

Tips for Home Buyers

7 Actions for When the Appraisal Comes in Too Low

Recent research showed that one or more home sale contracts fall out of escrow each month for more than a third of real estate pros. Autopsies of these dead deals often reveal the lethal culprits are appraisals that come in below the agreed-upon purchase price.



While low appraisals can be potent deal killers, if you add these five steps to your appraisal response plan you may be able to save yourself from losing out on all the hard work you've put into locating your dream home.



1. Comb for small errors.

Read the appraisal report front-to-back to check for any errors – it's not unheard of for an appraisal report to miss a bedroom or underreport the home's square footage.

Clerical errors can often result in the application of the wrong "comparables" when it comes time for the appraiser to pick the properties to use as benchmarks of a home's fair market value.



2. Check the comps.

Whether or not you find actual errors in the details about the home you're buying, check in with your agent about whether the comparable properties used by the appraiser were reasonable.

If your home was compared with properties from a different neighborhood, school district, town or construction era, that can have a serious affect on how a property is valued.

Why does the appraisal matter?

Mortgage lenders will only fund transactions up to a certain percentage of the appraised value of a home.

If the home appraises low, either the buyer must come up with an increased down payment, the parties must agree to a price reduction, some combination of both of these must happen, or the deal is off.



3. Request a second opinion.

If the appraiser ignores your request to revise the report, don't be afraid to escalate your request to the lender.

If you're working with an expert agent and mortgage pro that both believe strongly in your case, they may be able to plead it to the underwriter and request a second appraisal.

If the second appraisal supports your claims, listing the correct property details or more accurate comparables, the lender is much more likely to exercise discretion in disregarding the first appraisal, and accept the second opinion.

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Did you know?

Changes in the mortgage industry over the last few years have led to instances in which appraisers who have little or no familiarity with hyper local nuances that can affect value are assigned to your property.

Make sure a professional who understands your local market conducts your appraisal.



4. Renegotiate your sales price.

Low appraisals disappoint everyone around the negotiating table. If the sellers have the leeway (read: equity) or their bank agrees (in short sales), they might agree to a price reduction or complete some needed work to make the deal happen.

5. Help close the gap.

When trying to negotiate a price reduction, agreeing to help sellers close the valuation gap by increasing your down payment can be a great motivational tool.

Some buyers refuse to do this on general principle because they feel like they're overpaying for the property. Others realize that appraisals may come in low for reasons that aren't related to the property's value, like a scarcity of comparable sales in the area, and figure that to get the home they want, they're willing to kick in a little extra dough.

Quick Tip:

Work with your agent to figure out which bargaining position really works for you.



6. Change lender divisions.

Mortgage banks have more control when it comes to choosing appraisers than mortgage brokers do.

Fortunately, many experienced local mortgage brokers work for companies that also have banking divisions. They may be able to process your loan through that division in an effort to get your transaction a fresh start and work around a low appraisal. Ask your mortgage broker if their office has a banking division if you're not sure.

7. Change your lending company.

Mortgage brokers can no longer handpick appraisers for a given transaction.

Small mortgage banks and local, hybrid broker-bankers tend to fill their appraiser short lists with pros who have more local experience and can appreciate the uber-important local nuances like those described in #1.

If you run into an appraisal hurdle, talk to your agent about alternative lending options.

Talk to Your Agent

If you feel that a property you're interested in is worth a higher price, talk to your agent and lender about these seven strategies and other tools you can use to overcome an appraisal hurdle that threatens your ownership dreams.