

A property appraisal is a critical part of the loan approval process. When banks have a lending guideline such as “80% Loan to Value”, they base the Value on the **LOWER** of **Purchase Price** or the **Appraised Value**. For example: on a \$1 million dollar purchase they will lend \$800k. However, if the property is appraised low at \$900k the investor would cap the loan at \$720,000 (\$900,000 x 80%).

	APPRAISED AT PURCHASE PRICE	LOW APPRAISAL
<b>PURCHASE PRICE</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
<b>LOAN TO VALUE (LTV)</b>	<b>80%</b>	<b>80%</b>
<b>APPRAISED VALUE</b>	<b>\$1,000,000</b>	<b>\$900,000</b>
<b>LOAN*</b> (Calculation: Value * LTV)	<b>\$800,000</b>	<b>\$720,000</b>
<b>DOWN PAYMENT REQUIRED*</b> (Calculation: Purchase – Loan)	<b>\$200,000</b>	<b>\$280,000</b>
<b>EXTRA \$ REQUIRED DUE TO LOW APPRAISAL</b>	<b>NA</b>	<b>\$80,000</b>

If you were planning to borrow only 50% (\$500,000) and the appraisal comes in low, the bank would now view this as 55% (\$500,000/\$900,000). Changing from a 50% LTV to 55% is unlikely to have any impact on a loan; however a low appraisal that increases the LTV from 80% to 85% may have a significant impact.

Appraising is not an exact science. Appraisers have to follow strict guidelines prescribed by Fannie Mae and lenders. Appraisers have to work with the data that is available to them. A low appraisal does NOT necessarily mean you are overpaying. Buyers typically look at enough homes to know that they are paying a fair price but, the value can’t always be supported by an appraisal.

### HOW DO WE AVOID LOW APPRAISALS?

We are not allowed to select a specific appraiser or request a particular value; however, our Appraisal Management Company has been instructed to utilize only a small pool of the highest quality appraisers. We intentionally pay a higher fee structure to do so. While this is no guarantee that the value will be what we want, it typically insures that we get a high quality report by an experienced appraiser familiar with the local market. Communication is key – if the realtor is aware of any concerning issues we invite them to provide information to the appraiser BEFORE the report is generated. A good appraiser will reach out to the realtor to discuss potential problems.

### WHAT HAPPENS WHEN AN APPRAISAL COMES IS LOW?

If you have a financing contingency in your contract, you may be able to walk away and get your deposit back. Instead, you might go back to the sellers and ask them to reduce the price or split the difference. The seller is under no obligation to do so but, they may prefer to do this rather than take a chance of losing you as a buyer, and starting over again. It is likely that another buyer will have the same issue so the seller might be better off renegotiating with you unless they have other offers.

**REBUTTALS.** We are allowed to submit a rebuttal if we disagree with a valuation. While it is typically not easy to get an appraiser to revise a report it is possible if we have can provide factual information that they made errors or omitted alternative comps that we believe should have been used.

## TOP 10 REASONS FOR A LOW APPRAISAL

1. The comps selected by the appraiser for the report are inferior to the subject property but the data in the MLS (Multiple Listing Service) does not make it apparent. (Appraisers don't normally inspect the comps). They wouldn't know if there was a mold issue, asbestos or a nasty divorce that lead to a quick below market sale of a comp.
2. Home prices in your area are increasing so quickly that the comps that sold 6 months ago don't yet reflect this improvement. In areas with rapidly increasing prices this is always an issue.
3. There are insufficient sales of similar homes in your area so appraiser was forced to use comps in a nearby (less desirable) community or school system. Ideal comps should be similar in style and size location and view.
4. The view from your property is better than the comp that sold down the street but it is not obvious in MLS. (The house that sold down street overlooks power lines).
5. Your house has large beautiful finished basement with bedroom/bathroom. Appraisers are required to use much lower value per foot for space below grade.
6. Your house is the nicest and most expensive in area. Upgrades and finishing's might be above what is typical for the area. This is particularly true of coops and Condo's where the square footage plays a major role in value.
7. Pool, tennis court and high end landscaping are attractive features but frequently don't lead to significant higher valuation on appraisals.
8. The appraiser was unfamiliar with nuances of the local market and did not do a good job.
9. Buyer got into bidding war and paid over the asking price
10. Buyer may be overpaying

### PETER GRABEL

Managing Director, MLO  
Luxury Mortgage Corp  
Four Landmark Square, Suite 300  
Stamford, CT 06901

**Direct: (203) 569-4266**

Mobile: (917) 653-9082

Social: [My Website](#) / [Linkedin](#) / [Facebook](#) / [Twitter](#)

Licensed in CT, NY, NJ, MA, PA, FL, CA, CO & DC

NMLS# 84522

