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2017 E&O Insurance Update - where to get E&O insurance, state board complaints - your biggest risk, etc.

I have been writing this article annually since 1992 and have seen some big changes, mostly when the lender market is bad.

There are few complaints now from lenders as the 2007+ mortgage mess gets farther away.

Last year there were lots of Llano Financing claims (company suing appraisers). This year there have been very few or no complaints and little, if any, money paid to Llano by appraiser E&O companies.

Complaints by state boards are still relatively high. Per Liability Insurance Administrators, 45% of their inquiries are about state board complaints. Landy has similar numbers. Your E&O does not cover this, but some insurers offer a $2,500 to $5,000 and help finding an attorney. If lenders and AMCs ever start complying with Dodd-Frank and turning in appraisals to state boards, this will go way up. Per Landy, they are seeing a more professional appraisal industry than during the boom days pre-2008, decreasing compliants.

E&O Prices are stable. The overall insurance market has been softening with more flexible prices.

Most appraisers are more savvy about prior acts exclusions. Almost all insurers offer no exclusions on prior acts now, but a few may offer lower premiums if you don't get prior acts. Of course, this makes your insurance worthless for liability protection.

Overall, residential appraisal risk for lenders has declined. We are past much of the pre-2009l losses, prices are up, and there is much greater attention to quality control. Separation of the mortgage broker and the appraiser has made a huge difference.

Buying appraiser E&O insurance is very different from auto or home insurance. There are relatively few brokers and insurance companies that handle appraiser E&O. Don't shop just for price. Shopping for price is not a good idea in today's changing liability problems for appraisers. Instead, you need to check out the exclusions, limits, etc. The cheapest is not always the best, especially when you have a claim.

E&O policies have become more homogeneous per John Torvi of Landy, making it easier to compare them.

Most of us hate dealing with insurance of any type, so we usually just stay with our current insurance company. There are some benefits to remaining with the same company, such as sometimes lower premiums, plus familiarity with the services they provide.

If you change insurers, be sure that prior acts are covered. E&O without prior acts isn't anything for liability protection, as you are typically sued up to 5 years after the event occurred. Coverage is not always offered in all states by insurance companies. Be certain to ask if your state is covered.

Many thanks to Peter Christensen of Liability Insurance Administrators (www.liability.com) and John Torvi of Landy (www.landy.com) for the information they provided for this article.

Note: much of this article is

In This Issue

Note: due to extensive article lengths, there are only two articles in this issue!!

reprinted/updated from last year's E&O update. But, we all need reminders of what we need to know about E&O insurance.

The Top Three Liability threats in the next 5 years (Peter Christensen, LIA)

1. Indemnity agreement enforcement. AMCs and lenders are not doing this at this time.
2. Mandatory reporting of "bad" appraisals - mandated by Dodd-Frank, but not being done.
3. Any type of a downturn in real estate.

What about appraisers who are thinking about quitting appraising or retiring?

If you qualify, you can get lifetime coverage for free from some E&O companies. Landy, LIA and Intercorp offer this. Requirements vary widely - number of years with company, years experience, etc. Check with your E&O company.

5 Star Appraisers/Target Professional Programs offers tail coverage for only one year. If you are not eligible for lifetime coverage, getting "tail coverage", which continues your E&O, is very important as the average time period for being sued, after you did the appraisal, is 2 to 5 years. There are still pending claims from pre-2008 appraisals. The cost is typically 3 times the price of your last year's coverage. Check with your E&O company.

Unfortunately, very few of the appraisers who are quitting the business because they can't make it financially get "tail coverage". They just let their insurance lapse. This means that they are self-insuring for all claims for appraisals done before they quit paying for insurance.

If an appraiser owns an appraisal company, retires, and the company keeps going, this coverage is not available.

What if you're not renewing now?

The appraiser E&O market is fairly stable now, so much of the information will be useful until next year's update.

I only do this update once a year, but the phone numbers and Web site links should still be accurate.

It is also a useful source of information for topics such as what is a claim, how to handle communication with an upset borrower, tips on liability reduction, etc.

What are the cheapest policies?

No prior acts, low coverage limits, lots of exclusions, etc.

Do not shop only for the lowest price. Now that we have recovered from the big downturn in 2008, there is no reason to do this. Just doing a few appraisals will pay for a year of E&O insurance and greatly reduce your risk.

Carefully evaluate low priced policies. For example, you choose the policy with the lowest price, but do not notice that prior acts are excluded. Or, there are other items that are not insured that you would like to have.

Policies that do not cover prior acts, or only after a certain date, such as 1/1/08 are the lowest price as you are assuming the risk of those appraisals. THEY ARE WORTHLESS FOR LIABILITY COVERAGE.

45% of claims are from state appraisal boards. Your E&O policy does not cover this. Does the policy offer anything? Even $2,500 and a referral to an attorney is better than nothing. LIA offers $2,500 plus free phone advice and counseling They never had to pay more than $2,500 on a complaint.

Some states are more expensive, such as California and New York. Too many lawyers, I suppose.

What is covered in your policy?

Who reads their insurance policy? Not many of us. But, be sure to read what is covered, and not covered. Carefully read the policy exclusions, such as development and right of way. What professional services are covered?

For example, if you do reviews and measurement-only be sure to call your E&O provider to see if these are covered as they will probably not be listed in your policy.

Be sure to check your policy for when claims can be reported during your policy period (claims made and reported). This is on the first page of your policy.

When do appraisers get sued?

1. If there is a buyer defect, within a couple of months.
2. Some other lender claims have gone back more than 10 years.

What about statute of limitations?

Recently Oregon and Tennessee put limits on appraiser liability. If you work in these states, or want to change the limits in your state, google them.

The statute of limitations laws start the day the problem is discovered, not the date of the appraisal. That is why banks sue for over-valuations longer than 5 years old. The older the appraisal, the harder it is to prove negligence. That is why lenders rushed to file claims during the mortgage meltdown. They are still filing them, but there are fewer discovered now.

In California, they have two years after discovery (finding out about the appraisal) to file a claim. States vary, so check your state's laws.

See Also see LIA Jan. 2012 article at /www.liability.com/claim-alerts/statute-of-limitations-for-a-claim-against-an-appraiser.aspx

Damages vs. claims

Anyone can file a claim for any reason. Damages is when the person receives money. Few claims result in damages.

What is a claim?

A claim is any demand for money or services or a notice of breach of duty. What does "knowledge or information" mean? These terms are interpreted differently, state by state, but it is reasonable to assume that if you've been sent a letter about a possible claim, you've been informed.

If you want to change insurance companies, but think you may have a claim filed against you, check with your attorney or current insurance company. You will not be able to change insurance companies until your claim is resolved.

Who files claims?

Now, most are filed by borrowers who did not get their loans due to "low" appraisals. This has changed from a few years ago, when more were by lenders, FDIC, etc. for overvaluation during the boom years.

Damages for borrowers who did not get their refis could be as high as 30 years times the extra annual interest paid.

What total policy limit amount should you have?

For most appraisers, LIA says $300,000 is adequate. However, some lender/AMC clients require $1,000,000. If you are in a high cost area, consider at least $500,000.

Landy says it does not cost much more to get a $1,000,000 policy and make all your clients happy.

For most appraisers, clients tell you how much insurance you must have to work for them.

Why have any type of insurance, including E&O?

The purpose of insurance is asset protection so that you don't lose your home, savings, etc. Plus the cost of defense, which can be substantial.

You decide which level of risk to take. For example, auto insurance with no deductible or a high deductible. For appraisers, E&O with minimal coverage and many exclusions would be a high risk. I have never had the cheapest E&O as it is a risk I don't want to take.

Don't EVER let your E&O insurance lapse!!!

Claims made coverage is the only type of appraisal E&O insurance available now. In this type of coverage, the claim must occur while the policy is in effect. The error or omission causing the claim may occur during the policy period, or if "prior acts" coverage is applicable, prior to the policy period. If you don't have prior acts coverage, both the claim and the error or omission must occur when the policy is in effect.

