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The Internet, Big Data and the Art of Appraising
The past, the present and the future.

Data such as public records, market condition trends, etc. are readily accessible online to anyone using Zillow, Trulia, etc. What does this mean for appraisers?

There have been dramatic changes for residential lender appraisals starting with UAD, particularly since HVCC and Collateral Underwriter. But, there are dramatic differences between commercial and residential lender appraisals. There have been very few, if any, changes for commercial appraisals.

This article mostly discusses the residential changes and uses commercial appraisals as a contrast to residential to help understand what has happened.

Appraisal data is the best data

I started writing about AVMs in the early 1990s, when they first started being used by lenders. At that time, much data was not available in digital format so statistical analytics could not be done.

Everyone wanted appraisal data in digital format.

Appraisal data is much more robust and reliable than public records data.

MLS data is good, but the MLSs primary purpose is to sell real estate, not provide objective, unbiased information on properties. Appraisals are objective.

Over the years, appraisal data was collected by Freddie, Fannie, some lenders, appraisal portals, etc. from appraisals. They would use OCR (Optical Character Recognition) on appraisals, but it was very limited. Also, appraisal report data was not standardized so analysis was very limited.

Collateral Underwriter changed all that by standardizing data from appraisal forms.

Will Fannie, etc. ever sell their data? No one knows. But, if they do, it will make a big difference for jumbo loans and more companies will be able to do appraisal analytics.

What is Big Data?

There is no commonly accepted definition of big data. It seems to be evolving over time.

From Wikipedia: “Big data is a broad term for data sets so large or complex that traditional data processing applications are inadequate. Challenges include analysis, capture, data curation, search, sharing, storage, transfer, visualization, querying and information privacy.”

“The term often refers simply to the use of predictive analytics or certain other advanced methods to extract value from data, and seldom to a particular size of data set."

"Relational database management systems and desktop statistics and visualization packages often have difficulty handling big data. The work instead requires "massively parallel software running on tens, hundreds, or even thousands of servers."

“What is considered "big data" varies depending on the capabilities of the users and their tools, and expanding capabilities make big data a moving target. Big data "size" is a constantly moving target, as of 2012 ranging from a few dozen terabytes to many petabytes of data."

In contrast with many other types

In This Issue

of data, such as the stock market, property data is not standardized. This is a significant problem when analyzing it. In contrast, such data as stock prices is very standardized.

For residential appraisers who work for lenders, the most relevant application is Fannie Mae's Collateral Underwriter. It includes UAD data from appraisers, which makes it more comprehensive than any other residential real property database.

Credit vs. Collateral

It is much, much easier to evaluate creditworthiness than to evaluate appraisal accuracy/reliability. Even without using computer software, it can be evaluated relatively easily.

Desktop Underwriter automated creditworthiness, starting over 20 years ago.

Collateral Underwriter - significant changes for appraisal analytics

Fannie finally has enough data for Collateral Underwriter to be used. CU analyzes appraisals and provides reports to underwriters, including a risk score for properties, which evaluates the riskiness of the loan. It is not a score for evaluating appraisals.

Fannie has been very slow to use CU to evaluate appraisals and appraisers. Few have been removed from Fannie's approved list.

Fannie is gradually adding analysis of more CU factors, such as view adjustments, the most recent addition.

What is coming in the future? No one knows for sure, but we do know that there will be changes as Fannie refines its model. Definitely more appraisers on the do not use list.

VA and FHA will use appraisal analytics more now that they require UAD formatting.

How the Internet changed data access

Remember what it was like before the Internet really took off? Accessing MLS and sending appraisals over dial-up connections?

Only appraisers (and real estate agents) had good access to public records, building permits, MLS and other data sources. MLS' did not want to sell their sales data to anyone who was not a member of the MLS.

There was no Google Earth or Google street views. To see the exterior of the properties you had to drive by. Aerial maps were available, but difficult to use and access.

Now, anyone can search the Internet for whatever information and analyses he or she wants.

Data access is the key - a look at the past

Data from appraisals was always considered to be the best data in the past, particularly for the subject.

Prior to licensing and appraisers getting access to MLS, appraisers had to rely on public records, other appraisers and real estate agents and local subscription databases. Appraisers could purchase MLS "comp books" which came out periodically. In California, CMDC (California Market Data Service) was started by lender chief appraisers to compile data from appraisals, which were submitted by appraisers.

When I started my appraisal business in 1986, all appraisers used these data source. I had a broker's license so I was able to get full MLS access. Other appraisers had to go to real estate offices to get the data.

When Big Data is not useful

A few weeks ago, I was watching a PBS News Hour segment on the use of data analytics in presidential elections. Data is available on registered voter names, party affiliation and other limited public data. The Obama campaign used this very successfully in previous campaigns. The only Republican candidate who did not use data analysis is Donald Trump. Clinton and Sanders Democrat campaigns use this.

One of the examples was targeting Democrats in a primarily Republican district, who were contacted personally. But, in looking at the current presidential campaigns, one data analyst said the data was much less useful now, as issues such as terrorism or shrinking middle class had no data to analyze.

This is why appraisers will still be needed. Real estate buyer motivation factors are not black and white and vary widely among cities, neighborhoods, and price ranges. Critical factors are not included in CU analytics.

Mortgage meltdown - Big Data fails

Big Data was used by Wall Street to "slice and dice" mortgage portfolios. However, statistical analysis looks at the past. Since the Great Depression, the entire country had not been affected, only certain parts of the country. There was no data.

Only a few people were saying this was a problem and there would be a crash. I was not one of them. However, I was aware of all the scams, such as fake businesses and inappropriate use of stated income, and creative variable interest rates.

Securitization of mortgages changed everything

Remember the movie "A Wonderful Life" where a local lender found out that what counted was their customers. In those days, lenders had all the mortgages in their loan portfolio and often knew the borrowers personally.

Over time most mortgage lenders were Savings and Loans. Their numbers declined after 1989 due to failures because of too many bad commercial loans, particularly proposed construction.

Freddie and Fannie securitization

and appraisal forms started in the 1970s. Lenders started selling their mortgage loans to the GSEs. Loans were packaged together for investors to purchase.

Bank consolidation

A few lenders, such as Bank of America, started purchasing smaller lenders. This trend resulted in "too big to fail" in the recent recession.

