APPRAISAL TODAY

August 2016
Index

Will Collateral Underwriter destroy residential lender appraising?

What threatens appraisers? Even before AVMs, there were BPOs done by residential real estate agents and various types of valuation reports done by commercial real estate agents. These are still being done.

There will be more use of alternate valuation products or "evaluations". Appraisers who provide these products, at a reasonable fee, will do well. It is much easier to make this change than working for AMCs and their incredible scope creep.

Also possible is the return of the 2075, Desktop Underwriter Property Inspection Report (not a very good name) driveby for reasonable fees with no value. I did a lot of them back in the 90s and really liked them.

I am pretty sure that CU and its AVM will be used to decide what level of appraisal, if any, will be needed, based on the risk level. The easy tract home appraisals with lower LTVs will be eliminated. We knew this was coming.

I will write about "evaluations" in a future newsletter. Most appraisers have not been willing to do them, probably because of low fees. Did you ever do "comp checks" for free? Almost all residential lender appraisers did them. They were USPAP compliant if you set up a file with the required information.

CU expansion

For now, only Fannie and Freddie are using UAD and CU. Expanding to FHA and VA is anticipated.

What percent of mortgage loans are sold to GSEs and done through FHA and VA?

The data only has dollar amounts, not the number of loans. But, it gives you a good idea of how much of the market they control now.

They dominate the conforming lending origination market at 67%.

UAD - Fannie, Freddie and FHA accept UAD directly. VA uses UAD through LoanSafe by Corelogic.

CU - developed by Fannie. Freddie is developing their own. VA and FHA are collecting UAD and may be developing their own in the future.

Loans not sold to them will not use CU. Loans over the GSE and FHA/VA limits are "unsecured first liens" at 30% of the market, I asume. They not use CU.

Second liens are a relatively small part of the market at $ .06 trillion.

As you can see below, the GSE's and FHA/VA currently have a large share of first mortgage originations market - 67%. Portfolio loans are 32.7%. Private label is small at 9.8%.

During the peak boom years of 2005-2006 the agency share of MBS (mortgage backed securities) was about 45%. Today it is 98.48%.

According to the most recent report from the Urban Institute dated June 2016, "Housing finance at a glance", as of Quarter 1, 2016:

Size of US Residential Mortgage Market

($ Trillions) Note: FHA and VA are not included

-	GSEs Mortgage backed securities	$5.7	58%
-	Unsecured first liens	$2.9	30%
-	Private label securities	$0.6	
-	Second liens	$0.6	
Total	($Trillion)	$9.8	

Origination volume - first lien (securitization)

-	GSE	43.8%
-	FHA/VA	22.8%
-	Portfolio	32.7%
-	PLS	9.8% (private label securitization)

Agency share of securitization

Currently GSEs have a 98.48% share and non-GSE has 1.52%. This has dramatically declined since 2005/2006, when the agency share was about 46% and the non-agency was about 55%.

What will happen in the future? No one knows, especially with all the articles about merging or disbanding the GSEs. Since 2001, their first lien origination market share has gone up and down, with the lowest share in 2004-2006. The highest share was in 2008-2013. It has dropped since then, with portfolio increasing.

Link:
http://www.urban.org/research/publication/housing-finance-glance-monthly-chartbook-june-201

6/view/full_report

Deminimus - the greatest threat

The greatest threat to appraisals was/is the deminimus in FIRREA, which passed in 1989. When the original deminimus of $50,000 was set up, appraisers thought we would not be needed for many loans. The deminimus was raised several times and is currently $250,000. The deminimus is transaction value (loan amount) where appraisals were not required. But, lenders still require appraisals below the deminimus.

Why are so many appraisals done on properties under the deminimus ($250,000), set up in by FIRREA in 1989?

The GSEs, FHA and VA continued to require appraisals.
Why? Purchasers of GSE loans required full appraisals.

Appraisals based on risk

I loved making lots of money in the days of serial refis and appraising the same tract home over and over for a local lender, using a full appraisal. But, I kept thinking that it was a waste of money for the borrower and a hassle for the lender.

Sometimes I did an "update" where I determined if the market conditions or property had changed. I always drove by the property. But, that is long gone due to the mortgage meldown.

When was regression developed?

"The complete name of the correlation coefficient deceives many students into a belief that Karl Pearson developed this statistical measure himself. Although Pearson did develop a rigorous treatment of the mathematics of the Pearson Product Moment Correlation (PPMC), it was the imagination of Sir Francis Galton that originally conceived modern notions of correlation and regression.

Galton, a cousin of Charles Darwin and an accomplished 19th century scientist in his own right, has often been criticized in this century for his promotion of "eugenics" (planned breeding of humans; see, for example, Paul (1995). Historians have also suggested that his cousin's lasting fame unfairly overshadowed the substantial scientific contributions Galton made to biology, psychology and applied statistics (see, for example, FitzPatrick 1960). Galton's fascination with genetics and heredity provided the initial inspiration that led to regression and the PPMC." Source: Galton, Pearson, and the Peas: A Brief History of Linear Regression for Statistics Instructors www.amstat.org/publications/jse/v9n3/stanton.html

Multiple regression analysis (MRA) and Automated valuation analysis (AVMs)

Multiple regression analysis (MRA) has been used for many, many years. I used it in graduate business school in the late 1980s.

Assessor's offices are the experts in MRA. When I worked at two California assessor's offices from 1975 to 1979, they were getting set up for using them for automated assessment. The purpose was property tax equalization, not valuation of one property at a time, as is done for lenders.

I have been writing about MRA and AVMs since they first started being used by lenders in the late 1980s.

Why have AVMs not been very accurate? Inadequate, non-standard property data

Zillow is a good example of AVM inadequacy, even with MLS and public records data available. They try to get as much data as they can, but they do not have appraisers' data. Only CU does.

