Fee negotiation strategies for appraisers

By Doug Smith, SRA

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

Editor's Note: For the first time ever, residential appraisal fees can vary widely and are based on bids, especially if you work for AMCs. This is a huge change from pre-HVCC when they varied very little over time, even when business was very, very slow. I have been bidding on most of my commercial appraisals for over 25 years. Bidding is not easy, but it is a necessary skill if you want to have a successful appraisal business. Even if you don't do AMC work, you need to understand how to bid.

As borrowers continue to refinance under record low interest rates, appraisers benefit from the evident scarcity of available appraisers. In the run-up of refinancing brought on by record low interest rates, appraisal management companies essentially lost their grip on both setting appraisal fees and turn times.

The Veterans Administration carefully tracks both fees and turnaround times and in June raised the fee in Montana for a Fannie Mae 1004 to $600.00 and, in select counties, upped the turn time to 28 days. The VA is often the bellwether in most markets and this is certainly the case in Montana.

Appraisers are reporting that companies, desperate for reports, are offering much more favorable fees and relaxed turn-time standards. Of course, this will not last since it is becoming
increasingly certain that interest rates will climb, notching up the Housing Affordability Index.

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

Due to the fall off in the economy beginning in 2007, most residential appraisers added an appraisal management company (AMC) component to their client list or expanded their AMC list of clients. The competitive thrust of appraisal management companies was to offer "value added" services which, for the most part, emphasized traditional appraisal fees and timely completion of appraisals.

Appraisal management companies, confident they could maintain a willing appraisal panel at discounted rates that would produce appraisals quickly, soon dominated the appraisal business scene. "Push back" was inevitable and played out in the Dodd-Frank Wall Street Reform and Consumer Protection Act in the form of legislation aimed at securing Reasonable and Customary fees for appraisals. This section of the bill was part of the drive to maintain appraiser independence and ensure appraisal quality.

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

As it turned out, most agree that lenders did seek to meet the intent of the Act. However, as the economy recovered, business reality intruded and appraisers came to expect flexibility when it came to fees they charged their clients.

In the face of an imminent fall-off as the refinance panic subsides, logically, the competitive nature of the appraisal business will mean that some appraisers will accept lower fees to maintain volume.

Anticipating the next phase in the competitive world of appraising, appraisers must consider the role of negotiating strategies. The simple fact is that most appraisal management companies' fees are not set in stone. Negotiation has a proper place in the appraisal business; even more so in the face of the future downward pressure on appraisal fees.

This new attention to negotiating strategy focuses on one single business principle. "Always ask for more."

Win-Win Negotiations for Appraisers

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

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

Similarly, using manipulation such as over-promising on a shorter delivery date can undermine trust and damage business relationships. This is particularly true since many appraisal management companies scrupulously track turn-around time. Allowing no flexibility and holding to a "take-or-leave-it" stance misses the point that negotiation is a business fact-of-life.
The "hardball" approach is not much use when it comes to resolving issues where there is an ongoing relationship. Manners count with honesty and openness the hallmark of legitimate business interests. For a negotiation to be "win-win" both parties should feel positive about the negotiation when it's over.

The Fairness Triangle - scope of work, turnaround time and fee.

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

If these were represented as the three sides of an equilateral triangle, these three elements should represent balance or symmetry.

In a professional relationship, the client gives the appraiser adequate time to complete the scope of work and the fee compensates the appraiser for fulfilling the scope of work within the agreed upon time schedule. Negotiation comes into play when the fee is not sufficient to compensate the appraiser for an expanded scope of work or the appraiser is not given enough time to competently carry the work necessary to complete the scope of work.

The fee itself is not the only factor in fee negotiations. When the fees are paid is also important. Recently more companies are moving to paying their accounts in 45 days with the 45 days starting on the first of the month following the date of the appraisal. When fees are paid is a legitimate subject for a negotiated settlement. One welcome trend is that many lenders are moving to direct deposit relationships with their appraisers, thus shortening the payment cycle.

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

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

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

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

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

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

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

5. Appraiser to provide a list of sales. For clarification this is simply a list of comparable sales in the subject's market area that occurred the year prior to the effective date of the original appraisal. The information required includes the address, sale date, sale price, GLA (if known) and room count (if known).
6. Provide support and documentation for time adjustments ie: 12 month CMA broken down into quarters.
7. Provide a location map showing the subject original comps and new comps.
8. Please provide a list of similar sales for the 12 months prior to the effective date. An MLS generated 1-line list of sales with sales price, date of sale, address, room count and GLA is sufficient.
9. Provide current owner AS OF THE EFFECTIVE DATE on original appraisal.
10. Include the name and license number of the original appraiser in your report.
11. Clearly define your extraordinary assumptions in your review report.
12. Be advised that you may be asked for additional commentary and support by either AMC or the client.

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

This example demonstrates the importance of having the engagement letter in hand before concluding final agreement on the fee and the amount of time to complete the assignment. It may be that, in some cases, a scope of work is simply unreasonable, with little expectation of modification.

