

APPRAISAL TODAY

Property Sciences AMC - staff and fee appraisers

Many AMCs were started by appraisers who had a non-AMC appraisal business using both staff and independent contractor appraisers. This has not changed much over time, including the recent boom in the AMC business. My article in the April 2013 issue, "A brief AMC history from 1967 to now - from 5% to over 80% of the appraisals!" discussed AMCs in the 1990s. Many were started by appraisers back then, similar to today's AMCs.

Most of the over 400 AMCs started since HVCC were started by appraisers.

Property Sciences is one of the few long time appraisal companies that shifted to AMC work. It has been in business for almost 30 years and survived two significant appraisal recessions. I have included information on how they survived.

I have known Paul Chandler, MAI, the founder and CEO of Property Sciences since soon after I started my appraisal business in 1986. Paul started his business in 1984. We both started our businesses doing commercial appraisals and shifted to both commercial and residential due to the appraisal boom that started in 1986.

Paul is one of the few appraisers who successfully shifted his business

strategy when the residential appraisal business changed over time, responding to the booms and busts of that market.

In stark contrast, the commercial appraisal side of his business has changed little over time, similar to mine. Steady volume, not many changes in reports, no AMCs, etc.

A brief history of Property Sciences

The company was founded in 1984. The founder, Paul Chandler, graduated from University of California Berkeley in 1981, with a B.S. in business administration, (emphasis in finance). He received his MBA (emphasis in real estate) in 1989 and his MAI designation in 1989.

In 1980, while still in college, he started working for Corinthian Real Estate. He was a site locator for S&L branch offices. The second year there, he began to work for Corinthian's parent company, Market Insight Corporation, consulting on market analysis, acquisitions, and S&L branch locations for S&L expansion.

In 1984, he started working for Golden Coin Savings. He was a Vice President of Real Estate, working on residential developments. At that time S&Ls were allowed to do development loans. This was later stopped when many went out of business due to bad development loans, resulting in FIRREA regulations, which also required appraiser licensing.

He started his appraisal business in 1984, doing commercial appraisals. In 1986 he expanded into residential appraisals. There were very few appraisers left after the 18% mortgage rates from 1981 to 1985. At that time, most appraisers were staff appraisers for lenders. Almost all were laid off. Some were able to do jobs such as tellers at bank branches to keep employed.

Paul had two very experienced appraisers who helped him when he first started his business and when he began doing more residential work, since he was a commercial appraiser. I also had two appraisers who helped me with lender residential appraisals, as I had never seen a Fannie Mae

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form. Chief appraisers at several lenders were also very helpful, especially regarding what could, and could not, be included on the forms due to banking regulations (i.e., fair lending).

I left an assessor's office and got an MBA in 1980. From 1980 to 1985 I worked in corporate real estate for a biotech company. I had planned on returning to appraising, but there were very few appraisal jobs and they paid much less than non-appraisal real estate jobs.

I got bored with the corporate life after awhile and really missed working in the field. In 1985 I decided to start my own appraisal business and worked part-time for another appraiser for about 6 months.

In January, 1986, when I started my business, there was no appraiser licensing. Lenders gave you work based on your experience, education, and work samples. You interacted directly with the local appraisal departments of national lenders such as Bank of America and local lenders.

When I started my business, similar to Paul, I did commercial appraisals. But, I was able to get as much residential work as I wanted, so I shifted to mostly residential. I still do both residential and commercial appraisals.

Paul has always focused on lender work and does some non-lender commercial appraisals. He also has done a lot of training for both residential and commercial appraisers. All of his former trainees say their training was very good. Of course, after HVCC he did not have any residential trainees as they could no longer sign appraisals.

Paul Chandler - life beyond appraising

When I visited the Property Science office, I noticed classic baseball photos and old Hollywood movie posters on the walls instead of the usual blank white walls found in most offices, including mine.

Paul is a sports fan, with season tickets to the Oakland A's baseball team. He is a golfer and tennis player. He collects piggy banks from old S&Ls and classic movie posters.

He loves to travel and went to Thailand last month, with his wife of 30 years.

He has one child, a 18 year old daughter. No, she does not want to be an appraiser (now). But, I have noticed that some children join the family business after a few years of so-so jobs following college graduation.

Transition to appraisal management

In the late 1990s when the Internet was starting to take off, Chandler worked with eloan (one of the first online mortgage origination companies). He hired software programmers and helped establish their appraisal policies, including an electronic appraisal interface and set up an AMC for eloan to order appraisals. After a few years, he quit working for eloan and dropped the AMC work.

In 2008, anticipating HVCC, he realized that mortgage bankers needed someone to do their appraisals. He set up the first HVCC compliant mortgage appraisal portal for originators using five software programmers. Within five months of HVCC implementation in 5/09, 7 out of 10 mortgage bankers were using his software, Accelerated Mortgage Connection, AMCTrak.

Afer the AMC business took off, he hired more residential staff appraisers and expanded to a national AMC using independent contractors.

Residential review business - started in the early 2000s

In the early 2000s, the appraisal review market was very strong with lots of business. Three of the largest review companies were purchased by Fidelity, including two in California.

Chandler saw an opportunity and shifted his residential business focus from appraisals to reviews. Per Chandler, he had the largest share of reviews in the California review market.

Handling the ups and downs of the appraisal business

There was a very significant crash in the appraisal business in 1994. I went from 7 employees to myself and a part time assistant.

At the peak, Chandler had 6 offices and 115 people working for him. In 1993-1994, Inc magazine named Property Sciences one of the "Fastest Growing Companies in America". Within 12 months, he downsized by 50% and kept his Los Angeles office, which a partner later bought out.

The next crash started in 2008, with the subprime mess. He laid off most of his appraisers, with about 6-7 appraisers remaining.

By shifting to AMC work post-HVCC, he started hiring staff appraisers and greatly expanded his use of independent contractors on a national basis. Staff appraisers are on the West Coast. He now has 107 employees, including 72 licensed/certified appraisers.

He has a southern California office in Glendale and recently started a Florida division. Why Florida? A big mortgage market. He is already in California, the biggest market in the country.

Commercial vs. residential

The number of commercial appraisers remained fairly constant through the booms and busts. Property Sciences currently has 11 commercial appraisers. They were able to shift from origination to asset management. There was also non-lender work available.

