NATIONAL ASSOCIATION OF APPRAISERS

Q3 2016

appraiser focus magazine

The ROAD to Supporting VALUE

Ranking, reconciliation and THE IMPORTANCE of a detailed report

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AUGUST 2016

FEATURE

A NOTE FROM THE

NAA PRESIDENT

LAURIE EGAN, MNAA
laurie@eganoffice.com

In July, I realized I'd just entered into my 30th year as a professional appraiser, which really gave me pause because I couldn't possibly be old enough to have done anything for 30 years, right? *Right?!*

Jesting aside, while I certainly haven't "done it all," I've worn a lot of hats over the years and upon reflection, serving our professional community through the NAA has been the most rewarding part of my career. It has been a pleasure to sit on the NAA board of directors for the past six years, and it has been a great honor to act as the NAA's national president for the past two.

I would like to express my sincerest thanks to the visionary founding members: George Harrison, Michael Brunson, Bobby Crisp and Marty Molloy, and an even greater thanks to our tireless NAA administrator, Teresa Walker, who keeps us on course and sailing between navigational beacons.

As the last three original NAA directors, Michael Brunson, Marty Molloy and I will be completing our second terms in September, but we look forward to seeing this wonderful organization grow and evolve under new leadership. While we will no longer serve on the board, we remain dedicated to this association and we will continue to participate in other capacities.

As you know, we have a stronger voice collectively than we do as individuals. My hope is that each and every NAA member will find a way to assume an active role in the organization, learning that in giving to the group, you receive a great deal in return. If you have stepped up in the past, thank you; if you haven't yet, now is the time! I would like to personally invite you to consider serving on one (or more) of NAA's committees. Most committees do not require a large time commitment and by serving, you can assist in shaping the direction and priorities and the NAA while, at the same time, developing new professional relationships—and having a lot of fun in the process.

Even if you don't have time to serve on the board or join a committee, please communicate your thoughts, concerns, insights and victories to the board. The majority of issues we've taken on have come directly from membership input—and you do have a voice here. If you are not yet an NAA member, please join us and let your voice be heard.

To all NAA members, thank you for allowing me to serve you as president. It has truly been an honor and I look forward to seeing many of you at our annual membership meeting and Summit in September!

Best,

Laurie Egan

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Bryan S. Reynolds is a certified general real property appraiser in Kentucky and Tennessee, a registered agent with the Tennessee State Board of Equalization, and an AQB Certified USPAP instructor. He has testified as an expert before various courts, planning and zoning boards. Reynolds is the owner of Bryan S. Reynolds & Associates, Reynolds Appraisal Service and a partner in Appraiser eLearning (appraiserelearning.com). He provides residential and commercial valuations and education, mentoring, consulting and litigation support services.

DOUGLAS OLDMIXON

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Douglas Oldmixon is executive director of the Texas Real Estate Commission and commissioner of the Texas Appraiser Licensing & Certification Board. Licensed as an attorney and a real estate broker since 1985, he has experience in all sectors of the industry. Previously, Oldmixon was managing broker and general counsel at Spillar Oldmixon Advisors Realty, and prior to that, he was executive director of the Texas Veterans Land Board. A retired USAF Reserve officer with more than 26 years of service, Oldmixon is a veteran of Desert Storm and served two tours of duty in Iraq after September 11, 2001.

JOHN DINGEMAN, MNAA

12 | Clarifying the Rules

John Dingeman is the chief appraiser at Landmark Network. He is a Certified Residential Appraiser in a California, Nevada and Arizona, and a registered property tax agent in Arizona. He serves as VP of the NAA and was the president of the Coalition of Arizona Appraisers. He has extensive experience in the appraisal of single-family dwellings; small, income-producing properties; and vacant land. As an FHA appraiser, he specializes in HUD/REO properties. Dingeman has assisted in the development of appraisal Continuing Education course materials and is an instructor in Arizona, California and Texas, teaching appraisal, assessor, mortgage loan origination and real estate sales classes.

TIMOTHY C. ANDERSEN, MNAA

15 | The Road to Supporting Value

Timothy C. Andersen has been a real estate appraiser and consultant since 1986. He has SRPA and MAI designations and is an AQB Certified USPAP instructor. Andersen is an active member of the NAA, an affiliate member of the Association of Texas Appraisers and an adjunct instructor at the Columbia Institute. Previously, he had a real estate brokerage specializing in high-end condominiums. He earned a degree in real estate appraisal from The University of St. Thomas in Minneapolis.

RACHEL MASSEY, MNAA

15 | The Road to Supporting Value

Rachel Massey has been in the real estate field in the Ann Arbor area since 1984. An AQB Certified USPAP instructor, Massey was one of the original members of the Michigan Council of Real Estate Appraisers and has a passion for helping other appraisers through writing, teaching and peer review. She specializes in lake and relocation appraisals and has a Bachelor's degree from Siena Heights University with a real estate concentration.
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CATHY PUTEGNAT, MNAA

19 | A Meeting of the Minds

Cathy Putegnat has been a residential, boots-on-the-ground appraiser since 2001. After five years of appraising in Colorado, she relocated to Hawaii, working mostly with veterans through the VA panel. She currently serves as the chair of the National Association of Appraisers' Industry Partner Alliance Committee (IPAC).

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info@appraiserfocus.com

FACTS & FINDINGS

A ROUNDUP OF STATS ABOUT THE APPRAISAL PROFESSION

76,800

The number of active real estate appraisers in the U.S. at the close of 2015

The number of active appraisers is on the decline.