Today, it means that lender appraisal management is not local, but can be anywhere.

With consolidation, lenders had much more data.

Outsourcing of originations to mortgage brokers

When I started my appraisal business in 1986, there were local appraisal departments with staff appraisers. Fee appraisers were used for overflow when there were lots of loans. Lender appraisal managers were responsible for keeping loan officers from pressuring appraisers.

In the early 90's, lenders learned that outsourcing originations to mortgage brokers saved them money.

For appraisers, it meant that their clients shifted from lenders to mortgage brokers. There were no staff appraisal managers between the loan officers and the appraisers.

With the recent mortgage crash regulations, mortgage brokers could no longer order appraisals.

Location, location, location - Big Data inappropriate data search criteria

Have you ever been called to do an appraisal in a nearby city where you don't work? That's because one of the criteria AMC can use is selecting appraisers by proximity to the subject. They use radius searches, not a good method for almost any search.

I am 10 miles from San Francisco, but have never worked there. I work across San Francisco Bay. I have been contacted for San Francisco appraisals.

Unfortunately, some software programs use a radius search for data, such as comparable sales.

CU does not do this.

Only appraisers familiar with the local market would know this is not correct.

Problems with real property data - when appraisers are needed

MLS - for real estate agents, not appraisers. MLS is a sales tool. As we all know, it can be tricky to interpret. Every MLS is different. Appraisers have seen the subject properties and know how to "interpret" photos and descriptions. For example, no photo of the kitchen often means it is old and needs updating. We call agents when we need more information.

Public records vary widely. How to calculate GLA varies widely around the country among assessors' offices. Also, GLA depends on buyers perceptions, which change over time. GLA is very sensitive to local preferences. I have no idea why reviewers consider it to be more accurate than appraisal measurements.

Assessors plat maps are not representations of the legal property boundaries, so lot size may or may not be accurate. Age of older properties, such as prior to 1920, may not be accurate. In California, unless there was work with permits, records have not been updated since 1979 when Proposition 13 set the base. I started appraising at an assessor's office in the 1970s and am very familiar with the problems.

How home buyers make their decisions - where data is very weak

How do buyers make their decisions? For example, many look at school districts, which is not available for data aggregation now. CU does not consider it. Sometimes it is in MLS, but there is no data on test scores, etc. connected to the data.

Or, the buyer wanted the home because it is very close to relatives. No database will have this information. Only a phone call by the appraiser will get this data.

What about remodeling? In upscale home neighborhoods, buyers expect upscale kitchen and bath remodeling. In lower priced neighborhoods, most buyers would not pay extra for this.

Residential appraisers are needed to determine these influences on buyers' decisions.

In contrast, commercial income property buyers have relatively few factors related to income and expenses.

Limited data availability for non-residential properties and effect on appraisers

For any properties that are not single family residential, there are significant limitations on data availability. The status of this type of property data is where residential data was in the past - not aggregated and not easily available.

Public records data does not include the number and types of apartments, or income and expenses, for a property. Some income properties are listed on MLS, but not many.

Buyer decisions are often based on income and expenses. The only source is Costar, which only sells its data to paid subscribers. It is expensive. Costar started in the 1980s and I subscribed for many years. Costar has never been willing to sell its data for analysis purposes.

Commercial appraisers share data, larger firms compile databases, etc., like residential appraisers did prior to the Internet.

Google Earth and street views are available, but do not provide standardized data to compile.

The primary factors used by buyers and sellers in income property are relatively few - income and expenses, cap rates, etc. There are some small commercial properties purchased by owner users, but relatively few factors are considered, such as price per sq.ft. But, AVMs are not available because of data weakness. In the past, there was at least one attempt at providing Costar data for AVMs many years ago, but it was discontinued.

AVMs would work well on many "standardized" property types, such as apartments and warehouses. They are much easier to compare than homes with many, many factors that buyers consider.

But, the market is too small for new data aggregators to compile and make money, even if data is available. In some areas, commercial appraisers have shared data for many years.

What does this mean for commercial appraisers? No CU, no AVMs, etc. Reviewers do not have any readily available data.

Data and the Art of Appraising

Why is appraising called an Art and a Science? Data limitations and non-standardization. The Art will never go away. A few examples:

- Highest and best use issues.
- Non-disclosure states.
- Very few comps.
- School districts.
- Etc. Etc.

In other words, computers can't do the "tough ones".

Hiring trainees

Commercial appraisal firms tend to be larger than residential one-appraiser businesses. As in the past, back when most commercial appraisers worked for lenders, trainees at smaller appraisal companies tend to be relatives. Mid-size and larger national appraisal firms hire trainees, with relevant college degrees (real estate, finance, business, economics, etc.) and a few appraisal classes. Recent college graduates are often hired by mid to large size firms.

Residential appraisal firms tend to be one-appraiser in home offices. Hiring a trainee means you have to increase your appraisal volume and spend time training. Of course, the main reason trainees are not hired is that lenders/investors will not allow trainees to sign on their own. FHA has always had this requirement.

Appraiser professionalism: commercial vs. residential

Appraiser licensing resulted in clients just looking for a license, particularly for residential. Commercial appraisals are much more varied, so more than a license is often required by clients.

Commercial appraisers are not seen as all the same. They do more than one property type (houses). Expertise on a property type and geographic area varies widely. Commercial appraisers are seen as professionals.

Lender appraisers are seen as all the same, particularly by AMCs. Years of experience, qualifications, expertise, etc. are usually not considered. Turn time and fee are very important. Residential appraisers are not treated as professionals by many clients. Direct lenders are much more likely to not see residential appraisers as all the same.

Lender appraisal reports - commercial vs. residential

Commercial appraisal reports have changed very little, except few lenders require all three approaches. There is no standard format, so the entire report has to be read. There is no requirement for adjustment support. Few reports have data analysis, such as graphs, except for litigation support.

In stark contrast, residential form reports have morphed into very long documents. The form is the same, but the additional information requested is in addenda. This means the entire report has to be read, a daunting task. Adjustment support is expected. Data analysis is often included.

Fees for lender commercial appraisals have been down since 2008, due to online bidding and a slow lender market for commercial loans. Fees for residential lender appraisals are down for most lenders and almost all AMCs, even though the work has significantly increased.