More clients are demanding copies of MLS sheets and the inclusion of these sheets. The information and pictures these contain may violate copyright restrictions.

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

Self Assessment - what is important to you
Taking a more active approach to negotiating the three components of an appraisal assignment begins with a realistic self assessment of both the appraisal firm and the appraiser. To do this successfully involves a thorough review of your skills, knowledge and attitude. Focus on your attitude toward the negotiation process: the most important factor.

Appraisers maximize business results by adopting the concept of a "firm" whether they are the sole business entity or whether they employ other appraisers or assistants. Thinking of the appraisal business side as the "firm" places a new emphasis on the professional aspects of the ongoing nature of business relationships. Thus, an appraiser must consider not only how they respond to customers, but how their business entity or "firm" responds to these customers whether they are clients or the client's agents.

There is a simple test to determine whether the you, through your skills and knowledge, are meeting the needs of your clients.

One aspect of the new AMC environment is that appraisal management companies give reports intense scrutiny personally by a reviewer or by a computerized review process.

If perceived errors are found, the appraisal is returned to the appraiser for correction or revisions. The appraiser must review these requests carefully.

Separate the requests that are unreasonable from those that are reasonable. Unreasonable requests already have information was within the report and was missed.

Reasonable requests could have been prevented by a more careful reading of the engagement letter or corporate procedure manual. Some requests do focus on the appraisal
Appraisers must accept the harsh reality that appraising, like any other human endeavor, attracts persons with a range of intelligence levels and with differing skill and knowledge sets. Requests for revisions and corrections provide an index of sorts of the general competency of the appraiser and the ability of the appraiser to follow precise directions. To achieve standing in the appraisal negotiation process, appraisers who have a record of fewer requests for revisions and corrections argue from strength.

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

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

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

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

**Monitoring the work schedule-Gantt Charts**

TAT or turnaround time is the main preoccupation of most appraisal management companies. There is no indication that appraisal management companies are placing any less emphasis on speedy return of assignments.

There is even some evidence that appraisal management companies use turnaround time as their answer to the "value-added" component of their services.

Turnaround time then is one of the three important items in the negotiation process.

Appraisers mostly have a haphazard way to track their appraisal production schedule. Consider that completing appraisal reports is a measurable production process. Those involved in production adopt a Gantt chart approach to tracking production.

A Gantt chart is a type of bar chart that illustrates a project schedule. Gantt charts illustrate the start and finish dates of the terminal elements and summary elements of a project.

Terminal elements and summary elements comprise the work breakdown structure of the project. The simplest Gantt chart can be created with a typical monthly calendar with lines representing the start and finish dates on appraisals in progress.

Appraiser can visually see the number of lines on each date and quickly judge whether an appraisal can be fitted into the production schedule within the client's requested due date.

There is a free Gantt chart program that integrates in Microsoft Excel called "Gantt Chart Builder (Excel) 6.1.1" available on the CNET download site.

It allows for the scheduling of multiple appraisal assignments and provides an easy way to track production in process. With this information immediately at hand the appraiser can quickly determine whether the expected due date requires further negotiation.

**Scope of Work**

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

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

One bright spot on the horizon is that some lenders are eliminating the requirement to include listings when the market is stable or is shown to be advancing.

The typical appraisal management company's business model relies on clients paying a set fee for appraisals.

AMCs locate and employ appraisers who will produce appraisals at a discounted rate. Then the AMC maximizes its revenues by on how successful they can be at finding appraisers willing to accept fees within a certain range.

Two step fee schedules

What is clearly evident is that there are two-step fee schedules that allow the appraisal scheduler to accept fees within certain ranges.

Anything above this level requires the scheduler to go up one level of supervision. For example, the scheduler sets out to place a typical 1004 with instructions to pay $400.00. However, to place the assignment, the scheduler is able to accept a fee of $450.00. For anything above this, the scheduler must seek authorization. The scheduler is anxious to place the order. The appraiser is put in a good bargaining position if the upper tier of the fee level that the scheduler can act on is reasonable to the appraiser.

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

Fee Negotiation Strategy

Appraisers contacted by phone with the usual question as to fee and turnaround process must be prepared for this initial offer.

Clients sort themselves into

1. Clients who are well known to the appraiser and whose fee schedule they already know
2. Clients that are unknown to the appraiser and whose fees they must learn.

Handling new clients where you don’t know the fee spread

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

The fee quoted will often be the floor fee amount.

New clients - determine scope of work before quoting a fee

For the unknown client, it is then necessary to determine the scope of work. This is where appraisers find it handy to have two or three monitors. If the scheduler will state the address of the property, the appraiser can quickly check public records on one of their monitors and determine a great deal about the necessary scope of work.

What is the complexity of the inspection? With the neighborhood identified what is the availability and proximity of comparables?

Page 6–July, 2013 Appraisal Today
It is appropriate to ask if there are any additional requirements of the assignment. Recently one major AMC increased the number of mandatory comparables to five along with at least two listings. These types of requests add real time to the appraisal process and require fee consideration in setting the fee for the assignment.

The appraiser at this point may proceed to quote a fee. As a rule of thumb, the scheduler has at the most about $150.00 above the threshold amount with which to negotiate.

