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Buyers & Sellers Ask: Why Did the Appraisal Come in at Exactly the Contract Price?

REAL ESTATE TODAY

By JIM SMITH, Realtor®

When purchasing a home with a mortgage, one of the major hurdles for buyers in getting to the closing table concerns the home appraisal. The lender hires the appraiser – at the buyer's expense – to make sure that the home is worth what the buyer has agreed to pay for it.

More often than not, the appraisal comes in at exactly the contract price, which understandably seems a little fishy. Typically, when the buyer asks me why, I explain that the appraiser always gets a copy of the purchase contract and therefore knows his or her target valuation. Once an appraiser can justify that target, there's no need to identify additional value. That's been my hypothesis anyway, but since it's only a hypothesis, I posed the question last week to several experienced lenders with whom I have long-standing relationships.

Bernie Bernfeld of Wells Fargo (**303-273-6373**) responded as follows: "My short answer is that with so much scrutiny on appraisers and their valuations due to past abuses in some areas of the country, the appraiser will generally not assign more value than is necessary to support the sales value even if he knows the property may be worth more. This conservative approach satisfies the loan underwriters and those reviewing the appraisal while still supporting the buyer's accepted offer."

Jim Spray, a mortgage broker specializing in reverse mortgages (**303-403-8168**) said the following: "One should keep in mind that an appraisal is simply a valuation tool for lending purposes; it is nothing else. It may or may not reflect the actual market value, which is what an independent party (the buyer, in this case) is willing to pay. This may not reflect the value of an appraisal that is not associated with a purchase. In large part, an appraisal is just a tool for lenders to use to help prevent fraud and prove they are making sound lending decisions."

Scott Lagge of Eagle Home Loans (**303-944-8552**) gave the longest response, making several interesting points. He wrote: "Appraisals come in at value because appraisers don't want to deal with appraisal objections from the real estate agents, their buyers and sellers, or the buyers' lenders.

"When an appraisal comes in below the contract price, the first ones to cry foul are the real estate agents. They immediately question the appraiser's ability, and put pressure on us lenders to fix it. The agent send comps to the appraiser or lender, arguing their position, and wanting the lender to challenge the appraisal.

"So the extra work for the appraiser begins. They have to fix or defend their appraisal.

"Conversely, if the appraisal comes in high, especially if it comes in way higher than the contract price, there's a concern on the part of the seller that they are leaving money on the table. This was more common in years past when sellers had access to the appraisal. You can imagine being a listing agent in this situation. You're selling a home for $400,000 and the appraisal comes in at $450,000. Bad deal for that seller — and for their listing agent!

"In either of these situations, the pressure is being put back on the appraiser to fix it.

"Let's be clear, all lenders have a legitimate process for challenging an appraisal, and we have to prove that there is a material defect in the appraisal in order to rebut it. We all have an internal or external appraisal management company that assures everyone is coloring inside the lines. In other words, only valid challenges are accepted these days, but that doesn't eliminate the pressure on us as professionals to explain why the value came in low or high to the consumer.

"So, coming in at value is the appraiser's only surefire way to avoid scrutiny from clients, lenders and agents, thereby avoiding the extra work of defending and/or redoing the appraisal.

"The easier answer is that a home is worth what someone is willing to pay for it in an arm's length transaction. If you have a contract price of $300,000 and a buyer and seller have agreed on that price, once that transaction closes and records, it is officially worth exactly $300,000 and becomes a valid comp for future transactions.

"So why would an appraiser state anything different than the contract price, assuming he can justify it?"

[End of lenders' responses]

I found it necessary once to challenge a low appraisal, and I was successful. It was for a Golden area purchase, and the appraiser was from Castle Rock and clearly didn't have geographical competence, because he checked the box indicating that the housing market was "stable" instead of "rising," which was obvious to anyone. I was able to point out other factual errors, and the appraisal was recast at the contract price.

Any of the above mortgage lenders would be happy to answer your questions on this topic. Call them!

Don't Miss the "Taste of Golden"

This coming Monday, **Mar. 19th, 5-7:30 p.m.** marks the return of this special event sponsored by the Golden Chamber of Commerce. Tickets are only available online at www.GoldenChamber.org. Twenty restaurants, sweet shops, breweries and distilleries will be providing food and drink samples to ticket holders. Tickets are $30. We'll be there!

Win a 'Date'cation' in Golden

Golden Real Estate is co-sponsoring a prize on **96.9 the Cloud,** an easy-listening radio station broadcasting from Lookout Mountain and streaming online at www.TheCloud.fm.

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The prize is a "**Date Night at Golden's Table Mountain Inn**." The package includes a romantic dinner for two, a special guest suite, and breakfast the next morning. Feel the spirit of the West, the splendour of the Rocky Mountains, and warm western hospitality at Table Mountain Inn's adobe-style boutique hotel. Traditional southwestern décor, spacious accommodations and modern amenities provide an ideal home away from home in historic Golden.

To enter the drawing, simply like 96.9 the Cloud on Facebook. The drawing is on April 1st.

Co-sponsoring this prize is the **Body in Balance Wellness Center** of Golden.

Time May Be Running Out on Getting a Low-Interest Mortgage

Buyers appear to be getting "off the fence" as they see mortgage rates beginning to rise. How costly can waiting be?

Even a fraction of a percentage point rise quickly adds up. According to realtor.com, on a $300,000 purchase with a 30-year fixed-rate mortgage and a 20% down payment, the difference between 4% and 5% is $142 a month. That's more than $51,000 over the life of the mortgage.

According to the realtor.com article, it's important to note that mortgage rates *are* still low. After falling from a high of 18.63% on Oct. 9, 1981 they averaged about 7% from the 1990s through the 2008 financial crisis. They dropped below 5% for the first time in March 2009, before bottoming out at 3.1% on Nov. 21, 2012.

After those recent historic lows, average mortgage rates have now reached their highest levels in more than four years. They hit an average 4.43% for 30-year, fixed-rate loans as of March 1, according to data from Freddie Mac. This is the highest they've been since Jan. 9, 2014, when they averaged 4.51%.

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