The number of appraisers is down 22% in the last five years. The drop is attributed to:

- ✓ Retirements
- ✓ Fewer entrants into the space
- ✓ Economics
- ✓ Regulation
- ✓ Increased use of data analysis technologies

Most real estate appraisers are male.

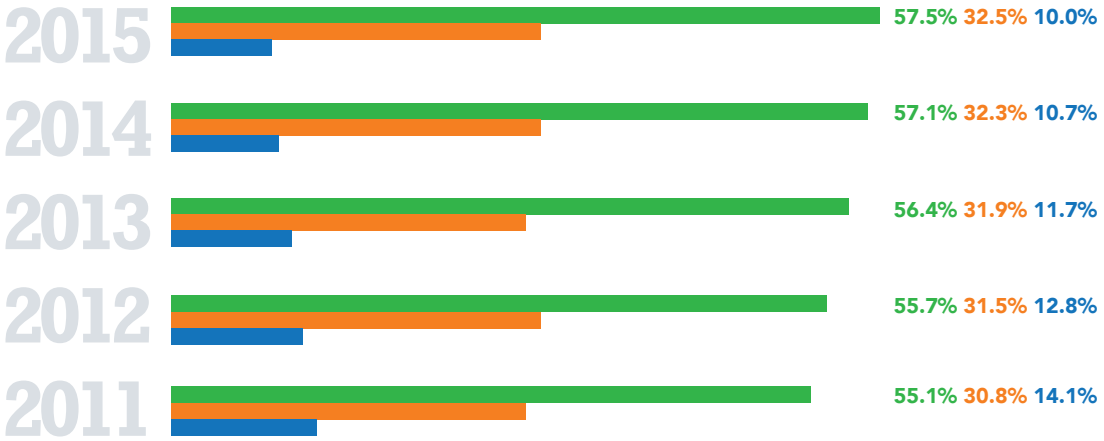
74%

MEN

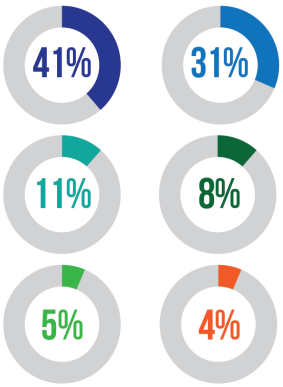
26%

WOMEN

Licensed Versus Certified Appraisers

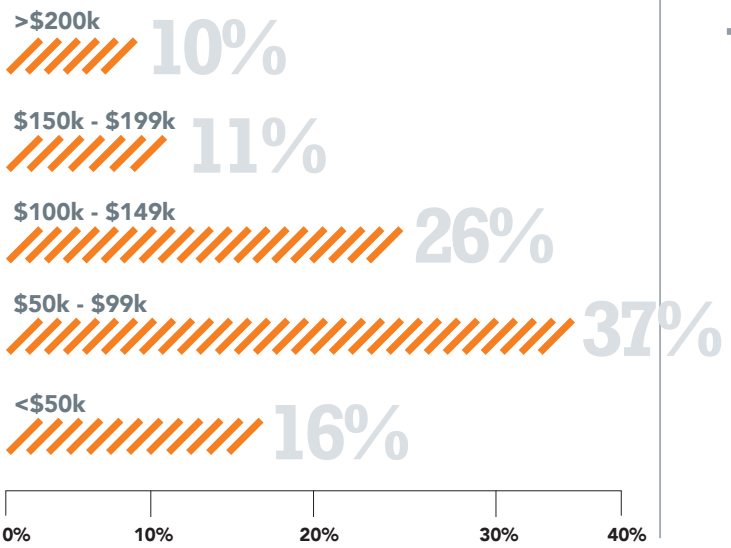


Primary Occupations Within the Field



- 41% Commercial Appraiser
- 31% Residential Appraiser
- 11% Other
- 8% Review Appraiser
- 5% Appraiser Trainee
- 4% Chief Appraiser

The annual income of real estate professionals associated with the Appraisal Institute



From The Appraisal Institute's U.S. Valuation Profession Fact Sheet, December 2015

ATTENDEES GEAR UP FOR THE 2016 APPRAISAL SUMMIT & EXPO

Appraisers from across the country will meet to network, learn and discuss issues impacting the profession.

THE 8TH ANNUAL APPRAISAL SUMMIT & EXPO

will take place September 12-14 at Bally's Hotel and Casino in Las Vegas. Hosted by the NAA and the Columbia Institute, the Summit provides an opportunity for appraisers to network with colleagues and service providers, advance their education and discuss pertinent topics impacting the evolution of their profession.

More than 350 appraisers, appraiser managers, regulators and lenders are expected to attend this year's conference, which will focus mainly on field appraisers and issues affecting their work. With separate seminars for appraisers and appraisal management, the summit aims to address issues impacting both groups on a national level. The Summit features panel discussions with leaders in the space who are making a difference through their work.

Attendees are invited to partake in Continuing Education courses that will be held at Bally's in the two days leading up to the Summit. Fourteen hours of CE credits are available in addition to four ACE classes.

The summit was first launched to create a place where appraisers could affordably gather to earn Continuing Education credits and meet with their peers in the field.

"With all the problems appraisers were having across the states in 2008 and 2009, we saw a need to pull them together and give them an opportunity to exchange information on a national level," says conference producer George Harrison, MNAA, of the Columbia Institute. "We also believed that, while traditional ACE classes might be good, they do not provide exposure to a wide variety of information from some of the most influential members of the valuation and financial services groups."

Bobby Crisp, MNAA, of the Appraiser's Business Companion attends the Summit every year and says the meeting has proved to be invaluable.