If this is a reasonable fee, then the negotiations can be quickly concluded. However, even at the upper level the scheduler is empowered to negotiate, the fee may not represent fair remuneration for the assignment.

The next negotiation step: trades and alternatives

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

Given more time, the appraiser may be able to fit an appraisal in as "filler" type business at the announced fee.

A change in scope of work may not be possible, but a drive-by appraisal may be appropriate to the assignment rather than a full 1004. A desk review may serve the purposes of the assignment rather than a field review.

The appraiser may learn something in the initial conversation that is unknown to the scheduler that may affect the fee schedule.

The home may be a manufactured home rather than a frame built home requiring the appraisal to be completed on a different form.

The structure may be different from the norm, such as log home or waterfront property requiring additional research and report development.

Most companies adopt a differing fee schedule for Jumbo Loans. Therefore, the value of the property determined by the tax assessment may be relevant at this stage of the negotiation process.

At this stage in the negotiation the front line scheduler has two basic questions: "Can this appraiser do this appraisal and, if offered, will the appraiser accept the assignment?"

Maintain a good business attitude while negotiating

Throughout the process, it is critical that the appraiser show a willingness to accept the assignment and demonstrate that the appraiser has the license level and competency to complete the assignment.

An appraiser should maintain a friendly demeanor throughout, always holding out the prospect of an ongoing relationship despite any unreasonable fee offer or extraordinary scope of work requirement. Never close the door.

It is entirely likely that the appraisal management company may be completely unfamiliar with the local fee structure.

Failing to reach a settlement, the negotiations move the second level where the scheduler must consult with their supervisor.
The final step - expected outcomes and consequences

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

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

The appraiser must be prepared to meet this offer as perhaps the last and final offer and determine the extent of any compromise.

Know the competition

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

HUD then prescribed a fee of $350.00. The HUD procedure required appraisers to secure liability insurance as well as E & O insurance. The application process requires additional documentation and there is mandatory Internet base training. The application provided for higher fees if the appraiser could document why higher fees were necessary.

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

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

When withdrawing is the only option

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

The objective of most appraisal assignments is to provide support for a decision involving financing of the subject property.

The appraiser then must rely on the framework set out in the scope of work and, if the process has been competently followed, the appraiser has no choice but to stop the process.

It may be a better alternative to simply not accept the assignment, emphasizing the long term consequences.

Given the strident "take or leave it" tone of some engagement letters; appraisers must simply be prepared not to take the tone personally and meet these demands in a business-like manner.

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

To accomplish these goals appraisers must be fairly compensated and this demands increased attention to the negotiation process. The underlying fee structure of most appraisal management companies allows for higher fees. Therefore, applying the general strategy of "Always ask for more." fits into a "win-win" strategy fair to all concerned.

About the author
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Reconciliation comments: What the client expects

By Denis Desaix, SRA

Editor's Note: Inadequate or non-existent reconciliations is one of the most common appraisal report problems seen by review appraisers. Inadequate reconciliations in appraisals for purchase under the contract price is also a big issue with lenders. Good reconciliations can help explain why.

For most residential mortgage appraisals, the primary approach used to determine market value is the sales comparison approach (SCA). While the income and cost approaches can also be included, the GSEs and most mortgage lenders will rely primarily on the SCA.

As a practical matter, this creates two sets of reconciliation analyses/descriptions in a typical residential appraisal report. The first reconciles the SCA itself and the second reconciles all the approaches to value that were used.

Formal texts teach that the two reconciliations are separate and distinct, and this is true. However, in many cases involving residential mortgage appraisal work, the significant reconciliation process takes place in the SCA comments and narrative.

This article's discussion will focus on the SCA reconciliation: readers can take the suggestions and customize the process to fit their individual styles and formats.

Additionally, this article presumes that some discussion is already present in the appraisal report that describes and supports the comparable selection, adjustment scheme, etc. All of that work has already been done. What remains is the final synthesis of why the appraisal concludes $X as the market value opinion.

What is a Reconciliation?

As basic as it sounds and as intuitively as many of us understand it to be, it is useful to review the definition of "reconciliation" and the purpose it serves.

The Dictionary of Real Estate (Appraisal Institute, 5th ed.) defines reconciliation as: "The process of reducing a range of value indications into an appropriate conclusion for that analysis, e.g., the derivation of value indication from the adjusted prices of two or more comparable sales

Page 9–July, 2013 Appraisal Today
The SCA evaluates a set of comparables, adjusts those comparables for differences vs. the subject property, and arrives at adjusted prices for each comparable. The adjusted values are the "value indications" cited in the above definition. The reconciliation is the process that takes this range and reduces it to an opinion of market value.

Keep in mind that the reconciliation is not a rehash of the adjustment process. That discussion precedes the reconciliation in the SCA narrative. The reconciliation determines and explains why the opinion of value is where it is, and why that specific point is better than any other point.

