How to negotiate higher appraisal fees from AMCs

By Doug Smith, IFAS

"In business, you don't get what you deserve, you get what you negotiate." Dr. Chester L. Karrass

Editor's note: although AMC fee pressure is widespread and a popular topic among appraisers, consider negotiating with all types of clients. It is a very good skill to learn. I regularly speak with appraisers getting higher than the original fees after negotiating with AMCs.

As the economy slowly recovers in fits and starts, appraisers faced with downward fee pressure and expanding scope of work demands must constantly review their business model. Appraisers consider not only renewed marketing efforts, but now must consider the role of negotiation in their daily interaction with clients.

Negotiation has a proper place in the appraisal business; even more so in the face of the current downward pressure on appraisal fees. This new attention to negotiating strategy focuses on one single business principle. "Always ask for more."

AMC fees - HVCC, Fannie, and Dodd-Frank

Ever since January 1, 2009, when the Fannie Mae agreement entitled the "Home Valuation Code of Conduct (HVCC)" kicked in, most residential appraisers added an appraisal management company (AMC) component to their client list or expanded their AMC list of clients. The sudden move by Fannie Mae to adopt HVCC rendered obsolete many client relationships as lenders moved to arrange for their appraisals through appraisal management companies.

The competitive thrust of appraisal management companies was to offer "value added" services which for the most part emphasized traditional appraisal fees and timely completion of appraisals.

Appraisal management companies, confident they could maintain a willing appraisal panel at discounted rates that would produce appraisals quickly soon dominated the appraisal business scene.

"Push back "was inevitable and played out in the Dodd-Frank Wall Street Reform and Consumer Protection Act in the form of legislations aimed at securing Reasonable and Customary fees for appraisals. This section of the bill was part of the drive to maintain appraiser independence and ensure appraisal quality.

The Bill states that "lenders and their agents shall compensate fee appraisers at a rate that is customary and reasonable…established by objective third-party information. Fee studies shall exclude assignments ordered by known appraisal management companies."

The date for final implementation is set for April 1, 2011. Most agree that lenders will seek to meet the intent of the Act, mainly due to the threat of enforcement fines.

However, as the economy recovers, business reality intrudes and appraisers must anticipate that both lenders and appraisal management companies will expect flexibility when it comes to fees they charge their clients. Logically, the competitive nature of the appraisal business will mean that some appraisers will accept lower fees to maintain volume.

While there may be some fee
Win-Win Negotiations for Appraisers

The purpose of negotiating appraisal fees and conditions is to resolve situations where what the appraiser wants conflicts with what the client or the client's agent wants. The aim of win-win negotiations is to find a solution that is acceptable to both parties. The framework for these negotiations implies a continuous relationship built on professionalism and good will.

Appraisers are very familiar with the negotiations that come into play when a person buys a home. These are negotiations where neither party expects to deal with the other in the future. These negotiations are largely confrontational and unpleasant.

Similarly, using manipulation such as over-promising on a shorter delivery date can undermine trust and damage business relationships. This is particularly true since many appraisal management companies scrupulously track turn-around time.

Allowing no flexibility and holding to a "take-or-leave-it" stance misses the point that negotiation is a business fact-of-life. The "hardball" approach is not much use when it comes to resolving issues where there is an ongoing relationship.

Manners count with honesty and openness the hallmark of legitimate business interests. For a negotiation to be "win-win" both parties should feel positive about the negotiation when it's over.

The Fairness Triangle - Scope, Fee, and turn time

For appraisers, there are three major elements in the negotiation process: scope of work, turnaround time and the appraisal fee.

If these were represented as the three sides of an equilateral triangle, these three elements should represent balance or symmetry. In a professional relationship, the client gives the appraiser adequate time to complete the scope of work and the fee compensates the appraiser for fulfilling the scope of work within the agreed upon time schedule.

Negotiation comes into play when the fee is not sufficient to compensate the appraiser for an expanded scope of work or the appraiser is not given enough time to competently carry the work necessary to complete the scope of work. The fee itself is not the only factor in fee negotiations.

Don't forget about when you are paid

Fees include when they are paid. Recently more companies are moving to paying their accounts in 45 days with the 45 days starting on the first of the month following the date of the appraisal. When fees are paid is a legitimate subject for a negotiated settlement.

Scope Creep and Fees

Clients are also expanding the scope of work for assignments that involve much more detail and conditions. Consider this scope of work for a retrospective field review:

APPRASIER: Required Form is FNMA Form 2000 dated March 2005 (FNMA Form 2000A for multi-family)

Assignment is for an ENHANCED RETRO FIELD REVIEW. Original report to be reviewed is attached to this order. Please review the client guidelines (13 items) below before proceeding (Updated 11/12/10):

1. Enhanced Field Review must be completed by an appraiser who was fully licensed on the effective date of the original appraisal and have a license that is clear of ANY disciplinary action. If you were not fully licensed (trainee license/permits are not acceptable) on the effective date you must decline the order. If you accept an order and this requirement is not met you WILL NOT BE PAID by client for any work completed – as we will need to reassign the order to a qualified appraiser. You will be required to validate in your report's commentary that you were fully licensed on the effective date of the original appraisal.

2. Appraiser to provide three additional/alternate comps whether you agree or disagree with the opinion of value presented. (This is the "Enhanced" portion of the assignment.)

3. Provide photos of the subject and street scene as well as photos for all the original and new comps.

4. Appraiser to provide MLS print-outs on all comps... from original appraisal and retro review. If MLS is not available please provide copies of public records or other alternate data source which verifies the sale date and sales price.

5. Appraiser to provide a list of sales. For clarification this is simply a list of comparable sales in the subject's market area that occurred the year prior to the effective date of the original appraisal. The information required includes the address sale date sale price GLA (if known) and room count (if known).

