

Inspections, Appraisals, and Surveys, Oh My!

Written by Gayle Machetta – Vice President, Loans

Fall, 2015

Several years ago, a friend asked me why there are so many people involved in a real estate transaction with every one of them charging a fee for their service. This was prior to the most recent crisis in the mortgage lending industry which has been credited with causing the economy to crater. Even at that time, people noticed there were lots of fees to various providers of services as a part of a real estate loan. And today, there is even more scrutiny about those people who provide the services.

For the most part, everyone who provides a service in a realty transaction, by law, must be independent of the others who participate in the transaction. Each professional is specifically trained and educated in different aspects of the task at hand to provide unbiased opinions about the property which is collateral on a loan on behalf of the buyer and lender.

One of the first of these type services are inspections, which are completed to determine if the home is in good condition and free of structural, mechanical, or systemic defects, or to note what repairs may be needed so that the buyer and lender are aware of those needs. Specific inspections may also be conducted to ensure a home is free of insect infestations which could lead to other defects and needed repairs. These inspections are typically delineated in a sales contract and the costs for the inspections are included in the *Good Faith Estimate of Fees* provided to buyers and borrowers by the lender. Additional inspections may be conducted on older homes to determine the presence of hazardous conditions such as lead-based paint, asbestos, or other environmental concerns which should be disclosed to buyers at the time a contract is written. Often times, unless a realtor is involved in a transaction, sellers are not aware of the legal requirement to furnish such disclosures.

Appraisal services are provided at the specific request of the lender who is funding the loan to purchase a property and should be comprehensive in scope to determine the market value of a home, which in turn determines how much money may be loaned against the property. There are different levels of qualifications for appraisers, and some lenders will require a more detailed appraisal than others depending on the type of loan requested. When conducting an appraisal, the professional will physically inspect the property, measure square footage of the structures and the lot, and take photographs of the property. They will also conduct a search of records to determine recent sales of comparable properties and perform calculations of replacement cost. If the property is income producing, they will also compute sources of income and expenses to help with a determination of the value of a property.

Land surveys provide a physical diagram with the measurements plotted for the boundaries of a property as well as the location and size of structures on the property and may include fence lines, driveways, and other easements such as roadway and utility corridors. Surveyors will take site readings with specific instruments and sometimes reference images via satellite to accurately document the exact physical location of the property. They may also be employed to determine elevations of specific structures if the property is in a designated flood zone area as a means of saving money on insurance.

Each professional involved in a transaction charges a fee for their service, but the services are a necessary, and sometimes legal, part of ensuring that all parties in the deal receive a fair and informed understanding of the property being sold or pledged as collateral. Fees for the services are monitored for reasonable and customary amounts as a part of the transaction. As such, the borrower and buyer have the opportunity to shop for these services and compare prices among providers to determine the best deal for the consumer. Even after doing this business for over 25 years, I admit there are times I can see why people feel like buying a home is like traveling thru Oz....I've often thought I'd make a good Dorothy, handling the lions, and tigers, and bears in my line of work, Oh My!