I have no idea when this will change. One of the main purposes of form appraisals is to make communication easier. But, UAD and pages of comments makes them much harder to read.

Residential forms adjustments - a significant change caused by Big Data

In 1985, my husband met a local appraiser in a gas station. When he found out that I was an appraiser, he suggested that maybe I would like to work for him. After 5 years in corporate real estate, I was burned out and ready to return to appraising.

I will never forget the first time he took me out on a lender appraisal. I asked him where the adjustments came from and he did not reply. I was a newbie to lender form appraising, so I assumed that was the standard. I learned about a few methods for determining adjustments, such as matched pairs, which sometimes worked.

In the past, when appraisers seldom supported adjustments, adjustments were part of the Art of Appraising. I think about all the relocation appraisals I did where there were 2 or 3 appraisers appraising the same home. Somehow we usually were within 3-5 percent, even though our adjustments varied widely.

With CU, Fannie's model is estimating some adjustments. But, CU uses multiple regression which works well only on a few adjustments.

When I tested Bradford's Redstone and Statwing earlier this year, only GLA and lot size adjustments were reliable. I was able to manipulate the data to get more adjustments but it required a knowledgeable appraiser to do this.

For now, CU mostly compares appraisals with other appraisals and public records.

CU has lots of data, but lacks the ability to use other methods of determining adjustments.

On the plus side, I definitely was significantly under-adjusting for GLA, which MRA programs are very good at determining.

Another recent very positive change has been making much fewer adjustments on appraisal form reports. Just put 0 in the box. I am only making market conditions and using plus and minus signs on the grid.

When will appraisers be needed? When an adjustment is critical to valuation and MRA software, including CU, cannot calculate it.

When is an appraiser needed?

Are appraisers needed for conforming tract homes? I love these types of appraisals as they are very low risk and profitable. I always wondered why appraisals were done for these types of properties.

For now, I don't know of any lenders that are classifying properties - whether or not appraiser interior inspection is needed.

Some companies are working on having home inspectors, real estate agents, and trained persons to the inspections.

But, they are not appraisers, trained to look for negative factors such as railroad tracks, proximity to commercial, transitions to other uses such as commercial, etc.

Why are appraisers needed?

When the $250,000 (transaction amount) de minimus was approved in FIRREA in 1989, appraisers thought we would be out of work.

But, Fannie, Freddie, FHA and VA still wanted appraisals done. Investors in mortgages wanted them.

In today's paranoia about loan buybacks, not requiring full appraisals is very unlikely. But, this is cyclical.

Appraisal scrutiny by Fannie, lenders, AMCs, etc. in the future

Remember Ancient History when mortgage brokers ordered appraisals and there was very little scrutiny of them? Lenders didn't have to pay AMCs to look at everything, call on status updates, etc. Of course, there should have been more appraisal scrutiny because of excessive mortgage broker pressure, but only appraisers were complaining about it.

There has never been so much micro-management of appraisals focusing on items not relevant to valuation. This is expensive. Lenders have increased their appraisal fees to borrowers significantly.

The pendulum will swing back eventually. Appraiser pressure has significantly reduced. Lenders will require less of AMCs and borrowers will pay lower appraisal fees. AMCs won't have to hire armies of people to contact appraisers. Maybe AMCs will not have to compete primarily on fee and turn time.

What is the future for volume of loans requiring appraisals?

For now, lenders and investors are focusing on individual appraisals, because of buy backs. However this will change. Lenders can't make much money if they don't make loans. Investors don't have many loan portfolios to buy.

For as long as AVMs have been available lenders have known that doing appraisals on conforming tract homes 20 years old or less is not needed. Their AVMs tell them that the values are very reliable. However, they don't have data on school districts, a major factor for buyers.

Nothing will change unless investors do not require appraisals on all loans.

Federal regulations have not required appraisals for transaction values under $250,000.

What does this mean for you?

Appraisal requirements are cyclical. Now, there is a lot of focus on appraisals because of the recent mortgage mess. But, lenders can't make money if they don't make loans. Investors can't invest in mortgages. It will loosen up.

AMCs do what their clients (lenders) want. The AMC market is very competitive. I'm sure they are also waiting for a loosening of requirements.

No one knows if lenders will finally be allowed to loan under the $250,000 deminimus, when appraisals are not required. That will be a huge "game changer" for appraisers if it ever happens.

It seems reasonable to assume that, in the future, Fannie will not require full appraisals on properties identified by their AVM as low risk - conforming tract homes, stable market, etc.

My advice is to become an expert on the "tough ones". See the two books I review in this newsletter. Another option is to work in nonconforming areas, such as rural. Currently, many AMCs want to pay one fee for all properties. That will change as more savvy appraisers turn them down. This is already happening. AMCs keep trying for a week or two to find an appraiser. Then they finally have to pay a reasonable fee, after delaying the loan.

Two good, practical books for residential appraisers, including good tips on adjustments and appraising the "tough ones"

I have been writing reviews for Appraisal Institute books for many years. Unfortunately, very few are relevant for residential appraisers. Or, they have very little relevant material for residential appraisers.

Over the past 30 years, I have only seen two books that are relevant to practicing residential appraisers. There are several reasons for this. The primary one is that few residential appraisers are interested in writing books. The books that have been written are by appraisers who do both commercial and residential work, such as the two reviewed below. Mark Ratterman has done commercial work, but now focuses on residential. If you are a commercial appraiser specializing in a segment such as hotels, medical facilities, or self storage, authoring a book can be a big plus for your business.

Valuation by Comparison: Residential Analysis and Logic
Mark Rattermann, MAI, SRA, 115 pages, 2007

Appraisers regularly call me for advice on appraising properties. What do I always say? What's the market for the property? What do the buyers want? When I ask other appraisers for advice, I always ask about the market. Comps tell me the past. I want to get a "feel" for today.

Now, finally, there is a book focusing on this basic appraisal question. The book has many situations that appraisers face to illustrate the issues, such as supporting increases/declines in value, adjusting for 3 bedrooms vs. 4 bedrooms, etc., seller/builder concessions, using pending sales, buyers paying over market prices, etc.

Have you ever had any of these problems?

