

# Appraisal Is Not the Homebuyer's Last Hurdle, It's Lender Underwriting

This lesson was brought home to me on Christmas eve — last Friday — when it was revealed that the lender's underwriter had rejected the appraisal on one of my listings and that Monday's closing would not take place.

The underwriter's #1 reason for rejecting the appraisal was that the comparable sales cited by the appraiser were over 90 days old. One of them — the best and most obvious comparable — was 100 days old.

What a horrible surprise this was for both buyer and seller at Christmas time!

It doesn't help that the underwriter's objections were totally unreasonable. Two other appraisers have reviewed the appraisal, and they found it to be accurate. One of my most experienced loan officers, Shelley Ervin, and I also reviewed the appraisal and saw nothing wrong with the comps

used by the appraiser and the reasons for using them.

Shelley told me that Fannie Mae prefers but does not require comps

that are less than 90 days old and merely asks for justification when older comparables are used. The appraiser made such a justification in her appraisal, concluding, "The comparables used represent the best and only comparables that sold within the previous six months."

Underwriting guidelines for conventional loans are established by Fannie Mae, which buys these loans from the lender after closing. If the guidelines aren't followed, the lender risks being stuck with the loan, which may pose a hardship for the lender.

In the state-approved contract to buy and sell real estate, there is an appraisal objection deadline, by

which date the buyer can get out of a contract if the property does not appraise for the contract price. Typically, this triggers an adjustment in the contract price instead of termination, but it is the threat of termination which, more often than not, will cause the seller to adjust the contract price.

It is underwriting, however, that is the final hurdle, and perhaps the Real Estate Commission should add "underwriting acceptance" as a contract deadline. Doing so would not only protect buyers from losing their earnest money, but would also serve to alert both parties to the contract that the appraisal still has to be accepted by the lender.

In the case of this week's transaction, the buyer and his agent were satisfied with the appraisal, which came in slightly above the contract price. They had no idea that the lender's underwriter would reject it. Moreover, since

the rejection came after the appraisal objection deadline and loan conditions deadline, the buyer could not recover his earnest money through termination.

As I write this, I'm hopeful that the seller and buyer will reach agreement on a two-week extension so that another lender can fund the closing, but the disruption is nonetheless severe for both parties. The seller is unable to close this week on his replacement home, yet the moving truck has already taken all the furniture from his current home. He'll have to pay for storage of his furniture plus hotel costs, and more. All because of a lender's underwriter being totally unreasonable regarding the buyer's appraisal.

## Bring Back the Teach-In

As a college student in the 1960's, I attended a "teach-in," and it had a profound effect on me and, I believe, other attendees. Several well-informed speakers addressed different aspects of the subject. By the time it was over, our superficial opinion and knowledge of the subject was replaced with an in-depth understanding.

Compare this with how Americans are "informed" about major issues, whether it be health care, the recession, or the budget deficit.

Americans are terribly uninformed — or over-informed by only one side of the issue. I'd like to see a comeback of the teach-in, but on a national level, preferably televised.

### REAL ESTATE TODAY



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