Reconciliation Concerns from Clients

Clients indicate that some appraisal reports are too brief in describing the rationale used in selecting the point-value conclusion. Some specific concerns that clients have in regards to reconciliation statements are:

- There is no commentary as to which comparables are considered the best indicators of value
- There is no commentary as to why the adjusted range is either above or below the unadjusted range of the comparables
- The report appears to have relied upon the form software's calculated value indicator
- The report simply averages the adjusted range; and
- There is a special concern when the assignment is for a purchase, and the contract price falls within the adjusted range of the comparables, but the report concludes an opinion of value that is different than the contract price.

One constant challenge for appraisers is to remember that it is the written report that provides the convincing argument in favor of the credibility and reliability of the value opinion for our clients and intended users.

As we analyze the appraisal problem and conclude our value opinion, we are constantly considering the factors and forming our opinion. We intimately know the problem and know why we concluded what we did.

It is very easy to assume that our analysis and conclusions, clear and logically evident to us, is equally evident to the client/user who has not been at our side while we go through the appraisal process.

Such an assumption is not prudent. Rather, we should assume that as clear and logical as we think the our reports are, we should consider this a necessary step and specifically cite our rationale for concluding our value point so there can be no misunderstanding.

In other words, we should write out our reasoning in a clear and convincing manner so that it is impossible for our clients to misunderstand how we arrived at our value opinion. This clear outline of how we picked our value is the purpose of the reconciliation.

Reconciling in the SCA

The reconciliation within the SCA should focus on a discussion of the comparables used, the quality of the data, which comparables are most similar, which are least similar, and finally provide the client/intended user some rationale for why the appraiser selected the value-point as the opinion of market value.

In some assignments, this process is very simple and clear, while in others it may not be
as simple and clear.

Regardless, the appraiser should make it part of the reporting process to always reconcile and provide a rationale for concluding the value-point he or she selected.

Some items for an appraiser to consider during the reconciliation:
1. Is there any comparable that is the primary indicator of value for my analysis? If so, provide the rationale.
2. Am I giving more consideration to comps X & Y vs. A & B? If so, provide the rationale.
3. Why should I comment on the contract price being different from my opinion of value? Am I not supposed to be independent and not rely on the purchase price to influence my opinion or appear that I am arriving at a pre-determined result?

The following examples are reconciliation statements that address these issues.

Examples of reconciliation statements

The following examples are from various residential mortgage reports I completed within the last year.

Example #1: Non-complex

The first example is a common, non-complex scenario. Indeed, one could argue that it should be self-evident that most consideration be given to same-subject sales. However, this is the assumption that we should never make.

"I gave most consideration to comparable #4. I also gave significant consideration to the adjusted price of confirmed pending sale #5. These are the two properties located within the subject's project."

"I then considered the other closed sales. I did consider the overall scarcity of data, and reconciled a point-value to $300k. This gives most consideration to the same-project properties, but also considers the noted volatility in this market. The $300k value-point is well supported by the closing price of comp#4 (unadjusted and adjusted)."

Example #2: Short, not complex

Not every assignment requires a reconciliation walk-through of each comparable. In the example below, the subject's condition vs. the comparables' condition is discussed in the preceding SCA narrative. Here, the reconciliation states that it is the subject's condition and same-development sales that are the significant considerations in the final value opinion.

"My opinion of market value for the subject is $1,375,000. This reflects the subject's C4 condition, and relies mostly on the same-development comparables."

Example #3: More complex with multiple factors

The next example is more complicated, with a number of factors that affected the final value opinion. Interestingly enough, after the reconciliation was completed (this was for a purchase), the opinion of value was higher than the contract price. Some buyers do get good deals!

"Here are the significant factors I considered:
A. The general market is increasing.
B. The subject has been upgraded/remodeled."
C. Buyer demand for this neighborhood in particular is high at this time."
"Given the above, I gave comparable #1 significant consideration due its proximity, but also considered this property's adverse location influences. I then considered comps# 2 and #4 due similar GLA. I gave comp#3 least consideration due condition differences. I did consider comp#5, but gave it least consideration due the pool amenity."
"The unadjusted range of the comparables is $741k to $895k. After adjusting for the significant elements of comparison, the range is narrowed to $765k to $815k."
"I then considered the contract price as a data point. In my opinion, the contract price is below market value based on the data analyzed."
"I reconciled my value point to $775,000. This gives most weight to comp#1 and tempers the final point value due to comparable #1's adverse location influence."

Example #4: Appraised value under contract price

The next example is for a purchase, and the contract price exceeds the opinion of value. Some appraisers are hesitant to make a comment in the report regarding the purchase price vs. the opinion of value. I think this is a mistake. Rather, I argue that given the intended use of the appraisal (purchase for mortgage finance, where the client/user is considering a loan for the purchase), a fundamental question a client is going to have is why, for purchases, is the opinion of value different than the contract price?

In the example below, the opinion of value is $180k. The contract price negotiation was first at $175k (below my opinion of value), and then it was re-negotiated to $188k (above my opinion of value). This process occurred just prior to my inspection/effective date of the value.