- Changing markets with few recent closed sales, but recent pending sales.
- First resale (or first refi) in a new project.
- Sales where the buyer and/or seller have unusual motivations, such as wanting to be close to a relative or a forced sale because of a divorce.
- Small towns with very dissimilar homes and few listings or sales.
- Markets where many sales are private.
- Builder sales.

These are some of the many issues discussed in the first few chapters of the book.

Appraisers analyze human behavior

Per the book, "Appraisers study what human beings have done in the past so they can predict what they will do again in similar circumstances. For many years, appraisers have studied past human behavior to predict future human behavior much in the same way that a psychologist does. In appraising, just as in psychological studies, an error in either measuring or interpreting the data can lead to false conclusions."

Is this book for new appraisers or old timers?

The book is written for all appraisers, new and old. I have been appraising for 30 years and learned new ways of approaching problems from the book. The book is understandable for all appraisers. Like many books and educational offerings, newer appraisers benefit the most. I could have really used this book when I started appraising.

What's in the book?

The chapters are:

- The psychology of the valuation process - what buyers and sellers are thinking
- Market consistency - analyzing consistency and handling inconsistent markets
- Design of the analysis - supply/demand, limited data, what to use in your search parameters (zip code, year built, etc.)
- Analysis of other market evidence of value - listings, subject history, pendings, expireds.
- Sales Comparison grid analysis - psychology behind the adjustment grid, selecting comps, etc.
- Supporting quantitative adjustments - how to extract and support adjustments.
- Conclusion

What about lender appraisals?

This book is very applicable to lender appraisals, with practical tips on handling problems.

What about 2-4 unit properties?

Many appraisal books lack practical ideas on appraising 2-4 unit properties. This book has lots of good advice.

Is there a lot of statistics and math in the book? There are other books focusing on sophisticated statistical analysis. This book focuses on the use of uncomplicated statistical methods to analyze appraisal data to support adjustments.

Should you buy this book?

If you do residential appraising, this is a "must have" book. There are also very useful ideas for commercial appraisers, who tend to focus on data rather than behavior.

Appraising the Tough Ones : Creative Ways to Value Complex Residential Properties by Frank E. Harrison

Paperback (May 1996) Appraisal Institute (www.appraisalinstitute.org)

Have you ever had to appraise a home with "no comps"? The one home with a huge addition in a tract of small homes? A home modified for handicap access? Or, a home with asbestos siding or an underground heating oil tank?

In today's changing residential appraisal business, taking non-typical, more difficult assignments is critical to your future. Have you ever turned down assignments such as a retrospective value (going back in time) or a life estate? They are actually fairly easy to do.

Practical books about residential real property appraising are scarce. Most are just updates of books originally published many years ago, that rehash 50-plus year-old appraisal theories and techniques.

When I first started reading the book, Appraising the Tough Ones, Creative Ways to Value Complex Residential Properties, published by the Appraisal Institute, I encountered the usual academic, hard to read writing style and content in the introduction (i.e., the use of the word "elucidate").

I was pleasantly surprised to see a very different writing style in the remainder of the book: practical, "real world", and non-academic. The author, Frank Harrison, MAI, SRA has a refreshing, easy to read and understandable writing style. Even more surprising, the author really understands and addresses the practical part of real world, lender based, residential appraising. For example, on the first page in the first chapter, "Many complex residential assignments can be readily identified. An appraiser can easily spot a property that is different from the rest. The appraiser's initial reaction may be a fervent hope that the property being observed is not the subject property; invariably, it is."

Although I have been appraising all types of residential properties for almost 30 years, by the end of Chapter One, I had learned several new ways of approaching complex properties.

Highest and best use analysis is often under-utilized by residential appraisers, probably because of lender work, where if the highest and best use is not the present use there is typically no loan made. One 13-page chapter is devoted to this extremely important topic.

When confronted with a difficult complex residential assignment, the traditional applications of the three approaches often don't help much. For the first time I have seen an appraisal book using the word "creativity" in a positive manner. "Complex residential assignments frequently require creativity. To find creative solutions to unusual problems, appraisers must often resort to techniques that are nontraditional, atypical, and sometimes almost revolutionary. There are no unsolvable problems, only appraisers who cannot or will not apply the techniques necessary to solve them."

In textbooks, matched paired sales sound great, but often aren't practical, particularly for complex properties. Per the author, "In the real world, for every adjustment that can be supported by a matched pair, another matched pair can usually be found to contradict the adjustment."

If you've ever worked in a market with declining values, you know the time adjustment can be tough to prove. The book explains how to use data such as changes in listing data, days on market, and comparison of rents.

Most appraisers encounter nonconformances, typically caused by zoning changes over the years. Three types of nonconformances are discussed: activity (i.e., a beauty shop in a basement), design (i.e., historic districts), and standards (i.e., zoning).

Special circumstances such as life estates, partial interests, easements, stigmatized properties, and historic homes are discussed.

USPAP issues are included, such as pressure for low values (estates), competency and how to get it, appropriate data for retrospective appraisals, and reporting requirements.

On the minus side, the book lacks a list of references, which would be really useful for specific property types and appraisal issues, particularly since some topics have only a brief discussion, such as life estates and environmental problems. The lack of an index is surprising, as desktop publishing programs make them a breeze to produce.

Should you buy this book?

This book is a "must have" for all residential appraisers. If you're "only" a commercial appraiser, do you ever fee out residential work, ever wonder how to approach more difficult residential assignments, or just want to know more about residential appraising? If so, this book will give you some new ideas, plus give you a good picture of real world residential appraising. How to go beyond form filling for mortgage brokers

Where to buy these books

Both are available from the Appraisal Institute at www.appraisalinstitute.org.

Valuation by comparison: Price: $40.00 Member Price: $30.00

Appraising the tough ones: Price: $45.00 Member Price: $35.00

Plus shipping and handling

Setting appraiser New Years resolutions for 2015 and how to accomplish your goals

Editor's note: I wrote about this in January 2014, but goal setting is a good reminder for all of us, including myself! Last month I wrote about holiday cards and it reminded me to get mine sent out. It is easy for me to write about appraisal business topics. I just look in the mirror…

Of course, this can be done at any time, but most of us think about New Years resolutions (or did it in the past) so this is a good time to work on them.

You can set goals at any time, but why not do it now?