6. Provide support and documentation for time adjustments ie. A 12 month CMA broken down into quarters.

7. Provide a location map showing the subject original comps and new comps.

8. Please provide a list of similar sales for the 12 months prior to the effective date. An MLS generated 1-line list of sales with sales price date of sale address room count and GLA is sufficient.

9. Provide current owner AS OF THE EFFECTIVE DATE on original
10. Include the name and license number of the original appraiser in your report.

11. Clearly define your extraordinary assumptions in your review report.

12. Be advised that you may be asked for additional commentary and support by either AMC or the client.

Clearly, this scope of work far exceeds the typical scope of work of a field review. In effect, it is equivalent of both a review and a drive-by appraisal and requires the inclusion of numerous exhibits making this less of a summary report.

This example demonstrates the importance of having the engagement letter in hand before concluding final agreement on the fee and the amount of time to complete the assignment. It may be that in some cases a scope of work is simply unreasonable with little expectation of modification. More clients are demanding copies of MLS sheets and the inclusion of these sheets and the pictures these contain may violate copyright restrictions.

Jim Hennig, a noted lecturer on negotiation suggests that in some cases "Do not make a counter-offer to an unrealistic offer."

**Self Assessment**

Taking a more active approach to negotiating the three components of an appraisal assignment begins with a realistic self assessment of both the appraisal firm and the appraiser.

This involves a thorough review of the appraiser's skills, knowledge and attitude with the focus on the appraiser's attitude toward the negotiation process the more important.

Appraisers maximize business results by adopting the concept of a "firm" whether they are the sole business entity or whether they employ other appraisers or assistants. Thinking of the appraisal business side as the "firm" places a new emphasis on the professional aspects of the ongoing nature of business relationships.

Thus, an appraiser must consider not only how they respond to customers, but how their business entity or "firm" responds to these customers whether they are clients or the client's agents.

**Take a Test**

There is a simple test to determine whether the appraiser through their skills and knowledge is meeting the needs of clients. One aspect of the new AMC environment is that appraisal management companies give reports intense scrutiny either personally by a reviewer or by a computerized review process. If found wanting, the appraisal is summarily returned to the appraiser for correction or revisions.

The appraiser must review these requests carefully and sort out those requests that are unreasonable because the information was found within the report and was missed and those requests that could have been prevented by a more careful reading of the engagement letter or corporate procedure manual. Some requests fault the appraisal process.

Appraisers must accept the harsh reality that appraising like any other human endeavor attracts persons with a range of intelligence levels and with differing skill and knowledge sets. Requests for revisions and corrections provide an index of sorts of the general competency of the appraiser and the ability of the appraiser to follow precise directions.

To achieve standing in the appraisal negotiation process, those appraisers who have a record of fewer requests for revisions and corrections argue from strength.

**What is your attitude toward negotiating**

An appraiser's attitude toward the negotiation process is the main driving force in any interaction with a client or a client's representative.

Dr. Phil makes the case as follows: "Step number one is making the decision that you have the right to negotiate and that you are worth standing up for yourself, getting the best price, and not being taken advantage of. Claim that right, and know that you're not doing something wrong if you do."

Appraisers successful in their business are successful because they expect to be successful. Appraisers who expect success in their negotiations treat negotiation not as a confrontation, but more of a professional collaboration.

Armed with the self-confidence and a new competency brings, deciding to negotiate is the serious first step towards achieving measurable results from the negotiation process.

**Monitoring your work schedule and turnaround times**

TAT or turnaround time is the main preoccupation of most appraisal management companies. There is no indication that appraisal management companies are placing any less emphasis on speedy return of assignments. There is even some evidence that appraisal management companies use turnaround time as their answer to the "value-added" component of their services.

Turnaround time then is one of the three important items in the negotiation process. Appraisers mostly have a haphazard way to track their appraisal production schedule. Consider that completing appraisal reports is a measurable production process.

Those involved in production adopt a Gantt chart approach to tracking production. A Gantt chart is a type of bar chart that illustrates a project schedule. Gantt charts illustrate the start and finish dates of the terminal elements and summary elements of a project. Terminal elements and summary elements comprise the work breakdown structure of the project.
The simplest Gantt chart can be created with a typical monthly calendar with lines representing the start and finish dates on appraisals in progress. Appraiser can visually see the number of lines on each date and quickly judge whether an appraisal can be fitted into the production schedule within the client's requested due date.

There is a free Gantt chart program that integrates in Microsoft Excel called "Gantt Chart Builder (Excel) 6.1.1" available on the CNET download site. It allows for the scheduling of multiple appraisal assignments and provides an easy way to track production in process. With this information immediately at hand the appraiser can quickly determine whether the expected due date requires further negotiation.

**Scope of Work - conflicts with USPAP, Fannie, FHA guidelines**

Clients are piling on more and more demands and requirements. Appraisers have to weigh these requirements against not only USPAP, but against recognized guidelines set out by Fannie Mae and HUD.

Appraisers need to keep their appraisal library current and know the actual requirements of an assignment. In this way, appraiser may be prepared to counter requirements that amount to unacceptable assignment conditions.

For suggestions on dealing with these increased demands, see the Article in the December issue of Appraisal Today, "Scope Creep-tips on dealing with engagement letter fine print and report clutter."

**The Spread on Fees - who approves fee changes, and when?**

The typical appraisal management company's business model relies on clients paying a set fee for appraisals. These companies locate and employ appraisers who take on producing appraisals at a discounted rate with the appraisal company maximizing its revenues depending on how successful they can be finding appraisers willing to accept fees within a certain range.

What is clearly evident is that there are two step fee schedules that allow the appraisal scheduler to accept fees within certain ranges. Anything above this level requires the scheduler to go up one level of supervision.

