Fannie's Appraiser Quality Monitoring (AQM)
(Do not use) list
What does it mean for you?

Editor's Note: I have directly quoted information from Fannie's FAQs and Letter to Lenders LL-2013-10. I identify the FAQs by number.

Per Fannie, the AQM "do not use" list should be very limited. It will be reserved for appraisers who exhibit gross indiscretions. Fannie said you would have to "work very hard to get on this list."

Fannie is looking for multiple patterns of inconsistencies and is not interested in notifying an appraiser for every discrepancy they find in their database.

Fannie plans an update to its Guide on Appraisals in Q1 of 2014 to help address some of appraisers' concerns about data discrepancies, etc.

Who has been removed or sent warning letters?
So far, Fannie has removed no appraisers from their approved list and put appraisers on their 100% review list (as of 1/6/14, effective 1/10/14). They also sent warning letters to some appraisers. I don’t know how many. Fannie has just started the AQM, so I expect these numbers to increase, particularly the warning letters.

There are two statuses for these appraisers:
1. 100% of their appraisals must be reviewed after the loan has been purchased by Fannie. This is a serious problem for lenders, with possible re-purchase demands by Fannie. (The lender has to pay Fannie back for the loan amount.) Lenders hate re-purchase and are very paranoid since the 2008 mortgage crisis.
2. Their appraisals are no longer acceptable to Fannie.

The good side
Maybe more AMCs (and lenders) will start using appraiser quality rather than fee, turn time, UAD "correctness" etc., to select their appraisers.

Using objective criteria seems much better than one reviewer, who may or not be an appraiser or knowledgeable of your local market to decide what is wrong with your appraisal. Reviewer opinions, expertise, and experience vary widely.

Hopefully, Fannie will concentrate on the "bad apples" in the appraisal profession.

What's coming in the future?
Fannie has been talking about using UAD data for appraiser monitoring for a long time.

This is only their first step. Quality and Condition ratings are a very small part of AQM.

One possible issue is different sales prices for the same sale/comp. For example, an appraiser uses the same comp 10 times with 3 different sales prices, the actual sales price only 5 times. The other 20 appraisers used the actual sales price.

Additionally, they are looking for items such as effective dates. An appraiser has an effective date for...
almost 40+ full appraisals, a reference that they were all inspected by the appraiser, no reference to assistance, and the properties were more than 50 miles apart.

**UAD Quality and Condition ratings - the big issue for most appraisers (currently)**

Many appraisers still don't understand that QUALITY AND CONDITION ARE NOT RELATIVE TO THE SUBJECT. They are ABSOLUTE. Many of us were trained that they are relative. If you do appraisals for Fannie loans you are not allowed to use relative ratings.

Appraisers have differing opinions on Q and C ratings. It is not a science with exact definitions. Fannie is looking for consistency among an individual appraiser's reports. If you call a comp C4 and another appraiser calls that same comp C3 that won't raise a red flag to Fannie. When you call a comp C4 in one report and call that same comp C3 in another report, Fannie sees a possible red flag (unless that same comp has re-sold).

What's the answer? HAVE A COMPS DATABASE to be sure you don't do this. Otherwise, you will go crazy trying to keep track.

**Other issues identified by Fannie**

Omitting relevant data about comparable sales. These are discovered when Fannie and Freddie review reports completed by other appraisers in the same market and where discrepancies are noted they verify the information to determine who is reporting accurately and who is communicating misleading reports.

An example is an appraiser did hundreds of appraisals in a month in a span of 1,200 miles. Fannie discovered that the appraiser was signing off on appraisals done by unlicensed appraisers. Another example was of an appraiser who was using licenses of appraisers who had died.

**How long have lenders had do not use lists?**

I assume they have been around since the 1930s, when lenders were first required to use appraisers. With thousands of small lenders having their own lists, you could always go to work for other lenders.

When Fannie and Freddie securitization started taking off in the 1970s, banks could sell their loans to Fannie. Fannie approved appraisers and issued Fannie Mae numbers.

When bank consolidations started in the 80s and 90s, the do not use appraiser lists of the individual lenders that were purchased by the bigger banks got consolidated into large lists. Lenders also shared their lists.

When AMCs took over 80% of the residential appraisal ordering and management in 2008, being on one lender's list could be a big problem for appraisers. Some AMCs don't use any appraiser who is on the list of any of their clients.

Some AMCs check to see if an appraiser they want to use is on that specific lender's list. Then they would assign the order to another appraiser.

**Has Fannie ever had a do not use list?**

When I started appraising in 1986, Fannie no longer issued or used Fannie Mae Numbers for appraisers, which identified the appraiser as being approved by Fannie. If you did not have a number you were not approved to do appraisals for Fannie. I assume that Fannie removed some appraisers from their approved list and revoked their numbers, but I don't know the details.

Before FHA opened their approved list to all licensed and certified appraisers in December, 1994, and set up a Roster, they maintained a fee Panel (I forget the exact name) of about 6,000 approved appraisers.

**Who has been put on Fannie's do not use list?**

As far as I can find out, Fannie is moving cautiously, with no appraisers removed from the approved list. A few appraisers are on the mandatory review list.

**Who is receiving warning letters from Fannie?**

Letters have been sent to some appraisers notifying them that they are not conforming to what Fannie wants. I was unable to find out how many letters were sent.

**Why do appraisers receive warning letters from Fannie?**

FAQ 1. What actions will Fannie Mae take with respect to specific appraisers?

Fannie Mae will provide information directly to appraisers whose appraisal reports exhibit a pattern of minor inconsistencies, inaccuracies, or data anomalies.

The intent and expectation of communicating these issues to appraisers is for training and educational purposes, and to provide them with an opportunity to improve their work. Future appraisal reports from those appraisers will be monitored to assess improvement.

Fannie Mae also has developed a process to identify appraisers whose appraisal reports exhibit egregious issues. In those cases, Fannie Mae will contact the appraiser and the lender that delivered the loan(s) informing them that either 100% of the loans submitted with appraisals...
from the identified appraiser will be reviewed by Fannie Mae in the post-purchase file review process or Fannie Mae will no longer accept loans with appraisals completed by the specific appraiser.