In this article, I don't focus on losing weight, which is one of the hardest goals to achieve. This requires eating habits acquired over many years. Instead I focus on very specific goals,mostly business related, that you can achieve

Write down specific goals and see how well you do during the year. This is very important. Dates are good to set also. You can revise your goals when you need to.

Start small. Pick two goals. For example, take one short CE class or Webinar to update your appraisal skills in March.

If you don't succeed, don't get discouraged. Just pick another goal or schedule it for another month. Having strong willpower is not something we're born with.

Nothing in this article is new. I am just applying these well known techniques to appraisers. There have been many studies showing that they really work.

I have included some personal goals. What is more important, your business or your family and friends. Don't forget your non-work personal goals, such as taking a class in something you have always wanted to learn about, such as wine tasting, wood working, or having lunch with old friends.

What if you don't want to do this now?

I just picked New Years resolution as the title of this article. Many people do set New Years resolutions so it seemed like a good time to write about goal setting. You can certainly do this at any time. But, maybe January 1 will get you motivated. I have done it myself for 2015 for the first time. It definitely helped me get motivated.

What time period to use?

Instead of doing goals for one year, start with 3 months. See how it goes and whether it needs modification.

What is most important to you?

Don't set too many goals. Is it increasing income, decreasing expenses, learning new appraisal skills, etc. Make a list of what you want to accomplish. It is different for every appraiser and changes over time.

Why new years resolutions fail

50% of Americans set New Years resolutions.

A 2007 study by Richard Wiseman from the University of Bristol involving 3,000 people showed that 88% of those who set New Year resolutions fail, despite the fact that 52% of the study's participants were confident of success at the beginning. Fewer resolutions fail when you share them with others.

• Pick one, or a few, resolutions.
• Start with small, specific goals.
• Tell others.
• Write them down for yourself.
• Identify obstacles and possible solutions. Expect setbacks and learn to recover from them.
• Reward yourself when you accomplish your goal. For example, going to a movie or reading a non-fiction book for a few hours.

Share your resolutions with friends and family

You will be much more likely to do them. For example, tell your spouse or a good friend that you are going to take a vacation at least four days long in the month of May. Or, tell an appraiser that you will attend one meeting in March of a local appraisal group that he belongs to. Or, tell a local Chamber of Commerce regular that you will see her at a scheduled event in April. Or, have a spouse "date night" once a month.

I have found that when I do this I am much more likely to accomplish my goal/resolution. Every time I speak or see the person I am reminded.

Email a weekly or monthly report to a friend, even if it only says "nothing done this month". This definitely helps.

Business resolutions

Below are examples. Setting specific dates is very important. You know what is important to you.

• Set up a budget for 2016 by the end of February
• Bring your lunch one day of the week when working in the field. (Saves time and money, plus is healthier)
• Fire two AMCs by the end of February.
• Start working on your income taxes in January.
• Update your Web site

• Work on getting a more positive attitude toward your clients, fees, etc.
• Get one good new client in the first six months. Start your search in February. Get another new client before the end of the year - start looking in April.
• Maintain contact with a few local appraisers that you know. Call them every other month, starting in January. Discuss local appraisal issues, data services, etc. Try not to do too much complaining.
• Learn how to do something new on your software programs or databases.
• Learn how to use a new software program or smart phone app.
Examples (pick what is important to you):
• Using more of your MLS' (or any other data source) features plus how to use them more effectively. Your goal for April.
• Take two CE classes to update your appraisal skills, not just "get hours". Check provider calendars or on-line offerings. Do one in the first half of the year and the other on the second half of the year. Pick specific dates and sign up early so you will be less likely to cancel. Local often work best, especially if it is a local instructor. I will be checking out online offerings from various providers and will write an article in the future.

Pick one or two business activities to do.
Examples:
• Attend a local Chamber of Commerce meeting every other month, starting in January
• Attend a meeting of a local appraisal group. Set the date.
• Attend a local, regional, or national appraisal conference. Sign up ahead of time. There are not many now. You don't have to be a member to attend.
Personal resolutions
• Start your own local appraisal group.
• Plan a vacation and pay for it ahead of time so you will be reluctant to cancel it.
• Schedule specific times for your family and friends and don't cancel.
Examples:
• Regular "date nights" with your spouse on the 2nd and 4th Sundays of the month.
• Regular family events, such as attending a sporting event, child's music performance or sporting event. Put it on your calendar.
• Take a non-business short class to learn something. Look for class offerings. Register for them so you will attend. There are many, many excellent free online lecture classes such as Kahn Academy and free classes from top-rated universities. Or, something you used to do in the past, such as photography, and want to get updated. Set a specific time, such as the 2nd Saturday of the month. Local community colleges and adult schools offer short classes. Senior centers are a good place, for those over the age limit (50 in my city).

My mother took classes her whole life, in all types of topics. She never got a degree, but really wanted to learn. I have taken a lot of live non-business classes over the years, in topics I am interested in.

Where to get more information

There is some advice online, but it mostly focuses on personal New Year's resolutions. Some articles give overall advice, similar to what I have written. Google "small business New Years resolutions".

Include an Executive Summary in your Appraisal Reports

by Dave Towne, Certified Residential RE Appraiser

At the Appraisal Summit and Expo in Las Vegas Nov. 19 & 20, 2015, in just about every topic presentation seminar, we appraisers were cajoled and implored to improve info we provide in residential appraisal reports to back up our stated value. We were told that most reports reviewed by lenders are deficient in this aspect

A common response of appraisers is the refrain …. "just read the @#$% report!" …. when we get 'stips' or questions back from the various people who must wade through thousands of pages of reports each month - not just yours.

However, the information the users are looking for is often buried among the 25-35+ pages. Usually the comment locations are not in common places among the hundreds of appraisal reports they see from different appraisers.

Unfortunately, some appraisers don't include any information that backs up what they did in the process of doing the analysis, making decisions, or in how the appraised value was determined.

So 'we' are not helping the end user very well, and thus 'we' get heaps of criticism piled on - some understandably justified.

This article is written to encourage you to add a new page to every report, which will be an Executive Summary. This page will be located between the Table of Contents page, and the first preprinted report page …. in other words, the 2nd report page - where reviewers will likely see it! This will be on a Supplemental Addendum page from the software library of forms and pages. The page will be re-named (as shown below) so that it is not confused with the other Addendum page, which in my reports, has much additional detailed info and comments. In doing this process, I have been able to shorten the Supplemental Addendum.

