Exposure time - myths and reality

Myth: I never heard of requiring exposure time. Was it in USPAP before?
Reality: We have been required to develop exposure time for the subject for a long time. However, the requirement to report it was taken out of USPAP in 2004-2005 (estimated). It has now returned as a requirement.

Myth: I only have to provide a definition of exposure time.
Reality: We now have to provide the exposure time plus an explanation of exposure time.

Myth: Isn't exposure time the same as marketing time?
Reality: No. They are very different.

Myth: Isn't exposure time the same as the data from the 1004MC?
Reality: No. Exposure time is for an individual property with a specific value. The 1004MC is for the entire neighborhood or whatever geographic area you used.

Myth: Isn't exposure time the same as marketing time on the first page of the URAR?
Reality: No. Exposure time is for an individual property with a specific value. Marketing time is your forecast for the future and applies to the entire neighborhood or whatever geographic area you used to estimated Marketing time.

Marketing time vs. exposure time
The explanation usually given is that exposure time is prior to the effective date of the appraisal and marketing time is after the effective date, but this does not have enough detail for many of us.

One way to look at it is that real estate agents focus on marketing time. If you list a home now at a certain price, how long will it take to sell?

Appraisers look at exposure time - if I appraise the property at $250,000, how long would it have taken to get this price using an exposure time of 90 days? If you appraise the same property for $400,000, the exposure time would be longer.

If you are using Fannie forms, marketing time is only reported on the top of the first page for the entire neighborhood, or whatever geographic area you are using.

Where is the definition of exposure time in USPAP?
It was moved to the definitions section - much easier to find now, but still remains in Statement-6, see below.

What definition should I use in my appraisals?
A definition is not required, but is probably a good idea as many people, including appraisers, don't know what it is. Or, just use the USPAP definition below.

What is the USPAP definition of exposure time?
"Definition of Exposure Time: estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal."

"Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. When exposure time is a component of the definition for the value opinion being..."
developed, the appraiser must also develop an opinion of reasonable exposure time linked to that value opinion."

What does this mean for you? Reasonable exposure time is one of a series of conditions in most market value definitions. If you are doing lender work, or using the standard definition of market value, you must report the exposure time.

**Explanation of exposure time (direct USPAP quote)**

The fact that exposure time is always presumed to occur prior to the effective date of the appraisal is substantiated by related facts in the appraisal process: supply/demand conditions as of the effective date of the appraisal; the use of current cost information; the analysis of historical sales information (sold after exposure and after completion of negotiations between the seller and buyer); and the analysis of future income expectancy projected from the effective date of the appraisal.

The opinion of the time period for reasonable exposure is not intended to be a prediction of a date of sale or a one line statement. Instead, it is an integral part of the analyses conducted during the appraisal assignment. The opinion may be expressed as a range and can be based on one or more of the following:

- statistical information about days on market;
- information gathered through sales verification; and
- interviews of market participants.

Related information garnered through this process may include the identification of typical buyers and sellers for the type of property involved and typical equity investment levels and/or financing terms.

The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone. As an example, an office building, an important artwork, a fine gemstone, a process facility, or an aircraft could have been on the market for two years at a price of $2,000,000, which informed market participants considered unreasonable. Then the owner lowered the price to $1,600,000 and started to receive offers, culminating in a transaction at $1,400,000 six months later. Although the actual exposure time was 2.5 years, the reasonable exposure time at a value range of $1,400,000 to $1,600,000 would be six months. The answer to the question "what is reasonable exposure time?" should always incorporate the answers to the question "for what kind of property at what value range?" rather than appear as a statement of an isolated time period.

In order to assure that intended users understand the context in which the opinion of value is developed, the Board has adopted revisions to make it a clear requirement that reasonable exposure time must be reported in all assignments in which an opinion of reasonable exposure time must be developed.

**What about 1004MC?**

This form is exposure time for the group of properties you have selected, as it looks at the past.

**When is marketing time for the subject an issue for valuation?**

When you are doing future value for an Employee Relocation appraisal. Some REO clients want the value in 60-90 days or for other periods.

**Marketing time on Fannie appraisal forms**

Below is a direct quote from USPAP Q&A 2012-01: Appraisal Development – Scope of Work Issues

This is a very good explanation of this issue - on the first page of the form, marketing time is for the entire neighborhood. Exposure time is for the subject property, in relation to your value.

**Question:** I am completing a market value appraisal. I use standard pre-printed residential report forms that ask for a neighborhood marketing time. Does marketing time on these forms mean the same thing as exposure time as it is used in USPAP?