"The Summit has been a great networking opportunity for ABC and has brought members we might not have been able to reach otherwise. There are expert speakers that appraisers want (and need) to hear from, while exhibitors present the latest ideas that can help make an appraiser's life easier," says Crisp. "This is not your typical appraisal conference. We wouldn't miss it."

CONFERENCE HIGHLIGHTS

1. Reviews of new appraiser technology
2. A roadmap to training the next generation of appraisers
3. A talk on the state of the appraisal profession
4. A panel discussion on the role and responsibilities of AMCs
5. Tips for developing non-lender business

Visit appraisalsummit.net
for more information and to register. Discounted hotel rates are available until August 13.

CLASS OFFERINGS

Continuing Education classes will be held two days before the conference.

Sunday, September 11

8:00 a.m. to 4:00 p.m.
7 Hour USPAP Update, No. 101

8:00 a.m. to 5:00 p.m.
Comprehensive Square Footage Calculations, No. 155

11:00 a.m. to 4:00 p.m.
Appraisers Helping Appraisers, No. 031

Monday, September 12

8:00 a.m. to 1:00 p.m.
Constructing the Professional Report. From A-Z, No. 026

8:00 a.m. to 12:00 p.m.
ABCs to Support Your Appraisal, No. 032

A Dentist, a Surgeon and a Head Chef

Like other professionals, appraisers should focus on the tasks with the highest return.

BRYAN S. REYNOLDS, MNAA
Bryan S. Reynolds & Associates
Owner

It has been noted that appraisers often wear multiple hats to maintain a successful business. But is this the best use of their time? There are many tasks that business owners can delegate to others. Appraisers should take a lesson from other professionals to assess what they can do to better manage their time.

The Dentist

Think about your visits to the dentist. When you call to make the appointment, do you speak to the dentist? No, you talk to a scheduler. After relaxing (because we all relax when going to the dentist) in the waiting room for a bit, the door opens and someone calls you back. Is that the dentist? No, it's an assistant. If you are there for a cleaning, does the dentist do that? No! Well who does? A trained, licensed dental hygienist performs that task. So what in the world is the dentist doing? Don't say he or she is on the golf course. They are most likely sticking to the tasks only they can do: the extractions (ouch!), or maybe root canals, fillings or crowns. By focusing solely on the tasks that require their skill and expertise, they are making the best use of their time.

The Surgeon

Let's move on to another example and examine the typical routine of a heart surgeon. His hands are found in the chest of a patient as he works to repair their heart. What does he do immediately after such a procedure? A surgeon doesn't typically close, wake the patient, wheel them back to their room or bring them their lunch tray. Other folks do those tasks. The surgeon typically cleans up and moves on to the next case. The best use of the surgeon's time is to perform surgery, not participate in the rest of the process that contributes to the overall success of the surgery.

The Head Chef

I'm not sure how a Chicago Bears fans puts up with a Green Bay Packers Fan, but somehow we make it work. During a trip to Chi-Town to see our rival's game, we ended up on Navy Pier and decided to splurge on a fancy meal. It was quite impressive as we had a waitress, water boy and wine steward. There were busboys and I was extremely impressed with the table setter (or whatever the official name is), as he never stopped working. He was truly an artist at spreading the tablecloth with precision, making straight sharp lines and placing the plates, utensils and glassware with expertise.

> "The best use of these professionals' time is the task that generates the highest return."

After dinner, on our way out, I stopped by the hostess stand where three hostesses greeted me. When I asked to see a manager, one immediately responded there were two managers working and she would locate one for me.

> "Appraisers should take a lesson from other professionals to assess what they can do to better manage their time."

When the concerned manager approached, extending his hand and offering to solve a problem I didn't have, he was elated to learn I wanted to compliment his staff on the outstanding service and food. He said he was shocked because when he's requested it's normally to handle a complaint. I said his operation appeared to be a well-oiled machine. "I see waiters and waitresses, wine stewards, water servers, busboys, table setters, food preppers, food runners and sous chefs," I said. I pointed out the three hostesses and the other manager. I said, "I only have one remaining question. How many head chefs do you have?" His answer: "Only one."

The Examination of a Good Recipe

The best use of these professionals' time is the task that generates the highest return. It is this best use that not only benefits their employer, but also the customer. Appraisers should consider doing the same. If you do everything in your practice, realize some of the duties you are performing are at a minimum wage rate. Answering the phone and pulling deeds is clearly not the best use of your time. Clients will be better served if you can focus on things only you can do. Most appraisers say it is difficult these days to get one appraisal out the door each day with all the menial work involved. Soon, practitioners may not be able to meet the needs of their clients.

Consider automating your systems whenever possible. Many of my students utilize one monitor. I encourage them in class to go out, buy a second monitor and hook up that same night, right after class. Consider the use of a tablet in the field; hire an assistant or maybe two or three.

Lenders and AMCs should allow appraisers to train competent folks and let them take over some of the appraisal duties. (And while we're at it, let's examine the industry's pre-printed forms and encourage an overhaul. I mean, how many lenders have denied a loan based on a bathroom wainscot? Can't we eliminate the silliness from these forms?)

Shouldn't the appraiser focus on what only they can do? Others can do many of the functions that appraisers do on a daily basis, tasks that don't require an appraiser's certification, like answering the phone, scheduling appointments and doing research. The appraiser should concentrate instead on the analysis. The bottom line: Stay in the operating room and conduct the surgery; don't waste your valuable time taking a patient their lunch tray. ✖

Choose Your Words Carefully

When talking about value, take care not to extend beyond your expertise.