The Executive Summary will be formatted like this:
Executive Summary - Report Information (Header on the Addendum page)
Appraiser's Analysis, Decisions & Reconciliation

Executive Summary page is provided to give a quick summary of relevant data and decisions.

Additional information is contained on the pre-printed report pages, Supplemental Addendum and other exhibit pages.

SUBJECT PROPERTY
CONTRACT INFO - (This can be removed if assignment is a Refi, or 'Other' …. although I leave it in and describe the report type)
NEIGHBORHOOD - (In addition to limited info on form page 1, this provides additional Neighborhood information)
SITE INFO -
IMPROVEMENTS INFO -
COMPARABLE SALES & LISTINGS INFO -
MARKET CONDITIONS INFO -
RECONCILIATION -

The comments within each category will be formatted as 'bullet points' using the "-" (hyphen), and use short sentences.

Note that this Executive Summary follows the same categories along the left side of the GSE forms, and adds Market Conditions Info which will enhance info from the MC Form and other applicable market trends, etc.

To incorporate this new Executive Summary, the already pre-written info I have in various places in my reports will be reviewed - both on the forms and in the Supplemental Addendum - and I'll move key info to the Executive Summary. The remaining Supplemental Addendum (using the same category outline as the 'form'), will still be included and will have additional back up info I believe is necessary - including USPAP reporting requirements not included elsewhere and CYA items we need to include.

The Executive Summary will contain key information, summarized, to help the end user understand my thought processes and decisions. I will be able to add to each category of information as the report is worked on, rather than at the end of the overall report writing process - which for me is mind-numbing if done late in the process. Currently, by the time I get finished, I'm bleary-eyed - so it's then tough to go back and re-think to put on paper why I reported what I did! Doing this along the way should relieve the stress.

I write the Executive Summary in MS Word, and keep that on the second monitor or minimized, so that I can add to it as necessary. I start with a master template for it, and modify wording as necessary. I "save-as" each new ES written to the report file number so I can find it later if I want to use something from a previous report.

I asked the chief review appraiser at a regional bank if the ES is helpful. This is the response: "I appreciate reading the Executive Summary first because it tells me what to expect within the report. I have other appraisers who do something similar. I would wager the appraisers who do a thorough job writing and supporting their opinions would be supportive, where as those that do the minimum work with lack of details and support would not be interested in providing additional information."

The point in this article is to encourage and suggest more residential appraisers adopt a similar Executive Summary included after the Table of Contents (ToC) page. (Yes, in my opinion, every report should have a TofC page!) Most commercial appraisers already use this process in their narrative reports. Give the residential report users what they want to find right up front. This should help eliminate many of the pesky and time consuming additional responses far too many AMC's and Lenders ask us to comment about or complete after submitting our reports.

Here's an example of an Executive Summary recently included in a SFR report:
Appraiser's Analysis, Decisions & Reconciliation

Executive Summary page is provided to give a quick summary of relevant data and decisions.

Additional information is contained on the pre-printed report pages, Supplemental Addendum and other exhibit pages.

SUBJECT PROPERTY

- Parcel number / Treasurer's Account number / Current Taxes obtained from the County Assessor's web site
- Census Tract automatically generated from within report software; assumed to be correct
- Is in a PUD development; has a HOA - dues pay for open space maintenance, signage
- Property has no known connection to any Leasehold interest; therefore Fee Simple Property Rights is appropriate
- MLS searched for the subject; 2015 listing found
- Is not in a mapped FEMA Flood Zone
- The appraiser measured the subject to derive the subject's Gross Living Area measurement used in various places within this report. Appraiser's measurement may vary from that found in other sources, and is deemed more reliable for this report

CONTRACT INFO

Assignment is for Purchase; see GSE form page 1 for details

NEIGHBORHOOD In addition to limited information on GSE form page 1 and expanded comments in the Supplemental Addendum, this provides additional Neighborhood information, and appraiser search methods:

- The neighborhood boundaries search parameters determined by the appraiser had to be increased farther in distance than normally preferred due to limited Sales and Listings in order to locate properties considered appropriately comparable/competitive to the subject
- Expansion of the neighborhood allowed inclusion of a newer competitive subdivision being built by a competitive builder to be included

MARKET CONDITIONS INFO

- The Historical Value Trends page shows sales activity for comparable/competitive properties back in time nearly 5 years; the Market Conditions form is not used for trend research due to its improper design giving results not considered credible
- Overall property values have been stable during the extended time period shown on the HVT page graph
- Values during the previous 12 months from the Effective Date are considered to be Stable based on trends of individual property sales

SITE INFO- Typical residential site in this newer subdivision; subdivision is approximately 98% built-out

- Site is an interior lot
- Sites in the subdivision are relatively uniform in size
- Site served by public utilities- electric, sewer, water, cable TV, wired phone; cellular phone service by multiple providers in area
- Has no significant view that would positively affect value
- No adverse External depreciation was noted at the time of inspection

IMPROVEMENTS INFO

- Subject is a stand-alone site-built SFR
- Subject's exterior construction & design is similar to other dwellings in the immediate area
- Considered to be a semi-custom; originates with a builder stock home plan; buyer then orders various components with varying grades of quality to finish the home
- Front loaded garage with direct access from the street
- Rear yard fenced; patio access via sliding glass door (SGD) in dining area

COMPARABLE SALES & LISTINGS INFO

- The local MLS and county records were researched for data used within this report.
- Search parameters: Homes built 2014 - 2015; bracketing of subject's GLA 85% - 115% smaller to larger; sales and Listings which are physically, functionally and locationally the most similar to the subject; within 2 miles of subject's site (common in this area due to infill neighborhoods developed in widely spaced locations)
- All sales are within 3 months of the Effective Date
- A total of 5 Sales, and 2 Pending Active Listings were found; 3 sales are utilized in the report; additional sales not considered truly competitive/comparable and were not used in the report grid
- Comps 2, 3, 4 & 5 are considered to have higher Quality components; an appropriate adjustment has been entered in the grid for the differences
- One sale is from a competing neighborhood & builder; balance of comps from subject's subdivision
- Both Listings are within the subject's subdivision; no Listings found

elsewhere considered comparable/competitive
- No distressed properties are included in report
- The appraiser has reviewed the MLS listing sheets/photos, made drive by observations of the comparable properties and, if necessary, discussed with unbiased third party sources the condition and characteristics of the comparable sales/listings in this report. These details were used to help analyze quality and condition, and to make a decision about the comp's applicability to this assignment
- Comparables are deemed to have appropriate similarities to the subject property as reported in the adjustment grid, from which the OMV can be determined