Use of technology

Although Paul is not a computer programmer, he has developed and used technology. He developed the appraisal policies around the first online mortgage origination platform for e-loan in the late 1990s, including an electronic appraisal interface.

In the late 1990s he developed C-loan, an online commercial lender directory for mortgage bankers and brokers. He sold the business in 2001 to another directory that wanted to expand from residential into commercial lending.

A key component for AMC's success is software that can handle managing the appraisal orders. Some old AMCs use old "legacy" systems. Newer ones use online applications developed by software companies, such as etrac and a la mode.

Property Sciences developed its own appraisal management software to track and manage appraisal orders before HVCC started, which is unusual for a small to mid-size AMC. It also has online software, developed earlier, to interface with its clients (AMCtrac).

AMC sub-contracting - "cascading"

Many of the large AMCs subcontract their overflow to mid-size AMCs. That is one of the reasons that appraiser fees are low. I call it "cascading". Big AMC A subcontracts to Mid size AMC B, who then subcontracts to mid-size or small AMC C. Each one of these needs to make money.

Property Sciences does not participate in sub-contracting. It does not

subcontract to other AMCs.

Number of appraisals from each state varies

Property Sciences has concentrated on California appraisals for many years, so much of its business is in California. In 2007, it expanded nationally. When you are a national AMC you agree to accept appraisals from all over the country. For example, a credit union in San Francisco may need an appraisal for a member who moved to Illinois.

How many appraisals and reviews per year?

About 8,500 appraisal orders per month. Typical for a mid-size AMC.

Of the 8,500 orders:

- Full appraisals: 86%
- Reviews: 14%

How are orders assigned?

Staff appraisers are typically given first priority, just like any other appraisal company or AMC.

Each order is manually assigned. Property Sciences conducts preliminary research on each property that is to be appraised, so that any unique factors that may increase complexity are considered and addressed with the appraiser during the qualification process and the best appraisal firm is utilized.

Do they broadcast orders?

They prefer to use appraisers that have worked for them before, just like any other type of business.

Property Sciences does not blast or blindly broadcast orders for the lowest fee quote or for first-come/first-serve assignment.

If they receive an order in an area where they don't have appraisers they have used before or a super-rush order, they broadcast the order to appraisers on their panel in that area.

How many appraisals are reviewed by appraisers?

All appraisals are reviewed by Property Science staff appraisers. This is unusual. Most AMCs only have the difficult appraisals or "problem" appraisals reviewed by appraisers.

How many licensed appraisers are there and what do they do?

72 (70%) of the 103 total employees are licensed/certified appraisers. This is an unusually high number of appraisers for the company's size.

Breakdown:

- Commercial appraisers: 11
- Staff appraisers (production): 30
- QC (reviewers): 28 (1 appraiser for every 321 orders, or 16 reviews per day).
- Other appraisers: 11 managers

For an appraiser, this means you can talk with an appraiser, a significant plus. Most AMCs have much fewer appraisers per number of orders.

How are appraisals checked and reviewed?

Lender's information is automatically pulled into the system from the lender online interface.

- Rules check: Rules engine (ACI Hotspot), similar to forms software reviews
- Stage 2: Real Estate Analyst (recent college graduates):
Verify basic data (match public records, check MLS) and check criteria: i.e., ½ mile for comps from MLS
- Stage 3 and 4: QC licensed appraiser, reads reports, minimum of 10 years of experience. These are the only people who can call appraisers.

More details (information sent to a prospective lender client):

1. Report scrubbing technology runs hundreds of automated QC rules that instantly check the report for errors, inconsistencies, and potential violations. Rules results are populat-

ed into an internal QC checklist for review by the Real Estate Analyst team, who conduct a first pass manual quality control review of each report.

2. Preliminary QC Review process includes automated rules results verification and the compilation of property and market specific public records and MLS data, where individual property information as well as general market recent sales and listings activity through public records, MLS, and other data sources are gathered and compiled for further analysis and validation by a senior level professional.

3. Senior QC Review. Each report then undergoes a line-by-line manual review by one of the senior QC professionals, selected based primarily on geographic competency, volume capacity, and property or client-specific specialization. They average over 10 years of appraisal, quality control, and/or collateral due diligence experience.

How are conditions from underwriters handled?

They are first screened to see if they are reasonable and make sense. Those that do not pass the screening are sent to the appraisers.

What about underwriter requests?

After the appraisals are ready to do, they are sent to the lender client and reviewed by one of their underwriters.

Unfortunately, underwriters work with the specific requirements of their employers. They are not appraisers and have little or no appraisal training.

Many don't understand appraisals. Asking them to read appraisals looking for answers to their questions does not work well. Spending a lot of time looking for answers and maybe, or maybe not, understanding the answers is a real hassle.

Do they have appraiser "tiers"?

They have a "core" groups of about 10-15% of the 8,800 appraisers on their list.

They prefer to use appraisers they have used in the past and have established a relationship with.

How are fees determined?

They don't have set fees. Appraisers set their own fees.

What about background checks?

They do not require them for fee appraisers. They do them only for staff appraisers.

What about work samples?

They do not require work samples. They prefer to see how the appraiser performs on the first few orders.

How are lender's special requirements communicated to the appraiser?

In the letter of engagement. Requirements of the lender requesting the appraisal are included, not pages and pages of requirements of all the AMC's lenders.

How many clients are there?

Property Sciences has about 20 "core" accounts with about 30 other small lenders.

What ordering and managing software do they use?

They use proprietary software: PSManager for tracking the order from beginning to end within the AMC, and AMCTrak online interface that connects appraisers, AMCs, clients and other business partners.

How are cash flow problems handled?

Residential lending is notoriously volatile. Labor cost is very, very high for any appraisal business. AMCs take in orders, but their clients don't pay them when they place the orders. If they don't have cash reserves, they can run out of money waiting for the lenders to pay them. AMCs have to pay their staff appraisers first. If they don't have the cash, fee appraisers have to wait.

Property Sciences has been through two major appraisal recessions and survived. That experience of managing cash flow is very valuable.

What are the advantages of shifting staff appraisers between QC and production?