Source: Appraisal Quality (Lender Letter 2013-10)

All approved sellers and servicers will receive access to the list of appraisers whose appraisals are subject to 100% review or whose appraisals are no longer accepted by Fannie Mae.

Fannie Disclaimers: The new processes described in this letter may not identify all issues that could lead to an appraisal-related repurchase request.

The presence or absence of communications between Fannie Mae and an appraiser, or Fannie Mae and a lender, concerning the quality of appraisals submitted through the UCDP does not imply that a lender has met its responsibilities under the Guide regarding appraisals or that a lender will not be required to repurchase a loan for reasons related to the appraisal or the performance of the appraiser.

What if you are removed from the Fannie list?

You can do appraisals for loans not being sold to Fannie, such as over the loan limit.

The list will be available to all Fannie lenders. If the lender does not sell loans to Fannie, they will not have access to the list.

If you work for AMCs you will have problems. Their lender clients will be reluctant to allow their AMCs to use you.

You can always do appraisals for non-lending purposes. But, if you testify in court and the opposing side found out, you would be in trouble.

How Fannie uses UAD data and UCDP

Source: Appraisal Quality (Lender Letter 2013-10)

Fannie Mae began collecting appraisal data in 2011 through the Uniform Collateral Data Portal® (UCDP®). Millions of appraisals have been submitted by lenders and their authorized agents through UCDP.

UCDP enables Fannie Mae to monitor and evaluate appraisals for data accuracy and consistency.

The purpose of this Lender Letter is to remind lenders of Fannie Mae's appraisal selection requirements, highlight several data quality issues, and describe new processes that Fannie Mae has implemented to identify and monitor individual appraisers.

What is Fannie looking for?

Source: Accuracy and Consistency of Appraisal Data (Lender Letter 2013-10)

Fannie Mae can now identify certain inaccuracies and inconsistencies in appraisers' work products. Data accuracy issues seen in Fannie Mae's analysis include, but are not limited to, instances when the same appraiser has provided inaccurate, inconsistent, or contradictory information on the same property and same transaction across multiple appraisals.

Fannie Mae reviews appraisal reports for patterns of discrepancies and inconsistencies related to property characteristics such as gross living area, sales price, room count and lot size, as well as condition, quality, view and location ratings.

Examples of Inaccuracies and Inconsistencies Identified During Appraisal Reviews

1. My note: Keep a database of your comps.

An appraiser used the same property and sales transaction as a comparable sale across multiple appraisals. In one report, the appraiser showed a sales transaction of $400,000 for a property with 2,354 square feet of gross living area. In 10 other reports, the appraiser listed the sales price of the same property at $375,000 and the size as 2,034 square feet.

Those 10 other reports were consistent with Fannie Mae's verification of public records as well as sales price and square footage reported in 13 other appraisals that included information on the sale of this property under the same transaction. Fannie Mae's Selling Guide requires appraisers to report property data accurately and consistently.

2. My note: Many appraisers still don't understand that Quality and Condition are NOT relative to the subject. They are ABSOLUTE.

Many of us were trained that they are relative. If you do appraisals for Fannie loans you cannot do this.

An appraiser assigned a condition rating of C4 to a property on a specific transaction. The same appraiser used the same property transaction as a comparable sale in a subsequent appraisal and assigned the property a condition rating of C3.

Fannie Mae requires the appraiser to consistently report the physical characteristics of the property from appraisal to appraisal when referencing the same transaction. The Uniform Appraisal Dataset (UAD) mandates that rating selections be determined on an "absolute" basis and not on a "relative" basis. The rating should not change when that property transaction is compared to other properties (UAD Update, April 2012) except in rare cases when more accurate property data becomes available.

FAQ10. When is the AQM list posted?

The AQM list is posted monthly.

FAQ11. If only approved seller/servicers have access to the AQM list, may the lender share that information with a service provider, such as an appraisal management company (AMC)?
Yes. Lenders may inform service providers with which they have a business relationship, including AMCs, of the presence or absence of a specific appraiser on the list. The actual AQM list may not be distributed.

FAQ12. Would it conflict with Appraiser Independence Requirements (AIR) for the lender to notify an AMC that Fannie Mae has invoked our right to refuse to accept appraisals from a specific appraiser?

No. The implementation of our appraiser monitoring process has no impact on the AIR. Section I.B.(8) of the AIR prohibits lenders from removing an appraiser from a list of qualified appraisers in connection with influencing or attempting to influence the outcome of an appraisal; however, it does not preclude lenders from managing appraiser lists for bona fide administrative reasons based on written, management-approved policies.

Notifying an AMC that Fannie Mae has invoked its right to refuse to accept appraisals from an appraiser would be an instance of managing an appraiser list for bona fide administrative reasons.

FAQ13. Will Fannie Mae notify AMCs of actions taken with respect to appraisers?

No. Fannie Mae will not notify AMCs. It is the lender's responsibility to notify any impacted third parties. (See also Q11 and Q12.

FAQ14. Will Fannie Mae report to state regulatory boards and/or law enforcement?

Matters involving suspected fraud will be reported to Fannie Mae's Mortgage Fraud group, consistent with company policy. That group will notify state appraiser licensing boards in appropriate circumstances, and provide information to law enforcement agencies consistent with applicable rules and guidelines for reporting suspected fraud.

FAQ 2. Why will Fannie Mae correspond directly with appraisers without notifying lenders?

One of our objectives is to improve the quality of appraisal data submissions. Training and educating the appraiser through targeted correspondence is expected to be an effective way to improve data quality in many instances.

FAQ3. What are the implications of 100% Fannie Mae review for egregious issues?

All loans delivered to Fannie Mae that include an appraisal completed by an appraiser whose work product is subject to 100% review by Fannie Mae will be selected for a post-acquisition quality control review.

Affected lenders will be notified so they can perform appropriate due diligence. If a loan is found in the post-acquisition review to be ineligible for delivery to Fannie Mae for any reason, it will be subject to the standard remedies per the Selling Guide, including repurchase.

This is not a refusal by Fannie Mae to accept the appraisal. We will judge each appraisal on its own merits.