DOUGLAS OLDMIXON
Texas Real Estate Commission
Executive Director

Texas Appraiser Licensing & Certification Board
Commissioner

"Unless you hold a current appraiser license, choose your words carefully the next time someone asks you, 'What do you think that property is worth?'"

"What do you think this property is worth?"

Those of us in the real estate profession have been asked this question hundreds of times. You try to answer it for your client each time you do a Comparative Market Analysis (CMA) or a Broker Price Opinion (BPO). As a license holder, you are allowed to perform this task in the name of the broker as a distinct service and for a separate fee. This is a very particular skill that you can learn to do competently. But when you do so, be careful to ensure you stay clearly within your area of expertise—and do not exaggerate your abilities.

Real estate professionals should avoid using the term "value" without an appropriate qualifier in order to make it very clear that you are not offering "an opinion of value" (that is the legal definition of an appraisal, and it requires a distinct license).

Now, before you get upset about this, realize that clearly establishing your area of expertise is one of the requirements of your professional real estate license. Your license allows you to perform many skilled tasks associated with real property—analysis, marketing, sale and transfer—but it also requires you to perform these tasks competently, that is, with a minimum level of expertise, and to refrain from engaging in activities—even those permitted by your license—if you have not yet developed that expertise.

For example, you would never attempt to complete a Sec. 1031 Exchange without acquiring the knowledge and skill to do so competently. And your license also prohibits you from engaging in other tasks related to real estate transactions that require separate and distinct licenses. You already know and accept this.

Competence and Licensing

You may be a great contract negotiator, but you know you cannot write substantive provisions into a client's contract unless you have a law license. You may be a very skilled transaction closing or escrow counselor, but you cannot perform certain escrow or closing tasks without an escrow agent or law license. You may be highly accomplished at estimating mortgage qualifications for customers or clients, but you cannot underwrite and originate a loan without a mortgage loan originator license.

Similarly, you may have tremendous skills in estimating the likely sale price of a home, and may even have insight into a specific marketing strategy based on that analysis, but those determinations are outside of a real estate broker's skill set. Estimating a sale price is not the same as employing the detailed process used to establish an opinion of market value for the purposes of collateralizing a mortgage loan. Establishing a market value requires adherence to USPAP guidelines, and in almost all states, performing that task requires an appraiser license.

As you are likely aware, real estate license holders are allowed to create a CMA or a BPO related to the estimated price of real property as part of the ordinary course of business if the analysis, opinion or conclusion is related to the actual or potential management, acquisition, disposition or encumbrance of an interest in real property. Most importantly, the CMA or BPO cannot be referred to as an appraisal. (In Texas, you are required to include a disclaimer that specifically informs the reader that this report is not an appraisal and was not developed following USPAP guidelines.)

Precision Offers Protection

There are certainly many instances in which the term "value" is used generically in the realty marketplace, but as licensed professionals, we are required to be more

precise in our language. This is especially true in our advertising, which tends to use simple and brief terminology. We know how to do this—we do it all time. We differentiate between brokers and sales agents, and between Realtors and other license holders, even when our clients may not fully comprehend the implications of the distinction. We explain the difference between a customer and a client to ensure both parties do not misunderstand the scope of the professional assistance we can offer to each. We carefully distinguish between "tax value" and "market price" to ensure our clients are both realistic and fully informed. To serve our clients competently—and to avoid misleading them—we must also be able to clearly explain the difference between "sale price" and "market value."

Price Versus Value

A sale price is the amount of money the buyer agrees to pay for, and for which the seller agrees to transfer, a property. Think of it as the exchange price. Based on a widely variable set of both determinate and indeterminate factors, this amount may be very close to, or very far from, the actual market value of a property. Price is just one element to be taken into consideration when determining market value. Often it can be the most predictive element, but that does not make it an equivalent.

What about the potential for a change in property use? Or the zoning classification? What about an easement or some other key entitlement or restriction? Would any of these variables affect market value? Of course they would! A fair market value cannot be reliably determined without a detailed analysis performed under recognized methods and techniques; the use of current data to consider all three major approaches to value income potential, comparable sales and replacement costs; and the reconciliation of those relevant results. And these skills are precisely what an appraiser is trained to do.

This is why the lending community relies almost exclusively on an appraisal report to estimate the market value of the collateral property when making a mortgage loan. A BPO just won't cut it. There are many circumstances for which a CMA or a BPO can provide the kind of information needed to assist an owner or the owner's agent in evaluating their options for a specific property, situations that don't require the structured, detailed analysis provided by an appraisal report. But that does not make them equivalent. A BPO or CMA is not a comprehensively sufficient analysis to establish market value, though it may be done competently enough to support a likely sales price prediction or a listing price marketing strategy.

The Takeaway

Unless you hold a current appraiser license, choose your words carefully the next time someone asks you, "What do you think that property is worth?" "In today's market, I think it would sell for $XX" is always a more appropriate response for a real estate professional—a broker or a sales agent. The most professional approach is to simply avoid using the term "value" without an appropriate qualifier that clearly indicates that you are not offering an actual opinion of value. ✖

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Clarifying the Rules

What you should know about Handbook 4000.1 and its impact on reverse mortgage appraisals

JOHN DINGEMAN, MNAA
Landmark Network
Chief Appraiser

NAA
Vice President

Nine months have passed since HUD's new FHA Single Family Housing Policy Handbook 4000.1 was adopted and there is still confusion among appraisers and mortgagees as it relates to guidelines and who is responsible for meeting them.

It is in our nature to resist change, and the release of the Handbook 4000.1 was perceived by many to include massive changes. As vice president of the NAA, I was privileged to serve on an ad hoc committee assigned to review a draft of the 4000.1 against previous handbooks and all mortgagee letters, and to make suggestions to HUD based on our review.

