

What Are the Implications When a Buyer Waives Appraisal in a Bidding War?

When a home is priced at or below its likely selling price based on recent sales of comparable homes, there's a good chance in this seller's market that multiple offers could bid it up, possibly above the value an appraiser might give it. So what happens then?

Fortunately, I can report that the homes I have sold above the value suggested by comparable sales have not, as a rule, had trouble appraising for the contract price. Showing the appraiser the multiple offers that were received can demonstrate real-world market value. Without seeing those competing offers, the appraiser might determine that the buyer paid more than they should have. The presence of multiple, nearly equal offers gives appraisers an important tool for justifying value in our rising market.

Whenever a purchase is financed by a lender, there **will be an appraisal**. Lenders require them to make sure they're not lending based on an overstated valuation. That doesn't mean that the buyer can't waive appraisal **objection** and bring additional funds to cover the discrepancy between appraised value and contract price. The contract may or may not specify a limit to the size of discrepancy the buyer will cover. Regardless, it is important for the seller's agent to ascertain

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that the buyer is able to bring that additional cash to the closing table.

If the buyer is borrowing 95% or more of the purchase price, one might ask whether bringing several thousand extra dollars to the closing table is possible. This is where it is advisable for the listing agent to interview the buyer's lender — something we do regardless of the size of the down payment. Typically, a buyer who is putting down 20% or more of the purchase price is more likely to have available cash to cover an appraisal discrepancy.

With Golden Real Estate's auction approach, which maximizes the purchase price for our sellers, it is not unusual for the final price to be well above what comparable sales might support. And because one can never be certain that the appraiser will be impressed enough by the existence of those other competing offers to justify the contract price, it's a good idea to ask that buyers cover some or all of any appraisal discrepancy and that they provide evidence of their ability to bring extra funds to closing for that purpose.

Few buyers start out offering to waive appraisal, but once the bidding enters a range that is considerably above an appraisal based solely on recent sales of comparable homes, the listing agent can and should encourage waiving of the appraisal objection by the highest bidders.

One should remember, however, that an offer to waive appraisal objection is not iron clad when a lender is involved, because the buyer can still terminate based on **loan** objection if the appraisal ordered by the lender comes in too low for the buyer's comfort. I've witnessed the scenario where a buyer who has agreed

to waive appraisal objection still threatens to terminate because of the low appraisal, at which point the seller offers to lower the price to keep the contract from falling (assuming he doesn't have a backup contract).

This is not unlike when a buyer agrees to purchase a home "as is" and use the inspection deadline only to terminate, not to demand any repairs. That can be a hollow promise. If, for example, the buyer decides to terminate because the furnace needs to be replaced, the seller is likely to say, "Wait! I'll replace the furnace!" Why? Because the seller now **knows** the furnace needs to be replaced and would have to disclose that fact to the next buyer. Indeed, when I'm representing a buyer in what appears to be a bidding war, I will suggest making our offer "as is" while advising the buyer that it doesn't mean we can't get serious items repaired. The only time this doesn't work is when the seller has received a backup contract that's more attractive than ours. I point out to my buyer that the seller might be happy to have him or her terminate so that back-up offer can become the primary contract.

These two areas — appraisal and inspection — require deft skill in order to navigate the negotiation process effectively -- a good reason to employ an experienced listing agent like one of us at Golden Real Estate instead of trying the for-sale-by-owner (FSBO) approach. A good listing broker can definitely justify his or her commission both in getting a higher selling price and saving money through effective negotiation.

When Will Colorado Finally License Home Inspectors?

As I have mentioned before (in an article about ending regulation of HOA managers), Colorado is a "regulation-light" state, meaning that it will avoid regulating an industry without solid evidence that regulation benefits the public.

That attitude is, in part, why Colorado was the 49th state to regulate mortgage brokers when it did so in 2007, and is why the state still doesn't regulate home inspectors. Currently, only 19 states do not license inspectors.

If it weren't for the certification programs of two national trade associations, we would have no reasonable assurance of competence from the men and women who present themselves as "home inspectors."

It's amazing, given the value of the investment at risk, that anyone can offer their services as a home inspector without *any* experience and without taking even a single examination to determine their level competence. The inspector you hire could even be a felon, fresh out of prison, because there is no criminal background check required.

In addition, without regulation there is no requirement that home inspectors have the kind of "errors and omissions" (E&O) insurance that other professionals — including real estate agents — must carry. Without regulation there can be no requirement for continuing education classes, just as there is no requirement for training to become a home inspector.

Open House This Weekend at My Solar-Powered Listing in Arvada: I'll be holding my listing at 5674 Fig Way open this Saturday, July 7th, 1-4 p.m. and this Sunday, July 8th, from 11 a.m. to 2 p.m. Tour this home online at www.JeffcoSolarHomes.com.

Great Golden Listing Coming Soon from Debbi Hysmith

Enjoy incredible mountain views from this special home at 17425 Rimrock Drive! Take advantage of the opportunity to own this 4-bedroom, 3-bathroom custom home. It backs to South Table Mountain open space, with unbeatable views of the foothills! It features an extra-tall garage — tall enough for your large truck — with a mud room and laundry room on the main level. Look for more information in next week's column. We have created a website for this home at www.SouthGoldenHome.com, where you can see more pictures and take a narrated video tour. That website will also have information about an open house the weekend of July 14-15. Or call your agent or Debbi Hysmith at 720-936-2443 to arrange a showing.



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