As a reminder, effective for all 2013–forward acquisitions, Fannie Mae performs an initial loan eligibility assessment (approximately 150 days after delivery) using loan-level assessment tools, including technology and proprietary analytical models, to identify loan files that may merit.

FAQ4. Will appraisers have the opportunity to appeal or offer a rebuttal?

Yes. Fannie Mae will offer a formal rebuttal process for appraisers whose work has been identified as requiring 100% review or whose work product is no longer acceptable to Fannie Mae. Appraisers who are sent letters initially for reports that exhibit a pattern of minor inconsistencies, inaccu- racies, or data anomalies will not have a formal rebuttal process because the letter is intended for educational purposes to provide them with an opportunity to improve their work; however, the appraiser may choose to respond to the letter.

FAQ5. (First paragraph only) Could the 100% review apply to appraisals submitted before the effective date of the 100% review list?

Yes. Because Fannie Mae conducts post-purchase reviews at different times after loan acquisition, the selection of a specific appraiser for 100% review will trigger reviews of appraisals on loans that were delivered several months earlier.

FAQ6. (Last paragraph only) What will happen if a lender submits an appraisal from an appraiser for whom Fannie Mae has invoked its right to refuse to accept appraisals?

Fannie Mae retains its ability to seek appropriate remedies, including repurchase, in the event Fannie Mae does acquire the loan.

FAQ7. When appraisers are subject to 100% review, will Fannie Mae inform lenders of the reason?

Lenders that have delivered loans to Fannie Mae supported by appraisals from that appraiser will be informed of the reason for the action, with examples provided.

Lenders that have not delivered loans to Fannie with appraisals by the individual appraiser will not have access to the reasons for the 100% review action.

FAQ8. (First paragraph) Does Fannie Mae's appraiser monitoring alter lenders' obligations related to appraisers and appraisal quality?

No. Lenders remain directly responsible for the selection and management of appraisers and appraisal
By Chase Pursley

As appraisers and real estate consultants many of us are on the road a good bit of the work week. As our tools are becoming increasingly digital, having a connection to the web in the field is very helpful, if not a necessity to remain efficient. While many of us have mobile data plans for our phones, our laptops and tablets capabilities are limited when out of Wi-Fi range. While there are mobile internet hotspots offered by the major mobile phone providers, they require long-term contracts and come with hefty monthly price tags (aka - trading your first-born). No thanks...

Enter Freedom Pop, the unique wireless internet provider that runs on top of the Sprint cell phone network to provide 4G Wimax and 4G LTE wireless data to laptops, tablets and other internet connected devices via a little device like the Photon. The best thing is, costs range from free to paid depending on your data needs. Free? What's the catch? Well, first you have to purchase the device which ranges from $59 for a refurbished to $99 for a brand new Photon. The Photon has a range of up to 100 feet and can connect with up to eight Wi-Fi devices simultaneously. You can purchase directly from Freedom Pop or Amazon like I did.

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FAQ 9. How will a lender know if an appraiser is selected for 100% post-acquisition quality control reviews or refusal to accept? There are three ways that lenders may become aware of appraisers whose appraisals require 100% review or whose appraisals are no longer accepted by Fannie Mae:

1. Lenders who have submitted appraisals during the past 12 months from the affected appraiser will receive letters notifying them of our actions.
2. Messaging in UCDP (effective December 10, 2013) notifies lenders when they submit an appraisal from an affected appraiser (see UCDP December 2013 Notification for details).
3. Approved sellers/servicers have access to the AQM list identifying appraisers whose appraisals require 100% review or whose appraisals are no longer accepted by Fannie Mae. The AQM list is protected content on our business portal, and lenders may set up access through Technology Manager. For details, refer to the AQM web page.

FAQ10. When is the AQM list posted? The AQM list is posted monthly.

Where to get more information
Direct link to Fannie Appraiser Quality Management (AQM) web page: www.fanniemae.com/single-family/appraiser-quality-monitoring

Considering the same 500MB mobile internet plan through Verizon is $40 per month and requires a 2-year contract. The next level up is the "premium plan" (which is what I have) that provides 2GB of data for $19.99 per month, with 1.5¢ per megabyte (MB) for extra data. This is plenty for most of our needs.

In conclusion, if you are on the road a lot and need access to internet on your laptop and tablet devices, consider Freedom Pop for low-cost and contract free data. Another option is cell-phone tethering which warrants a separate post.

http://www.freedompop.com/

About the author
Chase Pursley is a commercial appraiser, techie and software developer. He has developed Appraisal Flow, an easy-to-use office management, progress tracking and trends reporting tool for appraisers that's much more powerful than spreadsheets.

For more information visit www.appraisalflow.com or email chase@appraisalflow.com
Application of UAD Quality and Condition Definitions

By Bill King

Editor’s Note: To avoid problems with Fannie’s AQM, you MUST understand this. I have reprinted this from a recent Appraisal Buzz blog posting as it is very relevant to my article above.

It has been almost three years since the Uniform Appraisal Dataset (UAD) was formally announced by Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. The first version of Appendix D outlining field-specific standardization requirements was dated February 11, 2011. This guide detailed specific formats and responses for certain fields of the four major residential appraisal report forms.

The initial reaction from appraisers was a mix of frustration and resignation; a change they didn't like was being made without their input, and they realized that there would be little they could do short of leaving the profession if they did not quickly adapt to the new requirements.

Practically speaking, meeting most of the UAD requirements required very little adjustment to existing practices. Things like consistently formatting dates and currency was long overdue anyway. Bringing consistency to reporting the analysis of a current agreement of sale simply prescribes a format for research and analysis that we were already doing. And the vendors of appraisal software did a great job of driving consistency and making it nearly impossible for an appraiser to overlook UAD formatting in a report.

The biggest area of ongoing confusion is in the application of the definitions for quality and condition. Many appraisers either cannot or choose not to analyze the quality and condition of comparable properties against the definitions themselves, but instead do so in relation to the property they are appraising. This application of the GSE definitions of quality and condition in "relative" comparison to the subject property is both inconsistent with the instructions, and raises questions as to whether the appraiser understands other important aspects of their professional responsibilities as well.

