

APPRAISAL WAIVERS BECOMING MORE FREQUENT

Description



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For many years, Fannie Mae (FNMA) and Freddie Mac (FHLMC) have been offering to waive the need for an appraisal when the borrower puts 20% or more down. Alaska Housing (AHFC) will also follow the Fannie Mae or Freddie Mac waiver offer.

When a lender takes your conventional loan application on a particular property, they run it through an Automated Underwriting System (AUS) which electronically assesses the loan applicant and the subject property and provides the lender an initial underwriting decision. As part of this decision, artificial intelligence (affectionately known as DU – ‘Desktop Underwriter’ at Fannie Mae, and LP – ‘Loan Prospector’ at Freddie Mac) may determine that an appraisal is not required as part of the approval process.

In other words, lenders (who are brokering your loan applications, not actually giving you the money) ask DU and LP if they will lend you the money. DU and LP are separate organizations and DU might say ‘No’ while LP says ‘Yes’. Who really knows why? It doesn’t matter, but you want Fannie or Freddie to send back a message to your lender – – – – “Approve Eligible”.

These two robots have looked at your credit, your income and debts and conclude that you are, or are not, “okay” with them. If you are okay with them they may also offer a waiver of Appraisal, because they also looked at the address of the property you want to buy.

So here is the big deal: DU and LP are offering the waiver of appraisal more frequently than they used to. This is because the data base of information is expanding constantly and that is telling them that the purchase price on your deal is quite safe to give you an 80% loan (you providing 20% already).

Since an appraisal fee is now at least \$850, the question is what buyers and sellers can do with this information. In a competitive real estate bidding market it obviously favors seller (or buyer) to save \$850 and add it to the net proceeds of the seller (or less expense to the buyer).

If you are buying (or re-financing) a single family home or condominium and putting 20% down with a Conventional loan the \$850 (can be over \$1,000 on occasions) is a significant game changer.

Buyers who can waive this expensive fee have a competitive advantage over those who cannot. Sellers may want to counter an offer asking that the buyer pays for and/or waives the appraisal requirement altogether.

If an appraisal is required in your Purchase and Sale Agreement then, most often, the price has to be renegotiated if the appraisal is lower than the agreed purchase price. If a buyer is willing to go with a price not subject to any outside appraisal, sellers love it, but they love it even more if the appraisal process is waived completely because that is worth \$850+ right there.

You can talk to your Realtor about the negotiating dynamics of this procedure or, more effectively, ask your lender about how the pieces move around in the lender’s war room. Knowledge is power. Get as much as you can – or hire someone who has knowledge.

Dave

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1. Real Estate

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Author

david

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