From my experience, I can tell you that the new handbook mandates significant change. For starters, HUD relabeled a host of items, changing those once listed as items that "should" be completed or verified to "must." And they use the word "must" over 4,300 times throughout the new manual; that is up from 2,700 in the 4150.2. This alone caused so much consternation that some appraisal organizations believed that the 4000.1 is at odds with our standards by forcing an appraiser to violate the USPAP's Competency Rule. Whether this is true or not, one thing is for certain: HUD believed the "should" was always a "must" and without the use of the correct verbiage appraisers were obfuscating their duties and mortgagees were shifting responsibilities.

As a chief appraiser for Landmark Network, I sit in between both parties and find myself on the phone with HUD on a near weekly basis to assist in resolving a misinterpretation or finding a solution that would be acceptable to all. Phone calls suggesting that an appraiser or underwriter should know the new guidelines by now are as common as those that recite a guideline that no longer exists in the 4000.1.

On a positive note, FHA appraisal Continuing Education courses have never been so popular. After September 14, 2015, appraisers either removed themselves from consideration for FHA appraisal assignments or declined them until they were able to attend one of these new classes. I believe appraisers are more aware of their responsibilities when completing an FHA appraisal assignment than ever before. I also understand that there are more than 1,200 pages between the Handbook 4000.1 and the Appraisal Report and Data Delivery Guide, and that committing all of this information to memory is not realistic. This is compounded by the fact that many appraisers simply comply with a request (valid or invalid) from a DE underwriter to avoid conflict, and because one appraiser complies, the mortgagee is led to believe that their request was valid.

> "After the dust fully settles, I believe the new handbook will have served its purpose well. I also believe, based on my experience with the NAA,that HUD is open to providing clarification when and where it is needed, so ask."

HERE ARE A COUPLE OF GREAT EXAMPLES:

Example No.1 The mortgagee notes five closed sales, three within 12 months of the effective date of the appraisal and two older than 12 months. The appraiser has placed the sales in the grid in such an order that both of the dated sales over 12 months are in positions one and three. The mortgagee, based on the old Handbook 4150.2, requests that the appraiser move those sales to positions four and five.

This guideline was removed from the 4000.1. Gone! The only requirement is that the appraiser include three sales within 12 months of the effective date of the appraisal. Many believe that restricting an appraiser from reporting an analysis in a way that appears to be the most logical compromises the appraisal process.

Example No. 2 The mortgagee notes that the subject is on a private sewer system. The appraiser simply comments that 1) public utilities are available and the cost to connect is unknown; 2) private water or sewer systems are typical for the area, included with all comparables and have no impact on the marketability of the subject property; and 3) the well and septic system meets HUD guidelines as it relates to distance requirements. The mortgagee asks one or all of these questions: Can you provide the cost to connect to public utilities and state whether or not it is feasible to connect? Can you certify that the private water system meets the requirements of the health authority with the local jurisdiction or meets the standards set by the EPA for drinking water? Can you include the distances from the well, septic and property lines and include the distances on the sketch?

An appraiser is only responsible for stating if public or community systems are available for hook-up. Most appraisers would not know the cost to connect. It is the mortgagee's responsibility to determine if connection is feasible and if the cost is reasonable. The mortgagee, not the appraiser, must ensure that the water quality meets certain requirements.

An appraiser is responsible for observing the physical condition of the plumbing system and must operate the system to observe its performance. This means confirmation of water pressure, no foul odors or discoloration, no leaks or structural damages, and the availability of both hot and cold water. It is outside the Scope of Work for an appraiser to certify that the water meets any requirements—and really, are they qualified to do so?

An appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution if noticed. An appraiser is not required to sketch or note the distances and only when comfortable may provide those distances. Once the appraiser states the system meets HUD guidelines, it is presumed that the distance requirements have been met.

Example No. 3 The mortgagee orders a Single Family Residential appraisal and selects a 1004 URAR. The appraiser identifies that the property as a Site Condo and completes the report on a 1004 URAR as requested. It is not uncommon for appraisers to do this since it has been an accepted practice for years for both conventional and FHA appraisals. If the subject property is a condominium (including a site condominium), Handbook 4000.1 requires the appraiser to complete the assignment on the 1073 Individual Condominium Unit Appraisal Report.

It is important to note that in the initial step of the appraisal process, an appraiser must identify the property/ownership type and the results of those findings determine the form type, regardless of how the mortgagee ordered the appraisal. It is recommended that an appraiser notify the mortgagee of the change and, if questions arise, review the prelim and all related documents to ensure that the report is completed on the appropriate form.

These types of requests and confusion about who "must" address the specified guideline can cause delays. Because there are more classes on the FHA Handbook 4000.1, and because there are more state appraisal organizations educating and supporting their membership on industry-related changes, appraisers are more aware and confident of their position on these matters. And because so many lenders have specific requirements for appraisers that include at a minimum Certified Residential status and inclusion on the FHA Appraiser Roster regardless of the assignment type, it behooves an appraiser to know and comply with the guidelines rather than risk being removed from the FHA Appraiser Roster, which can impact an appraiser's livelihood.

What are some of the things that both appraisers and mortgagees can do to speed up the process?

The mortgagee can provide the following documents, which are required before the appraiser begins the appraisal process.

1) A complete copy of the executed sales contract for the subject, if the loan is a Purchase transaction, with all contract addendums are included. The contract and any addendums must be signed and dated.

2) The land lease, if applicable.

3) Surveys or legal descriptions, if available. Note that legal descriptions may vary depending on what is noted in public records and to avoid any discrepancies the prelim should be provided. Surveys are extremely helpful, particularly when the property does include private water and sewer systems as the distances are typically noted there.