**Response:** No. Although the two may be the same length of time, the meanings are different. The exposure time opinion required by USPAP is specific to the subject property and represents the length of time the subject would likely have been listed for sale prior to a hypothetical sale of the subject property on the effective date of the appraisal. Marketing time, in this context, is the typical length of time the properties in that neighborhood would be expected to be on the market prior to a sales agreement.

As explained in Statement on Appraisal Standards No. 6 (SMT-6), exposure time is dependent on the characteristics of the subject property and the market conditions as of the effective date. Most residential appraisal report forms have a field in which the appraiser must enter an opinion of the neighborhood marketing time. However, most residential appraisal report forms do not have a field for which the appraiser must report the reasonable exposure time.

The Comment to Standards Rule 1-2(c)(iv) requires the appraiser to develop an opinion of reasonable exposure time whenever developing an opinion of value where exposure time is a component of the definition for the value opinion being developed. The Comments to Standards Rules 2-2(a)(v), (b)(v), and (c)(v) require the appraiser to communicate the opinion of reasonable exposure time in the appraisal report.

**Where to get more information**

USPAP is online at www.uspap.org You can't print from the online version but you can use it to search and read if you don't have the 2012-2013
SEP-IRA - a great way to put aside pre-tax retirement money when paying your 2011 income taxes

I have been using my SEP-IRA to set aside pre-tax money for retirement savings. My CPA kept telling me I should do it. If you are self-employed, particularly if you have no employees, just do it. You can start withdrawing at age 59 ½ without penalty, but it is taxable as ordinary income.

My self-employment income varies each year, so my contribution varies also. In years with high net income, I can contribute up to the maximum. In lean years, lower amounts, or nothing at all, can be contributed.

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.

What if you have employees?
If you have employees, you, as the employer, must contribute the same percentage of salary on their behalf, which can be tricky. I had SAR-SEP retirement plan when I had employees, but it was a hassle due to mandatory employee participation.

How much can you contribute?
My CPA calculates how much I can contribute each year. You can do it yourself using online calculators.

For 2011, the maximum deduction allowed is $49,000. I did a sample online calculation using a $60,000 taxable income and age 60. The allowed contribution is $11,159. With an $80,000 taxable income, the maximum contribution is $14,689.

How hard is setting up a SEP?
For me, it was very easy. I just called Vanguard (there are other companies you can call). They set me up and I sent them a check for the contribution. No hassle at all and has no setup costs and very low administrative cost.

What about other types of retirement plans for small businesses?
401k plans are great, but are expensive to set up and administer. Keogh plans, Solo 401k, and Roth IRAs are okay, but there are administrative costs. Roth IRAs are not pre-tax.

Solo 401k contribution limits are substantially higher than SEPs and you can take out loans against them, similar to large company sponsored 401k.

What is the deadline for contributions?
A SEP can be set up for a year as late as the due date (including extensions) of the business's income tax return for that year.

Is there an age limit on contributions?
Fortunately, there is no age limit on contributions. Many people have lost lots of money in their retirement accounts. This is one way to put it back.

When do you have to start withdrawals?
Mandatory minimum withdrawals must be made starting at the age of 70 ½. If you don't make any withdrawals, there are penalties.

What about early withdrawals (prior to age 59 1/2)
Withdrawals prior to age 59 1/2 may incur a 10% IRS penalty as well as income taxes.

What about Social Security?
My very, very strong advice is to delay starting Social Security until you are age 70. That's what I am doing. Why? The older I get, the less likely I will be able to work. I need the money later. I'm 68 years old and work full time.

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 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.

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.

Where to get more information
Just google SEP IRA or self employed retirement plans.
Editor's note: Try to listen to the author's advice on seeing what you are really making and see how you can change your business to make more, rather than getting upset about low AMC fees. My commercial appraisal fees have dropped about 40% over the past few years. Nothing new. Supply and demand. Fees will go up when there is more work. I also do non-lender residential. I have raised my residential fees. Use his model to see how your business is doing. I have attached it to my paid subscriber email and posted it on the paid subscriber Web page.

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As the song goes, "...Should I stay or Should I Go..." Many appraisers are thinking about leaving the profession and many have already moved on. How much time does it take to complete a residential appraisal, what are the costs to produce an appraisal and what is an appraiser's net take-home pay after all those costs? Attached is a spreadsheet that can be used as a tool by residential appraisers to evaluate the Anatomy of an Appraisal, the performance of their business and their net take home pay.