When I first started writing about AVMs for property valuation in the early 1990s, data was not very good and not computerized. There were few AVMs. MLS did not share or sell their sales and listing data. Assessor's data was not available in many counties, including large counties in California. Appraisal data was on printed forms and difficult to obtain, except by scanning reports.

Everyone said that appraisal report data was the "Holy Grail" as it was objective and somewhat standardized.

Today, data is much more readily available.

MLSs have been selling their closed sales allowing listings to be published online for awhile. But, the data is not standardized.

More assessor's office data is available in electronic format. But, the data is not standardized.

MLS and public records data weaknesses

MLS' are for agents to sell real estate, not to value properties. What agents do when inputting data varies widely, even within the same MLS. Of course, they are real estate agents and try to put a "positive spin" on the property. What is the source of GLA? That varies widely also. Appraisers learn how to interpret MLS data. For example, no photo of the kitchen and/or baths probably means they are not updated.

Public records data is from assessor's offices. Sometimes they are accurate, sometimes not. For example, in my city, with many homes built prior to 1910, there is one neighborhood where GLA is not very accurate. Many of the largest historic homes are there. Possibly the appraiser who worked there did not do a very good job in standardizing the data. Also, assessors do not have big discussions on below grade, finished basements, etc. and do not change their methods to fit Fannie Mae guidelines. Appraisers learn which areas are accurate and which are not. It is very easy. Just compare your GLA with the assessor's office. Over time it is obvious.

What if there are no appraisal reports to update the UAD database?

This is what appraisers have been saying for a long time.

But, when a property is listed or assessor's office data is updated, there will be new information.

Also, there will be some full appraisals done, although fewer than today.

UAD - the best data is from the subject on appraisal reports

Fannie wants to standardize appraisal data to make it much more usable for CU.

The GSEs mandated that all appraisals submitted to them starting on 9/1/2011 must be in

UAD format.
It is not good that appraisers cannot get this data. Sometimes the appraiser has seen the interior of the sales, but not likely. I have been going on tour/caravan almost every week, but just have the flyers with a few notes. I would have lot more information if I had appraised it or had the data from another appraiser who had appraised it.

CU - getting the best standardized data from UAD

One of the primary uses of UAD (and other) data is to "review" appraisal reports. But, one of the primary reasons for CU is also to standardize the UAD data.

GLA is a good example. Why do appraisers differ on GLA? Of course, that assumes that most appraisers don't manipulate their building sketches to conform to public records. I worked for an assessor's office. We did not care about how lenders wanted GLA calculated. In California, relatively few GLA records were updated after Proposition 13 passed in 1979, except for new construction.

UAD weakness - does not collect all relevant data

Look at your appraisals. Which important factors are not collected by CU? A recent article in this newsletter about remodeling and condition vs. quality is a good example. Kitchen and bath remodeling is critical in valuation, but not accurately captured by CU.

Appraisers are writing lots of text explanations in their reports. If there is not enough room on the form, the text goes into an addendum. But, there is no way for the underwriter to easily find what is important. Reading all the text comments looking for what is relevant takes too much time.

Text comments, which often include very important data, is not UAD coded. Can it be coded? I don't know. But there is software that will look for key words in appraisals and MLS, such as needs work on MLS. Or, market conditions support, adverse conditions, environmental conditions, etc.

Future of UAD

What information is collected, but not used?

Some of the choices for a field do not work well and need to be updated. Every time there is text instead of a checkbox it takes more time to read and understand.

Fannie may develop more sophisticated methods for finding data in text narrative fields, such as in improvement comments on needed repairs, neighborhood description, condition, design/style commonly used names in the area.

Checkboxes not used yet in UAD

- Improvement descriptions to the right of the first General Description column. Many are not included in UAD now, such as foundation, roof, window type, etc.

Adding UAD to 2-4 unit forms.

Fannie Form 2075, Desktop Underwriter Property Inspection Form (no value)

There has been lots of discussion of having non-appraisers do an exterior inspection with no value. But, appraisers are much more knowledgeable than someone off the street and are better than real estate agents at seeing negative factors. See my discussion of the 2075 form below. Back in the 1990s I did many Fannie 2075 reports where I drove by houses and filled out a one page form that asked about any visible problems with the property or nearby problems. I was paid $75. I loved them. Easy money. Somehow they faded away. I have included the form below. It is dated 7/97, but I think an older form with a different name may have been used earlier. I would do them again, with a higher fee now, of course. May have to modify certification and limiting conditions.

It is very similar to the URAR with subject, neighborhood, site descriptions and comments on conforming to neighborhood, adverse conditions, etc. There is a very short certification and limiting conditions section.

Here is what the form says:

"Form 2075 is not an appraisal report. When Desktop Underwriter recommends Form 2075, it has judged the reasonableness of the sales price as adequate collateral for the mortgage loan. Therefore, a property appraisal is not required for the specific transaction."

When Desktop Underwriter recommends Form 2075, we will rely on the property valuation performed by the system's proprietary automated valuation model. Lenders are required to obtain an exterior-only property inspection of the subject property. No estimate of value is required. If the property inspection reveals adverse physical deficiencies or conditions, or the subject property does not conform to the neighborhood, the lender is required to upgrade to a complete interior and exterior appraisal reported on Form 2055.

The appraiser must attach any required exhibits to support each inspection report. The required exhibits for Form 2075 are a street map that shows the location of the subject property and a photograph that shows the front of the subject property.

When I did them, I did not make a special trip for one, but did them when I was doing at least one other appraisal. Driving time of 1 hour each way eliminates profits.

What is the negative side? A FREA article in 2013 says that appraisers are not property inspectors and should not do them. Here is the link http://www.frea.com/blog/fannie-mae-form-2075-ticking-time-bomb-appraisers.

