What Is an Appraisal Contingency?

Navigating the intricacies of contracts is crucial for both buyers and sellers.

One aspect that can affect the buying and selling process is the concept of appraisal contingencies.

An appraisal contingency is a safeguard in a real estate contract that allows the buyer or the seller to back out of the deal if the property's appraised value does not align with the agreed-upon purchase price. This provision is particularly relevant in today's competitive real estate market, where prices can fluctuate and the true market value of a property may differ from the asking price.

By including an appraisal contingency, both parties ensure that the transaction remains fair and transparent.

DEFINITION

Bankrate defines an appraisal contingency as a clause that "stipulates the house must be appraised at the sale price or higher … depending on the agreement, this contingency could also contain a provision that the sale price will be reduced to the appraised value if the appraisal is lower."

Consider a scenario where a buyer and seller have agreed on a purchase price of $350,000 for a four-bedroom home. However, the property's appraisal comes in at only $320,000. In this situation, the appraisal contingency would grant the buyer the option to renegotiate the purchase price, request repairs or even withdraw from the deal without facing penalties.

Conversely, if the buyer and seller cannot reach an agreement, the seller might opt to put the house back on the market, using the appraisal contingency to protect their interests.

PROCESS

Typically when a buyer makes an offer, they put a deposit into an escrow account. If the seller accepts the offer, the deposit goes toward the down payment. If they reject it, the buyer gets the money back. When the offer is placed, an appraisal contingency can protect the deposit.

Lenders often demand an appraisal because they want to make sure the house is worth the amount they are giving a loan for.

LOW APPRAISALS

Rocket Mortgage suggests several options if an appraisal comes back for less money than what the offer was for.

First, if either party believes the appraisal is wrong, they can ask for a second appraisal, a back-up opinion. There needs to be a specific reason in the appraisal that the seller or buyer can point to that they think is wrong. This might include recent home sale data or proof that the owner has made renovations or improvements.

Next, if both parties want to continue with the sale either the buyer can make a larger down payment or the seller can lower the sale price to the appraised value of the property. Either of these actions may encourage a lender to still approve a mortgage. It is also possible to do some combination of the two, perhaps splitting the difference. In the example above where there was a $30,000 difference, perhaps the buyer will come up with another $10,000 in down payment and the seller will lower the price by $10,000 and do $10,000 worth of repairs.

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REAL ESTATE 101

Buyer's Tip

In a seller's market, a short and heartfelt letter to the sellers praising their home can help set your offer apart. If you want to do this in a good way, avoid such pitfalls as talking about the remodels you want to do, complaining about other sellers or contracts falling through, bringing up sensitive topics (talking about being newlyweds to a divorcing couple), referencing personal details about the seller you found online, mentioning their personal belongings or bringing up politics or religion.

Source: Apartment Therapy

HOMEWISE

Real Estate Tips and Advice

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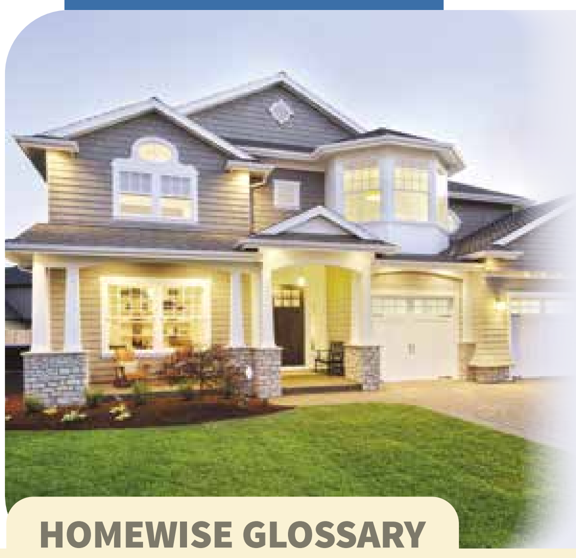

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Source: Apartment Therapy

HOMEWISE GLOSSARY

Option: an arrangement in which a purchaser puts money down for land, a home or other real property, but does not have an obligation to purchase said property. **SOURCE:** Century 21

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