Typically, an appraiser would compare their net take-home pay with the gross salary they could receive in an alternative salaried position (appraisal or non-appraisal) when determining whether to leave their appraisal business. As a result, the spreadsheet provided (on the paid subscriber web site or attached to the email for this issue) is a pre-tax estimate of the appraiser's net take-home pay. Some appraisers could opt to hire a staff appraiser to author appraisals for their business and when doing so, would be required to pay that appraiser an acceptable wage which we estimate as a national average gross wage of $40,000. The fees, salaries and expenses in your local area may vary, but the model can be adjusted to reflect your actual expenses, revenues and salaries. Our use of an average $40,000 gross salary is for illustration purposes only and immaterial since we add then deduct the salary with business profits or losses to arrive at net take-home pay. Thus, increasing or decreasing of the $40,000 salary we used has no effect on the net take home pay. Some appraisers for example, despite seeing a decline in fees and revenues continue to pay themselves the same salary so they can keep paying their bills. However, this requires increased capital contributions to their business from savings, draw down their IRA or 401K or increased debt. If fees ultimately fail to recover, then appraisers with unsustainable gross salaries would be required to reduce their salaries and the model can help appraisers evaluate their production costs.

We calculate the average appraisal takes about 12.5 hours to produce, factoring in both actual production time plus the appraiser's non-productive overhead time. Our model also estimates that a typical USA residential fee appraiser produces a mix of fee work with some at Customary & Reasonable Rates and some AMC fee work well below Customary and Reasonable rates resulting in average annual gross revenues of $70,000, representing a gross hourly rate of $23.40. Sounds great right?

However, after accounting for all expenses and cost of producing the appraisal, we calculate the typical residential appraiser has a net take-home pay of just over $29,000, which after accounting for a typical 60 hour appraisal work week represents effective net take home pay of about $9.70 per hour.

Wow. A few weeks ago I offered a comment on the Buzz (in jest) that I was thinking about a full-time 40 hour job at McDonalds or Wal Mart – but I wouldn't know what to do with the raise or the extra time off. Although it was joke at the time, having now calculated all the operational costs, I find the joke was on me and other appraisers because those alternative jobs would in fact appear to be a raise.

Hold on, it gets worse.

If the appraiser decided to do exclusively AMC work in my market, taking into account the notably lower AMC fees in my area, the appraiser's annual gross revenues would decline to $45,000 and after accounting for all expenses, their net take home pay would be negative $3.82 per hour! That's right, after accounting for business losses, an appraiser who relies exclusively on AMC work would have a negative net take home pay. That means there are likely appraisers out there who are funding their business losses and trying to survive by drawing down IRA, 401k, selling off assets, making capital contributions, going further into debt and taking other drastic steps to survive. Taking into account those business losses, a typical AMC dependent appraiser is in fact suffering an annual economic loss and would certainly seek alterna-
Appraisers have commonly shared with me two primary reasons for the decision to close their business or leave the profession: 1) Economic considerations and 2) Battle wary and tired of fighting after 17 years of "war". The war they refer to is the constant battle since 1994 federal policy allowed and required (for the first time since the Great Depression) that Independent and Objective Appraised Value reports be required to compete with advocated values of Broker Price Opinions. Appraisers are also fighting a second War of fees with AMC's who commonly take 40% to 60% of the overall appraisal fee, reducing fees paid by many (but not all) AMC's to appraisers well below "Customary & Reasonable" Levels. The third War has always existed (but worsened considerably in 1994 and since) which involves the constant War by clients, borrowers, agent and others constantly wanting to negotiate the appraised value.

Is it any surprise that the huge increase in volume of advocated BPO valuations along with the huge increase in market share of AMC's since 1994 resulted in a bubble (over valuation of assets) – and an environment where appraisers were forced to compete on the basis of their willingness to hit advocated values and forced to compete with unregulated, agent advocated BPO products? Its been estimated that since 1994, the market share of BPOs in lending transactions has increased from near zero to an approximate 60% market share today compared with a 40% market share for appraisals.

Appraisers are losing the war and as a result, fleeing the profession. An appraisal of the appraisal profession and economic review of the numbers suggests it may be time to get out.

Comments About the Model:

Why include a salary? Most businesses that run a P&L include a market supported salary. Increasing or decreasing the salary for your local market is easy and has no effect on the net take-home pay, as increasing your salary will reduce your net profits while reducing your salary will increase your net profits.

Why such an expensive SUV? That model had lower operating costs and higher re-sale value. Thus, if you use a lower priced car, the maintenance costs may rise and your resale value may decline having the effect of increasing rather than decreasing your annual fully loaded auto costs.

Why loan expense? Above the SUV cost, we needed to account for the car loan interest expense.