One of the big advantages to having staff appraisers is shifting them between QC and production. For example, business picks way up. Appraisers can shift from production to QC. Fee appraisers can be used more for production. Or, business slows down and QC appraisers can shift to production appraisers. Fee appraisers will have less work.

For lenders, one of the biggest problems is QC "bottlenecks" as there are not enough QC reviewers and appraisals get stalled. The ability to shift production appraisers to QC helps resolve this problem.

What does this mean for fee appraisers? Less work for some, but also less risk of not getting paid.

What about exclusionary/watch lists?

AMCs need to keep close track of lender's "black" lists. If they use an appraiser on a lenders blacklist, they will have to pay another appraiser to do the appraisal and their client will have to wait.

Property Sciences uses a formal committee. If the committee votes to no longer accept work from the appraiser, a letter is sent to the appraiser providing 30 days to respond. There are different levels of actions:

- Placement on exclusionary list
- Letter of concern
- Senior review always required
- No action required

How are lender requirements communicated to the fee appraisers?

Their engagement letters sent to appraisers are specific to each lender's requirements, rather than using long "generic" engagement letters that combine requirements of many AMCs. Their software is set up to easily accomplish this.

When are fee appraisers paid?

Twice per month via their choice of check or direct deposit, between net 7 and net 22 days from the appraiser's order completion.

How do appraisers apply for the panel?

Go to www.propsci.com and click on Approval Packets. They do not require work samples, although the web site refers to them.

How does Property Sciences compare with other AMCs?

This is my second AMC profile. The first one, in the January 2013 issue profiled Axis which has a similar monthly volume and is similar in some ways and different in others. Check out their profile and compare it with Property Sciences.

Should you work for Property Sciences?

Just like deciding for any AMC, what is important to you?

- High fees
- AMC reviews done by appraisers
- Timely payment of fees
- Give you work regularly, not once a year
- Low risk of payment problems
- Fewer stupid condition
- Don't want to work for the big AMCs
- Don't like broadcast orders

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Managing multiple appraisal deadlines to increase your productivity

By Doug Smith, SRA

Editor's comment: fees are up, but Scope Creep is making appraisals take longer to complete. Efficient use of your time to complete more appraisals is very critical now. No one knows how long this boom will last. I took a one-day business time management seminar many years ago. I still use the techniques I learned every day.

As appraisers adjust to the shift in companies ordering appraisals, orders are flowing again. However, these new companies have huge expectations not only in turn times, but for the amount of information in reports.

Appraisers, both residential and commercial have in the last few years embraced technology, new software, Internet communication and Web based data research to improve productivity.

Appraisers as well as appraisal software companies labored mightily and continue to work to keep up with the UAD changeover and make everything having to do with UAD work efficiently. While these improvements reduce report preparation time, improve delivery to clients and make research more efficient, appraisers increasingly struggle to meet deadlines and manage multiple orders.

Increasing expansion of scope of work and requests for updates

Appraisers comparing the complexity of appraisals point out those lenders are expanding the scope of work of assignments.

More is required within reports including the 1004MC and additional

gridded listings. More lenders are demanding the cost approach, particularly in FHA appraisals.

Appraisal management companies and lenders have risen to new heights in techniques for prodding appraisers to meet deadlines. Some even send out monthly performance reports, sort of report cards on whether appraisers play well with others or at least send in reports on-time. With each gain in office productivity, clients seem to demand still shorter report turnaround times.

The incessant faxes, e-mails, and follow-up phone calls tracking report progress are becoming serious interruptions in report production.

The stress of managing multiple reports takes its toll on appraisers ability to maintain confidence and make sound decisions under stress.

While technology now dominates our discussions and that which we read in the trade magazines, appraisers must not overlook real and lasting productivity gains found in management techniques and principles. Some of these skills appraisers apply everyday. Other techniques are not new, but deserve even more emphasis.

Step 1. Set goals and priorities

Management guru Tom Peters once said, "Effective visions prepare for the future, but honor the past." Whether it is a formal business plan or simply a list of goals and directions, it is difficult to imagine proceeding in today's business environment without an overall plan for the future.

Experts on time management all agree setting out future goals and directions is the number one essential of management and collectively all insist these must be in writing and reviewed constantly. Without a road

map, appraisers will likely never realize the goal of effectively managing multiple reports and meeting deadlines.

A corollary to setting out written goals and directions is using a prioritizing system.

The key to this system is sorting out deadlines in terms of long term, short term or immediate. The next step is to weigh the deadlines in terms of return or impact.

For appraisers, defining and weighing the payoff or consequence from meeting deadlines is probably the greatest hurdle. Often, the client who is the squeaky wheel gets the response.

The word triage is commonly thought of as applying the assignment of degrees of urgency to decide the order of treatment of wounds, illnesses on the battlefield.

While on some days appraisers may feel they are on a battlefield managing multiple casualties, the word triage, in its first definition, is more meaningful to the management of report preparation. The first preferred definition of triage is, "the act of sorting according to quality."

Clients represent differing qualities and, therefore, deserve greater or less priority in terms of their contribution to the long-term health of the appraisal firm. For some appraisers, clients are not always seen to have a long-term effect with only a one-time need.

However, each client must be evaluated in terms of their possible influence for referring other clients. Any new client deserves careful evaluation in terms of quality and the potential they might have in a long-term relationship. I

In any prioritizing system, the first

rule is to be aware of qualitative differences among clients.

Step 2. Rank priorities - Mind your A, B, C's

The second step in a system of prioritizing is ranking priorities.

There are several well-known systems for weighting individual priorities. Alan Lakein, in his book first published in 1974, "How to Get Control of Your Time and Your Life" suggested an A, B, C system for assigning importance to items.

More recently Steven Covey, author of "The 7 Habits of Highly Effective People" promotes a system he describes as the four quadrants. The upper left quadrant being those items that are urgent and important; the upper right quadrant being those items that are important, but not yet urgent. The lower left quadrant is the dangerous trap for appraisers; those items that are urgent, yet not important. Finally he labels the time wasting items in the lower right as those items not important and not urgent. Covey emphasizes addressing those items in the upper right quadrant that are important, but not yet urgent. Assigning priorities depends on individual preference.