Relative versus absolute comparison

Some appraisers argue that anything but a relative comparison is misleading and they believe that the quality and condition rating of a comparable sale can and should change when that comparable is used to support a value opinion for a different subject property. In other words, it could be a C3 against today's subject and a C4 against tomorrow's subject, depending on the condition of each subject property.

Many appraisers long for the days when they could write whatever description they chose to convey their opinion of quality and condition. As we know, in that environment, not only were most ratings relative (and thus inconsistent over time), but there were literally hundreds of permutations of appraiser's favorite word: average.

Resistance to a uniform and specific rating system was surprising to me at first. After all, appraisers had been using exactly such a system for years already whenever they performed a cost approach analysis using the Marshall & Swift Cost Guide. Marshall & Swift offers the appraiser six choices for quality – Low, Fair, Average, Good, Very Good and Excellent – all of which are specifically defined within the cost manual. Appraisers have not expressed problems with this system. Likewise, using the Marshall & Swift condition ratings – Poor, Fair, Average, Good, Very Good and Excellent has not been a known problem.

Every appraiser uses tax records in one form or another. In King County, Washington where I have done many appraisal assignments, the assessor has used a 13-point quality rating system and a 5-point condition rating system. Within this county you have Bill Gates with one of the most expensive and elaborate homes ever built (66,000 sf; assessed value $147,500,000 in 2009) and pre-1900 bungalows of fewer than 500 square feet that are little more than sheds. These homes and everything in between fits into one of 13 quality categories and one of five condition categories, and the assigned categories have no relationship to any other property; they relate only to the definition. Local appraisers have relied on this system for decades without issue.

Most of us also use MLS which have absolute condition rating systems. We can debate the accuracy of the ratings by agents in another paper, but the point is that the system is in place and appraisers have used and relied on it without much question for many years.

Kelly Bluebook defines condition for cars almost exactly the same way Marshall & Swift defines condition for houses: Excellent, Very Good, Good, Fair and Poor. That's it. Every car whether a neglected 1976 Chevy Impala or pristine 2014 Bentley fits into one of these five categories.
Whether you haven't washed it in decades or make love to it every Saturday, it goes in one of these five condition categories. A 1976 Ford Pinto that has been in the back yard since the mid-80's doesn't get any better looking when you pull a 1970 AMC Gremlin covered in bondo and duct tape into the driveway – the ratings are absolute.

In the world of diamonds (and most married men reading this will have some experience here), there are the four C's – Cut, Color, Clarity and Carat (weight). Each of the four Cs is broken down into ratings. Color for example has five categories: Colorless, Near Colorless; Faint Color, Very Light Color and Light Color. Within each of these categories there are some gradations, but ultimately every gemologist in the world can put every diamond they ever see into one of these five categories. These ratings have nothing to do with any other diamond except the one being rated.

There are many other examples of absolute rating systems and we all use them whether we realize it or not. Appraisers need to view each property (subject and comparable) in the context of the definitions. There are some key words within each definition that can simplify making the right choice.

Editor’s note: the article included a chart, which is available in the original Appraisal Buzz article.

To read the article, and the comments, go to www.appraisalbuzz.com and search for Bill King.

About the author

Bill King is Senior Vice President of Valuation Solutions at Platinum Data Solutions. Bill King is a licensed real estate broker and certified residential real estate appraiser in Washington State, and nationally recognized instructor of real estate and appraisal courses and seminars.

Bill has over 30 years of experience in real estate and valuation; he has been a forensic expert in the valuation and housing segments for over 20 years; has taught dozens of appraisal courses; and contributed to the country's most widely used appraisal textbook.

He was a key member of the Appraisal Institute for several project teams, and has published dozens of industry-relevant articles and papers. He has been a valuation representative to MISMO, consulted with the GSEs on USPAP issues for UCDP, and participated in creation of UAD. He was a Co-Founder and Board Member of the Appraiser's Coalition of Washington; Founder, President and Chief Appraiser of ValueOne Appraisal; and Regional Sales Manager for FNC.
Diversify your business by doing appraisal reviews  
Appraisal Institute’s new review designations (and classes) can help.

By Doug Smith, SRA

Editor’s comment: Now that business has slowed down, many appraisers want to do non-lender work. But, it takes a lot of marketing time to get this business and most of it is one-time clients. Review work is similar to other lender work - you often get regular clients that give you work regularly. There is an oversupply of appraisers doing loan appraisals, but a shortage of review appraisers. FYI, desktop reviews can be very profitable.

From the volume of calls I receive requesting field reviews, I can tell that lenders are having significant problems locating appraisers who will do residential appraisal reviews.

In the current economic climate and with increased Scope of Work demands, appraisers are scrambling to make deadlines for appraisal reports and think that time spent reviewing appraisals are not the best use of their time and resources.

Field reviews, and for that matter desk reviews, given the amount of time spent on them, have not in the past yielded as much revenue as a regular and standard appraisal.

No one likes to give up business, but appraisers are quickly dismissing the opportunity for review assignments without much consideration of the overall impact on the appraisal firm.

A quick check with appraisers concentrating on commercial work finds that requests for reviews are running at normal levels with appraisers accepting these assignments at the same rate as two to three years ago.

The shortage of appraisers willing to do reviews appears confined to the residential appraisal arena.

The increased effort to exert quality control and state AMC regulatory requirements for reviews are increasing the volume of review requests.

Should appraisers turn down review assignments?

Despite the heavy work loads of handling regular business, any time business is turned away, it is a good practice to match this decision with your overall marketing plan strategy.

Under careful scrutiny, what seems to be a practical decision may not be in the best interest of the overall economic health of your appraisal firm.

There are also some very practical benefits of accepting review assignments, such as learning what other appraisers’ reports look like.

How to become more qualified for review work

There is a new development on the horizon that may be of interest to all appraisers willing to consider review work.

The Appraisal Institute just announced two new designations that focus on review work with these designations providing a means of favorably differentiating appraisers who complete quality appraisal review work.

You can get these review designations without having an SRA or MAI. However, you will pay more.

These designations may also result in more work from litigation assignments and review work from State appraisal boards and Federal agencies.

According to the Appraisal Institute, there were about 12,500 review appraisers in the United States in 2012. In addition, many appraisers take on review work as an integral segment of business offerings.