Don't AMC's have the effect of reducing marketing costs and/or allowing appraisers to produce higher volumes of reports? Maybe. However, in light of the huge difference in fees in my market between AMCs vs Customary and Reasonable, it would be economically advantageous for an appraiser to seek non-AMC work at higher fees and thus they still incur marketing expenses. Also, certainly some appraisers can attain higher rates of production but my experience managing large volumes of appraisers is that these represent valid, sustainable production numbers while maintaining high levels of quality. My sense is that AMCs spend a considerable amount of increased cost and time asking for and chasing down corrections because of their reliance on the lowest fee provider.

Conversely, my experience in awarding hundreds of million in appraisal fees, is that higher fees when coupled with higher quality appraisers, leads to lower overall operating costs and lower loan losses.

My Health Care Costs are higher and I don't belong to an appraisal organization? Also, the fees are different in my market. Great, adjust the model accordingly to reflect your actual revenues and expenses and find out how much you really are earning on an effective net take-home basis.

About the Author

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By Dave Towne

Note: This article was published in January 2012 in Appraisal Buzz and is worthwhile reading. Reprinted with permission of the author.

A. AMC's lie. And appraisers often let them get away with it. Some AMC’s ‘require’ you to add certain reporting items that they claim are "lender" requirements. In fact, some or most are not. They are additional scope creep items that they alone have inserted into the appraisal completion process that have nothing to do with the lender loan underwriting policies. Items like all kinds of additional photos, certain sale dates for subject and comps that exceed the Fannie/Freddie form requirements, certain words, etc. One AMC, based in Northwest Washington state demands that previous sale dates for the subject and comps be reported, even if beyond the 3 year and 1 year period that Fannie/Freddie mandate. No other lender or AMC has this ‘lender requirement’ – I checked. I successfully called their bluff on this item, and will refuse to do it on future reports (if they still send me orders! J ).

B. QA Notices generated by an AMC can be challenged by how your reply is written. Sometimes all it takes is just a simple reply to clear the order in the system. In cases like (a), structure a reply to challenge what is being asked of you, and then don't provide what the AMC wants. Often the QA Notice reply addendum to the report will just sail through their processing system without being reviewed or challenged.

But…when you rebut a QA Notice this way, you'd better have an iron clad response as to why you are correct. You, not the AMC, are responsible for report content.

C. AMC's and some lenders may be braking the law in how they ask you to modify a submitted report. The Dodd-Frank law is the appraisers’ friend. There are specifics in that law (Appraisal Independence Requirements) that give you the ability to challenge and rebut a QA Notice that DIRECTS you to submit additional comps, remove comps, or to change anything affecting the reported value or your conclusions, either in advance, or after report submittal. Google "Dodd-Frank law" and when you find it, save the PDF to your computer. Then go to page 2210 to read the AIR section.

D. Including full size copies of your license and E&O in reports is dangerous. These items can be forged and used by fraudsters and identity thieves. Again, too many appraisers just roll over and do it because it's the path of least resistance. If appraisers would JUST SAY NO we would not be asked for these non-essential items. Your license info is on the signature page, and no AMC or lender needs to have a copy of your E&O in a report for loan underwriting purposes except as a way to more easily sue you. However, just to play the game, I have a reduced-size image of my license in the report (if enlarged will be fuzzy) but it's with a statement saying why a full size copy is not included. Even when a QA Notice arrives with this 'demand' I tell them to go pound sand … politely of course! See (b).

E. Some AMC's are scared, and fees appear to be increasing. I track all orders in an Excel spreadsheet and have seen fees creep up this past year. Again, just say ‘NO’ when you are offered an assignment for less than you consider reasonable – and reply with ‘your’ fee for service. AMC's rake in millions from appraisers – that's your income they are stealing. So steal some, if not most, of it back. Believe me, you will be much happier working for a fairer income than slaving away for peanuts. Appraisers who continue working for peanuts will ultimately find out it's not worth the hassle. I talked with an appraiser today who did an assignment for about $10 per hour GROSS. Net income will probably be negative when overhead is factored in. So why do that? Push back when the ‘offered’ fee is too low.

F. Some AMC's are actually nice to work with and treat appraisers fairly. Cultivate those relationships, and fire the other idiots. Let supply and demand work in your favor.