I don't agree with the article above. Appraisers tell the client the truth about the negative aspects of a property. You should do it on every appraisal. The 2075 asks about it, just as other form reports do. Even if not on a form, you must disclose it. The 1004 asks for "any adverse conditions or external factors (…environmental conditions, etc.

What is positive about CU for appraisers?

Appraisers upgrading their skills. For example, not using the same GLA adjustments on all properties, everywhere. Fannie is sending letters about this.

Some appraisers with mandatory reviews are eliminated from doing Fannie appraisals.

At this time I can't think of anything else. It greatly helps the GSEs in reviewing appraisal reports and getting better results from their AVMs.

Appraisers not getting UAD data for the sales

If appraisers could get the data to use in their reports on subjects that would greatly improve using them for comps.

There are lots of issues, such as results from multiple appraisers appraising the same property. But, CMDC, a popular California database started in southern CA by S&Ls resolved this issue by printing appraisal data for each time it was used as a subject.

Now, we seldom have seen the interior of the comps and have to rely on MLS and interviews with market participants on the sales.

What about "evaluations" and comp checks?

I will have an article about them soon as it is a big topic.

Most appraisers don't like to do them because of the low fees.

Almost all of us prior to 2008, at one time or another, did comp checks. They were free. They did conform to USPAP if you kept a file, etc.

What if you had a similar desktop appraisal product? Think about it.

Is there any hope?

The Death of the Residential Appraiser has been predicted for decades. This is nothing new.

As always, those that adapt will survive.

The change to AMCs was a much bigger change than anything in the past and drove many appraisers out of the profession.

Appraisers will always be needed for the "tough ones" that will be identified by CU.

Appraisers who willing to do "evaluations", not 1004s, will survive.

Manage multiple appraisal deadlines to increase your productivity

By Doug Smith, SRA, AI-RRS

Editor's comment: Fees are way up, but Scope Creep is making appraisals take longer to complete. Efficient use of your time to complete more appraisals is very critical now. No one knows how long this boom will last. Almost all residential lender appraisers are swamped with work. Turnaround times are a nightmare. Handling all the appraisal deadlines is important, as appraisers are graded by how well they complete appraisals on time.

Appraisers have adjusted to AMCs ordering most lender appraisals, and business is way up. However, these companies have huge expectations not only in turn times, but for the amount of information in reports.

Appraisers, both residential and commercial, have in the last few years embraced technology, new software, Internet communication and Web based data research to improve productivity.

While these improvements reduce report preparation time, improve delivery to clients and make research more efficient, appraisers increasingly struggle to meet deadlines and manage multiple orders.

Appraisers comparing the complexity of appraisals point out those lenders are expanding the scope of work of assignments.

More is required within reports including the 1004MC, additional gridded listings and adjustment support. More lenders are demanding the cost approach, particularly in FHA appraisals.

Appraisal management companies and lenders have risen to new heights in techniques for prodding appraisers to meet deadlines. Some even send out monthly performance reports, sort of report cards on whether appraisers play well with others or at least send in reports on-time.

With each gain in office productivity, clients seem to demand still shorter report turnaround times. The incessant faxes, e-mails, and follow-up phone calls tracking report progress are becoming serious interruptions in report production. The stress of managing multiple reports takes its toll on appraisers ability to maintain confidence and make sound decisions under stress.

While technology now dominates our discussions and that which we read online and in the trade magazines, appraisers must not overlook real and lasting productivity gains found in management techniques and principles. Some of these are skills appraisers can apply everyday. Other techniques are not new, but deserve even more emphasis.

Set goals and priorities

Management guru Tom Peters once said, "Effective visions prepare for the future, but honor the past." Whether it is a formal business plan or simply a list of goals and directions, it is difficult to imagine proceeding in today's business environment without an overall plan for the future.

Experts on time management all agree setting out future goals and directions is the number one essential of management and collectively all insist these must be in writing and reviewed constantly. Without a road map, appraisers will likely never realize the goal of effectively managing multiple reports and meeting dead lines.

A corollary to setting out written goals and directions is using a prioritizing system. The key to this system is sorting out deadlines in terms of long term, short term or immediate.

The next step is to weigh the deadlines in terms of return or impact.

For appraisers defining and weighing the payoff or consequence from meeting deadlines is probably the greatest hurdle. Often the client who is the squeaky wheel gets the response.

The word triage is commonly thought of as applying the assignment of degrees of urgency to decide the order of treatment of wounds, illnesses on the battlefield.

While on some days appraisers may feel they are on a battlefield managing multiple casualties, the word triage, in its first definition is more meaningful to the management of report preparation. The first preferred definition of triage is, "the act of sorting according to quality."

Clients represent differing qualities and therefore deserve greater or less priority in terms of their contribution to the long-term health of the appraisal firm.

For some appraisers, clients are not always seen to have a long-term effect with only a one-time need. However, each client must be evaluated in terms of their possible influence for referring other clients.

Any new client deserves careful evaluation in terms of quality and the potential they might have in a long-term relationship. In any prioritizing system then, the first rule is to be aware of qualitative differences among clients.

Mind your A, B, C's

The second step in a system of prioritizing is ranking priorities. There are several well-known systems for weighting individual priorities. Alan Lakein, in his book first published in 1974, How to Get Control of Your Time and Your Life suggested a A, B, C system for assigning importance to items.

More recently Steven Covey, author of The 7 Habits of Highly Effective People promotes a system he describes as the four quadrants. The upper left quadrant being those items that are urgent and important; the upper right quadrant being those items that are important, but not yet urgent. The lower left quadrant is the dangerous trap for appraisers; those items that are urgent yet not important. Finally he labels the time wasting items in the lower right as those items not important and not urgent.

Covey emphasizes addressing those items in the upper right quadrant that are important, but not yet urgent.

Assigning priorities depends on individual preference. However, the essential step is ranking those priorities. In this step, appraisers have an advantage because prioritizing is an everyday skill honed as part of the appraisal process comparing one property with another.