For example, the scheduler sets out to place a typical 1004 with instructions to pay $325.00. However, to place the assignment, the scheduler is able to accept a fee of $350.00.

For anything above this, the scheduler must seek authorization. The scheduler is anxious to place the order and therefore the appraiser is put in a good bargaining position if the upper tier of the fee level the scheduler is empowered to act on is reasonable.

In almost every case, there is greater fee available at the onset of the appraisal fee negotiation process.

**Fee Negotiation Strategy**

Appraisers contacted by phone with the usual question as to fee and turnaround process must be prepared for this initial offer. Clients sort themselves down to clients who are well known to the appraiser and whose fee schedule they already know and those clients that are unknown to the appraiser and whose fees they must learn.

For those clients where the appraiser does not know the spread, a qualification question is in order. After being asked for fee and turnaround time, the appraiser qualifies the client with a simple question: "What are your usual fees and turnaround time for this assignment?" The fee quoted will often be the floor fee amount.

For the unknown client, it is then necessary to determine the scope of work. This is where appraisers find it handy to have two or three monitors.

If the scheduler will state the address of the property, the appraiser can quickly check public records on one of their monitors and determine a great deal about the necessary scope of work in terms of the complexity of the inspection and with the neighborhood identified perhaps the availability and proximity of comparables.

It is appropriate to ask if there are any additional requirements of the assignment. Recently one major AMC increased the number of mandatory comparables to five along with at least two listings. These types of requests add real time to the appraisal process and require fee consideration in setting the fee for the assignment.

The appraiser at this point may proceed to quote a fee. As a rule of thumb, the scheduler has at the most about $100.00 above the threshold amount with which to negotiate. If this is a reasonable fee, then the negotiations can be quickly concluded.

However, even at the upper level the scheduler is empowered to negotiate, the fee may not represent fair remuneration for the assignment. The negotiation must then move on the next step, trades and alternatives.

**Trades and alternatives**

Going back to the example of the fairness triangle, the appraiser can perhaps suggest a change in the scope of work or a change in due date.

Given more time, the appraiser may be able to fit an appraisal in as "filler" type business at the announced fee. A change in scope of work may not be possible, but a drive-by appraisal may be appropriate to the assignment rather than a full 1004. A desk review may serve the purposes of the assignment rather than a field review.

The appraiser may learn something in the initial conversation that is unknown to the scheduler that may affect the fee schedule. The home may be a manufactured home rather than a frame built home requiring the appraisal to be completed on a differ-

| Page 5 | The scheduler can't schedule a fee increase from the supervisor. Most companies adopt a differing fee schedule for Jumbo Loans. Therefore, the value of the property determined by the tax assessment may be relevant at this stage of the negotiation process. At this stage in the negotiation the front line scheduler has two basic questions: "Can this appraiser do this appraisal and, if offered, will the appraiser accept the assignment?"

Throughout the process, it is critical that the appraiser show a willingness to accept the assignment and demonstrate that the appraiser has the license level and competency to complete the assignment. An appraiser should maintain a friendly demeanor throughout always holding out the prospect of an ongoing relationship despite any unreasonable fee offer or extraordinary scope of work requirement.

Never close the door. It is entirely likely that the appraisal management company may be completely unfamiliar with the local fee structure. Failing to reach a settlement, the negotiations move to the second level where the scheduler must consult with their supervisor.

**Expected outcomes and consequences if you can't schedule a fee increase from the scheduler**

If the scheduler cannot settle on a fee, the scheduler can move the request to a higher authority or simply close the negotiations and move on to the next appraiser on their list.

To avoid outright rejection, the appraiser can increase their chances for further consideration by again indicating a willingness to take the assignment if only for a greater fee and pointing out some aspect of the assignment that requires a higher fee. If the offered fee is simply not within the typical range of fees for the market, that is certainly worthy of mention. That is very clearly the case for rural properties in Montana. If in fact, the scheduler does consult with a higher authority, they likely will come back with a counter offer. The appraiser must be prepared to meet this offer as perhaps the last and final offer and determine the extent of any compromise.

**Know the competition**

HUD recently made a substantial change in the entire procedure of selling off the REO properties. HUD changed most of the marketing and management companies and changed the appraisal requirement from a standard REO appraisal with addenda to straight forward "as is" appraisals. HUD then prescribed a fee of $350.00.

The HUD procedure required appraisers secure liability insurance as well as E & O insurance. The application process requires additional documentation and there is mandatory Internet base training. The application provided for higher fees if the appraiser could document why higher fees were necessary.

Those appraisers secure in the knowledge that competitors were not likely to respond to an offer of work for $350 gained when the competitors did not respond to the offer. Then the M & M contractor had no choice but to pay higher fees.

Every appraiser should know what their top five competitors are charging. As in the recent HUD case it is also helpful to know how competitors respond to taking on clients.

**When withdrawing is the only option**

Finally, the negotiation process may reach a point where no amount of negotiation given the required scope of work and turnaround time results in remuneration which is fair to all concerned.

The objective of most appraisal assignments is to provide support for a decision involving financing of the subject property. The appraiser then must rely on the framework set out in the scope of work and, if the process has been competently followed, the appraiser has no choice, but to conclude the process.

It may be a better alternative to simply not accept the assignment emphasizing the long term consequences. Given the strident "take or leave it" tone of some engagement letters; appraisers must simply be prepared NOT to take the tone personally and meet these demands in a business-like manner.

Appraisers soon learn in their appraisal career, the real estate profession is largely driven by the state of the economy. Appraisers are now operating in a climate of uncertainty that is testing the ability of appraisers to not only understand local markets, to communicate their findings to clients. All this takes time that affects an appraiser's productivity and therefore demands an appraiser's careful attention. To accomplish these goals appraisers must be fairly compensated and this demands increased attention to the negotiation process.

