When Homes Don’t Appraise

Technically, purchase appraisals should come in just above the agreed purchase price of the home. However, that’s not always the case. Sometimes there are insufficient comparables. Other times, distressed sales or a fallout from an abundance of foreclosures and/or short sales in the area skew results. Regardless, low appraisals be a real problem for the buyer. This is especially true in rising markets due to limited inventory.

In regards to research conducted by the National Association of REALTORS®, more than 1 out of 5 homes under contract gets delayed before closing because of disagreements or problems connected to the appraisal and 11% of sales contracts fall through due to appraisal issues.

According to Zillow, Trulia, HGTV and other credible sources, buyers have following options. They are:

1. **Come up with more cash** – This sounds like a good idea and is practical if were talking a couple or so thousand dollars. However, some lenders won’t allow buyers to pay the cash difference. In that case, they’ll typically ask the buyer to pay some of the seller’s closing costs. If you can afford to pay the cash difference or cover some of the seller’s closing costs and really want the house, then, by all means, go ahead.
2. **Challenge the appraisal** – Just maybe the appraiser’s estimate of the home’s value was inaccurate. Perhaps certain updates and upgrades were overlooked or there’s an inaccuracy on the appraiser’s report. For example, he or she indicates that only 50% of the basement is finished when, in actuality, 80% is finished. In this case, you can file an appeal (most lenders have appraisal appeal procedures) and ask the appraiser to re-evaluate the home you’re trying to purchase. If the appraiser is amicable to the request, he or she will determine whether any information submitted in the appeal merits a change to the initial appraisal. Additionally, your REALTOR© may be able to provide the appraiser with a list of comparables he or feels is better suited to the house you’re buying. (Homes under contract but that haven’t sold yet may be used as a comparable. Non-MLS listed homes, such as FSBO may also be used as comparables.) Sadly, re-evaluations have little to no effect, as appraisers are often reluctant to change the home’s value. Only 99.8% of all appraisals will end up being adjusted by the original appraiser and the vast majority of

those adjustments don't end up dramatically affecting the final appraised value.

3. **Get a second opinion** – Your lender may be willing to allow another appraiser to look at the property. In some cases, especially if you're a well-qualified buyer, sellers are more than willing to pay for a second appraisal and lenders are open to accepting the subsequent, higher appraisal just to keep the deal on the table. Just keep in mind that ordering another appraisal may not yield the results you're looking for.
4. **Negotiate with the seller** – Negotiating can't hurt and, if you're lucky, you and the seller will both budge a little. Whether you ask the sellers to drop the price below the appraised value, reduce the selling price to match the appraise value, carry a second mortgage for the difference or perhaps even split the difference, this is often the most ideal scenario. It makes the buyer happy and satisfies the lender. As long as you're not in a really hot market or there are no other offers on the table, the seller will usually agree to a rice reduction or splitting the difference especially if an FHA loan is involved. Once people are entrenched in a deal, they usually try to work things out.
5. **Compromising with the seller** – Sometimes sellers will agree to settle somewhere between a full cash contribution and dropping the price. Let's say the home appraises for $10,000 less than what was offered. A seller could accept $5,000 in cash in exchange for dropping the price by $5,000. Again, if you can afford to do this and really want the house, then, by all means, go ahead.
6. **Increase your down payment –** This covers the difference in the appraised value and allows you to avoid any PMI. However, you'll need to decide you're financially able to increase the down payment. The lender will also have to determine if you'll have enough reserves left over after closing to still qualify for the loan. If you can increase the down payment, but don't have enough reserves left over to still qualify for the loan, then the lender isn't going to allow you to increase your down payment.
7. **Cancel the transaction and walk away –** Many purchase contracts contain loan and appraisal contingencies. These contingencies, if property written, allow buyers to cancel the contract and require the seller to release the earnest money to the buyer. Just keep in mind that if you do this, you'll still be stuck paying an appraisal fee.