RECONCILIATION- Reported Opinion of Market Value ($284,000) is supported by properties selected as comparable/competitive to the subject
- The Opinion of Market Value is placed at the upper end of the sale comps adjusted value range

APPRAISER'S ADDITIONAL CERTIFICATION

Appraiser [ ] has
[X] has NOT
performed prior appraisal service or had other involvement with this property in the past three years prior to assignment acceptance

About the Author

Dave Towne is a Certified Residential Appraiser with nearly 15 years' experience in small urban, suburban and rural areas. Dave is a writer, blogger, and educator on appraisal topics since 2005. He can be reached at dtowne@fidalgo.net.

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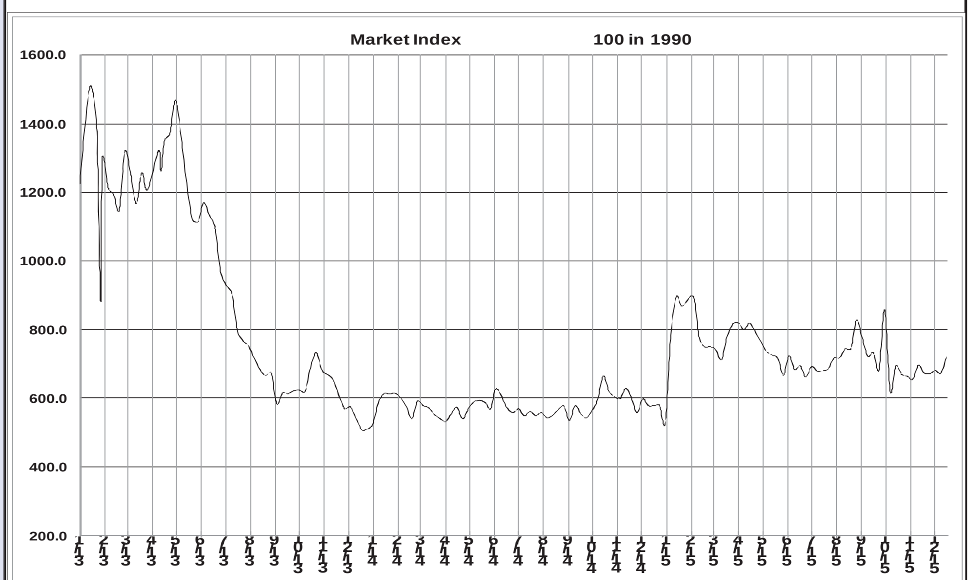

A Catfight over Appraisal Standards, The Decline and Fall of the Residential Appraiser, etc.

by Owen Glendower

An appraiser is just someone who didn't have enough personality to become an accountant. - Anonymous

A Catfight over Appraisal Standards

A war is brewing. It may become the most boring war ever fought, but there is cash involved. No matter how oppressive the subject matter, controversies thrive wherever there's a dollar to be made…or lost.

The Appraisal Institute (not counting SRAs) contends that USPAP contains too many procedural directions to be used in modern international appraisal, and that its uneven enforcement across 50 different U.S. states results in a hodgepodge of confusion around licensing, enforcement and methodology. At the same time, the organization is supporting legislation in several states to permit the use of appraisal standards other than USPAP, like, say, the Appraisal Institute Standards of Valuation, perchance? Yeah, the ones that don't prohibit contingent fees.

It's kind of hard to see how the addition of a new set of standards (that can only be applied to non-federally-related transactions) can clear the odious cloud of licensing and enforcement confusion. But, oh, wait, I forgot: there's cash involved! Sixty-eight percent of new first mortgages are non-federally related-the originators are not regulated depository institutions.

Wait…but will Freddie and Fannie buy those non-FRT loans? Well, they've always purchased non-FRT loans before. They'd probably have to approve the new standards, but it might be a cool way to sell first mortgage loans that were originated only with AVMs, because the requirement for full appraisals applies only to, you guessed it, federally related transactions.

But aren't Freddie/Fannie federally regulated? Yeah, they still are, but they're not among the institutions that oversee federally related transactions. Under current federal law, those are limited to the FDIC, FRB, NCUA and OCC. Basically the bank and credit union regulators. Shouldn't those FRT regulators, and HUD and FHA, be considered federally related regulators? For some reason known only to the Gatekeeper of Zul, no one has even suggested this at the federal level. I think so, but who am I but a mere fleck of protoplasm on one of the outer arms of the Milky Way Galaxy?

As a conspiracy junkie, it seems to me that the AI agenda is less against USPAP than against the licensing and enforcement systems that were built around it. Privately, many MAIs contend that only residential appraisers need to be regulated and that commercial appraisers could easily regulate themselves, as they did prior to 1989, and loss of the MAI designation is the only disciplinary action required to eliminate bad actors.

Apart from the fact that rezzy appraisers (or SRAs, the red-headed stepchildren of the Appraisal Institute) might take umbrage at such a position, it's hard to understand why neurosurgeons need to be licensed and subject to regulation, but commercial appraisers somehow don't. I guess commercial appraisers are not able to do very much damage. Wait…what about that commercial appraiser who was revoked a few years ago for inflating the appraisal of a state taking on behalf of the landowners by $140,000,000?

Finally, is USPAP really that bad? I mean, okay, it's bad, but is it THAT bad? It's supposed to be "too procedural", yet when the market approach is applied, all you have to do is go get "appropriate comparable sales". It doesn't even state whether it might be salubrious if the sales were recent, proximate and similar. If you're cowed by procedural standards, check out the International Valuation Standards and the global standards of the Royal Institute of Chartered Surveyors; (the latter of which now, by the way, include the IVSs) there are strict rules that apply to the appraisal of plants and equipment as well as to secured lending, property portfolios and "trade-related" properties that are valued by the "profit method" like hotels, motels and recreational venues. It's hardly surprising that the RICS and the Appraisal Foundation feds are forming deeper and deeper alliances.