11 things I've learned about in 2011, including AMCs
G. Relative to (e), don't 'work overtime' for FREE. When the 15 pages of assignment conditions arrive with the order and you see items that are additional to what you consider 'reasonable and typical' (or Fannie/Freddie requirements), speak up and raise your fee accordingly – or decline the assignment. Some AMC's 'require' a minimum of 4 or more sold comps in reports. See (a). If they require you to provide extra comps, that translates into additional time necessary for report completion. You should be paid appropriately. This happened to me yesterday and I told the AMC that I charge "X" more for their additional requirement. They agreed to the fee increase. Again, use the word 'overtime' when you discuss this with your client because that's a term they understand. They are paid extra when working 'overtime' for their employer; why shouldn't you be compensated in a similar way?

H. The number of Mortgage Brokers and Loan Officers has declined approximately 20% (WA State). This from DOL's info about renewal license applications for them.

I. Strive to do good quality, well documented, USPAP compliant reports. People in the industry know what a good report looks like. You will enhance your reputation and ability to receive assignments from current and referral clients. I am amazed that there are some appraisers who believe that a USPAP compliant report can be done in minutes just by checking the form boxes - when most quality appraisers recognize that it's hours per report to add additional info to get it right. The Fannie/Freddie forms ARE NOT 100% USPAP compliant, and never have been. I have an approved 3 hr CE class (WA & ID states) about this in case you are interested.

J. Shed your bathrobe & bunny slippers and get out of your basement and meet your peers. Meet for lunch, coffee or a toddy once in awhile. We do this successfully in NW WA. Appraisers are really super people when you get to know them. With a peer group you then have a resource to use when you get stuck on an assignment. And you don't have to reveal your client secrets. Attend live classes when you can … it's a far better way to be a quality appraiser than always being sequestered in your basement in your bathrobe and bunny slippers.

K. Many appraisers say 2011 is finishing strong. It's anybody's guess what 2012 will bring. But some pundits are saying that things should start to improve overall for our industry, although commercial assignments appear to be slower than past activity.

About the author
Dave Town is a certified residential appraiser in Mount Vernon, WA and operates Appraiser Education Service.
The report is titled "Real Estate Appraisals: Appraisal Subcommittee Needs to Improve Monitoring Procedures" released on January 18, 2012. 72 pages. GAO report number GAO-12-147

In this article, I only discuss the issues important to appraisers: changing the $250,000 deminimus, the national appraiser complaint hotline, and ASC enforcement changes. Most of the article is directly from the GAO report. My comments are enclosed in brackets.

Why and how the report was done
Dodd-Frank Act expanded ASC's Title XI role and required GAO to examine ASC's activities and exemptions to federal appraisal requirements.

This report discusses (1) how ASC is carrying out its original Title XI responsibilities, (2) ASC's actions and plans to implement Dodd-Frank Act provisions, and (3) regulatory dollar thresholds for determining when an appraisal is required.

To do this work, GAO reviewed ASC records and reports, surveyed state appraiser regulatory agencies, analyzed government mortgage data, and interviewed industry stakeholders.

Limitations of the ASC - lack of policies and procedures to assess states' overall compliance levels
The Appraisal Subcommittee (ASC) has been performing its monitoring role under Title XI, but several weaknesses have potentially limited its effectiveness. For example, Title XI did not originally provide ASC rulemaking and enforcement tools that could be useful in promoting state compliance.

In addition, ASC has not reported or clearly defined the criteria it uses to assess states' overall compliance levels. Title XI charges ASC with monitoring the appraisal requirements of the federal financial institutions regulators, but ASC has not defined the scope of this function—for example, by developing policies and procedures—and its monitoring activities have been limited.

ASC also lacks specific policies for determining whether activities of the Appraisal Foundation (a private nonprofit organization that sets criteria for appraisals and appraisers) that are funded by ASC grants are Title XI-related.

Not having appropriate policies and procedures is inconsistent with federal internal control standards designed to promote effectiveness and efficiency and limits the accountability and transparency of ASC's activities.

ASC enforcement of state regulators and individual appraisers
ASC's only enforcement option prior to the act was de-recognition of a state's appraiser regulatory program. [I think this may have been done only once or a very few times and only for a short period of time.]

The act gives ASC the authority to remove a state-licensed or -certified appraiser or a registered AMC from the national registry on an interim basis, not to exceed 90 days, pending state agency action on licensing, certification, registration, and disciplinary proceedings.

It also authorizes ASC to impose (unspecified) interim actions and suspensions against a state agency as an alternative to, or in advance of, the derecognition of the agency. Many appraisal industry stakeholders we spoke with supported ASC's new authorities because they will allow ASC to take a more flexible, targeted approach to enforcement.

ASC has yet to implement these authorities and will face a number of decisions and challenges in doing so.

ASC officials told us they would use their new rulemaking authority to promulgate regulations for removing an appraiser from the national registry. As part of the rulemaking, ASC officials said they plan to develop criteria for circumstances that warrant removal as well as due process procedures.