However, the essential step is ranking those priorities. In this step, appraisers have an advantage because prioritizing is an everyday skill honed as part of the appraisal process comparing one property with another. Once a set of priorities is set out, ranking is accomplished by comparing the first priority, to the second and then comparing the more urgent of those first two on the list to the third working down.

With priorities in place, the next step is to view the greater time frame, not just the day, but also the week and the month. Some benefit from keeping a time log in the short term to diagnose activities that may contribute to inefficiency and the resultant stress. Keeping a time log

over time is not practical and is better used from time to time as a diagnostic tool.

Step 3. Follow your calendar

The goal of every appraiser is to have a high impact week. In high impact management of time leading to greater productivity there is one commonality above all others and that is the diligent use of a portable personal planner.

There are many systems, Franklin, Day Timer and Filo-Fax to mention a few. More and more appraisers are reporting good use being made of a cloud based program called Evernote. Evernote is particularly useful for offices with more than one person. Evernote sets up multiple notebooks that can be accessed by others in the office.

For those who are comfortable with Microsoft Outlook, the calendar program is fully capable of keeping track of work in progress and appointments.

There are a myriad of PDA organizers for smart phones and tablets. I submit, however, that if the appraiser does not now use a personal planner, making the leap to a palm type organizer may not result in meaningful management of time. Like the drawing programs, if an appraiser can't draw a house on paper, they never will do it well with a drawing program.

The personal planner keeps projects and deadlines in view at all times. Appraisers are out of their offices frequently, inspecting and collecting information, therefore portability of the daily planner is essential. Lastly, the personal planner as a constant companion keeps appraisers from losing track of the small items, requests and those ideas that come out of no where.

I learned one lasting lesson in time management seminar that has stayed with me. It is "When you think it-ink it."

When in doubt, throw it out

The handling of information both in written form and on computers is so much a part of appraising, efficient handling is essential to meeting deadlines.

B.C. Forbes famously said, "Next to the dog, the wastebasket is your best friend." Simply put, working efficiently means getting rid of the clutter both past and present. Steps for handling information or paper work include:

- Dispose of it: throw it away
- Send it on to someone else for handling-delegate
- Do something with it
- File it; archive it
- Read it or handle it later

If there is any delay in handling the information, proper office management demands a tickler file or calendar file system.

One of the remarkable tips I got from an experienced office manager was the use of a stand up sloping file divider. Appraisal files in process are nearby, visible and within easy reach.

I found this to be superior to a file drawer system where reports may become "out of sight, out of mind."

Again, systems are individually driven. Some appraisers use a log system independent of each individual files to track the progress of files. Others log progress on the files themselves.

Office management and handling may seem to be so much common sense. But, I have benefitted greatly by having an experienced office manager review my office procedures, location of file drawers and workspace arrangement.

Of course, the best advice was "clean up this place." Out went the old phone books, out of date magazines and useless clutter that appraisers are likely to keep. Have an outside expert review your system and objectively critique the appraisal office as an office workplace.

Knowing when to say no

Appraisers face too many requests for their time. Having a system in place is not enough. Sometimes the ability to meet deadlines and handle multiple projects requires an appraiser to say no.

The typical preliminary client request is predicated on three questions,

1. Can you do an appraisal in a certain area? Answered affirmatively, the next two questions are:
2. How much is the appraisal?
3. What is your turnaround time?

Appraisers have a number of stock answers to turnaround. Any other commercial enterprise, when asked these questions, qualifies the customer. Appraisers can do this by asking, "What is the range of your required turnaround time." In other words, begin the process of establishing just what is expected. Repeat clients sometimes have set deadlines and turnaround times. In some cases these may be negotiated.

The second question about price is also a qualification measure. Asking, what is the expected cost in this area of reports received is a polite way of establishing the price point of the potential client. If the client is truly shopping and reluctant to discuss their fees, they are most likely acting on the lowest bid. They also are probably not a good fit in the appraiser's business plan.

How to say no

But at that point, how best to say no?

The simplest way is to prepare the listener for the turn down and say so early in the conversation. "I would really like to help you with this assignment, but I can't."

Some appraisers leave the door open by stating when they have opening in the future. For commercial appraisers, lead-time is greater and this is a realistic approach.

In today's market, however, for the

residential appraiser, saying you don't have an opening in two weeks dodges the issue. It is better to say no up front and invite a subsequent order than to state an impossible completion time.

In client communication, there are two word commonly misused. These words are "can" and "how." The question "can I help you?" implies a yes or no answer. "How may I help you?" seeks information.

In your discussion with clients concentrate on how you may help. In the same way, when an appraiser says no, explain why and offer alternative solutions.

Saying no requires preparation. When the request comes in, appraisers must know where they are in report production to effectively accept or decline an order.

Lastly, probably no business enterprise can be over-marketed, but in the law of supply and demand appraisers must be discerning in all matters of accepting or rejecting potential business or clients. The long-term health of the appraiser's business depends on it.

Summary

To effectively manage multiple appraisal deadlines, working from a set of clear goals and prioritizing workflow allows the appraiser to focus.

Proper planning in the form of adherence to the use of a portable personal planner eliminates procrastination, neglect and confusion.

Having a system in place to handle information and paper work gives the appraiser control over workflow.

Finally, practicing effective communication with potential clients and being able to say no builds both personal power and strength in the appraisal firm.

Concentrating, then, on the management aspects of productivity can pay great dividends, increase productivity, reduce the constant sense of urgency and make appraising a less stressful enterprise.

Where to get more information

There are many books, online articles, audio recordings, etc. For me, taking a live seminar on business time management worked best. They all have the same basic concepts discussed above. Google your location for any live seminars. Google the topic for online articles. Go to amazon.com and look at the books, video, and audio resources.

About the author

Doug Smith has an appraisal practice in Missoula, Montana, and is a certified general appraiser doing both residential and commercial appraising with a specialty in hotel appraising and feasibility studies.

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How to use the 1004MC to address unreasonable reconsideration requests

By Denis DeSaix, SRA

Stakeholders in the residential mortgage finance process can initiate a request for reconsideration of value. Typically, that reconsideration includes some data that the stakeholder suggests the appraiser consider and, after consideration, may result in a modification of the value opinion.