The underlying fee structure of most appraisal management companies allows for higher fees. Therefore, applying the general strategy of "Always ask for more." fits into a "win-win" strategy fair to all concerned.

**About the author**

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Will you still be appraising when you're 85 (or 90)?

I'm a few years older than the oldest Baby Boomers, so I always look in the mirror to see what they think. Shrunk retirement savings, reduced home values, etc. are scary. I am very glad my career does not require physical labor, so I can work as long as I want. Many baby boomer appraisers are approaching retirement age, and younger appraisers are more concerned about it, particularly Social Security. It's time to plan on setting aside some money for retirement, particularly pre-tax dollars, doing some investing in real estate, or starting another side business that can be sold later.

While working on this article, I contacted many appraisers, asking them about their retirement plans. Like many self-employed people, few had adequate retirement planning, except for those that had invested in real estate. Some had modest amounts in Keoughs, 401Ks or SEP plans.

Many appraisers plan to continuing working. Fortunately, appraising can be done part time and doesn't require much physical strength. However, when you're in your 70s and 80s it is very unlikely you will be able (or want to) have a high production level during busy periods, particularly after you turn 80. Health problems may make working difficult.

Don't have much (or nothing) in your retirement account? In an appraisal seminar I took, only half had contributed to a retirement plan. Over 1/3 of adults say they have no money saved in any kind of retirement account.

Self-employed people typically have much less "put aside" for retirement than corporate employees making the same income. When I worked for a corporation in the early 1980s, I contributed the maximum amount to my 401k. Since I started my business in 1986, I put no funds into a retirement account. A few years ago I started putting money into my Solo 401k Plan, about $20,000 to $30,000 per year, which is not taxed until I withdraw it. The contribution is based on your taxable income for that year.

Value of your current retirement investments

Many people in their 50s and 60s, who had most of their investments in stocks, saw the value of their retirement savings dramatically decline in the past. Home values also have declined, reducing home equity.

What's the answer? Diversification. Plan for the long haul. Over 20 years, stock, bond, and real estate all have gone up and down. It is completely unpredictable.

How much money will you need?

I took a seminar in financial planning, which included retirement planning. In the seminar, we filled out a worksheet where we calculated how much monthly income we would need, and how much needs to be saved.

This is an excellent way to start planning your retirement. Kiplinger has several good calculators. Go to www.kiplinger.com, click on Tools, then look for Retirement. The calculators tend to be generic, typically using an estimate of 80% of your current income. However, income needs can vary widely as you age. Most of us will still be very active in our 70s, needing money for entertainment, travel, etc. But as we grow older, in our late 80s and 90s, most of us will need less money for these types of activities as we slow down. However, we may need in-home care for assistance with bathing, dressing, and cooking.

Use a calculator that adjusts for inflation. Using today's dollars without an adjustment can result in a high amount for the monthly savings needed.

If you plan on selling your home and moving to a smaller home and/or a lower priced area, be sure to include this in your calculations. The older you are, of course, the more savings are required. Don't be completely discouraged by the monthly savings needed. Anything you can set aside, particularly if pre-tax dollars, is worth doing.

When I used the simple calculators, they said I needed to save $3,500 per month. They didn't include home equity, continuing to work part time, or income from my rental duplex.

How active is your lifestyle now? Don't plan on dropping many of your activities when you retire.

Part time appraising

Don't give up your license when you first retire. They can be very difficult to get back. In many states you have to start all over again on a trainee level.

Appraising if you're not licensed is very limited. Be sure to consider the cost of keeping your appraisal license is typically well over $1,000 per year, including E&O, CE, and licensing fees if you decide that you don't want to ever appraise again.

Fortunately appraisers don't have to work at WalMart to supplement their retirement incomes. Many "retired" appraisers work part time to supplement their retirement income, to keep busy, and because they like appraising.

You can be self-employed or work for someone else. If you work for another appraiser, you don't have the cost and hassles of marketing, maintaining an office, etc. Also, you can
travel when you want.
If you're self-employed, you can keep some of your good clients and have more control over your appraisals.

Spouse age and income
A major retirement factor is your spouse's planned retirement age and retirement income.

Using a financial planning professional
Financial planners can really help with your retirement planning.
Be sure to use a fee-based, rather than commission-based planner. Fees are typically about $150 per hour.
People with CFA (Certified Financial Planner) designations at least have some education and have passed an exam. For more information, go to www.cfp-board.org.
Check with your accountant or attorney for a referral.

Selling your appraisal business
To sell any business, you need to set it up so it can operate without you.
Although most appraisers don't think there is any value in their businesses, this is not always correct. Appraisal businesses are always dependent on the owner, but if you have a good client base and loyal staff, or are located in a desirable geographic area, it is marketable.
For more information, go to www.appraisaltoday.com/selling.htm. Sales are typically seller financed, based on a multiple of net or gross income.

Selling a non-appraisal business
Another option is to start a "side business" that is more saleable.
One of the reasons I started my newsletter business is that there is a very active market in the sale and purchase of newsletters, with typically all cash sales. The price is based on annual gross income. Advertising income is also a part of the business.
A real estate related business often works well, such as real estate related software or property management.

Investing in real estate
Appraisers are real estate experts, but too few of us are real estate investors. Almost all the appraisers I know who retired early invested in real estate.
The hardest investment is your second property, after you have purchased your home.
Or, you can sell your home and purchase investment real estate such as a small apartment building. Live in the building or rent another home to live in.
Real estate prices are down. Now is the time. Just Do It.

