraised value, with the homeowner needing to cover the cost difference.

"An appraisal typically takes two to three weeks to complete, but once it's finished the construction loan process can continue to closing, and getting you on your way to your new home," says Allison.

Allison Sechrest
Loan Officer, Carolina Farm Credit