The request for reconsideration is a legitimate component in the mortgage lending process:

- Reconsideration requests are specifically cited in Dodd-Frank as not being an infringement on Appraiser Independence
- FHA (for example) requires that its fee panel appraisers evaluate reconsiderations as part of the engagement and to do so at no additional charge
- The GSEs have no prohibition on reconsiderations
- Many clients have reconsideration language as part of their engagement-agreements

An underlying premise of the reconsideration is that the new data given to the appraiser be appropriate. Not all stakeholders have the wherewithal to evaluate what constitutes appropriate (vs. inappropriate), and not all stakeholders are objective in their reconsideration-data selection.

On the other hand, some requests are legitimate; both in the data selection and in the motivation for providing it, and those instances warrant the full attention of the appraiser.

A challenge that many appraisers face is:

- A. How to quickly and efficiently screen the reconsideration data to determine its appropriateness, and
- B. If found inappropriate, how to address that issue to the client in a

manner that is impartial, objective, and independent, and maintains a positive, business-like rapport and relationship between the appraiser and client?

One relatively simple and impartial method is to rely upon the appraisal's market analysis and 1004MC form-driven analysis to be the primary evaluation process to determine the appropriateness of new data provided in the reconsideration request.

Indeed, this is the initial test the appraiser uses to determine what sales are comparables; it should therefore be the credible test to determine the appropriateness of any new data.

Step 1: Market Analysis - defining the market

The first step is for the appraiser to define the subject's neighborhood and competitive market area.

The Dictionary of Real Estate Appraisal (4th ed.) defines the term "neighborhood" as: "A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises."

The subject's competitive market is where it competes against other, similar properties for the same buyer pool. The Dictionary of Real Estate Appraisal defines "Competitive Market" as: "The geographic or locational delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users."

As a rule, the competitive market will be equal to or larger than the neighborhood. Defining the market in this manner provides two rationales for comparable selection:

1. In general, homes in the immediate neighborhood would be more similar to the subject than those in the larger, competitive market; and
2. As a rule, homes within the competitive market are better substitutes vs. homes outside of the competitive market.

By definition, a comparable for the subject will be in the competitive market area.

Defining the neighborhood provides a rationale for the appraiser to argue that a home in the neighborhood may be superior to a home outside of the neighborhood (but inside of the competitive market); alternatively, if the appraiser excludes homes within the neighborhood, then the appraiser should be able to support that rationale as well.

Nevertheless, the data considered as comparables are those properties that are within the competitive market; data outside of this defined area, by definition, is not relevant unless it is necessary to go to a "competing market". In most cases, if appropriate data exists in the primary market, there is no reason to go to a competing market.

The two definitions can be used as part of the regular template in an appraisers report. For each assignment, the subject-specific boundaries are identified and described. An example is included below:

Defining the market area - An example from an appraisal report

The Dictionary of Real Estate Appraisal (4th ed.) defines the term "neighborhood" as:

A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises. The subject's neighborhood is therefore identified by the following

boundaries: Bernal Av (SE), Foothill Rd (SW), W. Las Positas Dr (NW), and the 680 Frwy (NE).

The subject's competitive market is where it competes against other, similar properties for the same buyer pool. "Competitive Market" is defined as: The geographic or locational delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users.

The subject's competitive market is identified by the following boundaries: Foothill Rd (SW), Castlewood Dr/Sunol Blvd/Sycamore Rd (SW), open space (E), Vineyard Ave (N), 1st/Bernal Av (N & NW), and the 680 Frwy (NE).

Adequately defining the subject Neighborhood and Competitive Market is the first filter to use for screening reconsideration data.

Step 2: The 1004MC Analysis

The 1004MC analysis is designed to provide the client with a summary of the properties within the subject's competitive market that directly compete with the subject.

In other words, these homes are those properties that the appraiser has determined are the likely/best substitutes a likely buyer (the market) would consider when evaluating the subject in a purchase-decision.

The search parameters for likely substitutes are typically based on the significant elements of comparison. For example, such parameters may be Condition

- GLA
- Location
- Bed/Bath Count
- Lot Size
- Any other special amenity

Data is initially searched using these parameters.

Appraisers should add an additional filter screen to this initial search to identify and eliminate outliers. Outliers can skew the data (a low sale due to a significant condition impairments, etc.).

With additional screening, the appraiser can be confident that the search has resulted in those properties that are most similar to the subject and that are located within the competitive market area.

Assuming the appraiser has constructed a reasonable market-screen for the subject, the results are all the properties that should be used for comparable selection.

Many MLS systems provide a format report that is similar to the 1004MC grids. In addition to the grid summary, they also provide a list of the data considered in the analysis.

An example of an MLS-print out of a single-screen form is presented on the previous page.

This is the data that the appraiser has determined are the most relevant and appropriate comparables to consider. If there are sufficient data points within this sample, then reliance on the primary competitive market for comparable selection is established. If the data sample is not sufficient, then additional searches may be necessary in competing markets.

Note: the 1004MC is designed to provide the client with information on the subject's competitive market only. The 1004MC search parameters should not be artificially expanded if there are few sales.

Indeed, one purpose of the analysis is to support the decision to go outside to competing markets if necessary.

Therefore, the 1004MC results should only include those found in the identified competitive market. If the appraiser uses sales from a competing market, these should not be included in the 1004MC results.

The final component is to provide commentary in the 1004MC adden-

dum regarding the comparable search process. An example of such a comment is included below.

Note that the citation includes:

- A reference to the defined competitive market area

The significant elements of comparison that were used as a primary screen

- The fact that outliers were excluded on a second screen

These are the sales most similar to the subject and these are the sales considered by the appraiser. This is consistent with the following certification in the GSE reporting form:

Evaluating the reconsideration data

The prior process is part of the normal procedure in developing and reporting an opinion of market value for a residential mortgage loan.

Appraisers complete these steps, and appraisers can use this process to screen the reconsideration data. In summary, the steps are:

1. Define the competitive market and the subject's neighborhood (these may be the same geographic area, but the competitive market will typically be at least as large as the neighborhood).
2. Define the significant elements of comparison (GLA, condition, etc.) that are used to select the best substitutes for the subject within its defined competitive market.
3. Analyze the area (defined in Step 1) with the first screening filter (defined in Step 2) and review the results.
4. Complete a second screening of the data and exclude the outliers.
5. The resulting data collected from the two-step process becomes the data used in the 1004MC analysis.
6. In the report, include a summary of all the data analyzed (most MLS systems or 3rd party 1004mc products are capable of this task) in the 1004MC. **These represent all the data points considered relevant for the assignment.**

7. It is important to include the search parameter in the report (the space is available to include this in the 1004MC form itself). This is necessary to communicate to the client what elements are necessary (size-range, condition, bed/bath count, etc.) for a sale to be considered a comparable.

