

What is a Bankruptcy Appraisal?

When you file for bankruptcy, you must provide the court with a total financial snapshot of your current income, debt and other obligations. While establishing values for most of these things is relatively easy, determining the current value of your home can be challenging. A bankruptcy appraisal is the best way to prove to the court that your value, as written in your bankruptcy documents, is accurate. The experience, credibility and industry reputation of the appraiser are critical to the bankruptcy judge in accepting or rejecting your home valuation as accurate.

Appraisal Type

Much like the appraisal required for getting a mortgage loan, a bankruptcy appraisal report establishes an opinion of your home's fair market value. By comparing your home to between three and six recent house sales in your neighborhood, the appraiser uses factual data to support the value certified in the report. While the certified appraiser establishes a specific market value of your home, like all appraisals, the resulting number is an opinion of value.

Significance

Bankruptcy reform legislation adopted in 2005 makes the bankruptcy appraisal highly important in whether the court approves you for a Chapter 7 liquidation bankruptcy or requires you to file a Chapter 13 debt repayment bankruptcy. Although a Chapter 13 bankruptcy requires that you work out a repayment plan with creditors, it is easier to keep your home, since you are not seeking total liquidation of all assets, and possibly have second mortgage or other liens be declared unsecured debts if you have no equity after subtracting your first mortgage balance. You can also protect some of your equity, but the amount depends on your state's exempt property laws. The bankruptcy appraisal and the judge's belief in its accuracy may influence whether you can keep or lose your home.

Bankruptcy Court Authority

The bankruptcy judge has final authority for all proceedings, including accepting or rejecting your home appraisal report and value. This authority to make or break your bankruptcy petition makes it crucial that the person or firm performing your bankruptcy appraisal prepare a thorough, detailed and strongly supported report. Typically, bankruptcy judges will only accept state-licensed appraisers with a proven history of preparing accurate appraisals. The court recognizes the importance of a strongly supported appraisal, as should you and your attorney, to permit a successful bankruptcy filing.

Experienced Appraisers

While few appraisers perform only bankruptcy appraisals only, there are typically some highly experienced, well-respected appraisers, with a proven history of creating high-quality bankruptcy appraisals, in any area. Choosing an appraiser who specializes in performing bankruptcy appraisals is a wise option. Veteran bankruptcy judges tend to be more comfortable receiving appraisal reports from appraisers that understand the process and the significance of preparing a fully supported real estate appraisal for bankruptcy proceedings.