What to do first
Before you use a financial calculator or an advisor, answer these questions:
1. Decide when you want to retire.
2. Will you continue to work part time in your appraisal business? How much do you expect to earn? How long do you expect to work?
3. What is your current income and how much do you expect it to increase on an annual basis? (To plan for Social Security income, and your ability to put money into a retirement plan.)
4. Do you expect your expenses to go down, up, or stay the same when you retire? Such as kids out of college, mortgage paid off, etc.
5. What do you plan for your home equity? Remain in your paid-off home and leave it to your children? Sell and downsize to a smaller home or move to a lower cost area? How much equity do you have now? How much do you expect when you retire?
6. What will be your Social Security income for you and your spouse when you retire?
7. How much money can you put into your retirement fund per month or per year? How much money do you have now?
8. Are you a conservative or aggressive investor?
9. What type of financial investments do you prefer?
10. Do you have investment real estate? If you don't, when do you plan on purchasing it?
11. Do you have another saleable business now or do you plan to start one in the future?

What about your home equity?
Much of America's wealth is in their homes due to increases in home prices.
Do you want to live in a home with no mortgage? Do you want to sell your home, buy a lower priced home locally or in another area, and use the profits for your retirement?
The capital gains exclusion on the sale of your home is the only way I know that you can make a lot of money and pay no taxes.
Many of us plan to have our mortgages paid off when we retire. But others refinanced with "cash out" loans and don't have much hope of paying off their mortgages.
Your home equity also functions as part of your "nest egg" which is available if you need money in the future.

Long term care - your biggest financial risk
Nine years ago my husband had a major stroke and required total care for three years. The cost was $70,000 to $80,000 per year. I hired a live-in nurse, about the same cost as a nursing home. Fortunately our home had significantly increased in value so we were able to refinance and got a home equity loan. Plus the appraisal market was very busy, so I was able to make more money.
Long term care insurance is expensive, but it can help pay some of the costs. Regular health insurance,
including Medicare, does not cover custodial care. Be sure to carefully check out all the plans as some have had problems, such as unwilling to pay the agreed-upon amount and significant premium increases.

Self-Employed Solo 401(k) - if you have no employees except a spouse

Self-Employed 401(k). Originally designed for companies with 20 or more employees, the popular 401(k) is now accessible to the self-employed individual with no employees other than a spouse. This plan potentially allows for a higher contribution limit than the SEP and is funded by both employer contributions and employee salary deferrals.

In 2009 and 2010, the Individual 401k contribution limit is $49,000 or $54,500 if age 50 or older. Contributions are based on net income for that year and can be up to 25% of your income.

The business can be brand new or old. It can be a sole proprietorship, LLC, partnership, or corporation.

Operationally, the self-employed 401(k) is a bit high maintenance in that once plan assets reach $100,000 a special tax form, Form 5500, has to be filed annually with the IRS. These plans must be established by December 31 or by the end of the company’s fiscal year.

If you plan to hire outside employees in the future, you'll need to find another retirement savings option. On the other hand, if you plan to reduce your business you can reduce administrative costs in your retirement plans as well. Money from tax-deferred retirement plans such as traditional IRAs, SEP, 401(k), SIMPLE IRAs, and Keogh plans can be consolidated in a Solo 401(k).

SEP - Simplified employee pensions, require employer contributions, if you have employees

Simplified employee pensions, also known as SEPs or SEP-IRAs, are the most basic and easiest-to-understand retirement plans. They're akin to deductible IRAs in that you get a tax deduction for your contribution. However, the big advantage is that SEPs have larger contribution limits.

SEPs allow you to contribute and deduct up to 20 percent of your net self-employment income; the limit is 25 percent of your salary if you're an employee of your own corporation. Keep in mind that since your self-employment income may vary each year, the contribution can vary as well. So, in lean years, lower amounts, or nothing at all, can be contributed. Also, if you have employees, you, as the employer, must contribute the same percentage of salary on their behalf.

SIMPLE-IRA - require employer match, if you have employees

If you have employees and want them to contribute to their retirement plans, then a SIMPLE might work for you. Like the SEP, the SIMPLE allows for tax-deductible contributions on behalf of the business owner. However, the SIMPLE also allows employees, including the business owner, to make salary deferrals.

An employee may defer up to $11,500 for 2009 and 2010 (subject to cost-of-living adjustments for later years). Employees age 50 or over can make a catch-up contribution of up to $2,500 for 2009 and 2010 (subject to cost-of-living adjustments for later years).

The employer match is mandatory and is based on one of two options: match employee contributions up to 3 percent of salary, whereby this 3 percent match can be reduced to 1 percent in two out of five years; or contribute 2 percent of each employee's compensation, up to $4,500.

Operationally, the application for the SIMPLE is as easy as a brokerage account. However, there is a bit more record keeping involved, since contributions come from both salary deferrals and employer contributions. Expect to pay a bit more in annual maintenance fees for a SIMPLE than a SEP. Note that the deadline to open a SIMPLE is October 1.

Operationally, SEPs are low cost and low maintenance. The paperwork required is as basic as a brokerage account application. There are no annual forms or other reports to file with the IRS. Plus, they can be established as late as the income tax filing deadline plus extensions, April 15 for most people.

Keough plans

Keoghs are more suitable for companies with steady incomes and are more complicated to set up, but can be worth it as they are similar to corporate retirement plans. Unlike a SEP, sole proprietors or partnerships must open a Keogh plan before the end of a given year. But, once you've accomplished this goal, you can wait to contribute to the plan when you file your income tax return the following year.

Keoghs have the same $45,000 ceiling for contributions to a Keogh profit-sharing plan as you will with the SEP, but you can set a ceiling as high as $180,000 for a defined benefit Keogh plan. The latter option requires an actuary to calculate your contribution based upon your income, the target benefit, years until retirement, and anticipated investment returns.

Keogh setup and ongoing fees for paperwork and for professional guidance are more suited to self-employed individuals with established businesses and consistent incomes.