The final step is to evaluate the reconsideration data with the original process outlined above. The data supplied with the reconsideration request is either part of the original data set analyzed or it is not part of that set. There can only be four reasons why new data provided by the client has not already been considered:

A. It is not within the defined competitive market area; if there is sufficient data within the competitive market area to consider, there is no need to consider outside data; regardless if it is in a competing market or not. It is not necessary and can be argued not appropriate to consider.

B. It does not fall within the identified elements of comparison. It is not appropriate to consider because it is not a comparable (as defined by the appraiser in the original report by providing the parameter criteria).

C. It is included in the data contained

in the 1004MC search. If this is the case, it is up to the appraiser to state if there is a reason to re-analyze the value and give the offered data points some consideration in the analysis, or to state that it has already been considered, but is not superior to the comparables selected for comparison purposes within the grid.

D. The appraiser missed a data point and it does fit the parameters (this happens); in this case, a reconsideration process is warranted (and that may result in a change of the value opinion).

Response to the client

As discussed, unwarranted reconsideration requests can be burdensome, waste time and resources, and generally impair the appraiser's productivity. If an appraiser follows the process outlined in this article, many unwarranted responses can be dealt with quickly, efficiently, and in a manner that maintains a proper business rapport with the client.

Below are some response examples.

Sample response to data outside of the competitive market area

*"I have received your request for a reconsideration and have reviewed the data you provided me. I note the sales are all located outside of the subject's competitive market area as defined in the report. Please be advised that the GSE guidelines and signed-certification with the report states "I selected and used comparable sales that are **locationally**, physically, and functionally the most similar to the subject property." The sales and comparables analyzed in the 1004MC are consistent with that certification; the data supplied with the reconsideration is not. I therefore have not reconsidered the original analysis or opinion of market value. Thank you."*

PLEASE SEE THE LAST PAGE OF THIS NEWSLETTER FOR SAMPLE 1004MC

Sample response to data that exceeds the elements of comparison parameters

"I have received your request for a reconsideration and have reviewed the data you provided me. I note that the sales provided all exceed the parameters used in the 1004MC."

Cite data sources for above information:

MLS, subject's defined competitive market area, detached homes, GLA 1,275 - 1,650sf, lot sizes 5k to 10k, outliers excluded.

Summarize the above information as support for your conclusions in the Neighborhood section of the appraisal report form. If you used any additional information, such as

Text for image above:

Cite sources for above information:

MLS subject's defined competitive market area, detached homes, GLA - 1,1650, outliers excluded

Text for image below: Certification 7:

I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

Those parameters (the significant elements of comparison) are necessary in order to be compliant with the following GSE guidelines and the signed-certification that states, "I selected and used comparable sales that are locationally, **physically**, and **functionally** the most similar to the subject property." The sales and comparables analyzed in the 1004MC are consistent with that certification; the data supplied with the reconsideration is not. For example, the sale on 123 Main St you provided is 40% larger in GLA vs. the subject; the comparables used in the grid are all within 20% of the subject's size and share the same buyer pool. I therefore have not reconsidered the original analysis or opinion of market value. Thank you."

Sample response to data that is included in the 1004MC Analysis, but not used in the grid

"I have received your request for a

reconsideration and have reviewed the data you provided me. I did consider the sales you have provided and they are included in the "summary of sales" attachment for the 1004MC analysis. However, I did not consider it superior to the sales used in the grid due to X, Y, and Z reasons. While the sales you provided are sufficiently similar to the subject to be considered and evaluated, they are not superior in similarity to the subject as are the comparables used in the grid. Please be advised that the GSE guidelines and signed-certification with the report states "I selected and used comparable sales that are locationally, physically, and functionally the **most similar to the subject property**." The comparables that were selected and used in the sales grid are the most similar to the subject based on my analysis. The data you have supplied was previously considered, and upon a re-review, are again considered inferior to the comparables in the grid. Therefore, I have not reconsidered the original analysis or opinion of market value. Thank you."

Summary

Reconsiderations of value are part of the residential mortgage lending and appraisal process. They are allowed by law (Dodd-Frank), regulation, GSE process, and required by many clients in their engagement-agreements.

Reconsiderations that involve appropriate data serve a legitimate purpose.

Reconsiderations that involve inappropriate data can be time consuming to respond to and take up valuable resources.

The existing appraisal development and communication process, if used to its potential, can assist the appraiser in addressing in a quick, easy, and impartial manner many inappropriate requests.

Adequately and appropriately defining the subject's neighborhood and competitive market allows the appraiser to exclude reconsideration data quickly and easily due to location.

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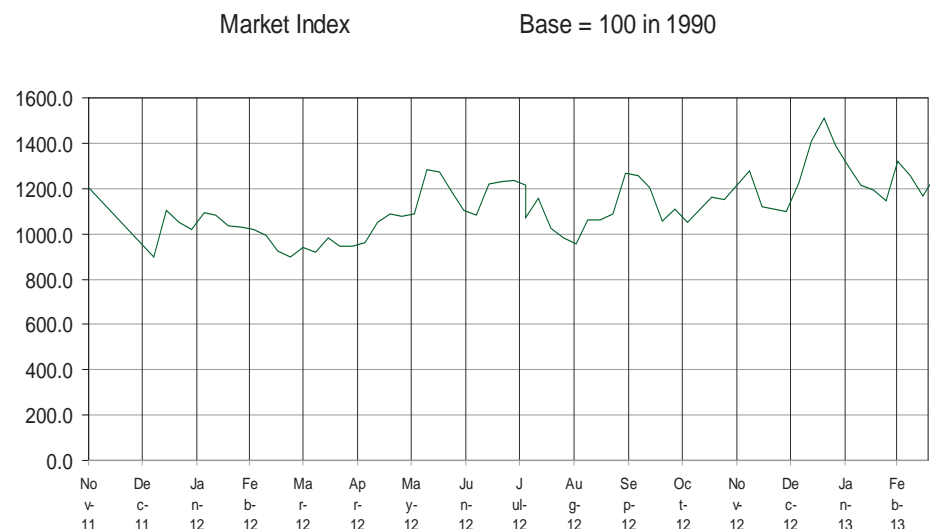
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MBA Loan Volume Application Index – 11/11 to 4/13



Adequately and appropriately defining the significant elements of comparison in the comparable selection process (and reporting them in the 1004MC) allows the appraiser to exclude reconsideration data quickly and easily due to the dissimilarities in physical or functional attributes that drive market-participant decisions.