Several appraisers we spoke with stressed the importance of having a process that will allow them to defend themselves prior to a removal action.

Officials from state bank regulatory agencies told us that ASC may face challenges in collecting sufficient documentary evidence to justify removing an appraiser from the national registry because evidence collection is resource intensive.

ASC officials said that determining the interim actions and suspensions they would take against state agencies also would be done through rulemaking, which can be a time-consuming process. Officials from several state appraiser regulatory agencies said that for such actions to be effective, they should be directed to higher levels of state government because the agencies have limited authority to make resource decisions or implement major changes.

For example, some state appraiser regulatory agencies report to other...
agencies that control budget and policy decisions.

**National appraiser complaint hotline - funding problems**

ASC has only 10 employees and is funded by appraiser registration fees that totaled $2.8 million in fiscal year 2010 [And has been declining as the number of appraisers decline.]

The Dodd-Frank Act expands ASC's responsibilities and authorities. For example, the act requires ASC to establish a national appraiser complaint hotline and provide grants to state appraiser regulatory agencies, and it gives ASC limited rulemaking and enhanced enforcement authorities to help address prior weaknesses.

The Dodd-Frank Act also requires ASC to establish and operate such a national hotline, including a toll-free telephone number and an e-mail address, if it determined that one did not already exist.

Additionally, the act requires ASC to refer hotline complaints to appropriate governmental bodies for further action. ASC has not fully addressed this requirement but has researched how other agencies operate hotlines and make complaint referrals. ASC officials told us that the hotline would require significant staff and funds and that they were exploring options for implementing it, including hiring a contractor.

Appraisal industry stakeholders we spoke with identified a number of potential challenges in establishing and operating a hotline. They noted that creating and maintaining a hotline could be costly because it will likely require investments in staff and information technology to fully ensure that calls are properly received, screened, tracked, and referred to appropriate regulatory agencies.

Stakeholders indicated that screening calls would be a critical and challenging task because frivolous complaints could overwhelm the system and identifying valid complaints would require knowledge of USPAP. Some stakeholders we spoke with expressed concern about consumers using the hotline simply to report disagreement with an appraiser's valuation instead of to report USPAP violations, concerns about appraiser independence, or potential fraud.

Some appraisers said that frivolous consumer complaints could hurt an appraiser's ability to get future appraisal assignments, while federal financial regulatory officials said that frivolous complaints from appraisers against lenders could lead to costly and time-consuming investigations. Additionally, industry stakeholders noted that the hotline would only have value if valid complaints were followed up and resolved, but pointed out that some states lack the resources to handle their existing volume of complaints.

Further, stakeholders said that deciding which regulatory entities should receive complaint referrals could be difficult in some cases and that differing state requirements for complaints (such as forms, procedures, and standards) could complicate the referral process.

Nonetheless, appraisal industry stakeholders told us they believed that the hotline would offer several benefits. These included giving appraisers a central place to report when they feel they are being pressured, providing a conduit to forward complaints to appropriate entities, promoting the development of more uniform complaint and complaint follow-up procedures, and providing ASC with information that could be useful for its state and appraiser enforcement efforts.

Among the state appraiser regulatory agencies we surveyed, views on establishing a hotline varied. For example, 13 of the 50 states responded that the hotline would improve their ability to regulate the appraisal industry in their state, while 9 viewed it as a hindrance. Of the remaining 28 respondents, 13 thought it would neither help nor hinder, 12 did not know, 2 commented on the potential for frivolous complaints, and 1 did not respond. Additionally, 25 of the 50 states responded that the establishment of a hotline would increase the number of complaints they received.

**De-minimus - what if Fannie and Freddie go away?**

GAO found that more than 70 percent of residential mortgages made from 2006 through 2009 were $250,000 or less—the regulatory threshold at or below which appraisals are not required for transactions involving federally regulated lenders.

In recent years, however, the threshold has had a limited impact on the proportion of mortgages with appraisals because mortgage investors and insurers such as Fannie Mae, Freddie Mac, and the Federal Housing Administration have generally required appraisals for mortgages both above and below the threshold. While these entities currently dominate the mortgage market, federal plans to scale them back could lead to a more privatized market, and whether this market would impose similar requirements is not known.

None of the appraisal industry stakeholders GAO spoke with argued for increasing the threshold.

Some stakeholders said the threshold should be lowered or eliminated, citing potential benefits to risk management and consumer protection.

Others noted potential downsides to lowering the threshold, such as requiring more borrowers to pay appraisal fees and requiring appraisals on more transactions for which cheaper and quicker valuation methods may be sufficient.