In contrast, many types of insurance, such as fire insurance on your home, is made on an occurrence basis. In this type of policy, the insurance company covers any act or omission that occurred during the period the policy was in force - whenever the claim is filed. This type of coverage is not available for appraisers' E&O insurance.

For most appraisers, unless they're just starting self-employment, prior acts coverage is almost mandatory as claims are usually filed long after the alleged error or omission. According to Bob Wiley of LIA, a study he did showed that, on the average, you are sued 30 months after the appraisal is done.

Prior acts coverage cannot go further back than the last uninterrupted claims made policy.

Remember, if you have had a lapse in coverage, you cannot get prior acts coverage for any appraisals done prior to that time.

What about having no E&O insurance?

The reason for having any type of insurance is risk reduction. The risk is losing your assets (house, stocks, savings, etc.), plus paying defense costs. E&O is the same. Without lenders' requirements, probably many appraisers would not have E&O insurance.

Some commercial appraisers don't have any, as few of their clients require it.

If you don't have E&O coverage, I strongly recommend taking measures to protect your assets. Many appraisers say they don't have any assets. But, this applies to savings, retirement accounts, real estate, etc.

The best way to protect your assets is to put them all into a trust, managed by someone else, such as a spouse. You will need an attorney to set this up. Another option is to put all your personal assets in a spouse's name. Unfortunately, changes such as a divorce can make this messy.

Myth - "If I don't have E&O insurance, I won't get sued"

I have heard this from many commercial appraisers, as long as I have been an appraiser, 40 years now.

This is false.

Peter Christensen, before working for LIA, was a lawyer who sued people (probably few, if any, appraisers) for various reasons. These attorneys typically work on contingency. Below is his advice.

Attorneys that sue individuals often look to the assets of the person, not necessarily their E&O coverage. For example, you are in a lawsuit with a $100,000 claim and you have no insurance. It is much easier for an attorney to get the money if they don't have to hassle with an E&O insurance company. The appraiser can pay them off using home equity, savings, retirement accounts, borrowing from friends and relatives, etc.

Myth: "My business is incorporated, LLC, etc."

Incorporation and other business structures do not help reduce appraiser liability risk. You are sued directly as a professional appraiser.

Those structures can protect you from other types of lawsuits, but typically appraisers are sued because of an appraisal.

Commercial appraisals - the largest claims

E&O premiums for commercial appraisers are higher than for residential. Dollar loss from claims is much higher than for residential. Commercial appraisers are much more likely than residential to not have E&O insurance, as only a few clients require it. Instead, they self insure.

Per John Torvi of Landy, the ratio of residential to commercial appraisal claims is about 10:1. On the plus side, commercial owners, buyers and sellers are much more sophisticated than residential. They are not "emotional" and base their decisions on facts. Also, commercial properties are not subject to the strict protections of residential properties. Fees on commercial appraisals have been low for awhile after 2008. Some lenders allow more "minimal" appraisals, which can increase appraiser risk.

Especially risky are development loans made during the boom times. They are very risky for banks. For example, a developer has a construction loan or credit line for $8,000,000 that is up for extension or for a new loan. The developer can't get a loan and loses the development and sues the appraiser for $8,000,000, well over the appraiser's E&O limit.

New developments are also risky for appraisers, especially vacation homes with a limited market. They are also risky for residential appraisers if the development fails and buyers are left with uncompleted amenities, such as roads, landscaping, etc.

Some E&O companies will not cover any commercial appraisals because of their high risk.

Commercial appraisals are risky because the dollar amounts of the properties are often significantly higher than for residential.

E&O prices for commercial appraisals are higher than for residential, but not by that much. For example, I have a $1,000,000 policy (commercial and residential) that cost me $1,476 in 2010 and $1,142 in 2012 (lots of lender lawsuits). My 2014 premium was $995, 2015 premium was $1,204, 2016 premium was $1,075. In contrast, a $1,000,000 residential policy is around $700.

If you do many appraisals for development loans, or other loans that are well over your policy limits, you will have to pay whatever is over your policy limit.

FYI, commercial loans are typically for about 5 years, not 30 years. In my area, commercial properties declined about 40% from the peak in 2007 and started coming back up a few years ago.

What about AMC complaints?

Very few complaints, if any, are filed by AMCs. This may change in the future, if lenders decide to "go after" AMCs. FYI, AMC lender agreements are usually much more stringent than agreements between AMCs and appraisers.

What about Dodd-Frank's requirement for lenders/AMCs to turn in complaints on appraisers to state boards?

Very few lenders and AMCs are paying any attention to this requirement.

But, they tend to be like sheep. For example, one adds a requirement, then others follow. So far, the state board complaints and fines have focused on C&R fees.

If this ever starts happening, there will be many, many complaints filed against appraisers to their state boards.

This could be a big risk for AMCs as the state regulator could revoke their license and cause significant financial difficulty if a major client is lost. A few years ago, a large AMC purchased a smaller one whose state board license had lapsed in a state. The state suspended the larger AMCs license for 2 weeks. Per the AMC they lost $10,000,000.

This is one of the major risks for appraisers in the future.

Policy exclusions

Check what your policy includes and what you can get for an additional fee. Exclusions have been increasing. Before renewing or changing insurers be sure to carefully check the exclusions. All policies have exclusions.

Risky exclusions include claims for financial damage and prior acts.

Some companies are excluding FDIC claims, plus the typical new construction, etc.

Certain years may be excluded, such as 2005-2008.

Ask for a sample policy and carefully check the policy exclusions before renewing or changing companies. They all have exclusions. You could have your business attorney review your policy.

Other types of exclusions are claims based on discrimination, pollutants, mold, or waste. Call the broker or insurance company and ask for an explanation of any exclusions not mentioned in the application.

Most exclude appraisals for certain types of development.

Don't ever lie or misrepresent on an E&O application

Why? They may not cover you if there is a claim.

It's never a good idea to lie or misrepresent on an application. If there's a question you don't understand, call and ask them what they mean and why they are asking the question. If the questions could cause you problems, look for another insurer who doesn't ask that question. But, they all ask if you've had any claims filed against you, or know of any circumstances which may cause a claim to be filed, or if you have been disciplined by any professional organization, agency, or court.

What about getting insurance with previous claims or damages?

A prior claim or damages does not mean automatic denial. The appraiser may not have been guilty and the suit was settled out of court. Most cases are settled. Very few cases go to trial.

What about trainees and independent contractors?

The supervisor who co-signed the report is equally liable. If your E&O did not include trainees, you will have to pay for their mistakes.

If you have an appraiser or trainee that you co-sign for, be sure they are covered under your policy. Or, get a copy of the appraiser's policy.

Most frequent reasons for claims today (LIA)

1. Square footage
2. Under-valuation (Borrower doesn't get the loan.)
3. If there is a buyer defect, within a couple of months. Both the agent and the appraiser are sued.
4. Septic vs. sewer (Borrower failure to disclose) Unfortunately, some appraisers don't check for this. It can occur in urban areas. Be very careful to check if this is an issue in your area.

State appraisal board cases

Per LIA, about 45% of their inquiries from appraisers are about state board complaints.

RELS was sending appraisal complaints to state boards, both staff and independent contractor appraisals. It is no longer owned by Wells Fargo and was sold to another company last year. Hopefully complaints will decline. They have many more than any other complaint source. Dodd-Frank did require mandatory reporting, but very few lenders are doing it. Just like all claims, appraisal board complaints are from dissatisfied borrowers. Lawyers are becoming more savvy about filing complaints with state boards.

This type of coverage is becoming more important.

Check to see what your E&O provider offers.

Coverage for state board complaints is very limited, as compared with other features of appraiser E&O policies. It only applies to attorney costs. You will need to hire your own attorney.

Your E&O company hopefully can advise you on who to hire.