Screening the 1004MC a second time to eliminate outliers ensures that the final data set are those comparables that are most similar to the subject and meet the requirement of Certification #7: I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

Once the above is done, then it is easy and simple to address unwarranted requests in a manner that is non-confrontational, professional, and consistent with the appraiser's role as being an impartial, objective, and independent valuation expert that the client and all stakeholders can rely upon to produce credible assignment results.

About the author

For lots more info, see the April issue of Appraisal Today, which profiled Denis. A very interesting story!!

Denis DeSaix is a Certified Residential Appraiser with over 18 years of real property valuation and consulting experience. Mr. DeSaix's areas of expertise include complex residential and commercial properties, mortgage and forensic review work for attorneys and lenders, and estate and portfolio valuation for accountants and the general public.

Mr. DeSaix has been qualified as an expert witness for litigation and has testified on valuation issues in court. Mr. DeSaix earned his Bachelor of Science degree in Finance and graduated with honors from the University of Phoenix, is a member of the Appraisal Institute® (non-designated member), and is currently on a dual-track candidacy for his SRA and MAI designations. Mr. DeSaix is a proud veteran of the United States Marine Corps.

Contact information: www.metro-calappraisal.com

Market Conditions Addendum Report

(Fannie Mae Form 1004MC)

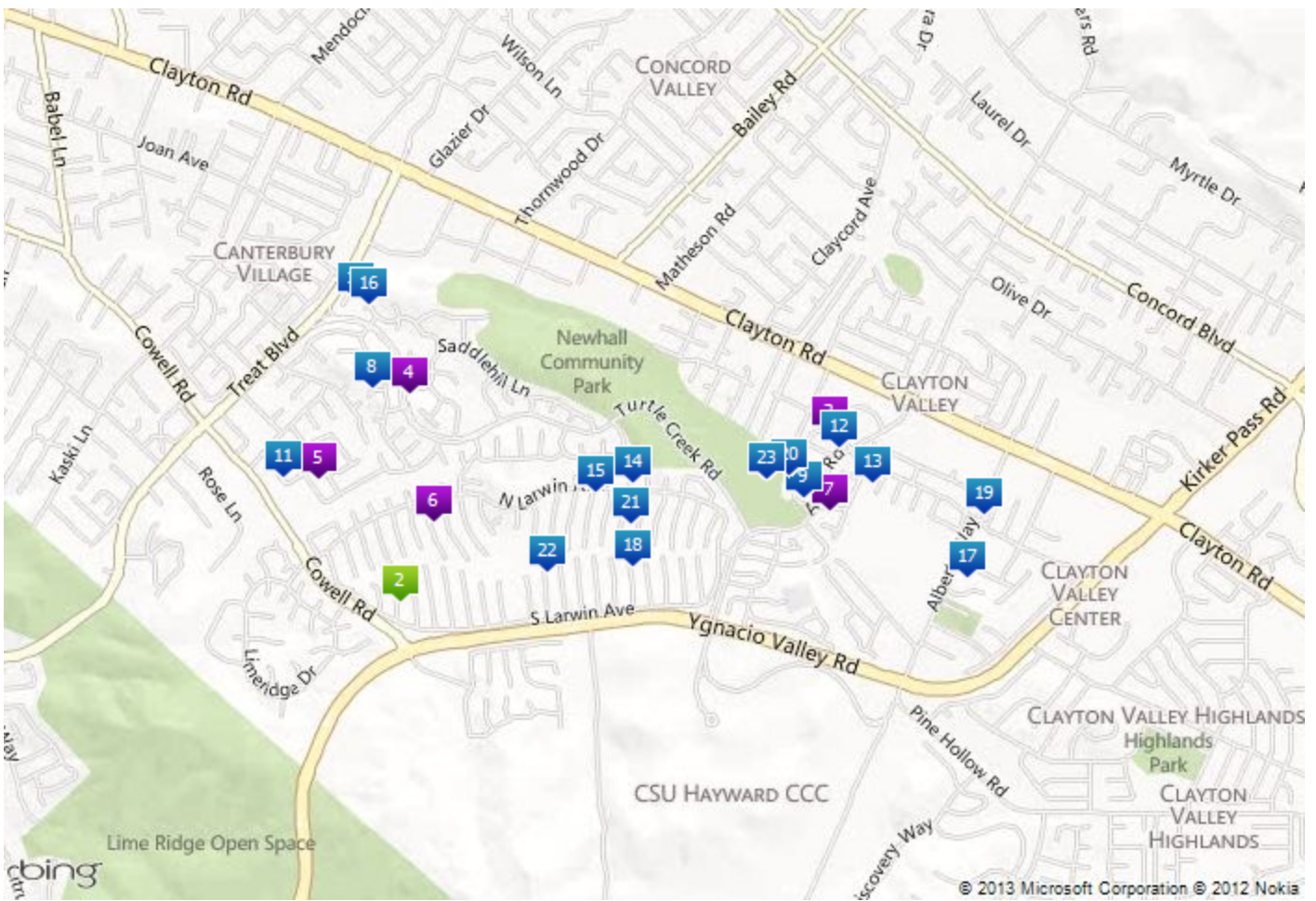
(Freddie Mac Form 71)