My practice is to reconcile my point-value as I usually do, and then if there is a difference between my opinion of value and contract price, to specifically comment on that. Since I've already completed the reconciliation process (synthesizing the value range into a point-conclusion), the only task remaining is to comment on the fact that I acknowledge the contract price is not supported by the market analysis.

Again, many argue that this is self-evident and that there is no reason why an appraiser should make any additional comments. I disagree. Clients expect a comment (and, as I've noted, such an expectation is not unreasonable) and it is prudent for the appraiser to make such a comment. At the very least, everyone is certain that the appraiser acknowledges there is a difference between the market value opinion and contract price, and the appraiser is affirmatively stating that the opinion of market value is the reliable indicator.

"I did consider the rising market, and I concluded a value point at the upper end of the range ($175k to $180k). I note that all comparables (except the one investor flip) sold in excess of their original list prices. I considered this dynamic and concluded a point-value at $180,000 was consistent with all the data and best reflects the most probable price for the subject as defined in the definition of market value used for this report."

Note: A Special Comment Regarding the Subject's Contract Price Vs. The Opinion of Market Value.

"As discussed in detail, the subject was originally in contract for $175,000. There was then a counter-offer at $188,000, and that was accepted."
"My opinion of market value is based on the data available as of the effective date. The
market data supports a price higher than the original contract price ($175,000). Indeed, the market dynamic supports a price at the upper-end of the comparable sale price range, and that is the price-point I concluded. Based on my research, the data does not support the contract price of $188k as of the effective date of this appraisal."

**Example #5: Purchase - contract price supported**

The last SCA example is for also for a purchase. In this case, the purchase price is fully supported by the market data, and I considered it in my final value reconciliation. This is another area where there is some disagreement among appraisers: Can the purchase price be used as part of the reconciliation process, and if I do that, am I not appraising to a pre-determined value?

In my opinion, there is no pre-determined valuation occurring if the SCA analysis has determined the indicated value range without regard to the contract price (in other words, the SCA is completed independently, impartially, and objectively). Once the SCA is complete, and a value range is concluded, then the reconciliation process refines that range into a point value. At this stage, it is reasonable and appropriate to consider the contract price as a piece of market data. Indeed, FAQ #215 of USPAP (2012-2013) states that agreements to buy and sell can be significant in solving the appraisal problem.

Since the value indications were arrived independently, and in those cases where contract price is within the value range, I would argue that it is a relevant data point to consider, and may actually be the most credible point-value to conclude.

Below is an example where I've completed my reconciliation process, commented on how the purchase price is consistent with the market data, and considered it in my final value reconciliation.

"I gave most consideration to comparables #3 and #5 due similar bedroom count. I also considered comparable #6, the confirmed pending sale and comp#1, a similar condition/upgraded property. These comparables provide an adjusted range of $592k to $619k. "I do note that comparable #4 sold at the top of the value range. Although a 2-bedroom home, I gave it secondary consideration."

I then considered the additional appeal of the subject's basement, and weighted my point-value toward the upper-half of the adjusted range."

"Finally, I considered the negotiated contract price of $615,000. This contract price is within the range of my primary comparables considered, and is at the upper end of that range consistent with my point-value reconciliation. It is consistent with the most probable price used in the definition of value and consistent with my data. I therefore considered it and concluded my point value opinion at $615,000."

**One additional comment about "averaging"**

In many of the current appraisal software programs, an indicated value based on the comparables and their adjusted values is provided. This value is usually visible on the screen and is not printed as part of the report. The average is usually "weighted", and considers each comparable based on that comparable's adjustments.

It gives most "weight" to the comparables that are adjusted the least, and least weight to
the comparables that are adjusted the most. The logic is sound. Those comparables with the fewest adjustments are, presumably, the ones most similar to the subject. Therefore, their adjusted values should be most reflective of the market value of the subject.

By itself, there is nothing wrong with the logic. A model-match that requires no adjustments would be presumed as the best indicator of value for the subject property.

Where the clients are concerned is in the cases where the appraisal reports seem to be using the software's analytical tool as a substitute for the appraiser's judgment. Appraisers should never substitute their professional judgment in favor of formula. The tool is a tool, nothing more, nothing less. Opinions of value are the appraiser's to make.

In some cases, the average is the most probable price. Three comparables adjust to $490k, $500k, and $510k, in a stable market: it is reasonable to conclude the market value is $500k.

However, in a rising market, the value may be in the upper part of the range. In a declining market, in the lower end of the range. This is what the averaging tool cannot determine or decide, and this is why the appraiser should always definitively include his or her judgment and rationale as part of the reconciliation statement.

Examples of the Final Reconciliation

The final reconciliation process is designed to comment on all three approaches used, and then to express the appraiser's reliance on any specific/particular approach. In most cases, the SCA is the only approach used. In other cases, there are additional approaches used. The examples below reflect the approaches used in the report.

Reconciliation Comments [SCA Only]

The sales comparison approach is used and relied upon within this assignment to conclude credible results. In this market, residential properties are purchased primarily for owner-user utility and the sales comparison approach best reflects this market motivation.