State board complaints

Although states were expecting many complaints due to Dodd-Frank mandatory reporting, it did not happen. Few complaints are from lenders. A slight majority are from homeowners, with about 50% about low values.

However, state board complaints and penalties are an increasing problem for appraisers. I always strongly advise getting an attorney to help you. Don't reply without one. Don't argue with the borrower or your state regulator. Penalties are a bigger problem as they must be reported when you fill out an E&O application.

Why it is important not to get a public admonishment/fine from your state board

Savvy attorneys (and maybe some AMCs and lenders) will check with your state board to see if your name has been published with a fine, fees, etc.

State Appraisal Board cases

Several companies provide from $2,500 to $5,000 (or more) to its insureds if a complaint is filed by their state boards, and offer to find attorneys to help with the state board complaints. The number of complaints varies widely among the states, primarily depending on the state regulator.

There is concern about increases in state board cases due to the "mandatory reporting" requirement of appraiser "problems" in Dodd-Frank. But not much has happened yet. If the Consumer Financial Protection Agency starts auditing lenders, they may require that the lenders file complaints.

Some other insurers offer limited coverage and/or assistance if your state appraisal board challenges one of your appraisals.

LIA and OREP offer a free consultation to their insureds to evaluate your response to the state board complaint.

Number of claims stabilizing

Most claims have stabilized and are at a much lower level than in the past.

Estate and trust appraisals - IRS penalties

Appraisers can have penalty assessments, up to 125% of the appraisal fee, for undervaluation resulting in reduced estate taxes. Be careful. This is not covered by your E&O insurance.

How many claims go to court?

The vast majority just go away as they are not valid. For example, the value was too low and they didn't get their loan. Most are dismissed, some settle and under 5% go to court. Almost all lawsuits, whatever they are for, get settled before trial, often just before the trial starts.Appraisers who do litigation work see this regularly.

Many appraisers think that the E&O companies want to settle to avoid litigation costs. This may happen sometimes, but many appraisers just don't want to go to court and prefer to settle and "get on with their lives", so they agree to settle, typically after 1.5 years. Some appraisers are unwilling to admit they made a mistake and are hard to defend.

What about FDIC coverage?

FDIC complaints are much less common now that we are farther from 2008.

Complaints can come from any government regulator, not just FDIC.

Why do appraisers get sued?

Shift from over-valuation (lenders) to under-valuation (borrowers). As the claims from lenders against appraisers for over-valuation during the boom years winds down, it is being replaced by property owners saying the appraisal was too low and they didn't get their refi or purchase.

Most complaints are from third parties, such as buyer, seller, and real estate agents.

Per John Torvi, issues are:

- Undervaluation with over 5% difference in opinion of value.
- Unpermitted additions
- Measurement (sq.ft.)
- Cess pools (Editor's note: also septic tanks)
- Mechanical problems

Torvi advises stating what you observed and taking lots of photos. You are not a home inspector. For example, don't say the roof is okay or needs a new roof. State what you see, not what the problem is. Claims can be about anything. He recently had a claim that said the appraiser did not disclose defects covered by drywall.

John Torvi says "Disclose, Don't Diagnose."

How to handle the first contact from a borrower

Sometimes it can start with a phone call, such as a nice or nasty borrower. Keep your composure. Your client is the lender. Don't say "Sorry, I made a mistake. How do we fix it?" You may not have caused the problem, such as a trashed foreclosure. Don't "do a favor" and offer to pay for the damage.

Your first contact can also be a letter.

Be sure to contact your E&O company. Don't ever try to handle it yourself.

Recent claims from LIA files

Editor's note: None of these are new topics.

- Accepting an appraisal and turning it in late or not at all.
- Expert witness appraiser turning in complaint on appraiser for the other side.

Unpermitted additions

There are claims on this, usually by the buyer. Information is much more easily available online, from local jurisdictions or online services that compile and sell the data.

When I started appraising in the mid-1980s, most of my lender clients said to not go to city hall to verify permits, because the borrower "may get into trouble." But, now lots of permit info is available online. When I get permit info at a building department I just get the records and look to see if a permit was taken out and finaled.

Whether or not an appraiser is liable is somewhat controversial, but be sure to prominently disclose what you did, or did not do, in your report.

Peter Christensen advises:

- If you see poor quality construction, beware
- State in your report what you saw and did. For example, the addition appears to be lower quality (include photos). Per the owner, no permits were obtained. I did (or did not) check permits at the local building department.

Attic and basement conversions

State "in plain English" what you saw and determined. For example, public records has 5 bedrooms, but two of the bedrooms were in the basement, which is not included in the GLA. It was in a college town and was purchased by an investor. The number of bedrooms made a big difference.

Assessors and lenders can have different ways to evaluate finished basements. Also, lender requirements (and local preferences) can change over time. With the wide availability of free public records online, lenders and lots of other people, unfortunately, think they are correct.

What if you do 1-4 unit residential plus sometimes land or small commercial?

Be sure to check to see if the policies cover these additional property types. Some don't.

What about deductibles?

Look for no deductible for defense (see above), minimal deductible for damages, which applies only if you lose the case.

If you have a claim will your E&O get cancelled?

"It depends" per LIA. The farther back in the past, the better. Whether or not you were at fault, and how you were at fault also matter, i.e., a mistake vs. intentional deception.

Typically, they don't immediately stop your coverage. Instead, they won't renew your policy. You must find another company, which can be tough if you have had a claim that resulted in damages. You may have to go to a high cost policy with a company that has them available at $5,000 or more per year.

Another major factor is if the claim is still open. Insurance companies don't know what they will be getting into if they insure an appraiser. So, you won't be able to change insurance companies until it is resolved.

If none of the regular appraiser E&O insurance companies will insure you, there are companies of the last resort that will insure appraisers who have had a claim. The annual cost? One appraiser reported getting a policy for $5,000 a year.

Intercorp, Landy and Liability Insurance Administrators have a special program for appraisers with claims. Other E&O insurers also offer this insurance. The cost is high, typically $2,500 to over $10,000, but it is available.

How can you reduce your risk?

• Check out your clients, particularly their financial health. You don't want to be dragged into a lawsuit.

• Adequate supervision of less experienced appraisers.

• Not relying on information provided by the owner, Realtor, or developer. Check it out.

• Document, document, document. Put it in writing. Take photographs. Otherwise, you won't be able to remember, or prove, something that happened several years ago. Keep your photo negatives and digital images. Keep a diary of who you've called and what they said.

• Document all property deficiencies in your report.

• Don't attempt an assignment beyond your expertise. Split the fee with a more experienced appraiser.

• Investigate the qualifications and experience of a potential new hire or independent contractor. Be sure they're not in a lawsuit.

• Check for clerical errors. They can be very expensive. Flood zone, and as is/as completed boxes are a common source of errors.

• If you are unable to inspect something, such as the type of foundation or insulation, put down "unknown".

• Turn down high risk appraisal assignments.

• Carefully screen new clients.

• You get a "feeling" about a prospective assignment or client. Most appraisers have them. I learned the hard way to just say no, after getting badly burned a few times.

For example, I took an estate assignment from the person handling the sale of her grandfather's home. They needed a value for when he died. The pre-screening with the granddaughter went fine over the phone, so I accepted the assignment.

When I got to the property, a man was there. I identified myself and asked who he was. His name was on the front of his shirt, the same last name as the person who called me. So I asked if he was her husband. He started asking me a lot of questions about my qualifications I had already answered with his wife.

Then his wife showed up and he kept saying he needed a low value and wanted to know what it would be. I explained that I could not provide it and that it would be very difficult to determine as the home was a major fixer upper.

Plus, it would enter escrow as soon as it was listed with multiple offers in early June, so this would have to be explained in the report since it is for estate purposes to establish a new basis.

I said the January 2013 value would be less that the June sales price as prices were increasing about 3-4% per month in 2013. Then I asked if they wanted an appraisal and they said no.