4) Any other legal documents contained in the loan file. (This is a tough one! There are an awful lot of legal documents in a loan file and some of them are completely unrelated to the appraisal. Nonetheless, if you think it is relevant, you should probably attach it to the order.)

5) A point of contact and contact information for the mortgagee so that the appraiser can communicate any noncompliance issues. (I understand that a DE underwriter may not be assigned to a loan file at the same time that the appraisal order is processed, but that is of little concern to HUD. A name, email address and phone number should be included with the order.) ☛

What can Loan officers do to help?

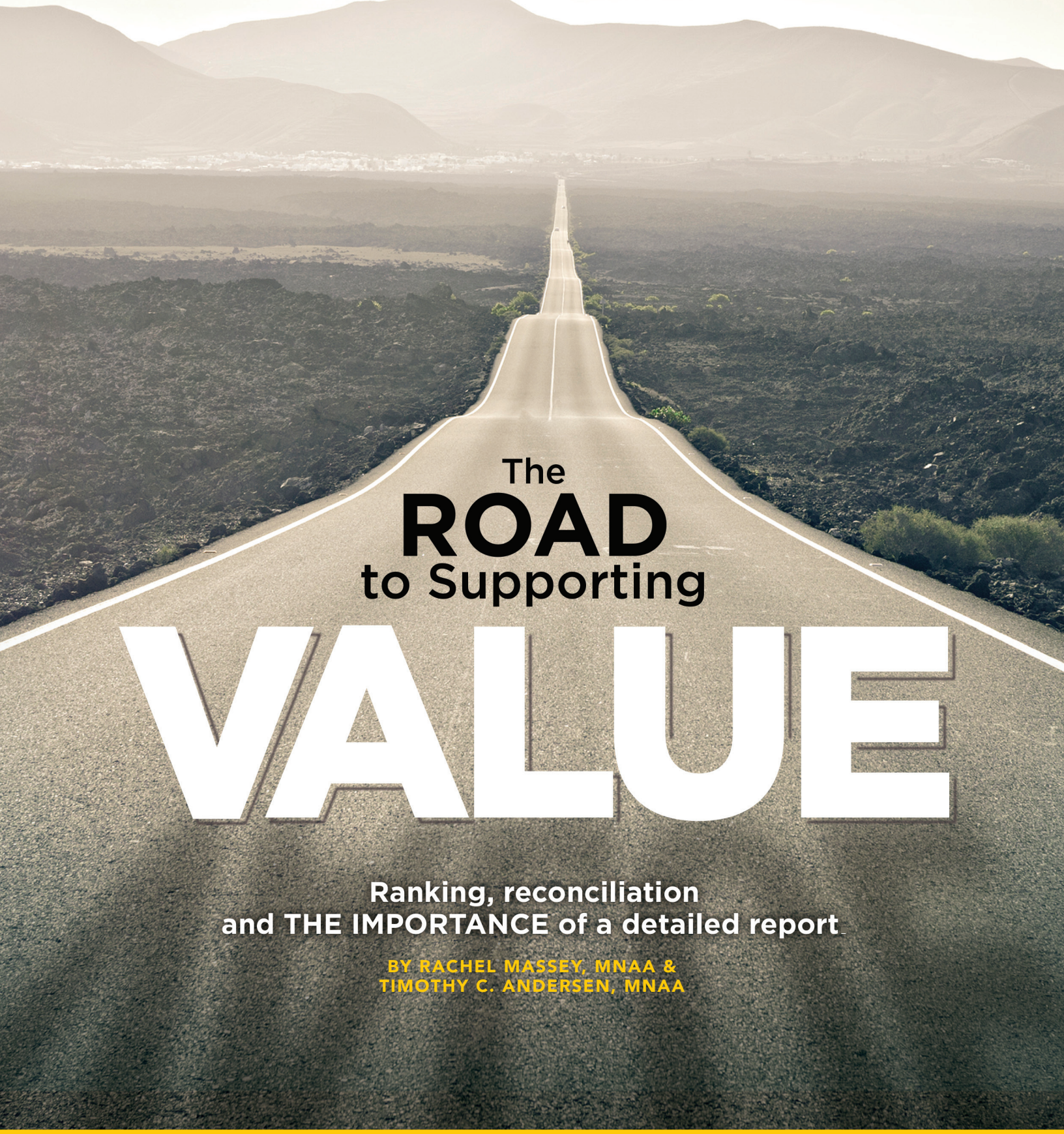
LOs can also prep the occupant for the FHA site visit and appraisers can do the same when calling to schedule. If there is an attic or crawl space, ensure that they are accessible. Replace any damaged or missing electrical cover plates. Install smoke alarms and CO detectors where needed (each state will post requirements on its website). For homes built before 1978, ensure that there is no peeling, flaking or defective paint surfaces on any structure or property improvements (yes, this includes fencing). If the property is on a private well or sewer, have the survey ready and point to its location when the appraiser is on site. If possible, have the occupant demonstrate that the appliances are all operational or at the very least that they are free of debris and clutter. Ask if there are any remodeling or other improvement projects taking place on the premises. Finally, for easy observation, ensure that the appraiser has complete access to all rooms, outbuildings, etc. Reducing the number of site visits, or surprises, for that matter, is the ultimate time saver. And contrary to popular belief, appraisers are not interested in completing 1004Ds or CIRs if they can be avoided on the first site visit. Remember,

HUD believes there were little to no changes, because the intent of the 4000.1 was to combine the 4150.2, 4905.1 and all mortgagee letters. The department's goal was to combine both the mortgagee and appraiser's responsibilities in one document with the intent of eliminating any confusion and minimizing the broad interpretations

"The department's goal was to combine both the mortgagee and appraiser's responsibilities in one document with the intent of eliminating any confusion and minimizing the broad interpretations of the guidelines made by other parties."

of the guidelines made by other parties. The 4000.1 is a living and breathing document; changes will be made to it and users should ensure that they are reading from the latest version.