The cost approach is not necessary to conclude credible results and is not required by my client. Further, in this market, it does not reflect the typical buyer's motivation (build-new as an alternative to purchasing a pre-existing home). Therefore, the cost approach is not completed.

The income approach is not necessary to conclude credible results and is not required by my client. The typical buyer or seller in this market is an owner-occupant and income revenue is not a significant market-participant motivation. Therefore, the income approach is not completed.

Reconciliation Comments [SCA & Cost Approach- No Weight to Cost Approach]

"The sales comparison approach is used and relied upon within this assignment to conclude credible results. In this market, residential properties are purchased primarily for owner-user utility and the sales comparison approach best reflects this market motivation."

"The cost approach is not necessary to conclude credible results. However, my client has requested that I complete the cost approach, and I have done so. In my opinion, in this market, the cost approach does not reflect the typical buyer's motivation (build-new as an alternative to purchasing a pre-existing home). A further weakness is the lack of actual land sales available to determine site value, and therefore I've relied on site-extraction for site value. Compared to the sales comparison approach, the cost approach is less reliable and I did not give it significant
"The income approach is not necessary to conclude credible results and is not required by my client. The typical buyer and seller in this market is an owner-occupant and income revenue is not a significant market-participant motivation. Therefore, the income approach is not completed."

**Reconciliation Comments [SCA & Income Approach - secondary consideration given to IA]**

"The sales comparison approach is used and relied upon within this assignment to conclude credible results. The subject would appeal to both an investor and an owner-user. However, the primary buyer for the subject would be an owner-user. The sales comparison approach best captures these two competing buyer-types within this market and for properties of the subject's configuration and condition, and I gave it most consideration in my reconciliation."

"The income approach is not necessary to conclude credible results, but I have completed it as the subject does potentially compete within the investor buyer pool. The quantity of GRM data is limited, and therefore I gave this approach secondary consideration. Based on my analysis, an owner-user would out-bid an investor as the subject's utility as a residence exceeds the income generation as a rental property. Therefore, the income approach is given secondary consideration."

"The cost approach is not necessary to conclude credible results and is not required by my client. Further, in this market, it does not reflect the typical buyer's motivation (build-new as an alternative to purchasing a pre-existing home). Therefore, the cost approach is not completed."

**Conclusion**

The reconciliation process and statement synthesizes the value analysis into a convincing statement of why the specific point-value is the appropriate and credible market value. The reconciliation statement should provide the client and intended user the rationale of why the appraiser concluded his or her value opinion.

In residential mortgage appraising, many times the significant reconciliation occurs within the sales comparison approach. Regardless of where or how it is organized, the process of reconciling the value indicators into the final point-value conclusion should be completed so that the user can clearly understand what factors were considered in arriving at the opinion of market value.

The most sensitive situations typically involve purchase assignments where the opinion of market value is different (and lower) than the contract price. In such situations, clients expect the appraisal to have some comment regarding that difference.

A well-written and logically presented reconciliation will convincingly argue the credibility of the appraiser's value conclusion. An additional comment in the reconciliation affirmatively stating that the appraiser's opinion of value and not the contract price is the one that is demonstrably supported by the market evidence. This the value that should be relied upon by the client.
Get started in attorney work by doing divorce appraisals - higher fees, no UAD, no underwriters, no AMCs

**WHEN EVERYONE IS BUSY IS THE BEST TIME FOR YOU TO GET NON-LENDER APPRAISALS.**

AMC work pays better now, but that will change as soon as lender work slows down, as it inevitably will. Do you want to go back to those really low fees of less than two years ago?

Remember when you had regular mortgage broker clients that you worked with and knew personally? Tired of working with anonymous people by phone and email.

Also, you won't be competing with desperate lender appraisers who bid $350, when the typical divorce appraisal fee is $1,000 plus $200 per hour for testimony, etc.

Say no to AMC work. Say yes to divorce work.

Why are non-lender appraisals needed? Mostly death, divorce, and taxes.

For residential appraisers, most non-lender work comes from estate/trust and divorce work. After you have some experience, you can get litigation such as construction defects or defects that were not disclosed before close of escrow, which pays very well.

This article focuses on getting started by doing divorce appraisals. For residential appraisers, most non-lender work is for divorces.

Court testimony is relatively rare for estate/trust work and other types of non-lender work, but is more common for divorce appraisals. If you don't want to ever testify in court, don't do divorce appraisals.

If you want a long term career in residential appraising, and not totally dependent on very cyclical lender work, divorce appraising is a good option that pays well.

**Lender vs. non-lender volume of work**

When you work for lenders, work is much steadier than for non-lender work. Every residential appraiser I know does both lender and non-lender work.

You get many one-time clients, so marketing is critical.

**Divorce vs. lender appraisals**

Although they are both appraisals, using the same appraisal procedures, the scope of work is typically different.

You will be calling on all the sales and listings, will take as much time at the property as you can, ask questions, and may have a copy of other appraisals that have been done.

The most significant difference, of course, is possible court testimony and another appraiser working for the other side.
Of course, no current Fannie forms are used, no UADs, and no 1004MCs.

