

Understanding Home Appraisal Values in Today's Competitive Market

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In today's competitive market, buyers are facing some unique challenges and struggles when purchasing a home. Inventory levels and mortgage interest rate are at record lows, and home prices continue to rise. Buyers are finding themselves in bidding wars and often end up submitting an offer above the seller's list price. In this scenario, many buyers are facing the challenges of a "short appraisal", in which the appraised value is lower than the final sales price of the home.

To help understand some of the challenges in navigating today's market, SIRVA Mortgage has provided common questions and answers related to when an appraised value is lower than the sales price of the home:

Other similar properties are listed above the price the buyer is paying. Why aren't they used as comps?

In today's market, bidding wars can cause listing prices to increase rapidly. Appraisers use historical data in their report to determine value, which includes recent closed sales of comparable nearby properties. Appraisers use only sales that have closed before the inspection date to determine the market value. Active listings and pending sales are not used in determining value. In this current, fast-paced and rapidly changing market, the buyer may be offering to pay more for a home than these recent closed sales can support.

How does this affect financing?

A mortgage loan is based on lower of either purchase price or appraised value. If the appraised value comes in less than the purchase price, this can change the structure of the loan. For instance, a buyer may be required to increase their down payment, or they may find themselves in a situation where Private Mortgage Insurance (PMI) is required.



If the appraised value is low, can't the lender just order another appraisal?

A lender is prohibited from ordering a second appraisal in order to obtain a more desirable value. A lender can, however, order a second appraisal if there is a reasonable basis to believe that the initial appraisal was flawed or tainted in the

appraiser's valuation methodology and such basis is clearly and appropriately noted in the mortgage file. The value being less than the purchase price is not itself a "flaw" in the appraiser's valuation process.

Can a lender dispute the value with the appraiser?

After the financial crisis, Fannie Mae, Freddie Mac, and the Federal Housing Finance Agency (FHFA) developed Appraiser Independence Requirements designed to ensure the integrity of property appraisals. These requirements limit the contact a lender can have with an appraiser directly to prevent any type of coercion. A buyer, however, can dispute the report. There is a standard form that the buyer can complete and include additional comparable sales they believe should have been considered. This dispute form can then be submitted from the buyer to the appraiser for consideration. The dispute must come from the buyer, not the lender.

What other options does a buyer have when the appraised value comes in low?

Renegotiating the price with the seller is typically the first course of action. In today's market, however, this can be challenging if the seller has other buyers who are willing to pay the asking price. The buyer may have to withdraw their offer if they are unwilling or unable to pay more than the appraised value of the home. This can pose a challenge if there was no appraisal contingency included in the contract though, and in today's market it's common to submit an offer without any contingencies. Without an appraisal contingency, the buyer may lose their earnest money deposit.

The good news is SIRVA Mortgage has an experienced team that will counsel your relocating employees on what options are available and the impact on their financing should they find themselves in a situation where the appraised value is lower than the purchase price.

Whatever the financing needs of your transferees may be, SIRVA Mortgage is here to help. With nearly 30 years of focus and expertise in relocation mortgage lending, we understand the important role home financing plays in the relocation process. Please visit our [mortgage website](#) to learn more, or contact us, at MortgageClientServices@sirva.com.

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