After the dust fully settles, I believe the new handbook will have served its purpose well. I also believe, based on my experience with the NAA, that HUD is open to providing clarification when and where it is needed, so ask. Now, their clarifications may not come at a pace you and I would prefer, but they are coming. ✖



The ROAD to Supporting VALUE

Ranking, reconciliation and THE IMPORTANCE of a detailed report

BY RACHEL MASSEY, MNAA &
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Ranking and reconciliation set the stage for an appraiser's opinion of value. The Sales Comparison approach and the Income and Cost approaches are meant to reflect the actions of knowledgeable buyers and sellers active in the marketplace, and these valuation methods are shaped by the principles of ranking and reconciliation.

We appraisers tend to get caught up in the minutia of adjustments, and because of this we sometimes miss the big picture. It is a rare buyer who breaks out each unit of comparison in a dollar amount. Instead, the typical buyer (of residential property at least) simply expects to pay more for a superior property and less for an inferior property. This is just common sense and serves as the foundation of ranking properties relative to the subject.

When we analyze sales to determine the best points of comparison to our subject, we should look at the larger picture and analyze the sales as a whole. Ideally, we have gathered sufficient and meaningful data so that we have properties both inferior and superior to the subject, as well as ones that are generally similar. It is not always possible to attain this data, but in most markets it is generally not too difficult. Analyzing and summarizing the sales we use in our reports should guide the reader to a logical conclusion.

The following is example, imper

✓ Comparable Sale One

A similarly sized, ranch-style house with an updated roof, windows, kitchen and bathrooms. It has a quiet location off a main road, but does require some travel along gravel roads. This house is superior to the subject in the following manner: It is larger and includes an additional half bathroom; it has a deck, a finished basement and a newer kitchen. It is inferior to the subject in that it lacks a breezeway and the quality is inferior. Sale One is similar to the subject in location because its quiet location is offset by the greater distance to town than the subject. Overall, Sale One is slightly superior to the subject due mainly to size, bathroom count and basement finish, and it sold for $208,000, setting a logical upper limit of the value range.

s a real-world fections and all:

✓ Comparable Sale Two

Noted in the MLS as being newly remodeled, but the selling agent indicates the house needs work and the exterior of the house is not in good shape. The house has an addition off the back, which may not flow as well as a house built this size to start. This house is located in a different school district from the subject and right at the district border. In our opinion, there is no marked difference in value between the districts in this location and buyers will consider both equally. The house is inferior to the subject due to overall condition and its location, which is closer to a less desirable community. The road tends to be very busy at certain times of the day. There is a commercial property across the street and south by only a couple of lots, and an animal hospital/dog park just a few lots south. As an inferior property, this house sets the logical lower end of the value range; it sold for $153,000 in September 2014. As the market has been increasing, and we can measure an increase of approximately 5 percent from the date of contract to the effective date of our report, the expected value of this house were it to go under contract as of the effective date is $161,000.

✓ Comparable Sale Three

A good comparable property of similar overall quality and appeal. This house is superior to the subject in that it is larger, has an extra half bathroom and two fireplaces. It is inferior to the subject in overall cosmetic condition and is more dated cosmetically. The location is closer to the subject community and the road does have traffic, although not as much as the subject's location. The features that are similar, other than style, are that it has a breezeway and updated furnace and A/C. Overall, this property is similar due to its size and amenities, such as a deck and fireplaces that offset its inferior condition. This house sold when the market was about 3 percent lower, with an approximate value in today's market in the same condition of $183,000, setting another benchmark in value for the subject.

✓ A Pending Sale

Located in close proximity to the subject and is similar in age, site size and overall appeal. This house is superior to the subject because it has an additional half bath and is slightly larger. Due to having electric heat, and a more dated decor, it is slightly inferior to the subject overall; it is listed for sale for $184,900 and went under contract after 37 days on the market. We expect the house to sell within 3 percent of the list price based on the list-price-to-sales-price ratios found in this market place. This pending sale provides good evidence of current market activity.

This type of ranking description is not extensive, but it provides the client and intended users a solid understanding of the appraiser's logic in arriving at a value conclusion. The appraiser has already indicated that the subject has a logical lower limit of value of $153,000 and an upper limit of value of $208,000. This is a relatively wide spread of 35.95 percent based on the unadjusted sales price range. In the adjustment process—including the use of paired-sales data, grouped paired-sales data, regression, depreciated cost, sensitivity and more—this range should narrow considerably.

Consider the following reconciliation of sales addressed above:

These three closed sales present one inferior (Sale Two), one superior (Sale One) and one generally equal (Sale Three). The superior property sold for $208,000, presenting a logical upper end of the value range, and the inferior property sold for $161,000 (accounting for the changing market conditions only), providing a logical lower end of the value range. The similar property sold for $183,000. Together these sales provide a means to indicate that even without adjusting for anything other than changing market conditions, the subject would have a low range of $161,000, a high range of $208,000 and a logical price range around $183,000.

After applying the units of comparison that we consider most relevant—namely market conditions, site value, condition, size and bathroom count—the adjusted sales price range narrows significantly from a low of $179,000 to a high of $186,500. The most similar sale adjusts to $179,000, and a similar competitive offering is for sale for $184,900 and is expected to sell near list price. All of this information leads us to determine an appraised value of $183,000. This takes into account both the adjusted and unadjusted sales prices of the comparables as described above.