While appraisal reviews have been a part of the appraisal profession for many years, the last economic turn-down has brought new levels of scrutiny to appraisals and a new focus on risk management and loss mitigation.

Per a recent announcement the Appraisal Institute will offer the AI-GRS designation, which stands for Appraisal Institute General Review Specialist; and the AI-RRS designation, which stands for Appraisal Institute Residential Review Specialist.

The Appraisal Institute will offer four new courses to address review designations:

• Review Theory-Residential and Review Theory-General
• Review Case Studies-Residential and Review Case Studies-General

Each course is two days with a test at the end of the class (17 hours; 15 hours of class and 2 hours for the exam. The class offers an optional 1 hour review session prior to the exam.

The intent of the new designations is to enhance the credentials of its already designated members.

Qualifications, however, mirror the qualifications of the MAI and SRA designations. Check the Appraisal Institute website for more detail of these qualifications. Each designation requires educational minimums.

Candidates for the review designations will need to receive credit for at
The importance of the second opinion

Standard 3 in the 2014-2015 version of USPAP takes up 7 pages with the developing and reporting steps folded into one standard. An Advisory Opinion addresses reviews in AO-20, which addresses the appraisal assignment including the reviewer's own opinion of value.

Revisions made to the 2003 edition of USPAP as well as the 2013-2014 edition, tightened the requirements for reporting the reviewer's own opinion of value. With the attention given to Standard 3 and the supporting Advisory Opinions, the ASB signaled their concern about the review process and the importance to the overall process of appraising.

The overall function of the review process is quality control. The goal is to verify not only that each appraisal report is reliably prepared, but also that the supporting information and conclusions are communicated in a logical manner.

In the atmosphere of greater regulation and demands for more accountability, appraisal reviews have become increasingly important.

Why appraisals are reviewed

The overall premise of licensing appraisers was that with more education, specific education about USPAP, experience hours and time spent in the field, appraisers would necessarily be more competent.

If there was such a high degree of training, why should appraisals be reviewed?

We can learn from other trades and professions. Every trade and profession, individuals review, criticize, critique, examine, cross-check, retest, question, judge, or comment on the work of others. It is no different for those for whom appraisal reports have been prepared.

The end result is to increase the confidence level that the conclusions are sound and the information leading to the conclusions is reasonably supported.

There has also been an increase in control over financial institutions and in the increased regulatory environment. There is a greater emphasis on compliance.

There is a distinction between the valuation process and the valuation report. The purpose of the valuation process is to reach a conclusion. The purpose of the report is to communicate that decision. Reports do not appraise, appraisers appraise. Reports set out their conclusions.

In an Appraisal Institute Publication, "Appraising the Appraisal: The Art of Appraisal Review", Richard C. Sorensen, MAI summarizes the reasons why each appraisal report should be carefully reviewed:

• To provide a test of reasonableness for the user of the appraisal report.
• To test whether the methods and techniques employed in the appraisal are appropriate to the assignment.
• To bolster their client's confidence in the appraisal.

I'm very busy - don't bother me with appraisal reviews.

While it may make sense on the surface to turn away review work, review work does come with fees and these fees may provide incremental income to a firm.

In today's business climate, there are times to say no. Start with dead beats. Unfortunately, www.Appraisersforum.com has shut down due to very few appraisers posting reviews so there is no easy way to check them out.

Don't extend credit to out-of-state loan companies who don't have an office in your state and do not have a registered agent in your state.

Almost all states now have AMC regulations. Bookmark the web site in your state where registered agents and or appraisal management companies are listed. It is usually the Secretary of State or the State appraisal board. In less than a minute, you can see if they have a registered agent or are registered as an AMC. If they don't, you have no chance to sue them for a past due account.
While the same tests apply to companies requesting field reviews, most companies requesting reviews don't fall into the category of dead beats, slow pays and fly by night mortgage lenders. Rarely, however, do these types of clients request reviews.

**Fitting review work into your appraisal work flow**

If appraisers accept that review work does provide incremental income, the next step is to find the time to do the work.

A lot has to do with workflow, scheduling and reporting. In most cases, review work when combined with other assignments can fit in to regular work.

While on one assignment, the property can be viewed and photographed without cutting into the time of the primary assignment.

Also, when the assignment is placed, there is time to negotiate a desk review instead of a field review, which takes more time. Pressed for any results, more lenders are satisfied with a desk review or leave it to the appraiser's judgment if a field review is necessary.

This step is very individual with the appraiser and, for that matter, the local market. Again, it is important to understand the basic change in USPAP regarding the scope of the assignment.

**Reviewing - an opportunity to learn**

The second benefit to the appraiser is the opportunity to learn.

With all the pressures of the past few years regarding pushing for value, I certainly have learned a lot from the review process.

I have learned that at a certain angle, a single wide manufactured home can be photographed to look like a double wide. I have learned that sometimes 1.5 miles is 3 blocks. I have learned that a house with a story and one half is sometimes a two-story house. I have learned that properties that were appraised can be sales and when there are no sales, sales can be invented to bring symmetry to a report.

I have learned how important symmetry is to make the cost approach a little higher than the opinion of value. Of course, I have also learned there is no reason to include the comparable across the street when the one two miles from the subject makes the report more supportive of a value.

While everyone can learn from good example, you can learn from a bad example and there is a lot out there from which to learn.

The review process clarifies and forces the appraiser to challenge his or her assumptions. When looking at a report done by another, it might be a good time to rethose adjustments again. Adjustments are not forever.

When signing off on a report, it is always good to keep in mind, it is a summary and everything in that report requires back up and that back up is current as of the date of the report.

**Field reviews and your marketing plan**

Marketing in the appraisal firm is done day to day, but every part of marketing has a long-range aspect. Accepting appraisal reviews may be difficult to fit in today, but there may be great benefits in the future.

There is one certainty about the lending climate today. Refinancing is waning and not likely to see resurgence in the near future. We are clearly in a cycle and current level of lending is proveing to have a long crest, but the lending climate is cyclical and there will be a down turn.

Desperate for appraisers to do review work, lenders are streamlining their application procedures and taking on new appraisers. Once on the panel, there may be work in the future.