As I was driving back to my office, I got paranoid about state board complaints, lawsuits, etc. I was writing up this article at that time and was very, very glad the appraisal was cancelled.

What should you look for in a policy?

If you're a solo residential appraiser, price shopping is easy. Often, the rates our posted on the insurance broker's web site. Don't select the company on price alone. Be sure to evaluate the company as well as the policy.

Also check out:

• Prior acts coverage for as long as you have had continuous coverage without any lapse.

• Deductible, per occurrence, and aggregate dollar limits. Most policies lump together the defense and loss into one total dollar limit. For example, the first $2,500 is paid by you. Or, the policy does not apply for defense, only for 75% of the damages.

• Coverage for both the claim and the legal defense.

• Any exclusions. Be sure to investigate both the application, and the policy itself.

• Assistance if you have a question. This is the main reason why I have stayed with LIA. I have only called them a few times over the past 25 years, but I will never forget that they advised me on what to do. They also help with state board problems and have a full time attorney on staff, Claudia Gaglione, to help. She has many years of appraisal liability experience. I also knew they would not cancel my policy if I called.

• No deductible on defense expense ("First dollar defense")

• Coverage appropriate for your past and current business. For example, covering trainees who used to sign on reports that you co-signed. There are still claims being filed for appraisals done during the "boom years" when there were lots of trainees.

Price, of course, is also a consideration. Be sure to get several quotes, especially for firm and commercial coverage, as there can be wide variations.

What insurance brokers should you use for E&O?

All the companies listed in this article are insurance brokers who work with two or more insurance companies. Typically they have one, or a few, insurance companies that they use for most appraisal polices. They have other companies they use for states where those companies don't cover appraisers, there are multiple appraisers in the appraisal company, or other issues the appraiser has.

I always recommend using a company that specializes in appraiser E&O insurance. Most, if not all, advertise in appraisal publications. Brokers who insure real estate agents and related professionals can also work. However, they are not always the best choice as they are not familiar with appraisal issues, which are very different than real estate agent issues.

A general insurance broker, who handles your auto, home, general liability, etc. is not a good choice, as they are not familiar with the issues. Of course, they could place your coverage with one of these insurance companies, but they would not be able to help you with questions and give advice on issues that come up when doing appraisals, such as strange AMC requests.

What about using an independent insurance agent, similar to agents for home and auto insurance?

I don't recommend this. Appraiser E&O is very specialized and few, if any, general insurance agents will know much about it. For example, the agent may find the lowest price policy, but it may not cover what you need.

The agent may not know about the relatively few brokers that specialize in appraiser E&O. Most of the insurance brokers in this article work with independent agents, except for LIA. Also, the agent may be motivated by a higher commission from one company.

What is a Program Administrator?

Last year I spoke with Peter Christensen, an attorney with Liability Insurance Administrators. He mentioned that he was working on an appraiser insurance policy. LIA is a program administrator for their primary carrier, Aspen Insurance Holdings, Limited. Program administrators can also handle claims, so they are able to provide much more information than the other brokers.

Intercorp and Landy are also program administrators for their primary insurance companies.

Per Peter Christensen of Liability Insurance Administrators, "There is no bright line between broker and program administrator, but some of the defining characteristics are that a program administrator is more like a wholesale source (because it might sell through retail agents also as well as direct), a program administrator will usually have authority from the insurer to underwrite and bind policies, a program administrator will usually issue the policies (not the insurer), and a program administrator may be the one to whom claims are reported (as we are at LIA). We do all of these functions. The other companies you name perform at least some of the program administrator functions and I would consider them program administrators. But, note program administrators are always also brokers too (they must be licensed as brokers to sell insurance)."

What does this mean for you? I prefer a program administrator as they are very familiar with the policies and procedures of the insurers they represent. I also like that they receive the claim requests.

My E&O insurance

When I started my appraisal company in 1986 I used Liability Insurance Administrators. A few years later, they were not active in this market, so I went with an insurance broker affiliated with NAREA, which had a great "occurrence" insurance policy which was similar to car or fire insurance - if you had it, you were covered for any claims at any time. When they shifted to claims made in 1991, I switched back to LIA.

I stayed with LIA because I knew if I had a claim, they would not cancel on renewal. Also, they gave good advice when I had a question, from an attorney very familiar with appraiser E&O issues. They were never the cheapest, but the prices were reasonable for me as I do both commercial and residential. Their prices went up and down over the years.

I also like the state board complaint assistance and the $2,500 coverage.

E&O Insurance Companies

Note on broker contacts: I have listed brokers who work with appraisers all over the country.

I don't recommend using your local insurance agent for appraiser coverage as they can't help you if you have a claim. They are unfamiliar with the market.

Most brokers that offer appraiser E&O also offer coverage for other professionals, such as real estate agents and home inspectors. Mercer offers coverage for physicians and dentists.

For appraiser E&O some brokers offer coverage from a primary carrier with secondary carriers for appraisers who have had claims that resulted in damages. Others offer coverage from multiple insurers and can shop around for you.

For example, Lloyds of London is an insurance company. Landy is an insurance broker.

E&O Insurance Companies - 2017

5 Star Appraisers/Target Professional Programs
Note: 5 Star is now affliated with Target Professional Programs and has been advertising under that name. All states through Lloyds of London. Only offers prior acts back to 1-1-10. Offers 1-4 unit residential coverage, light commercial property (less than 50,000 sq.ft./maximum 4 stories), and agricultural property. Only offers tail coverage back 1 year.
Contact:
5 Star Appraisers/Target Professional Programs
1230 East Diehl Road, Suite 350
Naperville, IL 60563
800-497-4644
www.targetappraisers.com

Alia
Coverage through Lexington, Navigators, and Genstar.
Contact:
2645 Financial Ct., Suite A
San Diego, CA 92117
800.882.4410
www.aliains.com

CRES Insurance Services
Coverage through QBE Insurance Co.
Contact:
CRES Insurance Services
15010 Avenue of Science #100
San Diego, CA 92128
P: 858.618.1648
F: 858.618.1655
www.cresinsurance.com

Intercorp Insurance Program Managers
Coverage through Lexington.
Contact:
Intercorp Insurance Program Managers
1438-F West Main Street
Ephrata, PA 17522-1345
Phone: 800.640.7601
www.intercorpinc.net

Landy Insurance Agency
Coverage through Great American Insurance Company.
Contact:
Herbert L. Landy Insurance Agency, Inc.
75 2nd Ave. Suite 410
Needham, MA 02494-2876
800-336-5422
www.landy.com

Liability Insurance Administrators
Coverage through Aspen Insurance Holdings Limited. Contact:
1600 Anacapa St.
Santa Barbara, CA 93102-1319
800-334-0652
www.liability.com

Mercer (formerly Marsh) Affinity Group Services
Coverage through Genstar
Contact:
Mercer (formerly Marsh) Affinity Group Services
Page 16 - June 2016 Appraisal Today
P.O. Box 8146
Des Moines, IA 50301-8146
Phone: 800-375-2764
Fax 515-365-3043
www.proliability.com

OREP (Organization of Real Estate Professionals)
Insurance though about 4-5 difference insurers
Contact:
OREP (Organization of Real Estate Professionals)
6760 University Ave. #250
San Diego, CA 92115
Phone: 888-347-5273
www.orep.org

John Pearl & Associates
Coverage through Intercorp, Lexington and other insurers.
Contact:
John Pearl & Associates
1200 East Glen Ave., Peoria Heights, IL 61614
Phone: (309) 688-9000.
Fax: (309) 688-5444.
www.pearlins.com

J.A. Price Agency, Inc.
Coverage through Mercer (formerly Marsh) Affinity Group Services. Lexington, Genstar and Navigators
6640 Shady Oak Road, Suite 500
Eden Prairie, MN 55344
Phone: 952-944-8790
Toll Free: 800-279-1623
Fax: 952-944-0097
www.japrice.com

Victor O. Schinnerer
Coverage through CNA (Continental Casualty Company) insurance company.
Contact:
Victor O. Schinnerer
Two Wisconsin Circle
Chevy Chase, MD 20815
301-961-9800
www.schinnerer.com

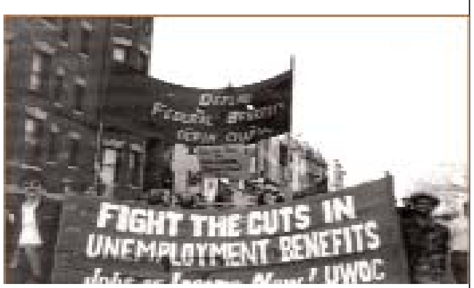
The Shape Shifting Appraiser. What are the 2027 options for appraisers?