The $250,000 threshold could become more consequential if the
roles of the enterprises and FHA are scaled back in the future. The administration and Congress are considering options that would diminish the federal role in mortgage finance and help transition to a more privatized market by winding down the enterprises and reducing the size of FHA.

If this were to occur, the proportion of mortgage originations not subject to the appraisal requirements of these entities could increase.

If private investors and insurers were to impose less stringent appraisal requirements than the enterprises or FHA, more mortgages of $250,000 or less may not receive an appraisal. However, whether the private market will require appraisals for mortgages below the threshold is unclear at this time. In addition, some stakeholders suggested alternatives to fixed, national dollar thresholds.

Appraiser industry groups, lending industry representatives, and some of the state regulators we contacted said that the appraisal exemption thresholds should be lower, in part to help manage the risk assumed by lending institutions. For example, 14 of the 50 state appraiser regulatory agencies that responded to our survey indicated that the $250,000 threshold should be lowered to either $50,000 or $100,000.

Several of the parties we spoke with pointed out that the median sales price of homes in the United States is below $250,000, which exempts numerous mortgage transactions from regulatory appraisal requirements. An NCUA official noted that in large numbers, smaller home mortgages or business loans can pose the same risks to lending institutions as larger ones, so smaller loans should not necessarily be exempt from appraisal requirements. Additionally, appraisal industry stakeholders indicated that "evaluations" that may be performed as an alternative to an appraisal may include methods that are less credible and reliable, such as AVMs. These stakeholders acknowledged that while appraisal requirements are currently driven by the enterprises and FHA, the roles of these entities could change.

Additionally, while appraisals for residential mortgages are not intended to validate the purchase price of the property in question, some stakeholders believe that they serve a consumer protection function by providing objective information about the market value of a property that consumers can use in making buying decisions.

One appraisal industry representative said this information can help homebuyers avoid immediately owing more on a property than the property is worth, a situation that can make resale or refinancing difficult or cost-prohibitive. The Dodd-Frank Act requires that any revisions to the $250,000 threshold take into account consumer protection considerations through the concurrence of CFPB.

Other appraisal industry stakeholders, including some state appraiser and bank regulatory officials, felt that the appraisal thresholds should remain where they are. For example, 17 of the 50 state appraiser regulatory agencies that responded to our survey indicated that the $250,000 threshold should not be changed.

A few of these stakeholders stated that lowering the threshold would potentially require more homebuyers to pay for appraisals, which are generally more expensive than other valuation methods.

For example, according to mortgage industry participants, a typical appraisal can cost a consumer $300 to $450 on average, while a property valuation by an AVM can cost $5 to $25.

In addition, one appraisal industry participant said that lower thresholds could subject more real estate-related transactions for which an appraisal is not necessary to appraisal requirements. For example, he indicated that when the property in question is col-

Will anything change?

No one knows. ASC has funding problems. A lowered deminimus is lurking in the future if the GSEs are closed down and "someone else" takes over their role in the secondary mortgage market.

Where to get a copy of the 72-page report

There is much more detail in the report. Google GAO-12-147 or go to www.gao.gov/products/GAO-12-147
New fraud prevention book - review
How and why people lie, and how to detect the lies

New Fraud prevention book for commercial appraisers

Fraud Prevention for Commercial Real Estate Valuation
Written by Vernon Martin, CFE
(Certified Fraud Examiner), published by the Appraisal Institute

Although the title refers to commercial real estate, many of the concepts and tips work for residential real estate.

Below is a list of the chapters and some excerpts from the book, indicating the writing style. I have included some samples from the book, in quotes.
The main focus is on how and why people lie, and how to detect the lies.

About the book

Fraud is not included in most appraisal courses and books. When I opened the book to the preface, the first word was “I”. Next came an analysis of a golf course appraisal for $6.7 million, the same as the purchase price. The lender made a $5 million loan. But the recorded sales price was $4.7 million, resulting in a 106% LTV. Why? Martin then discusses what could have happened.

I really liked his writing style. Much of the book is very down to earth and not “textbook-like”. It is like hearing Vern talk about the issues.

The author’s focus is on common methods of deception used in commercial and land properties, critical inquiry that may protect the appraiser and legal consequences for the appraiser.

The book is very well written with many practical examples from Vern’s many years of fraud advice. It is relatively short, at 122 pages, but covers a lot of critical issues.