Review work is a very easy way to expand your client list.

**Marketing to new review clients**

The second marketing aspect of accepting review assignments is the opportunity to obtain full appraisal assignments from the client.

In the last twelve months, I have completed appraisal reviews of reports done more than 24 months previously. I believe this is a trend along with the trend in property seizures and short sales. The number of REO properties is still increasing and along with that increase comes more and more opportunities for appraisers.

With an increase in lenders wanting to have old appraisals reviewed it is probably a good time to review your pricing. A review of an appraisal done two years ago requires more research than the typical assignment and should be priced accordingly.

Adding an Appraisal Institute review designation may very well interest attorneys involved in litigation. At the onset of any court testimony, attorneys vie to "out-credential" the opposing side. Obtaining a designation specially geared to reviews positions you to provide support for credible testimony in litigation matters.

**Know your competitors business by reviewing their appraisals**

The first rule of marketing is know as much as you can about your competition.

The review process allows great opportunity to learn about your competition from what software they use to how they present their product. My views about the sketches I put into my report are entirely based on seeing the work of others.

One of the first things I learned about doing residential appraisal reports is the homeowners, in most cases, get a copy of it. While they don't understand most of report, they do understand the sketch. If it is crudely done with just four walls and interior walls approximately placed it leaves an impression, and one that I feel is negative.
Consider accepting review work - conventional appraisals are declining and/or inconsistent

The level of appraisal work is now inconsistent and sometimes hectic...

Appraisers are responding by turning down work, some of this work is review work. The decision to turn away review business may deserve a second look.

The review process is a very integral part of the appraisal profession and as such is important to the overall maintenance of high standards and professional conduct. Appraisers can play a part in ensuring the well being of the appraisal profession by accepting review appraisal assignments even in busy times.

Besides this emphasis on review appraising as the right thing to do, there are immediate benefits to the appraisal firm and important aspects of marketing strategy that should not be overlooked.

Review appraising provides important incremental income to the firm that may, if segregated as incremental income, provide a source of retirement funds, for instance.

Older appraisers, phasing into retirement, may wish to emphasize review work that does not involve extensive on-the-ground inspections.

The review process is, in most cases an eye opener. An opportunity to learn from bad examples as well as the good.

Accepting reviews is an opportunity to increase the client list and open the doors to new business opportunities. Lastly, doing reviews gives us first hand information about the competition.

Conclusion

Marketing an appraisal firm is not something to put on the shelf during busy times. There is a marketing aspect of almost everything we do and deciding to accept or reject review work is no different.

The overall goal is the economic health of the appraisal firm and there may be positive benefits in the long term of accepting review work that are worthy of consideration.

Now, with the prospect of obtaining an Appraisal Institute review designation, there are new marketing opportunities to clearly differentiate your firm from the competition.

Where to get more information

Sorensen's book (discussed above) "Appraising the Appraisal: The Art of Appraisal Review", focuses on commercial appraisal review, but is useful for residential reviews.

How to Review a Commercial Real Estate Appraisal Report: How can an Attorney Ascertain the Merit of an Appraisal?

Appraisal Review Reminders
(Freddie Mac)
http://www.freddiemac.com/learn/pdfs/uw/apr_reminders.pdf

Seminars
- Appraisal Institute Online Course (7 hours) Reviewing Residential Appl. and Using Fannie Mae Form 2000 Alan F Simmons SRPA is instructor. Full Price is $137.00, $114.00 for AI members.
  • Other education providers may have live and online courses.

About the author

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My chief competition in my market has excruciatingly detailed drawings. How do I know this? I have reviewed her work. After completing a review assignment spend some time comparing how the competitor's reports stack up to your own.
In times past when business was stable and there were far fewer appraisers, after an appraiser got experience (and often a professional designation) he or she could "hang out a shingle" and get referrals from clients or other appraisers. Before a Supreme Court decision in the mid-1970s, attorneys were allowed to advertise. Appraisers, as professionals, did not advertise, either.

Now, just like in medicine and law, most of us can't afford to just sit and wait for the phone to ring.

We all remember the good old days, when the phone rang with clients begging us to take one more assignment. Those days may come back some day, but there is another way to get clients to call you: referrals.

Many appraisers don't actively solicit referrals. We have an excuse: no sales training. But even experienced sales persons forget about this excellent source of business.

I recently spoke with a local top producer real estate agent whose business was slow. She told me she recently took a class on referrals and was now contacting all her old clients. Although she has been in real estate sales for many years, she had forgotten about the power of referrals.

Many appraisers ask me how to get on AMC/lender lists, how to get more business appraising certain property types (such as high end homes), how to break into REO appraising, litigation appraising, etc. I tell them all the same thing. If no one knows who you are and what you can do for them, you won't get any phone calls.

Referral sources can last for a very long time. I get referrals from people who have given me appraisal work in the past, appraisers I have not spoken with for some time, business cards that I left with borrowers, etc.

To get more referrals, you have to contact more people. If no one has heard of you, they can't give you a referral!

Why I love referrals

No marketing or sales required, except to the referral source.

They are often one-time clients, so if I don't want to take the assignment (for various reasons) I don't have to worry about getting more work from them, except by referrals.

Almost all of my referrals (both commercial and residential) come from real estate agents. I always let them know I am available for appraisals.

My very first fee appraisal assignment came from a referral by a real estate agent.

How to find out who gives you referrals

Ever since I started my business, I have always asked where the prospective client got my name. I appreciate everyone who does this.
Do you know your best referral sources? I do.

**Give referrals to get more referrals**
To get more referrals, give them out. I always mention to real estate agents that I give our referrals regularly. The savvy agents reciprocate whenever possible. Many of them let me know they have my name out.

**Face to face is always the best - referrals or prospective clients**
If you are telling a friend about restaurants you like, do you just use yelp? Or, do you talk about restaurants you have gone to? Who do you give out for auto mechanic referrals?

Your best referral sources are people who know you personally.

Many appraisers send letters, resumes, etc. to attorneys to try go get business. This is better than nothing, but seldom effective. Attorneys don't give work to appraisers on a regular basis. They occasionally need appraisals. If you happen to send a letter when they need an appraiser, you may get contacted.