By Barry Bates

Editor's comment: After appraising for 4 years at California assessor's offices, I realized I needed a better business education so I got an MBA in 1980. I had planned on going back to commercial appraising. But, mortage rates were over 15% and there was limited demand for appraisers. Available appraisal jobs were low paid.

I got a job as a real estate manager for a biotech company, combining my appraisal and previous experience working in labs. After 5 years in biotech, I gave up the "corporate life", which I did not like, and started my appraisal business.

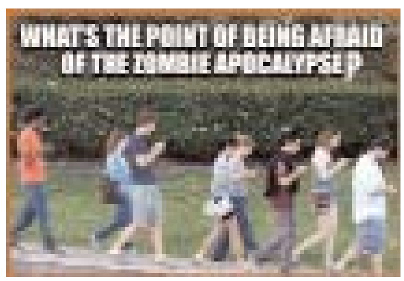
This is the fourth and last article in a series examining the probability, causation and collateral damage (play on words intended) resulting from a dramatic decline in the quantity of full appraisals that will be ordered by mortgage lenders over the next 5-10 years.



(Excuse the repetition. Some of my comments here are fleshed out in the other articles. This is an overview that is intended to give the newbie appraiser a picture of the past and current upheavals in the lives of residential appraisers. If you would like to comment on my stuff, please email me at barrettbates@gmail.com.)

The prediction (my own) is predicated on the likelihood that recent improvements in artificial intelligence and data quality/quantity will enable the implementation of one or more automated valuation models that can produce estimates that are superior on average to "organic" appraisals.

As in the 90s, the GSEs are working on them quietly and will gradually roll them into their respective underwriting systems. The current GSE trend toward appraisal waivers, especially in new or tweaked mortgage products, plus the silent elimination in 2015 of the full appraisal requirement for every new first mortgage, support the theory that full reports are on the way out, at least until the next zombie apocalypse.



The argument is that in terms of minimizing collateral-related payment defaults suffered by investors in mortgage instruments, more accurate market valuations will help keep the default rate squarely under 5%, the rule of thumb since the Battle of Hastings.) No amount of bellyaching will defeat the AVM on steroids if comparison stats show that of 1,000,000 first mortgages, those made with AVMs suffered a lower default rate than those written by human appraisers after all other variables are swept clear.

How my son started as an appraiser and changed careers

My 43-year-old son, Zed, appraised with me for a year or so of the early 90s when he was still in college (rolling his eyes most of the time). He later leveraged the field flexibility of his job as a supervisory standards compliance auditor for an international auditing firm, since he worked almost exlusively on remote.

He rehabbed and flipped a house in 2010($40K to $140K) and plugged the equity into a bigger family home up on the hill in Oakland, California. When San Francisco prices went through the roof, the "Google effect" crept across the bay, happily infecting his downslope bungalow in a not-very-nice hillside area.

Using his architect's ticket from college, he remodeled the house (with permits! And high-end materials) and added a basement unit, which must have cost him most of his flip equity.

He bought the new place for $365,000 when his wife had their first baby in 2012. He sold it in 2015 for $805,000 and moved the family to Seattle to find their dream home.

He still supervises auditors, but has now flipped 5 other properties and has a net worth of which his Dad, a spiritual giant who wears the sacred thread of an Advaita Vedanta devotee, is furiously envious.

The point here is that if Colonel Sanders could start KFC at age 60 after selling chicken batter on the road, the economy should easily absorb 50,000 residential appraisers as small business owners *who got started on repurposing their work early* and got to $100,000 in annual income within two years of transition.

How do you change professions in midlife to get steadily increasing income?

The question is how does one change professions in midlife to achieve steadily increasing income? In successive markets that did not

experience cataclysmic technology changes, Dad didn't even open a savings account for retirement (two bad marriages and a 34-year AA chip provide no excuses).

If you think that my prediction about residential appraisal is even remotely possible, get started NOW. If you think I'm too negative, at least get started on Plan B.

Why did lenders need appraisers? A look at pre-2007

I texted my son to get his view. What should I be telling appraisers in the most helpful way? He texted me back:
"Leave the business. If banks won't need [human] appraisals, buyers (who have a fraction of the bank's investment in a given property) sure don't. How many cash deals stipulate an appraisal? Never happen."

After I read his note, it occurred to me that if buyers, sellers and agents consider an appraisal in a cash deal nothing more than a potential obstacle to closing, why do lenders think it's so important?

If credit is properly underwritten and there are no hidden property flaws, shouldn't the "meeting of the minds" be a sufficient indication of intent to perform on the part of the buyer/borrower?

Usually, when the collateral (house) enters into the default risk equation, it's by way of an overvaluation of the real property. Overvaluation gets the deal done for the buyer/borrower, especially in situations where the maximum loan-to-value ratio is not set until underwriting and appraisal are complete.

Too often, the borrower defaults on the loan within a year or two (or even at the first payment. First payment defaults or FPDs are a popular securitization tranche. Normally, the borrower's credit capacity, intention or willingness to make high monthly payments was incorrectly or poorly evaluated by the lender (or simply ignored).

In the old days (1970), it meant that a human underwriter did not apply adequate due diligence. Because the mortgage industry has historically been the user of about 90% of national residential real property appraisal reports (thus keeping about 50,000 residential appraisers in beer and skittles), even a modest drop in home loan volume meant a palpable drop in the appraiser's income.

GSEs and lenders move to "smart" AI-AVMs

Conference conversations with lenders and government sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac are quietly contributing to the development of this future "smart" AI-AVM,.

They claim that a supercharged AVM will not only make valuations more consistent, the conclusions will be more accurate by being grounded in sale and mortgage statistics. They will therefore be more "conservative" (lower).

This assumption requires that such an AI-AVM will be a kind of deus ex machina that will prevent overvaluation and its recently catastrophic effects on housing and the larger economy. But that rosy view in turn assumes that the purveyors of such models would not tamper with the algorithms or embed unfounded assumptions in order to please customers, who often "need" a higher number.

AMCs and appraiser "shortage" after 2007

Appraisers started fleeing to other professions, which created a general impression in mortgage finance of an "appraiser shortage". (In my case, I fled from subprime origination to subprime securitization. I went from Ameriquest Mortgage to Morgan Stanley Mortgage Capital, a move about as effective as changing deck chairs on the *Titanic*.

Statistics regarding licensed appraisers nationwide did not support the existence of a shortage; appraisers were simply changing jobs or saying "no" to low fees and/or valuation pressure.

Appraising and automated underwriting took over by 2007

By 2007, processing had been taken over by automated underwriting systems (AUS) at the originator's or GSE's place of business. Likewise, when a GSE purchased a mortgage, its data was run through a similar system.

Not only does loan volume periodically reduce the height of an appraiser's in-basket, the 2007 crash also decimated the fee that an appraiser could charge per report, not only due to the shift in supply and demand, but because AMCs cornered the orders and lenders no longer held their loans in portfolio.

Automated underwriting made

When I was a boy of 14, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much the old man had learned in seven years.

-- Mark Twain

appraisal conclusions more consistent, alright: consistently high. Immediately after origination, the loan was sold into a securitization.