One reason behind this limited parameter is that once you open a
determined benefit contribution plan, you're locked into that contribution every year. But, Keogh plans might make an ideal rollover option for individuals who currently contribute to a SEP that no longer fulfills required retirement goals. A sit-down with a financial advisor might eliminate any guesswork about whether to go with a Keogh and whether to invest in a profit-sharing or defined benefit choice.

On the plus side, Keogh plan contributions are deducted from gross income and contributions and interest income are tax deferred until withdrawal. Additionally, certain lump sum benefits might be eligible for special 10-year averaging in some instances, a great benefit for those who experience a disproportionate "feast" year among several famine years.

Additionally, if you receive an eligible rollover distribution from a Keogh plan, you can roll over all or part of the distribution, including a lump-sum distribution, into a traditional IRA.

What's the best plan for you?
All three plans allow tax-deferred contributions.

Many appraisers don't have employees and don't plan on having employees, so the Self-Employed 401(k) can work.

SEPs allow you to contribute and deduct up to 20 percent of your net self-employment income; the limit is 25 percent of your salary if you're an employee of your own corporation. If you're close to retirement this can work well in years where your income is high.

SIMPLE-IRAs are easy to set up and manage but the limits are low. They can be set up as late as April 15.

Why would you set up a SEP-IRA rather than a Solo 401(k)? Well, it takes a bit more paperwork to set up the Solo 401(k) and you may have to file more tax-related forms than with a SEP-IRA. So if you can't afford to take full advantage of the Solo 401(k)'s hefty savings limits, it might be easier just to do the SEP-IRA.

However, according to the American Institute of Certified Public Accountants (AICPA), you can't fully fund more than one in a single year, so you need to make a choice.

Mandatory plan withdrawals
If you turned 70 1/2 in the previous year, then by April 1 you have to take an IRS-specified amount out of your retirement account, even if you're still working.

This withdrawal, known as a required minimum distribution, or RMD, must come out of retirement savings where taxes have been deferred. This includes several popular IRAs, such as traditional; simplified employee pension, or SEP; and SIMPLE accounts, as well as certain employer-sponsored plans.

Why is withdrawal required at the age of 70 1/2? The IRS wants the money that has been accruing tax-deferred earnings all those years. I can start withdrawing without a penalty age 59 1/2. Since I am over 60, I can take it whenever I need it. I would have to pay income taxes on the withdrawal, of course.

Failure to withdraw triggers an excess accumulation tax. This levy is 50 percent of the required distribution that you didn't take. For example, you didn't withdraw the required $1,000 from your traditional IRA. The tax charge for your defiance is $500. For a taxpayer in the 25-percent income tax bracket, that's twice what you would have paid in taxes if you'd simply followed the RMD rule.

What if you have employees?
All the current plans require employer contributions if you have employees. This can be handled by reducing employee compensation to handle the extra benefit, such as reducing the fee split to appraisers.

If your employees don't participate you can't have just a plan for yourself.

The plans are set up so that the employer can't take a large percent, while the employees get a small percent, to be sure there is no discrimination.

Social Security
Whether or not Social Security will be around in 50 years is hard to say. Will it still be here in the next 20-30 years? I'm assuming that it will be, although benefits may be reduced.

Every year, around your birthday, you are sent an annual benefits statement. Be sure to review it for any errors. To get a better estimate, based on your own projections of income, go to www.socialsecurity.gov (retirement section) and use their calculator.

Social Security - when to start receiving payments
I will not start receiving Social Security until I am 70 years old, when the monthly payments are at their maximum. An extra $700 per month will make a big difference as I get older and won't want to work a 60-hour week.

When to start collecting is a tough decision, as you are gambling on how long you will live. Look at your health and how long your parents lived for some ideas.

Some prefer to retire at the earliest permitted age, others prefer to wait till the last time to get the maximum benefits.

For more information, go to www.ssa.gov, an excellent Web site.

Although many people start receiving Social Security when they are first eligible, such as age 62, this may
not be a good idea for you. Mostly, it depends on your current and future projected income and tax rate, and, primarily your health. If your family members live until their 80s and you are in reasonably good health, deferring benefits may be a good idea.

I’m not planning to start collecting Social Security until I am 70, when I get my maximum benefit, about $2,700 per month. If I retire at 62, I get 80% of the age 66 benefit of about $2,100. If I retire at 70, I get 132% of that amount. I am in the age group born between 1943 and 1953. If you were born later, your maximum benefit is less. My family members live well into their 80s.

Social Security benefits are taxable. If your modified adjusted gross income is more than $25,000 for an individual or $32,000 for a married couple filing jointly, up to 50% of your benefits are considered taxable income. Above $34,000 for an individual, or $44,000 for a married couple filing a joint return, up to 85% of your benefits are considered taxable income.

If you start collecting benefits before your full retirement age, there is a limit on how much earned income you can have each year and still receive your full Social Security benefits. The retirement test exemption amount for 2010 is $14,160 ($1,180/mo) for persons age 62 to full retirement age. There is no limit once you are at full retirement age. The amount of loss depends on the amount of earnings in excess of these earning limits. Benefits are reduced by $1 for every $2 you earn over the earnings limitation during the year.

Modified adjusted gross income for the purpose of determining the income levels at which your Social Security is taxed includes taxable wages, interest, dividends, capital gains, pensions, and other taxable income plus half of your Social Security benefits. If you start your benefits before your full retirement age, your benefits will be reduced unless your taxable income is $12,000 or less.

To use a calculator to find out how much you will get at different retirement ages, plus a lot more information, go to www.socialsecurity.gov.

**Medicare eligibility**

You will be eligible for Medicare when you turn 65 even if you are not eligible for Social Security retirement benefits. Sign up before the month your turn 65.

