



WHAT IS AN APPRAISAL WAIVER?

When a buyer uses third party financing to purchase a home, a Third Party Financing Addendum (“TPFA”) is included in the initial contract. Paragraph 2B of the TPFA provides that the buyer can terminate the contract and receive their Earnest Money Deposit (“EMD”) back if the lender determines that the property does not satisfy the lender’s underwriter requirements to complete the loan. One way lender requirements are not met is when the appraisal is less than the sales price.

Buyers can alter the terms of Paragraph 2B of the TPFA by including the TREC Addendum Concerning Right to Terminate Due to Lender’s Appraisal (“Appraisal Addendum”) with the offer. The Appraisal Addendum amends Paragraph 2B of the TPFA, and provides three options. The first two options are waivers of appraisal which can be used to entice sellers to accept their offer, and the last option provides the buyer additional protections if the appraisal is low.

BOX #1 | WAIVER

If this box is checked, the buyer waives the right to terminate the contract under Paragraph 2B of the TPFA regardless of how far the appraisal is below the sales price. In addition, if the lender reduces the amount of the loan because of the low appraisal, the buyer must cover the difference between the loan and the sales price by bringing additional cash to close.

EXAMPLE:

Sales Price	\$400,000
Down Payment	\$80,000
Loan Amount	\$320,000
Appraised Value	\$340,000
New Loan Amount	\$260,000 (\$340,000 - \$80K)
Additional cash required at closing	\$60,000

BOX #2 | PARTIAL WAIVER

This waiver is similar to Box #1, but it limits the amount the buyer is willing to extend themselves by allowing them to include a maximum dollar amount they are willing to pay if the appraisal does not equal or exceed the purchase price. If the appraisal is equal to or exceeds this amount then the buyer *cannot* terminate. If the appraisal is less than that amount then the buyer maintains their right to terminate the contract and receive their EMD under Paragraph 2B of the Appraisal Addendum.

EXAMPLE:

If the buyer is willing to pay \$30,000 more over the appraised value, below is an example of how the appraisal should come in.

Sales Price	\$400,000
Down Payment	\$80,000
Loan Amount	\$320,000
Appraised Value	\$370,000 <i>(Anything lower the seller maintains the right to terminate the contract)</i>
New Loan Amount	\$290,000 (\$370,000 - \$80K)
Appraised Restriction	\$30,000

BOX #3 | WAIVER

If this box is checked, the buyer has an *additional* right to terminate the contract due to the appraisal *which is separate from their right to terminate under the TPFA* which only allows the buyer to terminate if the appraisal doesn’t meet the *lender’s* underwriting requirements. By checking this box, the buyer has the right to terminate if the appraisal falls below the amount filled in line 3(i) *regardless of the lender’s requirements*.

Please note only one of the three options above can be checked, and the Appraisal Addendum cannot be used when the buyer’s loan is a FHA or VA loan.