Date Run: 3/20/2013

Base/List Date/Current: 3/19/2013

Inventory Analysis	Prior 7 - 12 Months	Prior 4 - 6 Months	Current - 3 Months
Total # of Comparable Sales (Settled)	7	6	3
Absorption Rate (Total Sales/Months)	1.17	2	1
Total # of Comparable Active Listings	4	1	1
Months of Housing Supply (Total Listings/Ab.Rate)	3.43	0.50	1
Median Sale & ListPrice, DOM, Sale/List%	Prior 7 - 12 Months	Prior 4 - 6 Months	Current - 3 Months
Median Comparable Sale Price	\$394,000.00	\$420,000.00	\$451,000.00
Median Comparable Sales Days on Market	14	15	6
Median Comparable List Price	\$391,500.00	\$409,475.00	\$459,000.00
Median Comparable Listings Days on Market	15	12	6
Median Sale Price as % of List Price	101.38%	100.63%	100.00%

MLS Number	Status	Address	List Date	Sold Date	DOM	List Price	Sold Price	%Sold/List
40572978	Withdrawn	4485 Juneberry	4/22/2012		28	\$459,000		
40607164	Active	4491 SILVERBERRY CT	3/15/2013		5	\$459,000		
40605481	Pending	5095 Murchio Drive	3/1/2013		6	\$425,000		
40586155	Pending	1208 Pinecrest Dr	7/19/2012		0	\$425,000		
40605688	Pending	4359 BLENHEIM WAY	3/4/2013		7	\$447,500		
40606409	Pending	4413 Marsh Elder Ct	3/10/2013		7	\$469,000		
40602319	Pending	1372 SAINT CATHERINE CT	2/1/2013		15	\$469,990		
40572809	Sold	4453 BIRCH BARK RD	5/4/2012	5/30/2012	5	\$349,000	\$351,000	100.57%
40576330	Sold	5198 Garaventa Dr	6/1/2012	9/4/2012	34	\$369,900	\$375,000	101.38%
40574372	Sold	4339 FALLBROOK RD	4/26/2012	6/29/2012	29	\$376,000	\$397,000	105.59%
40568028	Sold	4344 CHELSEA WAY	3/30/2012	5/8/2012	5	\$380,000	\$400,000	105.26%
40585891	Sold	5101 Garaventa Dr	8/8/2012	11/1/2012	23	\$385,000	\$385,000	100.00%
40577599	Sold	1393 MOSSY CT	6/10/2012	7/26/2012	14	\$385,000	\$394,000	102.34%
40598044	Sold	4399 N Canoe Birch Court	12/11/2012	12/30/2012	6	\$389,000	\$451,000	115.94%
40590994	Sold	4403 SUGAR MAPLE CT	9/28/2012	11/5/2012	8	\$390,000	\$440,000	112.82%
40570450	Sold	1227 BLUEJAY CT	4/18/2012	6/14/2012	7	\$399,000	\$400,000	100.25%
40590973	Sold	5342 Lightwood Drive	9/17/2012	11/16/2012	23	\$399,950	\$405,000	101.26%
40580789	Sold	4485 Juneberry Ct.	7/8/2012	8/16/2012	17	\$409,900	\$390,000	95.15%
40597145	Sold	1417 Parkland Dr.	11/30/2012	1/16/2013	16	\$419,000	\$410,000	97.85%
40593453	Sold	5025 St Garrett	10/19/2012	11/28/2012	2	\$429,000	\$435,000	101.40%
40596608	Sold	4414 SPOONWOOD CT	7/21/2012	11/16/2012	86	\$450,000	\$435,000	96.67%
40600100	Sold	4483 STONE CANYON CT	1/11/2013	3/1/2013	5	\$465,000	\$465,000	100.00%
40577241	Sold	4985 Murchio Drive	6/8/2012	9/20/2012	6	\$398,000	\$398,000	100.00%



BING MAP VIEW

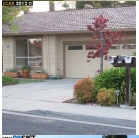
Num	Thumbnail	MLS No	Address	Area	Price	BR	Bth	SqFt	D Center
1		40572978	4485 Juneberry	Concord	\$459,000	4	2	1567	0.29
2		40607164	4491 SILVERBERRY CT	Concord	\$459,000	3	2	1726	0.7
3		40605481	5095 Murchio Drive	Concord	\$425,000	3	2	1646	0.5
4		40586155	1208 Pinecrest Dr	Concord	\$425,000	3	2	1588	0.58
5		40605688	4359 BLENHEIM WAY	Concord	\$447,500	4	2	1550	0.8
6		40606409	4413 Marsh Elder Ct	Concord	\$469,000	3	2	1641	0.53

7



40602319 1372 SAINT CATHERINE CT Concord \$469,990 3 2 1697 0.52

8



40572809 4453 BIRCH BARK RD Concord \$351,000 4 2 1512 0.68

9



40576330 5198 Garaventa Dr Concord \$375,000 3 2 1446 0.45

10



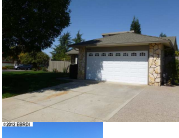
40574372 4339 FALLBROOK RD Concord \$397,000 3 2 1588 0.8

11



40568028 4344 CHELSEA WAY Concord \$400,000 3 2 1357 0.89

12



40585891 5101 Garaventa Dr Concord \$385,000 3 2 1446 0.51

13



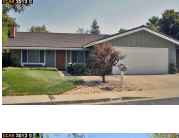
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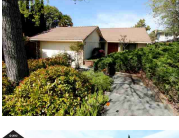
40598044 4399 N Canoe Birch Court Concord \$451,000 3 2 1366 0.08

15



40590994 4403 SUGAR MAPLE CT Concord \$440,000 4 2 1568 0.14

16



40570450 1227 BLUEJAY CT Concord \$400,000 3 2 1588 0.76

17



40590973 5342 Lightwood Drive Concord \$405,000 3 2 1732 0.9

18



40580789 4485 Juneberry Ct. Concord \$390,000 4 2 1567 0.29

19



40597145 1417 Parkland Dr. Concord \$410,000 3 2 1484 0.9

20



40593453 5025 St Garrett Concord \$435,000 3 2 1659 0.4

21



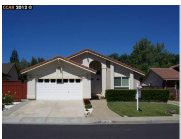
40596608	4414 SPOONWOOD CT	Concord	\$435,000	4	2	1607	0.18
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22



40600100	4483 STONE CANYON CT	Concord	\$465,000	3	2	1367	0.38
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23



40577241	4985 Murchio Drive	Concord	\$398,000	3	2	1697	0.34
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