The best way to get attorney business is to meet them in person. Chamber of Commerce meetings are excellent as everyone exchanges business cards, etc. Even better is to go to local bar association meetings, especially family law, real estate, estate, etc. sections. Become an associate member. Volunteer to take registrations at the door. Make a commitment to attend regularly.

**Always ask. Always tell.**
The primary key to getting a person to be a source of referrals is to always ask for referrals. How many of your relatives, friends, and business acquaintances know that you would like to get referrals from them?

You must also tell the referral source what types of referrals you would like. Always tell referral sources what you want them to do.

In the example above of the local real estate agent, she hadn't told me that she was now working with both buyers and sellers (not just sellers) and had expanded her geographic area. I had only been giving her name out for sellers looking for a local agent.

If you want to increase your business from attorneys, you would tell your referral sources that you do work on all property types for estates, divorce, litigation, etc. Many people think appraisers only do house appraisals for lenders.

**Always, always, always say thank you**
How many times have you been called by an appraiser thanking you for a referral? You probably remember that person's name.

Always, always, always thank referral sources by phone, letter, or email. Then they will be much more likely to give your name out again. You have given them positive reinforcement.

How do you know where a client got your name? Whenever someone calls you about doing an appraisal, always ask where they got your name.

Who can be a referral source?
Almost anyone can be a referral source, if they know you (or know of you) and what you can do. Some sources are:

- Neighbors
- Relatives
- Friends
- Your accountant, attorney, dentist, doctor, etc.
- Current clients (often your best source)
- Real estate agents and brokers
- Appraisers
- Mortgage brokers
- Soccer moms
- PTA members
- Loan offices at conventional lenders

- People you meet at:
  - Charity events
  - Grocery stores
  - Sporting events
  - Etc., etc.

If this seems like a big list, you're right. I have gotten appraisal assignments from just as wide a range of referral sources. I have also obtained assignments directly from individual contacts. For example, I recently attended a charity dinner. Sitting next to me was a woman who needed four residential properties appraised for an estate.

**Who are the best referral sources?**
The best referral sources are people who are in regular contact with persons needing appraisals. That's why other appraisers are usually one of the best sources of referrals.

Who do people call when they need the name of an appraiser? Other appraisers, real estate agents and brokers, attorneys, loan officers, etc.

Your clients are also one of your best referral sources. They know your work.

**Real estate agents as referral sources**
Many of my appraisals come from referrals from real estate agents. A local agent gives me over $5,000 per year in referrals for estates, and setting prices for listings.

For the first 10-15 years of my appraisal business I was very active in the local Association of Realtors. Since 1990, I have been going on the weekly open house tour in my city almost every week.

When someone calls an agent for an appraisal referral, they usually give them my name and phone number. If they don't give me the referral, I find out about it at an open house.
Appraisers as referral sources

One of my best referral sources is other appraisers.

I also give out many referrals to other appraisers.

Many residential appraisers will not do non-lender work, or turn down the work when they are busy with lender work. They can give out your name to the caller.

How many times do you get calls for appraisals in areas where you don't work, or for property types you don't appraise? We all do. (If you don't, you really need to increase your marketing efforts, including networking.)

Whose names do you give out? Why do you give those names?

Do you give them the names of appraisers you know or just open a telephone or association directory? Which are you more comfortable with? Most of us prefer to give referrals to appraisers we know.

If other appraisers don't know you, they probably won't give your name out.

Being active in appraisal organizations and taking appraisal classes and seminars and networking with the other attendees are two excellent methods.

Keep in regular contact with your appraisal network with phone calls, emails, and/or brief notes.

What types of referrals do you want?

Before working on increasing your referrals, first you must decide what types of referrals you want.

Do you want only lender referrals, non-lender referrals, or both?

Do you want to work for private individuals, mortgage brokers, banks, government agencies, or attorneys?

What type of lender referrals do you want? Commercial, residential, mortgage brokers, foreclosures, etc.

What geographic area do you want to emphasize (a city, county, multi-county, or state).

What types of properties do you want to appraise? Homes, apartments, vacant land, hotels, industrial property, etc.

What about referrals for AMC work?

Not all AMCs send out broadcast orders to everyone on their lists. I'm sure that Fannie's new AQM will encourage lenders to make their AMCs be more picky about who they use for their appraisal orders.

I know of one company, Axis AMC, that prefers to get new appraisers by getting referrals from other appraisers, real estate agents, mortgage professionals, etc. I'm sure there are others.

There is definitely a shortage of review appraisers. AMCs would look for appraisers with review experience.

If you have a specialty, with little competition, such as working on high end homes or in remote areas, savvy AMCs are looking for you.

How do AMCs find you? They ask other appraisers, look for web sites of appraisers they need, etc. They could ask underwriters and other mortgage professionals for referrals.

I regularly give referrals to AMCs that handle relocation appraisals, as very few appraisers have much experience in this type of work.

What should you say to a referral source?

Many people confuse real estate appraisers and real estate agents. Be sure the person you are speaking with understands that you are not looking for a listing.

Tell the prospect about your expertise in appraising. For example, you appraise residential properties in your county, have been doing it for 10 years, and are state certified.

Match your message to the person you are speaking with. If it's someone who doesn't know what an appraiser does, you need to explain it to the person.

If you're speaking with someone with real estate experience, you could be more specific, saying, for example "My firm does lots of work for attorneys in Suffolk County, including estates, divorce, and litigation."

Directly asking for a referral is extremely important. If you are unable to do this, don't waste your time looking for more referrals.

Practice saying the words, for example: "If you know of someone who needs an appraisal, have them give me a call. If I can't help them I can give them the name of another knowledgeable appraiser."

What about writing and speaking?

Speaking to groups is an extremely effective way to increase your referrals. Instead of having to speak one-to-one with 20 or 30 people, you can reach the whole group.

Whenever I have spoken to a group, I have always gotten referrals. Targeted groups are the best, of course, for example, real estate agents, accountants, attorneys, or employees of government agencies.

Writing a regular column in a newspaper or Bar Association Journal can also be effective, but does lack the personal touch of speaking.

What's the difference between referral marketing and other marketing?