This eliminated the originator's need to worry about loan performance or care much about overvaluation, unless the bank or fund that bought the loan tried to "push it back" based on the originator's "reps and warranties".

To address investor appetites, "subprime" lending came into being ("bad credit OK!"), exacerbating already brutal pressure on appraisers) for higher values (by mortgage brokers and commissioned loan officers. Aggravating the situation were artificially heated market conditions.

Appraising after AMCs took over

After over 200 years of professional practice, honest appraisers in 2007 and onwards had never worked under such discouraging conditions.

After the crash, when appraisal management companies (AMCs) were inserted by laws and regs as intermediaries between originators and appraisers (ostensibly to lower risk through knee-jerk legislation and regulation), the appraiser lost direct contact with originators and investors.

Also lost was an established, often even amicable, relationship with the lender's loan broker, who cared about E&O risk. Accordingly, appraisal fees plummeted (from $350-$450 to $175-$325) as rank and file appraiser/contractors were forced to bid on available assignments online.

If you were not in the good graces of multiple AMCs, or not an appraiser already in good standing with multiple interactive AMCs, you saw order volume drop as fee levels crumbled. It seemed as if fee levels were cut by 30%-50% overnight.

Appraisers who complained might be blacklisted by a single AMC, but find himself or herself out of work entirely because the AMC's appraiser list was used by several other AMCs or AMC clients.

Lenders generally had accepted that an independent opinion was necessary. But AMCs, instead of following the regulatory spirit of the Dodd-Frank regulations against compromising appraiser independence, would simply establish procedures or system algorithms to ensure that appraisers who didn't consistently "make value" would receive fewer orders or no orders at all.

Although federal regulations made AMC responsibilities eminently clear, there was enough lack of clarity and oversight to permit the abuses described above.

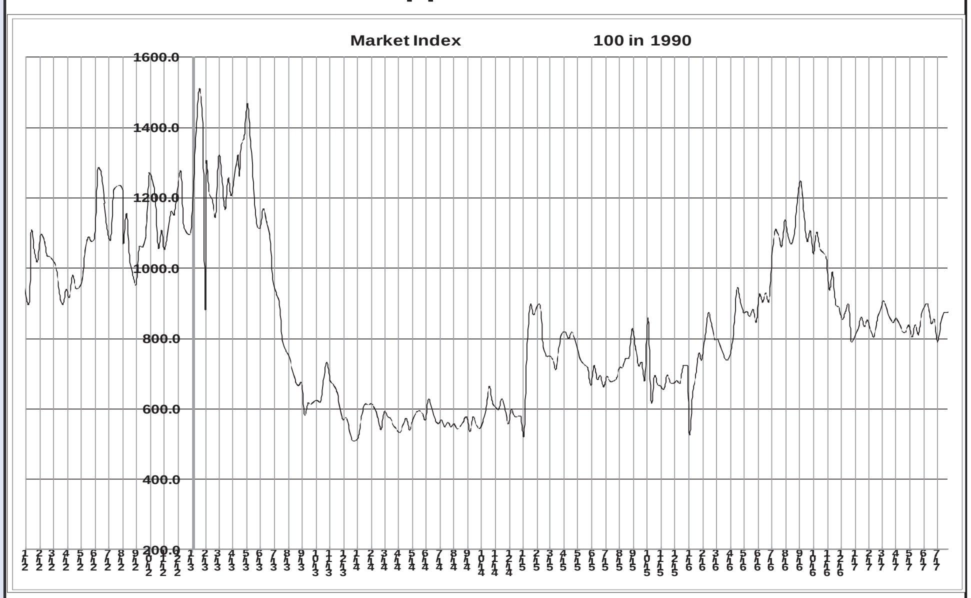
To be fair, AMCs were put in the uncomfortable position of either joining the game of musical chairs or shutting down (which many did).

For a while, rabid investor demand for mortgage-backed securities was insatiable and competition fierce. To complicate matters, many AMC founders knew little about appraisal or mortgage origination risk. While working at a subprime lender's shop as an appraiser/negotiator for the purchaser of a portfolio of loans, I found that the prospective purchaser (my client) would not be able to buy if the prospective buyer's underwriters and appraisers rejected more than 5% of the pool.

This seller's "extortion market" extended far beyond my cubicle.

In 2030 why will appraisals be needed?

MBA Loan Volume Application Index – 1/12 to 7/17



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In a future (2030) market context, it may be irrelevant whether the property valuation is a reasonable price that a buyer should expect to pay. The purpose of the valuation is to control institutional risk, not to ensure that those water-stressed shutters are cute enough.

It surprises most people, even residential appraisers and other housing professionals, to learn that it's not at all clear in economic theory whether the August 2007 housing collapse involved the effect of financing on home prices, or vice versa.

More than one white paper has suggested that the effect of subprime lending on prices was not a major component. But that loose credit had been problematic since at least 2001, during which span of time mortgage lending appeared to have an increasing effect on home prices.

A number of developments contributed to the increase, including the advent of new mortgage sources for developers and real estate investors. At least a couple of fingers point to extensive use of mortgage securitization, which created a new undercurrent of financial instability. The other day, while trying during breakfast to discuss all this with a fellow mortgage hound, my erudite appraiser friend contended that if capital adequacy rules were based on real home price appreciation, none of this would have happened.

Maybe so, but after he inhaled a sip of his mocha latte into his lungs, he totally wetted the front of my *Wall Street Journal*. Economics is a truly "dismal science"; it's messy and I don't understand it.

I bring all this up partly just to confuse you into thinking I know what I'm talking about, but mostly to emphasize that supercharged AVMs may make a second surge into lending.

This time they will gain ground that skepticism prevented in the 90s and 2000s (up to 2007) by poor geographic coverage and inconsistent conclusions.

With AI algorithms and GSE portal data, the credibility needle may sway dramatically in the direction of technology vs. carbon-based life forms.

Alternatives for appraisers in 2030

So now, after surfing through the future of the residential appraiser in lending and other traditional areas, we come to the remaining question:

Discouraged by the advent of the "driverless appraisal" and a need to replace up to maybe 75% of monthly income, are there options?

What types of work will residential appraisers be doing in ten years that today would be considered "outside the box", a geeky idea, patently insane or infeasible?

To start, we should look at new business ideas, based on the partly true (albeit old) saw that "you can't make money working for somebody else."

Residential fee appraisers, who work long hours for delayed and uncertain paychecks, have been shuffling along at $45K-$65K per year (net income). The following ideas assume they would prefer $100K. At least.

Writing professional rebuttals and advocacy reports.

I actually tried this last year after I had recovered from my final job (state appraisal regulatory investigator).

But I couldn't figure out how to penetrate an existing unserved market (buyer and seller agents) to avoid having a new product in potentially high demand without being able to get to the buyer at the right time.

Is there a residential appraiser breathing today who has not faced the turmoil created by his or her value conclusion when it is short of the number needed to take down the preferred financing? Well, the appraiser usually just keeps her head down while the buyer, lender, borrower and agents rage overhead.

In the last few years, however, formal rebuttals of lender appraisals have enjoyed some success in changing the automated underwriting systems' (AUS') opinion of value, which usually is the same as the appraiser's number. But it is sometimes adjusted by the AUS for cash equivalency or some other recommended adjustment.

Rebutting an AVM should be a simple matter, even if it's AI-supercharged. AVMs may still fail to find all negative neighborhood externalities, properly evaluate deferred maintenance or miss important clauses in the sales contract.

So I went door-to-door or phone-to-phone in my local market (I was moving, so Sacramento and Pittsburgh) to ask Realtors? what usually happens when their sale goes sideways because of a "low" lender's appraisal.