Once a set of priorities is set out, ranking is accomplished by comparing the first priority, to the second and then comparing the more urgent of those first two on the list the third working down. With priorities in place, the next step is to view the greater time frame, not just the day, but also the week and the month.

Some benefit from keeping a time log in the short term to diagnose activities that may contribute to inefficiency and the resultant stress. Keeping a time log over time is not practical and is better used from time to time as a diagnostic tool.

Follow the calendar

The goal of every appraiser is to have a high impact week. In high impact management of time leading to greater productivity there is one commonality above all others and that is the diligent use of a portable personal planner. There are many systems, Franklin, Day Timer and Filo-Fax to mention a few.

More and more appraisers are reporting good use being made of a cloud based program called Evernote. Evernote is particularly useful for offices with more than one person. Evernote sets up multiple notebooks that can be accessed by others in the office.

For those who are comfortable with Microsoft Outlook, the calendar program is fully capable of keeping track of work in progress and appointments. There are a myriad of organizers for smart phones and tablets.

I submit, however, that if the appraiser does not now, use a non-electronic personal planner, making the leap to a smartphone organizer may not result in meaningful management of time. Like the drawing programs, if an appraiser can't draw a house on paper, they never will do it well with a drawing program. The personal planner keeps projects and deadlines in view at all times.

Appraisers are out of their offices frequently, inspecting and collecting information, therefore portability of the daily planner is essential.

Lastly, the personal planner as a constant companion keeps appraisers from losing tract of the small items, requests and those ideas that come out of nowhere.

I learned one lasting lesson in time management seminar that has stayed with me. It is "When you think it-ink it."

When in doubt, throw it out

The handling of information both in written form and on computers is so much a part of appraising, efficient handling is essential to meeting deadlines. B.C. Forbes famously said, "Next to the dog, the wastebasket is your best friend." Simply put, working efficiently means getting rid of the clutter both past and present.

Steps for handling information or paper work include:

- Dispose of it: throw it away
- Send it on to someone else for handling-delegate
- Do something with it
- File it; archive it
- Read it or handle it later

If there is any delay in handling the information, proper office management demands a tickler file or calendar file system. One of the remarkable tips I got from an experienced office manager was the use of a stand up sloping file divider.

Appraisal files in process are nearby, visible and within easy reach. I found this to be superior to a file drawer system where reports may become "out of sight, out of mind." Again, systems are individually driven.

Some appraisers use a log system independent of each individual files to track the progress of files. Others log progress on the files themselves.

Office management and handling may seem to be so much common sense. However, I have benefited greatly by having an experienced office manager review my office procedures, location of file drawers and workspace arrangement.

Of course the best advice was "clean up this place." Out went the old phone books, out of date magazines and useless clutter that appraisers are wont to keep. Have an outside expert review your system and objectively critique the appraisal office as an office workplace.

If you are "paperless" you still have to manage the appraisals and communication with clients.

Knowing when to say no

In today's very strong market with some appraisers getting numerous appraisal requests a day, saying no is very important. The client rating grid in this newsletter can really help.

Getting high fees is very important now, as fees will go down when business slows, as it always does.

Appraisers face too many requests for their time. Having a system in place is not enough. Sometimes the ability to meet deadlines and handle multiple projects requires an appraiser to say no.

The typical preliminary client request is predicated on three questions:

- Can you do an appraisal in a certain area?

Answered affirmatively the next two questions are:

- How much is the appraisal
- What is your turnaround time?

Appraisers have a number of stock answers, but this part of the request is critical and deserves a pause. Any other commercial enterprise, when asked these questions qualifies the customer. Appraisers can do this by asking, "What is the range of your required turnaround time." In other words, begin the process of establishing just what is expected. Repeat clients sometimes have set deadlines and turnaround times and these may be negotiated in some cases.

- The second question about price is also a qualification measure. Asking what is the expected cost for appraisal reports in this geographic area is a polite way of establishing the price point of the potential client.

If the client is truly shopping and reluctant to discuss their fees they are most likely acting on the lowest bid. They also are probably not a good fit in the appraiser's business plan.

How to say no

But at that point, how best to say no? The simplest way is to prepare the listener for the turn down and say so early in the conversation. "I would really like to help you with this assignment, but I can't." Some appraisers leave the door open by stating when they have opening in the future.

For commercial appraisers, lead-time is greater and this is a realistic approach. In today's market, however, for the residential appraiser, saying you don't have an opening in two weeks dodges the issue. It is better to say no up front and invite a subsequent order than to state an impossible completion time.

In client communication, there are two word commonly misused. These words are "can" and "how." The question "can I help you?" implies a yes or no answer. "How may I help you?" seeks information. In your discussion with clients concentrate on how you may help. In the same way, when an appraiser says no, explain why and offer alternative solutions. Saying no requires preparation. When the request comes in, appraisers must know where they are in report production to effectively accept or decline an order.

Lastly, probably no business enterprise can be over-marketed, but in the law of supply and demand appraisers must be discerning in all matters of accepting or rejecting potential business or clients. The long-term health of the appraiser's business depends on it.

Final comments

To effectively manage multiple appraisal deadlines, working from a set of clear goals and prioritizing workflow allows the appraiser to focus. Proper planning in the form of adherence to the use of a portable personal planner eliminates procrastination, neglect and confusion.

Having a system in place to handle information and paper work gives the appraiser control over workflow.

Finally practicing effective communication with potential clients and being able to say no builds both personal power and strength in the appraisal firm. Concentrating, then, on the management aspects of productivity can pay great dividends, increase productivity, reduce the constant sense of urgency and make appraising a less stressful enterprise.

About the author

Doug Smith has an appraisal practice in Missoula, Montana, and is a certified general appraiser doing both residential and commercial appraising with a specialty in hotel appraising and feasibility studies. He has an MBA from the University of Montana and the SRA designation from the Appraisal Institute. He can be contacted at hotelman@montana.com.