Many of the techniques and ideas discussed in this article also apply to getting work directly from a current or prospective client, rather than indirectly through a referral.

Almost all appraisal marketing requires personal contact.

For example, when sitting next to someone at a church meeting or soccer game, the person could be a referral source or a prospective new client.
Where can a prospect get your phone number?
Surprisingly, many appraisers don't have a Yellow Page listing. Some don't have a Web site. This makes it hard for both prospects and referral sources to find your phone number.

Sometimes I am unable to give a referral to another appraiser as I lost their business card and they are not listed in the Yellow Pages and I can't find them online.
Whenever I talk with a referral source or prospect, I always tell them if they lose my business card, they can just google my name or look in the local printed Yellow Page directory.

If it is a brief conversation, and they may not remember our business name, I always say I have a woman-owned business in Alameda, and my Yellow Page ad says "In Alameda."

What's in it for the referral source?
The referral source is doing a favor for someone they know who needs an appraisal.
Both the person needing an appraisal and the appraiser benefit. The referral source helps both, and may get referrals to their own businesses.
The more the referral source knows about you, the better the referral. The person is more confident giving your name out. They don't want to be embarrassed by giving someone your name and you don't return a call or do a good job.
Since referral sources are not receiving any monetary benefits, thanking them is very important.

What if you just want to work for lenders?
Most referral business is for non-lender work such as estate, probate, divorce, and other tax- or legal-related work.
But if you only want to work for lenders, you can get business from referrals. You never know when the

person next to you in the ladies room washing her hands is a chief appraiser or high producer mortgage broker, who knows of someone looking for an appraiser.
Or, the person sitting next to you at your daughter's Little League game could be in charge of a big bank's foreclosure or trust department, and knows of another direct lender looking for appraisers.
The best way I know to get on lender lists (and to get more lender business) is by having real estate agents, developers, or mortgage brokers to strongly encourage lenders to use you.
You need to be very clear with your contacts that you only want referrals for lender work.

Where to get more information
This article is short and focuses on appraising. Google "how to get referrals for professional service business" or other terms and see what works for you!!
Are You a Consumer or a Producer?

By Dustin Harris

Dinosaurs are cool! I remember when I first learned the difference between an herbivore and a carnivore. I made the decision then and there that meat-eaters were preferred to plant-eaters (sorry, vegetarians).

Though it was much later than Second Grade, I have also learned that there are two types of people in this world. The first group is much larger than the other, but the smaller group is by far the dominate one.

For lack of a better word, let's refer to the larger group as the "Consumers." I would define a Consumer as one who takes more than they leave. More of what? Food. Money. Time. Attention. You name it. Consumers are constantly on the receiving end. Take. Take. Take. What is in it for me?

Most of the world is on this side of the coin. These are the employees of our world. They get up, go to work, do their job, collect their paycheck, and go home. There is nothing wrong with Consumers. We need workers. But, just as the long-necked brontosaurus is no competition for Tyrannosaurus Rex, Consumers could not even exist without "Producers!"

Naturally, the definition of a Producer is one who leaves more than he/she takes. These are the employers. These are the business owners of the world. The entrepreneurs. The Carnivores!

I am convinced (and bolstered by the fact) that most appraisers are in the Producer Camp. We have chosen to buck the system, risk it all, take on the burden of over-regulation, and make a living PRODUCING! 'Damn the torpedoes!' Despite the obvious challenges, we continue to create, innovate, and adapt. Despite the vast number of casualties leaving our ranks, we continue to fight the battle and hold up the flag of victory.

Of course, it is possible to be an appraiser and still be eating leaves for breakfast, lunch, dinner, and midnight snacks. Unfortunately, there are a few Consumers among our ranks. Fortunately, they are easy to spot (once you have learned what to look for) and... most importantly... avoid. Here are the tell-tale signs of an Appraiser-Consumer:
- They do the bare minimums (or less), but no more.
- They complete the state required educational hours each year, but any further education is beyond imagination.
- They spend little or no time working on their business, choosing rather to spend all of their time working IN their business.
- They choose to complain about the status-quo rather than doing something to change it.

When you see any of these (or the dozens of other) signs of a Consumer, don't walk – RUN away. Consumers are like misery-magnets, and they will latch-on to any who will give them a passing glance. They can and will destroy an otherwise effective Producer. Of course, the opposite effect can also occur. Last spring, I had the opportunity to spend two inspiring days with a group of 300+, like-minded Producers at a regional conference. That incredible time was enough to spur me on for another few months. On a bi-monthly basis, I meet with my Mastermind Group, each of whom are Producers in their own industries. I also have an Advisory Panel of Producers who keep me on-track and focused, so I avoid falling into the abyss of Consumerism.

I am an avid reader and trend toward biographies and true stories of successful Producers. In other words, Producerism is a decision.

Consumerism is not. Staying in the Producer mindset takes effort. Consumerism does not.

With the recent changes in our industry, I am convinced that there will be a larger and more pronounced chasm between the Consumers and Producers of the appraisal world. Each of us must decide if we are business owner-appraisers or simply appraisers. There is simply too much innovation and adaptation needed for the simple appraiser to survive.

It will become increasingly difficult/impossible to do business in 2014 as you did in 2007. Some will retire. Others will try to survive on the old model. The Producers, however, will reach into their entrepreneurial side of the brain, competently make business adjustments, and will be here still making a living in 2017.

The first question one must ask themselves is whether they are a Consumer or a Producer. Are you eating green beans or ribeye for dinner? If you find yourself taking more than you give... never fear! You can and SHOULD adapt.

Now, go create some value!

About the author

Dustin Harris is a multi-business owner, but he has found most of his success as a self-employed, residential real estate appraiser. He has been appraising for nearly two decades.

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He is the owner and President of Appraisal Precision and Consulting Group, Inc., and is a popular author, speaker and consultant. He owns and operates The Appraiser Coach where he personally advises and mentors other appraisers helping them to also run successful appraisal companies and increase their net worth.

He is currently teaching workshops around the country for appraisers. Dustin recently started offering Web sites for appraisers, partnering with a top web design and SEO (search engine optimization company).

He and his wife reside in Idaho with their four children. For more information go to http://theappraiser-coach.com