Logical, isn't it? Notice how the adjusted sales price range has narrowed from 35.95 percent down to 4.19 percent? This would be typical of a well-thought-out and analyzed adjustment grid. All too often appraisers average the sales data rather than reconcile which sale has the most meaning relative to the subject and why. Remember that USPAP guidelines require us to "reconcile the quality and quantity of data available and analyzed within the approaches used." They also compel us to "summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions and conclusions."

Why is this important? Because it shows the logic the appraiser used to derive his value from the unadjusted comparable sales and explains the specific rationale behind

the appraiser's conclusion. Not only that, it also reflects the way that buyers buy houses. Buyers may consider the cost of a new house as an alternative, which includes weighing the time to completion, particularly on new construction. When buying a house, most buyers also consider the cost of renting on a monthly basis, so the income approach is also often applicable to the formation of a credible value opinion when buyers in a particular market could rent just as easily as they could buy. At the very least, knowing that their mortgage payment would be in the range of a rental payment is at the forefront of many buyers' minds, especially after the recent mortgage crises.

Recall that Standards Rule 1-6 requires us to reconcile two areas of our analyses when developing a real property appraisal. First, we must reconcile the quality and quantity of data available and analyzed within the individual approaches. This means that we discuss the analyses of construction costs, depreciation estimates, site values, comparable sales, comparable rentals, availability of data, ability to confirm the data, and so forth. Then we must reconcile between the various approaches to value that we have applied in the appraisal process. Please consider this language as one example:

Because there was sufficient data from reliable sources, the appraisers were able to analyze the subject using all three of the standard approaches to value. While the Cost approach indicated a value conclusion approximating that of the Sales Comparison approach (after adjustments), it is best used as a secondary method on a house of this age. There was plenty of comparable sales data by which to form a value conclusion. All were relatively close to the subject. Since the houses in the subject's neighborhood are generally not purchased and sold as investments or income-producing properties, the Income approach was not able to yield a reasonable indication of value. For this reason, its details are in the work file, but the appraiser has omitted them from the report as neither applicable nor necessary to the formation of a credible value opinion.

Next, Standards Rule 1-6 requires us to reconcile the applicability and relevance of the approaches, methods and techniques we use to arrive at a credible value conclusion. As we pointed out earlier, this is nothing more assigning a specific weight to the conclusion of a specific approach. Typically, the more comfortable we are with the conclusion of an approach to value, the greater weight that approach receives in this reconciliation. Consider this language:

For the reasons cited above, the appraiser chose to give the greatest weight to the value conclusion from the Sales Comparison approach. For those same reasons, the appraiser gave some weight to the value conclusion the Cost approach indicated. Finally, for the reasons cited, the Income approach merited no weight in the final analysis. It is for these market-supported reasons the appraiser concludes the market value of the subject property, as of the appraisal's effective date, was $183,000.

Notice how we ranked the sales and then included details on our reasoning? Then, by reconciling the individual value indications, we noted which was most persuasive in forming the value opinion, and explained how and why we arrived at that conclusion. These two steps are in compliance with Standards Rule 1-6 as well as the Fannie Mae Selling Guide.

Following these guidelines will help your reports flow logically and will highlight your thoughtfulness and credibility as a professional appraiser. The suggestions above can help you create the kind of quality reports that clients and intended users look for and that, over time, will merit more professional fees. ✖

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A Meeting of the Minds

The Appraisal Summit provides a unique opportunity for professional growth.

CATHY PUTEGNAT, MNAA
NAA Industry Partner Alliance Committee
Chair

What does a full-time fee appraiser do when she has a few days off? Why, she goes to Las Vegas to take in a show, enjoy the city lights and earn Continuing Education credits, of course!

When I first started attending the NAA's Appraisal Summit—which will take place this September in Las Vegas—it was for the Continuing Education courses, but what I have gained through the years has been far more valuable than just appraiser education credits.

I work and live in Hawaii, which to some might seem like the perfect place to work and live. (I put "work" before "live" in that sentence for a reason, and I will just leave it at that.) However, I have always loved rubbing shoulders and sharing stories with other appraisers. Here in Hawaii, there are very few opportunities for appraisers to get together and learn from one another. Attending the Appraisal Summit has been a great opportunity for me to do just that.

I know, I know. Most independent fee appraisers are, well, independent—they want to hole up in their offices, speak to as few people as possible and just get the work done. The problem with that is when we find ourselves in a tough situation, which we all do from time to time, we need someone to turn to. All appraisers occasionally come across an assignment that flicks the lights on in our brain, leaving us looking for an answer to something we have never run into before. You know, those moments where we have to ask ourselves, "Am I truly competent to complete this assignment?" When I encounter this type of situation, I find myself grateful that I started attending the Appraisal Summit as I have met some of the brightest appraisers I know there. These are the people I can call upon to help me through those "I have no idea where to go with this one" situations.

At the Summit, I have met appraisers from all over the country with varying levels of experience and knowledge who have inspired me to consider new avenues of work. Many of these professionals have a real passion for making the appraisal industry better for all of us. This meeting is a gathering of appraisers and industry leaders who care about the future of our profession and who want to work together to find progressive ways to better our opportunities.

So, what started out for me as just an opportunity to get those required Continuing Education courses completed has turned into opportunities to grow, learn and create friendships with my colleagues from all over the country. These people help me become better, and more competent, in my chosen career path. Besides, who doesn't love a few days away in Vegas! ✖

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