



FIRST TIME HOME BUYERS

STEP TWELVE APPRAISAL PROCESS

WESTCALFINANCIAL.COM



What Is an Appraisal?

CONFIRMING A HOME'S VALUE

An appraisal is an independent assessment of a home's value, conducted by a licensed appraiser, to ensure the lender is not financing more than the property is worth.

- ✓ Protects the lender by confirming the home's value.
 - ✓ Ideally, the appraised value meets or exceeds the purchase price.
 - ✓ Loan approval is based on the lower of the appraised value or purchase price.
- 📢 The appraisal ensures that you're not overpaying for a home.

What Happens if the Purchase Price and Appraised Value Are Different?

This is only an issue if the Appraised Value is Lower than the Purchase Price.

Remember Our Options for a Low Appraised Value will be dictated by the agreement we made in our Purchase Contract.

Low Appraised Value with Appraisal Contingency

WHAT ARE YOUR OPTIONS?

1. Cancel the Purchase Agreement
2. Request a Price Reduction
3. Request a Seller Credit
4. Move Forward As Originally Agreed Upon

WHAT ARE THE SELLER'S OPTIONS ?

1. Agree to Cancel the Purchase Agreement
2. Agree to a Price Reduction
3. Agree to a Seller Credit
4. Move Forward as Originally Agreed Upon

- ◆ Appraisal Contingency: If the appraisal comes in lower than the purchase price, this contingency allows the buyer to renegotiate or cancel without penalty.
- ◆ Loan-to-Value Impact: The lender bases the loan on the lower of the purchase price or appraised value. A lower appraisal may require a larger down payment to maintain your desired LTV.



LOW APPRAISED VALUE SCENARIOS

Example: Purchase Price \$800,000 with 20% Down Appraised Value \$790,000

CANCEL CONTRACT

Both Parties Must Agree To Cancellation and Provide the Necessary Paperwork to the Title Company

REQUEST A PRICE REDUCTION

The impact to your loan will depend on whether or not you and the seller agree to lower the purchase price to the appraised value or if you agree on a different amount.

REQUEST A SELLER CREDIT

Your loan amount will remain the same and you will need to make up the difference between your purchase price and the appraisal value to keep your loan to value the same. This is especially important when you are trying to avoid private mortgage insurance or if you are tight on funds to close. The seller credit will be applied to non-recurring closing costs

MOVE FORWARD AS AGREED

If the Seller does not agree to a price reduction or a seller credit, and you still want the house regardless your only option is to move forward as originally agreed upon. This option will increase your cash needed to close if you cannot absorb the difference with an increased loan amount.



Appraised Value Impacts your Loan To Value

THE LENDER WILL USE THE APPRAISED VALUE TO STRUCTURE THE LOAN TERMS

If your down payment is 20% to avoid private mortgage insurance a low appraisal will require you negotiate a price reduction, seller credit or bring more funds to close to make up the difference.

Purchase Price	\$800,000
Down Payment 20%	\$160,000
Loan Amount	\$640,000

Appraised Value / New Loan Amount	\$790,000
Down Payment 20%	\$632,000

Difference is $\$800,000 - \$632,000 = \$168,000$
This is an increase of \$8,000 from your original down payment.

Who will make up this difference?

This depends on what you and the seller negotiate and agree to.

LOW APPRAISED VALUE SCENARIOS

Purchase Price \$800,000 with 20% Down Appraised Value \$790,000

FULL PRICE REDUCTION

Original Purchase Price / Loan Amount
\$800,000 / \$640,000 - Down Payment \$160,000

New Purchase Price / Loan Amount
\$790,000 / \$632,000 - Down Payment \$158,000

NEGOTIATED PRICE REDUCTION

Original Purchase Price / Loan Amount
\$800,000 / \$640,000 - Down Payment \$160,000

Negotiated Purchase Price / Loan Amount
\$795,000 / \$632,000 - Down Payment \$163,000

FULL SELLER CREDIT

Original Purchase Price / Loan Amount
\$800,000 / \$640,000 - Down Payment \$160,000

Original Purchase Price (w/ credit) / Loan Amount
\$800,000 / \$632,000 - Down Payment \$168,000
+ \$10,000 Seller Credit towards closing costs

NEGOTIATED SELLER CREDIT

Original Purchase Price / Loan Amount
\$800,000 / \$640,000 - Down Payment \$160,000

Original Purchase Price (w/ credit) / Loan Amount
\$800,000 / \$632,000 - Down Payment \$168,000
+ \$5,000 Seller Credit towards closing costs



Make Sure You Understand The Numbers

Ask Questions!

**AFTER YOU HAVE RECEIVED YOUR
APPRAISAL AND DETERMINED HOW TO MOVE
FORWARD THE NEXT STEP IS GETTING YOUR
LOAN CLEARED FOR CLOSING**

Contact Information

Get in Touch

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WEST CAL FINANCIAL

HOME BUYER CREDIT

PURCHASE PRICE : \$800,000

DOWN PAYMENT : \$160,000 (20%)

LOAN AMOUNT
X LOAN COMMISSION (1.25%)
BUYER CREDIT

$\$640,000 \times 1.25\% = \$8,000$ CREDIT

If you would rather obtain a lower rate with this credit we use it to buy down the interest rate.



Thank You!

WE HOPE TO HEAR FROM YOU SOON.