Two reasons why appraisers should not use statistics

by George Dell, MAI, SRA, ASA

For many years, I advocated the use of statistics for valuation work. And I was met with a lot of resistance. No surprise. Statistics carried a mystique, and an aura of elitism, and a bad reputation: "lies, damned lies, and statistics."

Appraisal procedures were well-established by the late 1930's, when the "appraisal process" was reduced from seven approaches to the three approaches we know today. This made sense on a practical level. The three approaches were practical for pencil/paper technology, and how we harvested sales data in those days. The process was entrenched. Why bring in something questionable, that our own clients may not trust?

When I began in real estate in the 1970's, there was no electronic data, no internet, no email, and no electronic spreadsheet. (Although I used a lot of those wide green ruled paper spreadsheets in my accounting classes - green was restful to the eyes).

Not long after, statistical packages, such as BMPD, SAS, and SPSS came to the fore, running on computers the size of a small dump truck. I used these, and others. Not always happily. They were unwieldy, and universally designed for inferential statistical problems. -- making sense of large, incomplete populations from small samples.

Data itself was difficult, and remained so until the 1990's. But even then, electronic small data sets became manipulable with the accountant's spreadsheet. Add-ins came along to do some statistics, particularly with Microsoft. They added to the advantages and limitations of the spreadsheet. They had errors but they were useful. I began teaching the usefulness of plots and basic summary numbers in the late 1990's. These methods have since been introduced into AQB courses, and now are accepted as a fundamental visual method of support - investigation, selection and analysis of data. But spreadsheets were not designed for statistical analysis. They were designed for accounting. The add-ins provided automatic answers under the basic assumption that statistics problems were solved by describing a population through random sampling. Nearly all statistics textbooks made this assumption. Many still do. But spreadsheets were better than a hand-held or pencil and paper or slide rule . . .

My education in the 1990's and 2000's, in mostly graduate econometrics classes from two universities, focused on tools which did not use much inferential statistics. When they did, it was to draw a random sample to describe the larger, but incomplete data set. Regression was important, but it was never assumed that the data was from a statistical sample.

Regression is considered a part of the study of data, but does not automatically use sample statistics. For the average appraiser, sample statistics can be difficult and make no sense for predicting value.

Appraisers pick comps like a sample, but not a random sample. There is a difference. Picking comps is the opposite. It's about careful judgment or convenience or even luck. Sample statistics math does not work unless the data is selected randomly.

This is Reason One: Why appraisers should not use statistics. A statistic is a summary number (like the mean), of a sample. A judgment sample (picking 5 comps) doesn't meet the mathematical requirements for any of the common statistical "tests." Not t-scores, not Chi-squared, not F, and not pre-set confidence intervals.

Reason Two: The appraisal problem is one of prediction. We predict the most probable selling price of a hypothetical sale. We do not try to describe a population from a random sample.

For appraisal, descriptive parameters (mean, median, deviation, etc.), along with plots - are good for valuation work. It does not need to be complex, advanced, or imaginary.
The best tools are simple, useful, and make sense.

Data science focuses on prediction, not statistical inference. It eliminates any theoretical variability. You calculate any needed population parameters directly from the data set of competitive transactions, not from random statistics.

Data science clarifies and simplifies appraisal work, instead of obfuscating it! Data science makes more sense for appraisers. It extolls appraiser knowledge of markets through the use of new technology. Data science incorporates old statistics when needed, but opens the door to computation, brain/machine interface, and enables results that are better, faster, and can command better fees.

About the author

George Dell MAI, SRA, ASA, is a recognized authority on applications of predictive methods to asset valuation and risk/reliability issues. He has authored numerous articles, seminars, and is a co-author of the AI book "Appraisal Valuation Modeling".
George is CEO and chief instructor for Valuemetrics, Inc., which provides a curriculum of hands-on workshops for appraisers and lenders.

For more information, go to www.valuemetrics.info . See articles by George Dell previously published in Appraisal Today.
Today:

Who's on your "approved client" list and why? Fees are going up. Don't work for low fees with lots of hassles!!

In the July newsletter, I wrote an article "Who are your most, and least, profitable clients? Look at how much you make per hour, not just the fee" This qualitative method takes time. This month, I write about my qualitative method, using a rating grid. It takes very little time. There is no excuse for not doing it!!

I last wrote about this topic in February 2015. The market has gotten much stronger for residential lending.

Some appraisers are turning down 10 or more orders a day from AMCs.

Many appraisers work for direct lenders, but their requirements keep increasing. You need to evaluate them as well.

Demand is high for appraisers willing to work for AMCs. This is a Most Excellent time to get rid of the bad AMCs, keep the good AMCs, and look for a few new AMC clients. It is a hassle to do, but mandatory for having a successful business.

We all sorta know which AMCs are good and bad. But, using the rating grid below makes you really think about how they compare. It is very good for analyzing prospective new clients before you try one order and have a bad experience.

We all have clients that create "problems," occasionally or all the time.

Every minute you spend working on a problem from one of those clients is time (and money) lost from your good clients. Or, much more important, time from family and friends. Many accounting firms have an annual "audit" of their clients, ranking them, but few appraisal firms do this.

Why "clean out" client's if you're busy? So you can concentrate on your good clients and have time to give new clients a tryout for your approved client list. Plus, do some marketing. How many of those non-AMC clients you "helped out" with a quick turnaround when you were really busy ever called you for another assignment? Most AMCs, of course, have little loyalty.

Many appraisers complain about their clients. But it is your choice who to work for if you're a fee appraiser. You can find compatible clients. Of course, many of us would like to receive and send our assignments by email, have no phone calls, and get paid a good fee within 2 weeks. But there aren't many clients like that any more.

