

How to Avoid Appraisal Issues



The first step to crafting any offer that will successfully deal with a potentially low appraisal is determining how much cash your client has to put down. The following example assume the client has up to \$72,000 in cash for a down payment and an 80/20 loan.

Option 1 (recommended): Increase the cash portion of the Sales Price to accommodate an appraised value less than the Sales Price

Assume your clients want to offer asking price of \$300,000 but believe (with your expert advice) that the property will only appraise for \$285,000 and that they are okay paying the difference between a \$285,000 appraisal and their offer price. Your clients will want to make the cash portion of their offer equal 20% of 285,000 plus the difference between the offer amount and appraised value for a total cash portion of \$72,000.

Here's the math:

$$\$285,000 \times 20\% = \mathbf{\$57,000} \quad \$300,000 - \$285,000 = \mathbf{\$15,000} \quad \$57,000 + \$15,000 = \mathbf{\$72,000}$$

Sometimes an offer that accounts for appraisal issues in this way may require educating the other agent or sellers so you may want to include a brief explanation of the offer in a cover letter or email accompanying the offer, **not in Special Provisions**.

Here's a sample explanation:

"Thank you for considering our offer. This attachment is not part of our offer but rather a supplement to explain how our offer deals with the possibility that the appraised value of the property is less the offer (or purchase) price. In lieu of a special provision, we increased the cash portion of our offer from the customary 20% to ____%. Increasing the cash portion of our offer decreases the amount of financing we need, which in turn decreases the appraised value necessary for loan approval and minimizes the risk that the appraisal (to the extent it comes in below the purchase price) could delay or prevent closing. By increasing the cash portion of our offer we have accounted for the amount of variance the buyers are willing to accept between the appraisal and purchase price. If you have any questions about this or anything else in the contract, please do not hesitate to contact me. As reflected by the strength of this offer and the effort that went into putting it together, my clients are excited about the purchasing this home and I look forward to working with you on a successful transaction."

Option 2 (not recommended): Special Provision addressing Appraisal Shortage

If appraised value is less than Sales Price by \$_____ or less, Buyer will increase the cash portion of the Sales Price by the difference (with the Sales Price remaining the same). If the difference between the appraised value and the Sales Price is greater than \$_____, Buyer may increase the cash portion of Sales Price or terminate the Contract pursuant to this clause or any other applicable provision of the Contract.