Answers: Most of the time, the deal dies. Or a new lender steps in and the new appraisal makes the deal work despite the buyer having to pay some fees twice. The lender accepted the agent's, buyer's or seller's rebuttal. (Of course, I rarely heard the last remark. Agents have neither the skills nor the motivation to write a detailed analysis for the lender on why the lender's review appraiser was clearly, well, let's face it, off his ever-lovin' ass.)

But appraisers do, and they LOVE alienating their own kind! I created two forms in Adobe, using LiveCycleDesigner, a review rebuttal and an "advocacy report". (I don't want to release them into the public domain, but if you want to see what anybody with a little practice can do with Adobe and LCD ES, check out the hybrid commercial BPO form/interactive application I built in 2010 at:
https://drive.google.com/open?id=0B0tZ0L0JfC2-T1Q1ZjI2Q2JaT21fQnRhaEVVTXZVZV9XVXdv

Note: a copy is available for download on the Appraisal Today paid subscriber web page.

I used the "advocacy report" when I thought the origination appraisal was accurate but there were comps available which demonstrated that the higher "desired" number was clearly within market range for application to the subject property.

I actually have a couple of friends who are experienced agents (or I did until this article comes out), They tried out both report types. I agreed to do the reports for free with 24-hour turntime guaranteed (in order to rescue the stalled transaction).

As suspected, at least 25% of their deals run into the low appraisal problem. The rebuttal product was quite successful I figured a fee no higher than $125 on rollout, though it made me an enemy of the lender's appraiser. Also the critical time element was often lost because the deal could have tolerated 7 hours of delay, but not 24. However, the lower fee still worked because most of the report writing could be automated or data-fed, and the report could be structured like a simple business letter.

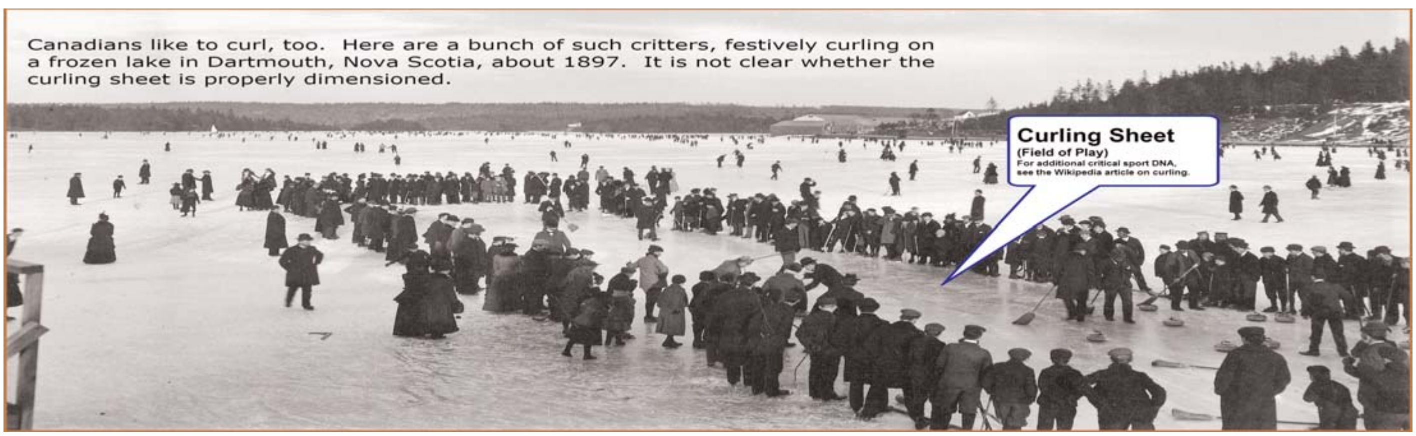
To comply with USPAP, I was careful to disclose my role in the deal, especially when working as an advocate for the buyer/borrower. Still, the advocacy product worked only once out of ten tries, in the case of a lender's underwriter who actually had the guts to override the appraisal conclusion.

When I was a pup in this business (1972), underwriters overwrote appraisers frequently (it was annoying as hell). They would look at the comps themselves, and often decide that the appraiser was "conservative". (After the 70s, I was usually the chief appraiser, so I got a ringside seat in underwriting.)

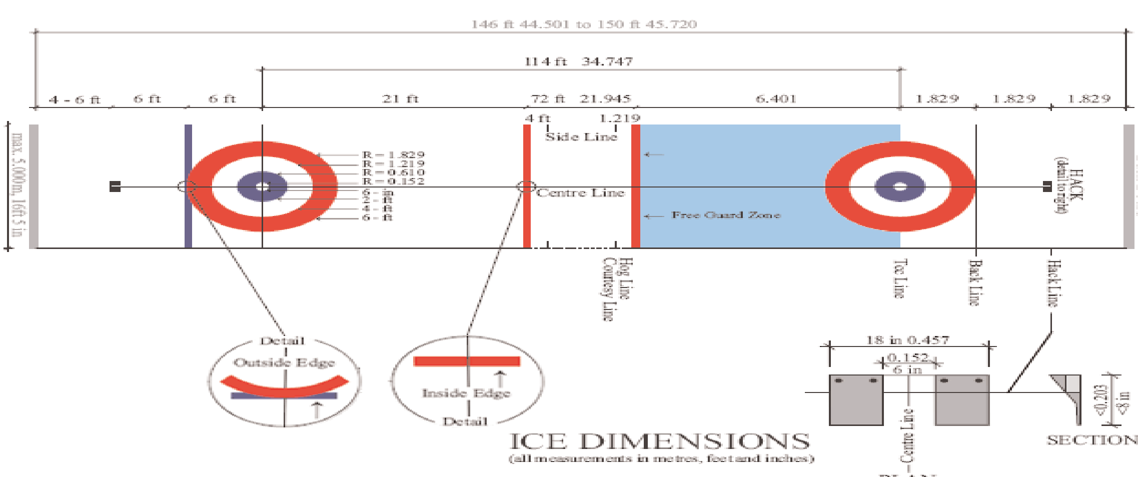
They didn't have investment banks, hedge funds and other securitizers looking over their shoulders. They would simply click their Bic, cross out the number at the bottom of page 2 of the ten-oh-four, write in the new number and initial it.

Underwriting must have actually been fun in the old days. If the loan got to Fannie or Freddie, it was rarely kicked back, because the GSEs didn't want to get into a shouting match with a local underwriter concerning local market issues. Also, FNMA and FHLMC were not in the business of NOT buying loans.

Although I had only one successful advocacy report, I did have another where the lender ordered a new



Canadians like to curl, too. Here are a bunch of such critters, festively curling on a frozen lake in Dartmouth, Nova Scotia, about 1897. It is not clear whether the curling sheet is properly dimensioned.



ICE DIMENSIONS
(all measurements in metres, feet and inches)

appraisal which (thank you, Lord) confirmed my conclusion. (If the rebuttal report necessitated a value estimate, the work file was expanded so that I could claim restriction; if not, the fault of the original appraisal was simply explained in detail and supported.)

Write or sell "market return" reports.

This idea has been bandied about for a long time. It's a way for homeowners to avoid doing home improvements that won't bring them much gain on sale. In other words, a report that will help them not to look stupid.

One force militating against the success of such a product, of course, is the apparent stubborn preference of many homeowners to look stupid anyway, or to simply enjoy the value in use. But since most homeowners couldn't tell you the difference between use and exchange, it's mostly a preference for looking dumb.

The idea was implemented by creating a form that identifies the typical and favorite home enhancements in the subject's neighborhood or market, then identifies which ones return the the highest percentage of cost upon sale.

In some markets today with lots of activity and data, you can prepare a very impressive and useful report that may bravely declare, "Don't buy that swimming pool, it returns only 10% of your $25,000! Install a curling sheet; your neighborhood is full of medieval Scots! Cost: $9,500. Return on Sale: 98%. Buyer profile: you. Just make sure it's the right size. It won't fit on small subdivision lots.

Also, medieval Scots are party animals (like my friend John Calhoun), so the neighbors might not like hearing the crash of curling stones at 2AM.