Regular client ranking is important for all appraisal firms, but it's particularly important for one-appraiser firms where time is crucial. If you don't have any clients you want to "fire," congratulations! You can use this article to evaluate new prospective clients and rank your current clients. Give your best service to your best clients.

Do NOT work for any clients, particularly AMCs, that do not pay well!!

AMCs are desperate. After years of working for low fees, appraisers can demand much higher fees. This will not last forever. When business is down, fees will go down. Make money while you can.

If an AMC client does not pay significantly more than a year ago, Dump them.

If an AMC haggles over fees, Dump them.

What about non-AMC clients?

AMCs are much more hassle to work for than direct lenders or non-lender clients.

Some direct lenders are still paying low fees. Maybe it is time to replace them with a client that pays better. Also, some have increasing scope creep.

I have attorney clients I dumped because they were too cheap or too much pressure for values.

This article focuses on AMCs. But, the client ratings can be done for any type of clients.

The residential lender market regularly changes. Be sure you know what is happening

Now, AMCs are desperate for appraisers. Fees are going up. You must keep track of what is happening. In a few months, volume could drop and your fees will drop.

Have you been increasing your fees? If not, you are losing a lot of money. Dump AMCs that will not give you more money.

AMCs mostly compete on price when selling their services to lenders. For example, they agreed to fulfill all of a lender's appraisals for $400 per appraisal and then pay appraisers $250. They have armies of employees and other costs.

Scope creep is another increasing cost for AMCs. They must have employees to monitor and get corrections on all their new requirements, including the new CU appraisal messaging warnings.

Another primary factor is what I call "AMC cascading". For example, the AMC that originally contracted with the lender gets $400 per appraisal. But that AMC is too busy and contracts out their work to another AMC for a lower fee, say $300. If that company is paying appraisers $250 per assignment, staying in business is tough.

AMC appraising is not a very profitable business, even for independent appraisal companies, because of the significantly high labor costs. Even if AMCs don't have staff appraisers, they hire armies of clerks and "reviewers" to manage their appraisal orders and fulfillment. Legally they must pay their employees first.

Be sure to keep close watch your current or new clients to see if they may go out of business. Slower payment of appraisal fees is often a good indicator. Google them. Often, appraisers complain online first.

AMCs must pay their employees first, plus overhead expenses. How much is left over to pay their fee appraisers?

AMCs that are backed by big banks, such as Wells Fargo, Chase/JP Morgan, and Bank of America typically don't have payment problems.

Your best clients and the 80/20 Rule

How often do we take an order from a new client and make your regular, reliable clients wait?

Remember, often 80% of your business is from your reliable, loyal clients. Your best service should be reserved for your best clients.

Yes, some appraisers are on an AMCs "top tier" list and get paid high fees, even when their other appraisers are getting much lower fees. Be sure you remain on the "top tier" list by giving good service to them.

What about commercial and apartment appraisals and non-lender clients?

Fees are still down in some areas, but appraisal reports and reviewing have not changed much.

Some types of clients, such as attorneys, can have collection problems and value issues.

Lender fees have been negatively impacted by RIMS bidding software. It started here over 20 years by Wells Fargo. I never bid because the fees were too low, but it has spread around the country and negatively affected lender work.

Some of the topics discussed here and in the Rating Grid apply, such as value pressure, fees, collection, loyalty, etc.

Value or non-disclosure pressure - dump them

If there is any value pressure or attempts to get you to remove "problems", dump them. This includes all types of clients. Some of my worst have been attorneys.

Turn around time

AMC contracts with lenders often require a specific short turn time. That is their problem, not yours. Today, many appraisers are out 3-4 weeks or more, particularly in rural areas.

If your client insists on getting you to agree to a short turn time and you are busy and don't want to make your other better clients wait, say No.

Don't take a short turn time that you cannot meet. AMCs, and other clients, keep track of this. It can negatively affect your rating and the ability to keep getting work. Assuming, of course, that it is a client you want to keep.

Scope creep

Why is there so much AMC scope creep? AMCs work for lenders. They do what the lenders say or they will be out of business, just like appraisers.

Lenders are very worried about bad loans. After all the post-2008 buybacks by investors, lenders increased their appraisal requirements. Lenders are still worried about buy backs. Their credit requirements have not loosened much since 2008.

Some AMCs require their appraisers to adhere to all their lenders' requirements. More savvy AMCs send their appraisers the requirements of the specific lender the appraisal is going to.

How can you tell which AMCs are doing this? Those that have pages and pages of requirements vs. those who send you a much shorter list of requirements from the lender who is getting the appraisal. Many appraisers get work from the same lender from different AMCs. Sometimes the list of requirements are quite different because the AMC adds lots of other lenders' requirements to the list.

Why work for AMCs that make you adhere to the requirements of all their lenders?

The Aggravation Factor

Some appraisers focus on getting paid, but there are additional very important factors.

Maybe your "problem" client always pays on time. But, they haggle over the fee and the value, regularly requesting "revisions." Or, they call every day asking about "status." How long do you spend "steaming" after an annoying call from them?

This is time lost, and more important, you are upset and distracted from what you need to get done, whether appraisals or family time.

How to evaluate new AMC clients

Just like any other client, give them a "tryout" by accepting one order. Then evaluate them using the rating grid below.

Google their name online and see if any appraiser comments or other issues come up. You can also try online appraiser chat boards, such as Facebook.

Not sure how or where to look online? See this article in the September 2014 issue: How to connect with other appraisers online. What's the best group for you?

Which AMC clients are the best for you?

What is important to you? Fast payment, no phone calls, appraisals close to your office, no fast turnarounds, fees, etc.

You can check with other appraisers online and locally, but appraisers' opinions of individual AMCs vary widely. Some appraisers like them, some hate them. You will have to figure out what you are looking for. For example, an AMC pays fast, but pays low. Or, an AMC pays well, but there are endless call backs.

