Appraisal requirements

September 2021

Yes Capital Atlantic Inc.

2.4.7.4.5 Appraisals

Purpose
Market value, the benchmark of mortgage loan underwriting, is defined as, the highest price in terms of money which a property will bring in a competitive and open market under all conditions requisite to a fair sale, the buyers and sellers each acting prudently, knowledgeably and assuming the price is not affected by stimulus.
An appraisal report prepared by an accredited appraiser is the tool we use to determine a fair market upon which we may provide mortgage financing.

2.4.7.4.5(1) - Criteria to be met by the appraiser
New Construction

- New construction mortgages must include the total cost of the project based on the materials and labour being used.
- All appraisal inspections for new construction advances must include the cost to complete.

All Properties

- the property must have been inspected internally and externally by the appraiser who completed the report; this would have allowed him/her to determine a basis for comparison to other similar properties in terms of structural integrity and extent of regular maintenance, and then to report on its comparability
- any obvious structural and deferred maintenance must be reported along with the impact on marketability
- the report must contain a brief description of the property which includes the age, style, number and type of rooms, extras and/or inadequacies, and a reference to the surrounding area such as types of properties, availability of amenities/services and value trends
- the report is to provide a valuation of the property using the following methods:

Methods used by the appraiser to determine value	
Direct Sales Approach	Is required on all residential property mortgages. • is the most realistic approach on residential properties as the majority of single-family properties are not built with the intention of generating rental income • produces a value estimate based on selling price, listing price or offerings of comparable properties • resulting data collected is analyzed and necessary adjustments are made to reflect differences in age, style and use • sales data, which occurred in the previous 3 months, are considered the most reliable; therefore, sales beyond this time frame should be closely scrutinized
Cost Approach	Is required on all residential property mortgages. • based on the replacement cost net of the improvements, less depreciation, plus the value of the land; it is required in all residential and commercial valuations • is not frequently relied upon, as it is largely dependent upon the appraiser undertaking the difficult task of estimating depreciation; forms of depreciation, as applicable, are indicated on the report and include – physical deterioration, functional obsolescence or inadequacies caused by lack of a suitable layout, style or design, or location obsolescence, as caused by influences from the outside or neighboring properties nearby, (as in an industrial manufacturing plant located next to residential community resulting in noise, traffic, pollutants, etc) • in most appraisals this approach is a bench mark and a means of tying in the other value methods utilized; it is most commonly used against new homes or existing homes that are unique to the neighborhood • is useful for estimating the market value of rural properties where there are limited comparable sales
Income Approach	Is required on all commercial appraisals and in valuing every income producing property. • is determined on the basis that value is derived from the present worth of an income stream that a property is capable of producing when developed to its highest and best use.

The lender should review the entire appraisal report to establish your own opinion rather than simply taking the appraisers report at face value.

2.4.7.4.5(2) Contents of the Appraisal Report:

Appraisal reports completed by an accredited appraiser are to be verified by the lender to confirm that the property being financed meets the standards of Yes Capital.
The appraisal report should include:

- The purpose of the appraisal.
- a definition of the property rights being appraised
- a definition of the market value and comments on the marketability
- an identification of the property
- the tenure of ownership
- a date effective within the last 1 year (lender may still want a drive-by to confirm the condition of the property)
- a summary of market trends and conditions, a description of the neighborhood
- a description of the property's highest and best use
- a description of any built-ins including condition of short lived items such as carpets, etc
- an assessment and taxes
- an estimated market value of the property using the applicable approaches to value
- photographs of the subject property
- a map showing the location of the subject and of the comparable properties.
- a statement detailing the scope of the report, the assumptions and limiting conditions including, if applicable, environmental hazards and any information, pertinent to the appraisal, that is unavailable but that may affect the analysis, opinions and conclusions
- a signed and dated certification that the subject property **was** or **was not** inspected by the appraiser. The report is to be prepared by or approved by a AACI or CRA designated individual.

Construction Mortgages: All Construction Appraisals must include the cost to complete for the entire project. Therefore, each subsequent inspection should include a cost to complete for the lender to determine the amount of draw at each advance.

Home Renovation Mortgages: appraisals completed for home renovations are to include an "as is" valuation and an "as completed" valuation.