LeaderBank

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What happens if my appraisal comes in low?

When you begin your mortgage application it starts off based on the sales price of your property and the down payment. If you are doing 5-15% down, you will typically have PMI (private mortgage insurance) and if you are doing 20% down there will be no PMI included in your payment. The appraiser is determining the price of the property based on his/her visit to the property, recent sales and market data. Once the appraisal comes back, it overrides the sales price as the bank takes the lower of the sales price or appraised value. So what are the options with a low appraisal?

1) Terminate the transaction if you have a financing contingency
2) Renegotiate with the seller – If this is not a competitive situation you might be able to get the sellers to reduce the sales price based on the banks appraisal findings
3) Add PMI to your loan or increase the PMI you currently have
4) Put extra money down to cover the difference in down payment to offset the low appraisal

Below is an example with 20% down:

$500,000 sales price
$400,000 loan (no PMI because 20% down)
$480,000 appraisal

- If you don't put any extra money down, you would now have PMI with less than 20% down ($400,000 loan /$480,000 value = 83.3% financing).
- OR you could put down enough to be once again doing 20% down which would be: $480,000 appraisal * 80% = $384,000 loan to avoid PMI which means $116,000 down instead of the initial $100,000 down payment

Below is an example with 10% down:

$500,000 sales price
$450,000 loan with PMI
$480,000 appraisal

- In this case, the appraisal came in at $480,000 and the down payment percentage would drop from 10% to 7%. This puts you in a higher tier PMI pricing. ($450,000 loan / $480,000 appraisal = 93.75% financing).
- The PMI would increase because you are doing less than 10% down and the monthly PMI is broken into 3 categories: 5% down, 10% down, and 15% down. The 15% down would be the cheapest and 5% down would be the most expensive. In this case you would be going from 10% down to 5% down PMI.
- Or you could put more down to still be at 10% financing and keep the PMI the same - $480,000 * 90% = $432,000 so your down payment would now be $68,000 to be considered 10% down instead of the original plan of $50,000 down.