Client loyalty - very important when business slows down

Before 2008, we all had loyal clients, often for years. Many direct lender and other clients are loyal today.

If you have an client that you like to work for and is loyal, give them a top rating.

When NOT to accept new AMC clients

AMCs are desperate and calling lots of appraisers, including those in states distant from the subject property.

Many of us are afraid to turn down work. I have always said I'm backed up for 4 to 5 weeks. That seems to be most acceptable to them, instead of getting into an argument over fees.

Why should you not take work from AMCs that call?

Don't ever, ever accept an order from an AMC without trying to check them out with other appraisers online or appraisers you know personally. Check their web site. If they don't have one or it is not working well, Just Say No.

Some reasons for saying no:

- I've never heard of them and don't want to take the time to research them.
- They won't know my name when business slows down. They may even be out of business.

• They may call me all day long asking for "appraisal status."
• They are not local (located in/near my city) and collection can be a big problem if I bill them.
• You don't know what lenders they work with and don't want problems. For example, some lenders don't like "legal, nonconforming" on appraisals, which is on almost every appraisal I do in my city, as the homes were built long before zoning regulations were enacted.

When to take a new AMC client

Why?

o You check them out carefully. See the criteria below.

o They work for a local lender. For example, in my area, getting work from credit unions has always been very difficult. But, now many of them use local AMCs. See who they use.

o They only handle orders taken from a few lenders, so they can make sure the lender separates the loan officer from the appraiser. The lender is responsible for everything else. No "reviewers" from hell and constant phone calls.

o You have already researched AMCs and they are on the list of AMCs that you would consider working for.

What about AMC credit risk?

AMC profits are going down because of paying higher appraiser fees. Be sure to keep close track of your receivables. Do NOT let them get too high.

When the market slows down, some will go out of business. Information is often available online by googling their name. If there are problems, start collection efforts now. The Squeaky Wheel Gets the Grease.

I am always surprised that so many appraisers lose lots of money because they just didn't notice delays in payments or complaints from appraisers online. If the AMC files for bankruptcy, it is too late.

In the September 14 issue, see my article "How to collect all your billings. Don't work for free!!"

Which clients to "fire"

The AMC Rating Grid on the next pages gives you different rating factors. Every appraiser is different. Every appraiser's opinion of a specific AMC is different.

What is most important to you? In my business, from the day it started, I have always been obsessed with past due billings. I would prefer not to do the work rather than not be paid. So, one of my top criteria is no payment problems. I also don't work for any clients who call every day asking for appraisal status. It makes me too annoyed and stressed.

How to use the Client Rating Grid

Make a copy of the next two pages and fill them out for your clients. You can do your major clients, or all of them. You can also use it for evaluating potential new clients.

Unfortunately, no pass/fail score could be developed, as clients tend to vary substantially among appraisal firms. Use the form to evaluate and compare your clients. Typically, only a few clients cause most of the problems. If you have clients scoring high, give them extra attention. You don't want to lose them!

You can also copy and paste this grid and change it to what you want or add your own criteria.

Or, make up your own grid using part of the one below, especially if you do no AMC appraisals

Or, put your own scores on this grid and make copies, depending on what is important to you.

Client Rating Grid

Date ______________________

Client name ____

Current client ___ New potential client ___

Fees
- 50 Always low
- 30 Will increase after haggling or comes back a week later with higher fee
+ 10 Sometimes keeps up with other clients and increases fees
+ 30 Pays the same C/R fees except for some increases when busy
+ 50 Always pays well. Quick to increase fees

How are orders placed?
- 50 Broadcast all orders to many appraisers
- 40 Shops for lowest fee
+ 15 Looks for experienced appraiser for unusual properties
+ 30 Contacts you first
+ 40 Contacts you first and accepts fee

Loyalty
- 50 None. All appraisers are the same
+ 10 Sometimes gives me work when business is slow
+ 20 Does not blast orders. Contacts appraisers that they prefer
+ 50 Has been a good client for many years.

Value or non-disclosure pressure
- 5,000 Regularly pressures. Dump the client.
- 50 Sometimes pressures
- Never pressures

Information provided
(about subject, borrower, etc.)
- 6 Very difficult to get correct information
- 4 Incorrect information
- 2 Late, or missing
+ 2 Scattered, but workable
+ 6 Good, only a few pieces missing
+ 8 Excellent, always gives correct full data at time of placing order

How many requirements and accuracy of requirements
- 30 Changes requirements after appraisal is completed
- 25 Incomplete or incorrect list of lender requirements
- 20 Combines all the requirements from all their lenders and sends them. 15+ pages for example
- 10 Combines requirements of several lenders
+ 15 Only includes requirements for the lender ordering appraisal
+ 15 AMC works for one, or a few, lenders with relatively few stable requirements
+ 50 Direct client. Few hassles.

Types of requirements
- 25 Changes frequently. Hard to figure out.
- 20 Very picky for anything that is not a tract home.
- 15 Picky for unusual homes.
+ 30 Follows Fannie Mae or other fairly flexible written guidelines
+ 40 Not very picky. Easy to work with.