Writing "Property Genealogy Reports"

I was dreaming that there has to be a market for "house genealogy" since your house is almost as human as your dog.

People living in urban areas (like mine) often live in 85-year-old structures and would like to know what's happened, who was born, who died in their own home.

We've already got *diedinhouse.com, billiongraves.com* and *findagrave.com*. There are a ton of other sites that deliver residence-related, publically accessible data that an enterprising appraiser could compile into a report focused on the *house*. Such a report might enable a separate business which is kept local so that the preparer can add spicy information from local records.

You may be able not only to identify who died in the house, but when, why and how. I'm not especially superstitious, but I'm not sure I'd want to buy a house where the last owner died of homicide. But the house where Edgar Allen Poe was so poor he was selling his stories for fire paper? Oh, yeah. There may be cash involved!

Writing "HouseFax" reports.

Similar to the "genealogy" reports, but focused, like CarFax reports, on the physical history of the house and the identification of any deal-breakers. For example, a permit on file for the remediation and removal of 50,000 lbs. of hexavalent chromium (Cr VI) due to the operation on site of a business that put chrome on used cars and hubcaps.

The seller's agent will say, "It's better than buying a brand new home! All of the environmental problems have already been remediated!"

It would be a good idea with this kind of appraisal service, to get very familiar with EPA programs through *Enviromapper* and other sources. The identification of negative internalities and externalities can be a lucrative technical profession.

Remember that Randall L. Bell, Ph.D., MBA, MAI, has built a prominent career and legal appraisal practice on evaluating the effect on value of detriments and damage, and devising techniques and methodologies for estimation. His website is realestatedamages.com.

Get an FAA drone pilot's license.

It's not clear what you would be doing with that pilot's license, but the obvious direction would be in home inspection, and that business is up and operating already (check out Amerispec's commercial at http://www.homeinspector.org/HomeInspectionNews/roof-inspection-with-a-drone.9-20-2016.1413/Details/Story.

The company uses it mostly for the roof inspection. If they use infra-red, they can accurately estimate age.

Drones (especially if bladeless propulsion eventually becomes feasible), could make the service appointment with the homeowner, fly its way from a depot to the property, thoroughly inspect the exterior, call the homeowner for interior access, then say goodbye and hand out a business card on exit.

But there are still major tech obstacles to be overcome, not the least of which is the necessary precision of an interior inspection, and being caught by the drone in the bathroom with your pants down. At least one person has already died after he was partially decapitated by his own drone.

Also, it's not clear that the public will want to see a blue sky cluttered with tiny vehicles darting back and forth, it may be too creepily sci-fi, particularly when many people already feel over-surveilled. What a clean way, though, to inspect large-diameter sewer laterals!

What if you love appraising houses?

Okay, you covered lending and regulatory jobs in previous articles, but what about the residential appraiser who loves to appraise houses, and would rather work for a W-2 entity at a strong salary and benefits?

Can't they just segway (let's just forget the correct spelling of that word. It looks goofy and nobody pronounces it right the first time they see it) into appraising for homeowners, lawyers, CPAs, assessment operations, developers, contractors, etc?

No. There's never been enough work to go around. Supposedly 50% of marriages in the US don't work out, but many of those divorces are amicable (isn't "amicable divorce" an oxymoron?) or there are no assets to divide? Thus the appraiser is not needed until later, when one or the other party starts feeling cheated.

The stats in this corner of legal appraisal need to be refreshed, though. Randy Bell, MAI, mentioned above, successfully repurposed his appraisal practice, but not everyone can manage an epiphany into a lucrative business.

As an appraisal regulator, assigned in part to answer public inquiries, I spoke to many appraisers between 2014-2016 who were seeking to leave the profession and find similar work (fees too low, reports buried in additional requirements, gum chewers at AMCs).

Most of those who had made the change successfully had turned to real estate sales and leasing. Not everyone likes or is competent to sell. Several appraisers said they picked appraisal in the first place in order to avoid brokerage.

But if you're an **a**typical appraiser (i.e., **not** introverted, antisocial, non-collegial, controlling, argumentative or passive, with poor personal hygiene, etc., etc.), sales can provide a living with no upper limitation on earnings (and no downward limitation on failure).

(Personally, the fact that I think I could do the job successfully is just another delusion, plus I'd hate every minute of it. I'm a pessimist who doesn't like representing anything as being better than it is. I like to think that I'm ethically "pure", though there is no such person.)

(I remember telling one developer who wanted me to draw one of the floorplans with an extra 500 square feet that, "I have no objection to perpetrating mortgage fraud, but not for a lousy three hundred bucks.") [Diagnosis: mild narcissistic/dependent personality disorder.] If you look up the word "neurotic" in the 2003 Merriam-Webster Collegiate Dictionary, there's a picture of me with the simple DSM-5 definition: "a chronic malcontent with disordered thinking".)

On that slightly exaggerated personal note, I would still feel confident in advising the mid-career or startup residential appraiser to seek additional technical education and become either a small-time entrepreneur or business owner, or look to jobs outside real estate almost entirely.

In Japan, there's a company that 3D-prints 10 houses per day. In Singapore, you can already hail a driverless cab.

As Network World recently pointed out, "Even though there will continue to be demand for traditional professions like doctors, nurses, lawyers, bankers and teachers, these jobs will require a much deeper knowledge of existing technologies and computer systems because every facet of their lives from communications to transportation to research and education will be permeated with computer tech."

In another part of the article, the driver of new employment is clearly marked as artificial intelligence: "According to Forrester analyst JP Gownder, Forrester expects computer and mathematics jobs to grow in the United States by 57 percent over the next decade. Increasingly, these jobs will cluster around Artificial Intelligence and the related big-data knowledge bases that are needed to drive AI. 'As we move toward an AI-first world'" says Gownder, 'Specializations will emerge in using sub-divisions of AI such as machine learning, cognition, and natural language generation. These jobs exist today, but will become far more mainstream and sub-segmented in the future; for example, expertise in healthcare AI."

Jobs that will require appraisal discretion but not engineering degrees might include " robot quality inspectors, robotics coaches and counselors, AI behavioral specialists, AI animators and narrative specialists."

The bottom line:

AI-AVMs may make better appraisers, but they can't (yet) emulate the instinct and observational power of an appraiser, who can spot a rat at 1,000 yards.

The former appraiser will not approve for sale the robot that can politely tie your shoes, but every once in a while breaks somebody's leg.

What about Elon Musk, who says Artificial Intellegence is a big threat vs. Mark Zuckerberg who disagrees with him? Musk said: AI is a "fundamental risk to the existence of human civilization." Link to his speech at http://www.cnbc.com/2017/07/16/musk-says-a-i-is-a-fundamental-risk-to-the-existence-of-human-civilization.html . Or just google the quote above and include Elon Musk's name.

About the author

Barry Bates entered the appraisal profession in 1972, after four years in the US Army, and another four at the University of California, Berkeley, where he majored in English Literature and minored in Slavic Languages and Criminology.

He had many appraisal-related lender jobs after that, including Countrywide and Morgan Stanley Mortgage Capital in Boca Raton, Florida. In 2006, Bates founded InsideValuation, a provider of commercial broker price opinions and IAG evaluations, which was sold to Lighthouse Real Estate Solutions. His last job, described above, was at BREA, the California state appraisal regulator.

At 71, Barry has had wide-ranging experience and a technological perspective in a fast-paced career that serves as a testament to the fact that he has never been able to hold down a steady job.

He is now "retired" and lives in Pittsburgh, Pennsylvania with his wife, Kathleen and their two dogs. He writes for real estate publications and, in his own words, tries to get into more trouble. In 2008, he filed whistleblower suits against MERS (on behalf of county recorders) in 12 states, all of which failed miserably.

Barry Bates wants to hear from you! Send your comments and criticisms by email. He can be reached at barrettbates@gmail.com.