(I'm working on a comprehensive comparison of most of the world's appraisal standards; I'll let you know what I find.)

And I've made my vow; if we all have to change to the AI Standards, and Donald Trump or Hilary Clinton is elected president, I'm moving to a country with NO GOVERNMENT. That's right. Somalia.

The Decline and Fall of the Residential Appraiser

The old rule of thumb is that the mortgage industry (from the Latin words meaning "death pledge") has traditionally supplied about 90% of the country's residential appraisal assignment volume. I can vouch for that, since I started with an S&L in 1972, doing portfolio reappraisals on 3x5 cards. It was a great job, and I immediately sold my soul, staying in and out of that industry as an appraiser and appraisal manager for the next 35+ years. There were a couple of brief escapes into construction project management before I ended up with a ringside seat to the implosion of the residential mortgage-backed securities market. Doing singles in the field between '72-'82 was the best of it; a company car (Oldsmobile Cutlass, new every year), an assigned territory (sometimes a paradise like Marin County), branch base (with attractive personnel) and an expense account for schmoozing loan brokers. It all turned when I had to leave my cushy job as branch manager in Sausalito.

My SF-based (San Francisco) S&L activated its service corporation to develop residential housing, and I was pegged as project manager of a conversion in SF, 108 zero-lot-line units in Santa Rosa and 57 luxury townhouses in Squaw Valley (Tavern Inn). We started delving into over-55 projects; my site plan, which proposed a hospice and crematorium, got a laugh, but not an approval. When at Tahoe, I found in the early 80s that there was more than one kind of "snow"; while watching a couple of realtors chop lines in their office on the Lake, the Sheriff came in and said wearily, "Would you please put that sh*t away?" (It would be another year or two till I made it to Alcoholics Anonymous, where I learned that the only difference between an alcoholic and an addict was that an alcoholic will help you drink your last dollar; an addict will steal it from you, then help you look for it.)

When I would leave the corporate world for private practice, I always made sure I did so on the verge of a national financial disaster. Those were tough times, but strong relationships with small and medium lenders, as well as the few honest mortgage brokers (not always an oxymoron), pulled us through, though I had to dump the business and return to in-house corporate appraisal. I have a lot more war stories and enjoyed a lot of excitement and prestige, but today I'm only saddened by conversations that I have with residential appraisers in the trenches.

The advent of AMCs cut appraisal income in half overnight; the decision by the big banks (with possible GSE collusion) not to permit the participation of trainees in their origination appraisals has made it nearly impossible for a trainee to find a supervisor. The insistence by the big banks that there is no place in financial appraisal for the bottom-feeding residential licensee has pushed many of them out of the business, or into bedroom #3 to do non-USPAP-compliant "reconciliations" (which put their E&O at risk). Lending underwriters have always sought to push as much of their risky decisions over the fence onto the appraiser ever since I've been in the business, but today's laundry list of appraisal requirements has made it a distinctly unpleasant profession for most practitioners.

Residential licensing is declining by 3% per year (commercial is up). Many experienced appraisers are turning to brokerage or other professions. It seems disingenuous when the American Bankers' Association warns about an "appraiser shortage" when their membership reflects the primary cause.

In the days just after HVCC and Dodd-Frank, it seemed that the Fed was going to correct some of the destructive practices. Under the Citibank settlement, there was a whiff of hope that the AMC system would be dismantled. Nope. The customary fees and blacklisting language in HVCC and Dodd-Frank never made it into federal law. The bank regulators could instantly stop the trainee and licensee bans, but have not lifted a finger. Conspiracy theories abound: are the banks and the regulators just trying to bring all residential appraisers in-house? Maybe so, but that didn't work out so well last time; the negative effect on property due diligence and collateral risk was disastrous. (Per Mr. Rogers, "Can you say "conflict of interest?" Sure you can!) Perhaps the idea is to simply eradicate the fee appraiser and computerize residential appraisal almost entirely? (There's a recent Oxford study which predicts this with 90% probability.) With the GSE's new massive database of fresh appraisal data (received the day the report is done instead of when the loan is purchased) could feed the 800-pound gorilla of AVMs, but do they really want to get rid of the only portion of the mortgage process that is still marginally "negotiable"? Do they think borrowers will like having their homes inspected by drones?

As for the beleaguered residential appraiser, s/he can't rely on the appraisal organizations to stand up, as they're all on the side of the commercial leadership and the big banks. Could the rezzies sue on the basis of deprivation of livelihood, trust violations or restraint of trade? Maybe, but they would have to band together and raise some cash; they're not exactly in a good position to do this right now, and frankly, have never played well with the other children anyway.

Is there a silver lining? If the mortgage market normalizes (i.e., if Millennials find they can pay their astronomical student loans AND support a mortgage at the same time, and the foreign cash investors leave the US market), a reversal in the lines of supply and demand could put the rezzy appraiser back in the driver's seat in a big way. At least for a while, anyway. On the other hand, the next residential bubble is scheduled to pop in 2020, with a pre-correction in 2018, depending on how the Fed manages rates. (So said the mavens of San Francisco's financial district in a recent panel.)When junior comes in your office and asks, "Mom, I want to become an appraiser like you," get him into drone pilot lessons as soon as possible. Of course, no child has actually said those words; it would be like saying, "Mom, I want to become an alcoholic." That's a loser's game, too, but it's a lot of fun for a while!

Ask the Curmudgeon about appraisal, mortgages or anything. He knows all, he sees all! (And if he doesn't, one of his dogs does.)

Dear Curmudgeon: I sent an appraisal to an AMC recently where the subject had just sold 8 months prior. So I used it as Comp #1 as the best indicator. The "reviewer" (a 19-year-old gumchewer) blew a fuse and said it was against policy, but, of course, didn't know why. Can you elucidate?

Dear Rezzy: I certainly can. You EEdiot! You can't use the subject as a comparable sale; it creates a tautological argument (look it up). You're trying to find out what the market thinks about its current value, not how the prior sale affects it. You can wax lyrical in your narrative about it, and still emphasize it in your subjective and judgmental reconciliation, but you can't grid the damn thing. Geez…

About the author

Owen Glendower is a pseudonym for an appraiser with many years of appraisal experience. I have known the author for a long time. He has a wry sense of humor, which many appraisers can appreciate.