Communication of appraisal guidelines
- 20 Very unclear, changes from one reviewer or underwriter to another
- 15 Written down, but no one pays any attention
+ 10 Fairly clear, and most use them
+ 20 Clearly communicated. Everyone at uses and understands them

Times of communication with appraiser
- 30 National holidays (Christmas, etc.)
- 20 Weekends
- 15 Evenings and early A.M.(in your time zone)
+ 15 M-F, 9am to 5 pm only (in your time zone)

Your preferred method(s) of communication (make your own ratings)
- Text
- Email
- Cell phone
- Office land line
- Web site

Number of communications per appraisal - status update
- 30 Many times per day
- 5 Once per day
+ 5 Every 2-3 days
+ 10 Once per week
+ 40 Only if late - appraiser forgets to communicate

"Corrections" - typical time per appraisal (research, writeup, communication)
- 40 Over 2 hours
-30 1-2 hours
-15 30 minutes
-10 15 minutes
+20 5 minutes
+40 Very rarely have any requests

Average/typical number of "Corrections" per appraisal
-25 Over 10
-20 5-10
-15 2-4
-10 1
+40 None

"Corrections" - ease of resolving
- 40 Asks for unethical solutions
- 30 Just looks at checklist - rigid
- 20 Reviewer not knowledgeable about appraising - hard to communicate
+ 20 Communicate with experienced, licensed appraiser if needed
+ 30 Easy to work out a solution that is acceptable to appraiser

Value pressure
- 40 If you don't cooperate, you will never get any more work
- 30 Asks for "just a little" higher value
- 30 Asks for consideration of new comps to "get value up"
+ 40 None. Ever.

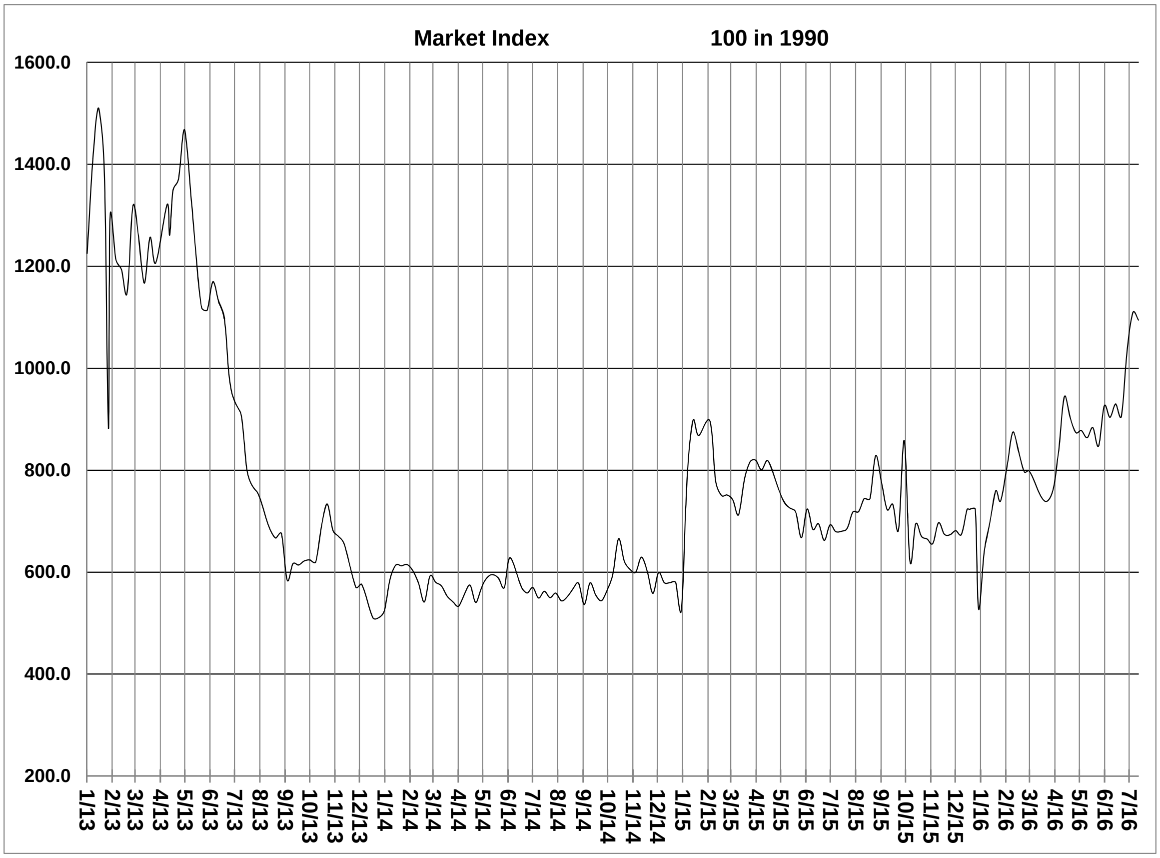
Typical length of appraisal report
-30 Over 40 pages
-20 30-39 pages
-10 20-29 pages
+10 10-19 pages
+30 Same as before AMCs took over

Who does the "reviews" (in addition to lender review software)
- 30 Clerks who can't spell appraisal
- 20 Clerks who are very difficult to understand over the phone
+ 5 Clerks who have had some training
+ 10 Clerks who understand what their employer wants and how to communicate with appraisers
+ 40 Certified appraisers with review experience
+ 50 Certified appraisers with experience in your market

Payment terms
- 60 Used to be timely, now pays very late, if at all
- 40 Always over 90 days
- 30 Always over 60 days
+ 4 Pays within 90 days
+ 10 pays within 30 days
+ 20 Pays on receipt of bill
+ 35 Pays in advance

MBA Loan Volume Application Index 1/13 to 7/16

2016 has been overall going up. But, there is definitely a shortage of appraisers willing to work for low AMC fees. There was a brief boom after Brexit, which has declined. Overall volume is predicted to increase slightly in 2016.



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.

Appraisal Today
ISSN 1066–3900
Appraisal Today is published 12 times per year by
Real Estate Communication Resources.
Subscription rate: $99 per year, $169 - 2 years

Publisher
Ann O'Rourke, MAI, SRA

ann@appraisaltoday.com

Subscriber Services
Theresa Lua
M,T,W 7AM to noon
Friday 7AM to 9 AM (Pacific time)
info@appraisaltoday.com (24 x 7)

Editorial and Subscription Offices
2033 Clement Ave., Suite 105
Alameda, CA 94501
Phone: 1-800-839-0227
Fax: 1–800–839–0014
Email: info@appraisaltoday.com
www.appraisaltoday.com