Currently, Plan A (basic) and B are around $100 per month, Plan B (supplemental) is $98 per month. Plan D (prescriptions), is available for an addition fee, depending on what insurance company you use, averaging under $50 per month.

When I was 64, I paid $1,200 per month for health insurance, the only plan I could get. When I was 65 and eligible for Medicare, I paid under $200 per month for Medicare Parts A and B. Your rate is based on your income.

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What if you're still working when you're 85?

Here are a few ideas from Doug Smith:

1. Don't accept assignments more than two weeks out.
2. Don't take checks or invoice for work, take only cash.
3. Have someone you trust read reports and apply a senility test.
4. Keep a list of client contacts handy that can be contacted in case of illness or croaking.
5. Change the seat pad on the computer chair every two years instead of every five years.

And number one on the top ten things for the over 85 appraiser, have a mirror at the door and check out before you go to meet with a client to make sure you have shaved (combed your hair if you're female) and have no gravy stains on your shirt front.

Where to get more information

There are lots and lots of good sites on the Internet.

Here are a few:

- www.kiplinger.com - good discussion of the issues and calculators
- www.aarp.org - search for retirement - general interest, not too complicated to understand
- www.fidelity.com - investment advice
Not getting my weekly free emails?

News links and fun links are in my weekly free emails.

If you are not getting them, and want to read them, go to www.appraisaltoday.com and click on the “Click here to see our email archive!!” link under the email signup box.

Another idea is to use another email address that you have, or set one up. Just send us your new email address to info@appraisaltoday.com and be sure to say you are a paid subscriber.

Spam blockers etc. are the problem. Email is not a completely reliable method of communication!!!

2nd Exposure Draft of proposed AQB changes in appraiser qualifications - trainees, supervisors, college degrees


Implementation of any changes will not be until 2015, to allow state regulators time to make changes. There was not much opposition to the changes, which have not changed much since the first exposure draft. There are few controversial issues, except requiring a bachelor's degree for certified general and an associate's degree for certified residential. Equivalency has been removed.

Most of the material below are direct quotes from the Exposure Draft. My comments are indicated. I have also broken up long paragraphs to make them more readable.

Introduction

After receiving a number of written comments, as well as oral comments at its public meeting in New Orleans, Louisiana on December 3, 2010, the AQB is publishing this Second Exposure Draft of proposed revisions to the future Criteria in an effort to receive additional comments and feedback.

The AQB anticipates publishing additional exposure drafts in 2011, with the ultimate adoption date of any proposed revisions to the Criteria to occur near the end of the year. As indicated in the First Exposure Draft, the effective date of any proposed revisions to the Criteria is not likely to occur any earlier than January 1, 2015.

This extended lead time is necessary to ensure proper exposure of the proposed revisions, as well as to allow state appraiser regulatory agencies ample time to make any necessary revisions to their laws or regulations in advance of the effective date.

All interested parties are encouraged to comment in writing to the AQB before the deadline of February 18, 2011. Respondents should be assured that each member of the AQB will thoroughly read and consider all comments. Comments are also invited at the AQB public meeting on February 25, 2011, in Tampa, Florida.

Proposed Revision to Require Education and Experience as Prerequisites for the Examination

As stated in the First Exposure Draft, the only prerequisite in the current Criteria for taking the National Uniform Licensing and Certification Examinations is successful completion of the specific educational requirements for the particular classification.

The AQB began collecting some demographic information on candidates sitting for the exams in January 2010. This information included items such as what types of education a candidate obtained (i.e. distance education versus "traditional" classroom), where candidates received their education (i.e. a professional appraiser association, proprietary school, or college/university) and the amount, if any, of appraisal experience the candidate already possessed when sitting for the exam. The data collected to date strongly indicates those candidates possessing substantive experience perform better on the exam than their counterparts without such experience.

My comments: I took the certified general exam when licensing first started. It was very easy because I had been appraising for some time. It
would have been very difficult without experience. Exams today are much more difficult.

**Proposed Revision to College Degree Requirements and Removal of "In Lieu Of" Option for College-Level Education**

...as a result of written and oral comments received from several respondents, there is support to increase the college degree requirement of the Certified Residential classification from an Associate degree to a Bachelor's degree. In addition, there is support to require at least an Associate degree for the Licensed Residential classification. The rationale for the increase was varied and comprehensive as summarized below:

My comment: only one of the reasons is below.

...and regulators of appraisal services believe appraisers would benefit from additional higher education to better understand influences affecting real property to enhance public trust. Although the college degree requirements proposed by the AQB are not related to specific area of study, it is believed the college requirements would incorporate the current "in lieu" requirements, as well as provide an additional broader base of knowledge needed for valuation professionals in the future.

In summary, the current "in lieu of" option is viewed by applicants, users and regulators of appraisal services, as being very subjective and difficult to administer. As such, the majority of respondents recommended the elimination of the "in lieu of" option pertaining to qualifying education in the Certified Residential and Certified General classifications.

My comment: What I liked about "in lieu" is that it required specific business and economics classes which many current appraisers lack.

**Section 3: Proposed Requirement for Criminal Background Checks**

Minimum background requirements shall include, but are not limited to:

1. The applicant has never had an appraiser license or certification revoked in any governmental jurisdiction.
2. The applicant has not been convicted of, or pled guilty or nolo contendere to, a felony in a domestic, foreign, or military court:
   i. during the five (5) year period preceding the date of the application for licensing or certification; or
   ii. at any time preceding such date of application, if such felony involved an act of fraud, dishonesty, or a breach of trust, or money laundering.
3. The applicant has demonstrated financial responsibility, character, and general fitness such as to command the confidence of the community and to warrant a determination that the appraiser will operate honestly, fairly, and efficiently within the purposes of this Criteria.

My comment: there are also additional requirements. Please read the draft.

