



The Appraisal Gap Strategy

OVERVIEW

In a hot market, buyers have to be as competitive as possible with offers.

This often means an appraisal gap or waiving an appraisal entirely.

It causes a lot of stress at an already nerve racking time.

If the property doesn't appraise, clients are worried they will be on the hook for the difference in appraisal vs contract price at the closing table. Thinking they will potentially need tens of thousands more.

But what if we could prepare the client ahead of time with a plan so they could make an offer confidently knowing what the costs would be?

Enter our "Appraisal Gap Strategy"....

Set the stage with Clients:

Remind clients the lender will need to order an appraisal on the property. The appraiser has to use already sold comps to determine the appraised value for the bank. But in a hot market, those will lag and won't necessarily reflect market value and what people are willing to pay NOW.

How Lenders Determine Loan-To-Value:

The loan-to-value (LTV) is based on the lower of the contract price or the appraised value. If the property appraises for the contract price or higher, there won't be any changes needed with the loan during underwriting, because the LTV based on the contract price.

If the property appraises for less than the contract price, then the lender will use the appraised value to determine the LTV, changing the loan terms. Clients think they have to bridge that difference by bringing that extra money to closing.

But that's not always the case, thanks to some creative financing options that we can introduce to your clients to put their mind at ease.

SEE THE NEXT PAGE FOR AN EXAMPLE ON THE STRATEGY



EXAMPLE SCENARIO

Scenario	Contract Acceptance	Low Appraisal	Appraisal Gap Strategy
	\$420k Purchase Price 20% down	\$420k Purchase Price \$380k value	\$420k Purchase Price \$380k value
Purchase price	\$420,000	\$420,000	\$420,000
Appraised value	\$420,000	\$380,000	\$380,000
Loan amount	\$336,000	\$304,000	\$336,000
LTV	80%	80%	88%
Down payment	\$84,000	\$116,000	\$84,000
Closing costs/Prepays	\$9,400	\$9,400	\$9,400
Appraisal gap strategy	\$0	\$0	\$2,151
Funds to close	\$93,400	\$125,400	\$95,551

Home List price: \$380,000
 Contract price: \$420,000
 Down payment from client: 20% or \$84,000 (80% LTV)
 Loan Amount \$336,000
 Client Credit Score 760+

Appraisal is ordered and comes back at \$380,000
 LTV based on appraisal is now 88.4% ($\$336,000 / \$420,000 = 88.4\%$)
 Client would need to bring \$32,000 to bridge the gap - Big Hurdle!

Bring in the "Appraisal Gap Strategy" with The Pechmann Team

Instead of adding \$32k to the cash-to-close, client can bring a 1 time cost of \$2,151
Saving them \$29,800

BIG TAKEAWAY

The most effective part of this strategy is this: Preparing clients and having conversations proactively with clients as you are preparing their offer.

This gives clients assurance with numbers to make an offer confidently. They know they won't be on the hook for many thousands of dollars more, because WE HAVE A PLAN.

We have solutions for low appraisals in a competitive market. Let's work together to add value to our clients and win more offers!!!



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