

the Mortgage Bulletin

Your Company Name
100 Main Street
Hometown, CA 00000
Phone: 123-456-7891
Alternate: 456-789-1234
yourname@your company.com



Your name

Conforming Loans to \$359,650

Type	Rate	APR	Trend
30 Yr FIX	5.875%	5.956%	→
15 Yr FIX	5.625%	5.506%	→
5/1	5.625%	6.293%	↑
3/1	5.500%	6.371%	↑

Jumbo Loans above \$359,650

30 Yr FIX	6.250%	6.311%	↑
15 Yr FIX	5.875%	5.973%	→
10/1	6.000%	6.1293	→
7/1	6.000%	6.359%	→
5/1	5.750%	6.337%	→
10 Yr Bond	4.361%		↑
Prime	6.750%		→

Appraised Value

Lenders and buyers get concerned about the appraised values of homes when prices are dropping. Mortgage loans are secured by the property, so it is understandable that lenders' concern grows when prices drop. And the home buyer's equity can dissipate if the value of the home they are buying drops -- at least in the short term.

A 10% drop in value when the financing is 90% of the purchase price can pretty much wipe out not only the homebuyer's equity, but also the lender's security. Appraised values can also present a problem for lenders and home buyers in a period of rising prices, and the steeper the rise, the greater the potential problem. Here's why.

We all know that lenders base their loans on the lesser of the purchase price and the appraised value. Or at least we all should know that, and if you didn't, now you do.

So, let's take a house listed for \$1,000,000 to illustrate the potential problem. In a real hot seller's market, kind of like the one we now have in this area, multiple offers have once again become the norm, so this property may attract fifteen offers with the "successful" buyer bidding \$1,250,000. Let's pretend the buyer has \$125,000 for down payment -- and no more. Here is the potential problem for that buyer.

Appraisers must use three comparable (closed) sales within the last ninety days. And in a period of rapidly rising prices and multiple offers, this may not be possible. Closed sales may not justify the \$1,250,000 price. It happens.

If the appraiser can justify a value of only \$1,100,000 that's what the financing is based on, regardless of the purchase price. The lender(s), rather than making combined loans of 90% of \$1,250,000 -- or \$1,125,000 -- will only make combined loans of 90% of \$1,100,000 or -- \$990,000. When the buyer adds his/her \$125,000 to the \$990,000 loan, guess what? The total is \$1,115,000 and that's \$135,000 short. So this particular buyer has a

big problem on this particular transaction.

Now, assume the buyers have all cash and do not need a loan. OK, "all cash" buyers may be great favorites of Realtors, but we have a less appreciative view of them. Just kidding. We love them. But we also hate them.

So, assume instead that the buyers have \$500,000 down payment. Obviously they can get financing for \$600,000 (54.55% of appraised value) and they can proceed with the transaction. So -- no problem presented by the appraisal of \$1,100,000 for the \$1,250,000 purchase, right? Maybe, maybe not. The buyers may question the wisdom of buying a house for \$1,250,000 when it appraises for \$1,100,000. After all, they are paying \$150,000 more than the house is worth, aren't they?

Maybe they are and maybe they're not. Consider this. As soon as this transaction closes, the price paid becomes, guess what? Right, it becomes a comparable for the next home to sell in the area. And if the next home sells for \$1,300,000, just a touch over \$1,250,000, the appraiser can probably justify that price.

So, did those buyers pay too much? Time and the market trend will tell. But the point is that just because the appraiser cannot come up with \$1,250,000 in this particular case, it does not mean that the home is not worth that much.

The price reached between a willing seller and a willing buyer is, in the classic sense, the value of the home. In a rapidly rising price market, fueled by multiple offers, the appraised value may not quite reach the sales price. But that does not necessarily mean the buyer is paying too much. It could mean that, but it could also mean only that the achievable appraised value is lagging a bit behind the true market value.

Time will tell, and over time, how often do you see home values declining in an area such as this? Just look back ten years -- or five.

Your Company Name is a mortgage broker licensed by the State Department of Real Estate, license 888-999-22. Rates posted are for zero points, thirty day lock, purchase loans and are subject to change without notice.