**Section 4: Proposed Revisions Pertaining to College Degrees in Real Estate**

My comment: This has been an issue for a long time. Please read the draft for more information.

**Section 5: Proposed Revision to 7-Hour National USPAP Update Course Eligibility**

The current Criteria simply require that the 7-hour National USPAP Update Course, or its AQB...
approved equivalent, be taken every two years to maintain a credential. The appraiser may take the 7-hour National USPAP Update Course, or its AQB-approved equivalent, at any-time during that two-year period. As it exists today, the current Criteria would allow an appraiser to conceivably take the 7-hour course the day before the course expires. This would mean that the appraiser spent the majority of the previous two years without the benefit of the training offered in the new edition of the 7-hour USPAP course.

In addition, this would create a situation that would permit them to then operate the next two years without the benefit of the training offered in the new/current edition of the 7-hour USPAP course. This could result in many inadvertent errors and/or violations by the simple lack of knowledge, which may ultimately erode the public trust in the profession.

By requiring all appraisers take the 7-hour National USPAP Update Course, or its AQB APPROVED equivalent, within six months of its effective date, appraisers will become aware of all applicable changes and new rules, and will be able to incorporate them into their work product in a timely manner.

My comment: Good idea. I suppose some appraisers get the new version of USPAP when it is first available, but most of us don't.

Section 6: Proposed Removal of Segmented Approach to Criteria Implementation
My comment: No longer relevant.

Section 7: Proposed Restriction on Continuing Education Course Offerings
As stated in the First Exposure Draft, several states have already implemented their own requirement that appraisers may not repeat the same course or seminar for continuing education within that jurisdiction's continuing education cycle. Prohibiting appraisers from completing the same continuing education offerings in the same continuing education cycle will create a greater opportunity to increase their skill and knowledge base. This should result in a greater level of competency and produce a better work product.

Comments in response to the First Exposure Draft largely supported adding this requirement to the Criteria.

My comment: Good idea.

Section 8: Proposed Revisions to Distance Education Requirements
My comments: This has been a problem since licensing started. I'm glad to see it finally resolved in 2015.

Section 9: Proposed Revisions to Trainee Appraiser Qualifications
Under the existing Real Property Appraiser Qualification Criteria, credentialing jurisdictions are required to implement requirements for the Certified General and Certified Residential real property appraiser classifications that are no less stringent than those issued by the AQB. Until recently, the AQB Criteria for the Trainee Appraiser and Licensed Residential Appraiser classifications were only voluntary.

As a result, the Criteria established by the AQB for Trainee Appraisers, or other similar type classifications (e.g. Apprentice, Registered, Provisional, etc.) could be established independently by the individual credentialing jurisdictions.

Although many credentialing jurisdictions did meet or exceed the voluntary Criteria issued by the AQB for Trainee Appraisers, some implemented requirements that were below those Criteria established by the AQB.

With the recent enactment of the Dodd-Frank Reform Act, Title XI of FIRREA (Section 1116) has been amended to state: Any requirements established for individuals in the position of "Trainee Appraiser" and "Supervisory Appraiser" shall meet or exceed the minimum qualification requirements of the Appraiser Qualifications Board of The Appraisal Foundation.

The Trainee Appraiser classification is intended to incorporate any documented non certified/non-licensed real property appraisers which are subject to the Real Property Appraiser Qualification Criteria.

Recognizing that individual credentialing jurisdictions may use different terminologies, "Trainees" include, but are not limited to: registered appraisers, apprentice appraisers, provisional appraisers, or other similar designations created by state appraiser regulatory agencies.

F. Trainee Appraisers shall be required to complete a course developed or endorsed by the AQB, specifically oriented to the requirements and responsibilities of Supervisory Appraisers and Trainee Appraisers.

My comments: This has been a problem since licensing started. I'm glad to see it finally resolved in 2015.

Section 10: Proposed Supervisory Appraiser Requirements
NOTE: The minimum requirements for Supervisory Appraisers that appear on the following pages apply to those individuals acting as Supervisory Appraisers for Trainee Appraisers. The requirements do not apply to those individuals who may be acting as "supervisory appraisers" for individuals possessing other real property appraiser credentials (e.g. a Certified General appraiser acting as a "supervisory appraiser" over a Certified Residential appraiser).

Supervisory Appraisers shall have been state-certified for a minimum of five (5) years prior to being eligible to become a Supervisory Appraiser.
D. Supervisory Appraisers must comply with the COMPETENCY RULE of USPAP for the property type and geographic location the Trainee Appraiser is being supervised.

E. Whereas a Trainee Appraiser is permitted to have more than one Supervisory Appraiser, Supervisory Appraisers may not supervise more than three (3) Trainee Appraisers at one time, unless a state program in the credentialing jurisdiction provides for progress monitoring, supervisory certified appraiser qualifications, and supervision and oversight requirements for Supervisory Appraisers.

Supervisory Appraisers shall be required to complete a course developed or endorsed by the AQB, oriented to the requirements and responsibilities of Trainee Appraisers and Supervisory Appraisers. A course taken as a Trainee Appraiser may not subsequently satisfy the course requirement for a Supervisory Appraiser.

My comments: This discussion has been going on for a long time. Too bad we have to wait until 2015.

Education requirements
Candidates for a real property appraiser credential should carefully review the educational modules below, keeping in mind that some modules only apply to certain classifications. For example, education module IX (Advanced Residential Applications and Case Studies) is only required for Certified Residential classification. Also, education module XIV (General Appraiser Income Approach) is required for the Certified General classification but no others.

As a result, candidates should structure their education program giving careful consideration to the credential being sought.

My comment: Another clarification that is needed. Too bad we have to wait until 215.

Where to get more information
To download the draft, go to www.appraisalfoundation.org and look for the link on the left side for Appraisal Qualifications Board.