**Effective date of the appraisal**

Be sure to ask about the effective date of the appraisal. It can be the day you inspect, the day of separation, or another date.

If the date is in the past you will need information on changes (if any) to the home such as plumbing, paint, etc. Try to get copies of checks, bids, etc. Be sure to go over any changes while doing the inspection.

**Emotions are high**

Everything is personal with a divorce, including the family home.

Be polite and professional. I consider myself an "appraiser-listener". I spend time listening to complaints about the other spouse or whatever they want to talk about. The time is built into my fee.

**Inspecting the house**

Find out who will be present - wife, husband, which attorneys, etc. Never inspect by yourself.

Take many, many photos. Ask your client what are the special features of the home. Clients on the "high" side will often say how great the home is and fail to mention any bad features. If you see anything, ask them about it.

If they're on the "low" side, they will let you know about all the defects, including the neighbor's noisy dog.

**Who can do divorce appraisals?**

In my area, the San Francisco Bay Area, most are done by real estate agents, who will also testify in court. They do them in hopes of getting the listing if the home is sold. If you're in a mandatory state, real estate agents may not do divorce appraisals/BPOs.

See who does them in your area. Ask a few local divorce attorneys at a Chamber of Commerce or law association meeting.

If you have limited (under a few years) of appraisal experience and/or are not certified, it can be tough to break in, but keep trying.

You will need to be able to go way beyond what is required for a typical lender form-filling assignment. The skills can be learned. Take a few classes from the Appraisal Institute.

**Reviewing reports**

You can offer to review the appraisal reports done by the other side. I always ask for the reports even if my client doesn't want a review. Then I can see how the other appraiser approached the assignment, or at least check the building drawing and square footage.

If you are doing a forensic review (for litigation purposes) it is best to do them the same as you do a lender review, so you are not accused of advocacy, unless you are not doing an appraisal, but are hired as a consultant to look for weaknesses in the other appraisal.
Working with attorneys

Attorneys are advocates and try to get the best "deal" for their clients. In contrast, appraisers are experts and only advocate their value opinions.

Some attorneys "shop" for appraisers who will give them a high or low number, depending on what helps their clients.

Just like in lender work, there are some appraisers who are willing to do this. When interviewing a prospect, I always try to find out which side they are on and let them know that my appraisal will be in the middle. I tell them if neither spouse likes my appraisal, the appraisal is probably okay.

Every appraiser is different. It's your choice. Many appraisers aren't as strict as I am.

Fees

Don't underbid unless you're trying to break into the business or trying to get business from a prime new client.

Do your appraisals "as if" they will be scrutinized by attorney, judges, both spouses, other appraisers, etc.

Charge higher than for a standard lender appraisal. How much higher depends on what other appraisers do in your area, how well known you are as an expert witness, etc.

Be upfront about your hourly rate for testimony, preparation, and deposition and include it in your engagement letter. Some appraisers charge from portal to portal (your office to the courtroom), some don't. You should be paid for waiting outside the courtroom. Some appraisers also charge for "waiting" time, when you set aside time for the testimony, but are not called. In my area, typical rates are from $150 per hour to over $250 per hour, depending on your testimony experience.

If the appraisal is not straightforward and requires additional research, set an hourly rate.

If you are paid on a hourly basis, be sure to keep very good track of your time.

Always get paid in advance

I always get an advance retainer fee to cover the appraisal and sometimes testimony time.

If you are deposed, in my area the standard is that your client brings a check for the expected time (or a blank check for the actual time) and pays when you deposition is over.

If you are having problems getting an attorney to pay, mention it to the judge, who usually is sympathetic.

Collecting from attorneys

Collecting from attorneys can be difficult.

If your client loses the case, they will be less likely to pay.

Get as much upfront as possible. If it is a complicated case, get regular partial payments.

What type of reporting format to use

You cannot use the new Fannie Mae forms. You can use the old forms, a "generic" form available in your forms software, or do a narrative.

See what other divorce appraisers do in your area. Some are used to doing forms and others prefer narratives.
The primary problem with using the form is the adjustment grid. How many of the adjustments do you have fully supported.

**How to get started**

Divorce appraisals can be difficult to break into. On the plus side, most residential appraisers won't do them because they don't want to testify in court.

A good way to get started is to bid low. You won't make a lot of money, but will get experience. Some attorneys are price-sensitive.

Another, more risky, way is to take an assignment that must be completed very quickly. These are risky because you must plan on possible testimony. I regularly receive calls from panicked attorneys who need an appraisal completed in a few days.

Joining your local bar association as an associate member and attending meetings and/or classes of the family law group can really help. Offer to do registrations. You will meet lots of prospects.

**Testifying in court**

Even if you do many divorce appraisals, you don't typically testify very often. But you should plan on testifying on every appraisal, even if the client says you won't be testifying.

Appraisers who specialize in litigation support often look at it the same way attorneys do. They like the give and take in the courtroom and like to win.

It's hard to know if you will like (or not mind) testifying until you do it. If you can stay calm when being reviewed by an appraiser or answering stupid underwriter questions you should do okay.

