

# Refinance appraisal: How it works and what to expect

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When refinancing your mortgage, your lender will likely have a professional appraise your home to determine its value. Appraisal results can impact your new loan, such as determining whether you need to pay for private mortgage insurance (PMI).



Knowing what to expect from the appraisal can help you navigate the refinance process with more confidence.

## What is a refinance appraisal?

A refinance appraisal is often part of the underwriting process when refinancing your current mortgage to a new one. As with the appraisal conducted when you first purchased the home, a refinance appraisal evaluates the property's condition and compares it to similar homes nearby in order to determine its value. The process may be more streamlined for a refi, especially if you're working with the same lender.

## Why do lenders require home appraisals for a refinance?

Lenders typically require a home appraisal before approving a mortgage refinance, because it helps them assess the home's value and condition to ensure the loan makes financial sense.

An appraisal can serve several purposes:

- Confirming the home's value. The appraisal assesses your home's current value, ensuring the lender isn't offering more than the property is worth, since the home serves as collateral if you default.
- Evaluating the property's condition. The appraisal also provides the lender with a snapshot of how well the home has been maintained and how it compares to similar properties in the area.
- Measuring your home equity. Your equity — the difference between the home's appraised value and your remaining loan balance — determines how much cash you may be able to take out with a cash-out refinance. It also determines whether or not you'll need to pay PMI.

Appraisals are crucial for lenders to protect their investment, but a refinance appraisal can work in the borrower's favor, too. For example, if you've made any updates or improvements since you bought your home, it may have increased in value more than you realize. And if you're looking into a cash-out refinance, a higher appraised value could enable you to borrow a larger amount of money.

## What factors do refinance appraisers consider?

Several aspects of your home are analyzed to help the appraiser estimate its value in the current market, including:

- Location. Appraisers consider your home's proximity to schools, parks, shopping and other amenities. They also evaluate recent sales of similar homes in your area.
- Size. They assess your home's square footage and lot size, as well as the number of bedrooms and bathrooms.
- Interior systems. Appraisers assess your plumbing, heating/AC, electrical and other major home systems.
- Exterior. Garages, decks, porches, pools, landscaping and general curb appeal are also taken into account.
- Home improvements. Updates to key areas, such as the kitchen, bathrooms and roofing, may boost your home's value. If you're refinancing with the same lender or appraiser, they may give extra attention to changes or upgrades made since the original loan.

## How the appraisal process works

A refinance appraisal typically occurs early in the loan process. The timeline can vary by lender, but generally takes a few days to complete and follows these basic steps:

- Once your refinance application is underway, the lender will order an appraisal from an independent, licensed professional to assess the current value of your home.
- The appraiser contacts you to schedule a time to visit the property in person. In most cases, you can be present for the visit.
- During their visit, the appraiser evaluates both the interior and exterior of the home. The physical inspection typically lasts anywhere from 20 minutes to a few hours, depending on the size and complexity of the property.
- The appraiser also reviews recent comparable sales in your area, referred to in real estate lingo as "comps."
- Finally, the appraiser prepares a report estimating the market value of your home, which is sent to your lender.

During the pandemic housing boom, when rates were super-low, appraisals were a chokepoint for deals — there was more demand for appraisals than appraisers available to complete them. In a bit of good news for current refinance borrowers, the housing market has slowed enough that appraisals no longer hold up deals.

Refinance and purchase appraisals follow a similar process, but they differ in a couple of key respects:

- Purchase appraisals. These rely on the home's agreed-upon sale price as a reference point. The appraiser uses that figure as a benchmark. The borrower is not present for these, since the home is not theirs yet.
- Refinance appraisals. These do not have a sale contract to guide the valuation. Instead, the appraiser bases the home's value entirely on factors such as comps, property condition and current market trends. The borrower can usually be present for refinance appraisals, which allows you to point out any upgrades or repairs that may help support a higher valuation.

The appraised value of your home helps determine your equity, loan terms and whether the refinance can move forward.

- If the appraised value meets expectations. The appraisal confirms the property is sufficient collateral for the loan amount, and the loan can proceed without major changes.
- If the appraised value is higher than expected. A higher-than-expected appraisal can give you more flexibility in your refinance. You may qualify for a better interest rate based on your increased equity. If you were paying PMI and the appraisal pushes your equity past 20%, you may be able to eliminate that cost. A higher value may also let you borrow more through a cash-out refinance.
- If the appraised value is lower than expected. If the appraisal comes in low, the lender might reduce the loan amount, require PMI or even deny the refinance.

If your home appraisal is low

If you disagree with the appraised value and think it should be higher, you have a few options:

- Review the report for errors. Comb through it carefully to ensure it accurately reflects the features and condition of your home.
- Submit a reconsideration of value. If you find inaccuracies or better comps, you can ask the lender to challenge the appraisal by submitting supporting evidence.
- Request a second appraisal. Some lenders will allow a second opinion (although the cost comes out of your pocket).
- Adjust your refinance strategy. If the low appraisal limits your options, you may need to adjust your loan amount or switch to a different loan type.
- Start over. If you're not satisfied with the results, you can always choose a different lender and start fresh, hoping for a more favorable outcome.

Cost of a refinance appraisal

The cost of a refinance appraisal can vary based on the size, condition and location of your home, among other things. According to HomeAdvisor, a typical home appraisal costs between \$314 and \$424, with the average being \$358.

Appraisal fees are usually included in the closing costs a mortgage borrower pays, though they may be rolled into the loan instead in some cases from the outside without entering the home. It's sometimes used for FHA or VA refinances and became more common during the COVID-19 pandemic.