Types of commercial real estate fraud. All are applicable to small residential properties except syndication.
- Misrepresentations made by sellers to buyers, by brokers to buyers, by borrowers to lenders (mortgage fraud), by brokers to lenders (short sale fraud), by syndicators or others who are compensated for organizing buyers (syndication fraud)
  - Fraudulent deed conveyances
  - Misrepresentations made by decision makers who have a vested interest

Chapter 1 What Is Fraud, examples, and how to prove fraud

Chapter 2. Why Should Fraud Matter to Appraisers? - lawsuits, professional excellence
  - Striving for Professional Excellence
  - Legal Precedents Applicability of a Fiduciary Standard to Appraisers
  - What Is the Expected Duty of Care Owed by Appraisers?
  - Case Law Concerning Individual Acts of Appraisal Negligence or Fraud
  - USPAP and Fraud
  - Current Actions against Appraisers
  - Future Actions against Appraisers

This chapter has good practical advice on hotly debated issues such as Duty of Care, USPAP, Fiduciary responsibility, intended user, etc. Also included are current and future actions using actual cases.

Chapter 3 The Causal Factors behind Fraud - Why they lie.
Of course, it is all about greed.

Let’s begin this chapter with one fundamental frailty of human nature: People lie. Why do people lie? People lie to get what they want. Some want your client’s money, or the government’s money. Good analysis of rationalization by the fraudster, such as “Everyone is doing it”, or "I need to support my family".

Chapter 4 The Need for Factual Verification - How to detect the lies
The Data Verification Process
Interviewing the Property Owner
Looking for facial twitches and panic blinking is a poor substitute for simply doing your homework, which entails doing as much research as possible before the property visit.
Useful steps include public records on zoning, etc. Check for subject property listings. Google the property. Visit the property beforehand or arrive early.

The chapter on interviewing the property owner has some excellent tips, such as the Columbo approach, which I frequently use to get additional information from the owner.

“I’ve taken up enough of your time today, sir. You’ve got a beautiful property here, if I may say so. I’ll have to show the photos to Mrs. Columbo.” [Turns and walks away, then doubles back.] Oh, just one more thing. You see, here’s the part I don’t get. You say you’re selling the property for $20 million, but the property is listed for sale on LoopNet for only $15 million. Help me understand that part.

Chapter 5 Understanding Conflicts of Interest
Conflicts of Interest in the Financial Industry, such as executive compensation and the political environment.
Conflicts of Interest in the Taxation Sector, such as trying to get a high or low value by not using time adjustments and not using distressed sales.

Chapter 6 Purchase Contract Fraud
Compare the Purchase Price to the Listing
Builder Bailouts
The first question an appraiser should consider is, Is this purchase real? Studies have shown that Appraisers appraise within 96% to 97% of the sales price, A condition known as “anchor bias”. This is quite well known to fraudsters. Creating false purchase contracts is a common fraud technique.

Chapter 7 Misrepresentation of Occupancy and Tenancy - practical tips
Why Verifying Collected Rent Is So Important
Talk to the Tenants
Verification of Future Tenants
Studying Present and Past Rent Rolls
What If The Tenant Is Not There?
When the Landlord Pretends to Be a Tenant
The Best Way to Verify Occupancy and Rents

Chapter 8 Misrepresentation of Property Characteristics - very important for all vacant land appraisals
Legality of Use
Availability of Utilities and Water
Property Size
Property Condition
Transferability of Rights or Funds
Tax Credits
Water Rights
Bond Financing

Chapter 9 Deceptive Financial Statements - good tips on how to check and validate income and expense statements
The Numbers Are Too Round or too consistent, payments not made, non-related expenses or income, or excluded expenses

Chapter 10 Misrepresentation of buyer and seller. The typical straw buyer deal.

Chapter 11. Other Ways Appraisers Are Influenced - previous appraisal reports, misleading data, character references.

Chapter 12. Property Types More Susceptible to Fraud - vacant land, rent controlled apartments, buildings with high vacancies, condo projects, etc.

Chapter 13. Federal Criminal Statutes against Fraud

About the author
I have known Vern Martin for many years, particularly for his published writings on appraisal fraud and other issues. He has been a practicing appraiser since 1984 and is currently president of American Property Research, founding in 2006, based in Los Angeles. He has a bachelor’s degree in urban geography and a M.S. in Real Estate and taught valuation at California State University, Los Angeles from 1998 to 2005. Vern has been a chief appraiser at three national lenders and was fraud solutions manager at FARES, now Corelogic.

What if you only do residential appraisals?
The examples are from commercial properties, but the issues apply to residential properties.

Where to get the book
Price: $45.00, Member Price: $35.00, Plus shipping and handling.
Call 888-756-4624 or go to www.appraisalinstitute.org

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