I don't mind testifying, even if the opposing attorney tries to look like a fool in court. I figure they are paying me for my testimony. The job of the opposing attorney is to try to "shred" it. I do not specialize in litigation work as I prefer doing just the appraisal and don't really like working for attorneys. Just my opinion.

Fortunately, few attorneys know much about USPAP or appraising, so questions are often not relevant and can be strange, particularly for divorce appraisals.

In my area, divorce is handled in family court with just the judge and no jury. The judge keeps the attorneys "on track."

Taking a class, seminar, or workshop in expert testimony can really help. If you are unable to do this, just remember the Primary Rule: Say Yes or No, and just answer the questions. Watching legal TV series can help, but they tend to be overly dramatic.

My advice is to try testifying and see if you like it or don't mind doing it. It pays very well.

**Engagement letters**

Always have a signed engagement letter that specifies exactly what you will be doing, your rates, and other issues.

There are many different engagement letters. If you are a member of the Appraisal Institute, you can get samples in the private member section.

Liability Insurance Administrators has one written in 1996 on their web site at [www.liability.com](http://www.liability.com). Click on Resources, then click on Claim Alerts. Look for "Engagement
Most appraisers start with samples and make up their own. I have several templates and customize them for every assignment.

**Subpoenas**

If you are subpoenaed, call the attorney ASAP to let him or her know that you are only testifying as to fact, and you are not testifying as a witness. Judges do not like this in their courts. Fortunately, often the attorney who sent the subpoena is just trying to get a very cheap expert witness. But, he/she may only want to get the appraisal entered into evidence without an expert witness.

If you do an appraisal and are subpoenaed, you must appear by law. However, you are not testifying as an expert with opinions. Of course, your fee is whatever is typical in the court, such as a nominal fee of $50. You are testifying as to fact, such as "Yes, I did this appraisal." Or, "Yes I did an appraisal on 123 Smith St. I looked at home on July 3, 2006."

If you are asked anything else say “I am not testifying as an expert and don’t have any comments”. Contribute nothing except fact - what your appraisal says.

**Depositions**

In contrast with court testimony where the judge runs the courtroom, attorneys can ask whatever they want. Depositions tend to be long. They are typically used in other types of litigation, not divorce.

Depositions are usually held in a room with a court reporter, plus attorneys. Others, such as defendant and plaintiff, may be there.

Always get paid at the end of your deposition. The attorney should bring a blank check.

**What about pressure?**

As with almost any type of appraising, somebody is "looking for" or "hoping for" a certain value.

The pressure is much, much less than when your worked for mortgage brokers.

Should you do divorce appraisals?

If you are a knowledgeable, experienced appraiser (or can take classes to upgrade your skills) you will be able to do the appraisals.

Court testimony is the main reason appraisers don't want to do divorce work. It is your decision. However, typically you don't testify very often.

Most of the residential appraisers in my area who have lots of non-lender business are doing divorce appraisals.

**How to market divorce appraisals**

Usually you are contacted by an attorney, but sometimes one of the owners, if the attorney asks the owners to get an appraisal. If contacted by an owner, be sure to contact the attorney.

As with any other type of marketing, face to face works best. You also get referrals from real estate agents.
To meet attorneys go where you can meet them. Attend local bar association meetings, Chamber of Commerce meeting, etc. Anywhere you can network with attorneys.

Advertising in a local bar association newsletter or magazine can help.

Owners get referrals from real estate agents and sometimes look for "divorce" on the Internet or in the Yellow Page advertising.

Building up the business can take awhile, but can really pay off. Once you start to testify and the attorneys like you, they will give your name to other attorneys.

Becoming an expert in a local market can really help.

Where to get more information

The Appraisal Institute is the best source for litigation support. It has books, seminars, and classes on litigation appraising. Go to www.appraisalinstitute.org. The classes focus on court testimony and tend to focus on testimony and research for condemnation commercial appraisals. Attendees are typically very experienced. I have taken workshops and seminars and learned a lot, even though I don't do condemnation work.

The Appraisal Institute has two one day seminars:
• Doing residential work on atypical cases. 4 hours.
• Litigation appraising: specialized topics and applications. 2 days
• Litigation skills for the appraiser - an overview. 1 day.

Short workshops are sometimes offered. Check with your association's chapter office.

The Appraisal Institute is most likely to offer them.

The Appraisal Institute has books:
• Applications in Litigation Valuation: A Pragmatist's Guide
• Appraising Conservation and Historic Preservation Easements
• Real Estate Damages: Applied Economics and Detrimental Conditions

There are also pdf's available for $15 on specific topics in the Applications in Litigation Valuation book.

You don't have to attend a special classes on how to do most residential non-lender appraisals (divorce, estate, bankruptcy). You already know how to do appraisals. If you need to increase your appraisal knowledge and want more tips on testimony, take classes from the Appraisal Institute.

I have a Special Report on Legal and tax-related appraisals, available for the special subscriber-only price of $10.
NOTE: If you can’t see the graph below, click in the blank space and grab a corner to change the size.

MBA Loan Volume Application Index – 1/11 to 6/13

The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

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