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Planning for 2019 - Set up a budget to manage your income and expenses

Editor's comments: What you need to do now! Check your accounts receivable. Do you have any clients paying later than usual or not paying at all? The longer you wait to do anything, the less likely you will get paid. After 120 days late, it can be very difficult.

With the latest rumors of Coester VMS in financial difficulties, and the 2019 appraisal business slowdown, I am writing about collections again. The last time was in September 2014. Remember Appraisal Loft, JVI, etc.?

This article is for anyone who does not collect fees in advance.

Remember when the Appraisal Advisor web site started about 6 years ago? It was a fantastic way for appraisers to avoid deadbeat AMCs and lenders. Plus, get information on their fees. Unfortunately, the web site lasted less than a year. I guess appraisers just didn't want to contribute their experiences or pay for it.

Now, we are back to "word of mouth" mostly by online postings, which may, or may not, be accurate.

In this article, I give you a few tips. Future articles will have more details on state appraisal boards, business credit reports, lender liability, demand letters, etc.

AMCs will be going out of business due to the downturn

Everyone is predicting increased interest rates and a significant downturn in mortgage loans.

AMCs work on cash flow, just like appraisal businesses. They send appraisals to their lender clients and wait for payment from them. When cash flow slows, they are legally required to pay employee salaries first. Next comes contributions for 50% of employee Social Security and other mandated employee expenses. Expenses to keep the business in operation, such as phones, office rent, etc. must be paid to stay in business.

Vendors, including appraisers, have to wait for their money.

AMC cash flow problems - especially small AMCs

Some AMCs have significant payment problems and others are never a problem. You certainly don't want to work for an AMC who doesn't pay you until they have been paid. Think of AMCs as appraisal firms. You have an appraisal company. Do you ever run short on cash if you use other independent contractor appraisers? Or did you work for one when you were a trainee? Appraisal labor is the major cost for appraisal firms and AMCs.

AMCs are not very profitable - beware

Appraisers think AMCs make lots of money. But, they are just like appraisal firms, with the same significant ups and downs.

Compare the typical AMC with the typical large appraisal company. AMCs have lots more administrative people. They have much less control over their appraisers. They don't know them personally, like you do when you work for an appraisal company.

AMCs are in some ways worse than appraisal firms. They battle with their competitor AMCs, mostly about fees. Sound familiar? AMCs use broadcast orders and fee shopping among appraisers.

Which AMCs are low risk?

AMCs affiliated with major lenders, such as Red Sky (U.S. Bank), are a very low credit risk. AMCs affiliated with much larger title companies are also lower risk.

Which of your AMCs are affiliated or owned by large companies?

Which AMCs are more risky than the big AMCs above?

All the smaller AMCs are risky. If the AMC is small and privately held, only take a few assignments (or none) before checking them out or seeing if, and when, they pay.

For example, many months after the first appraiser postings about Appraiser Loft, some appraisers were still accepting assignments. They have only themselves to blame for this.

Which of your AMCs fit into this category?

What AMCs are not diversified?

Check out all your AMC clients (and other lending clients that are not banks). Do they have a large number of clients, or only work for a few banks as an outsourced appraisal ordering department. If they lose their contract with that one client, they will probably be out of business soon.

When does risk change for an AMC?

The problems with JVI AMC in the past are a good example of risks that change. They had been in business for many years and were a relatively good AMC to work for. But they were a small company which was a HUD contractor for many years. They lost a major contract and finally went out of business. Appraisers who were owed money received little, if any, of what they were owed.

Did you regularly google JVI to find out about the problems when they first started? If not, make a commitment to keep close watch on all your AMCs.

Be sure to regularly google the names of these types of clients to see if appraisers are posting collection problems.

What about AMCs that are purchased by another AMC?

When any company is acquired by another, the computerized management functions (accounting, clients, appraisers, order management, etc.) need to be merged. This can cause problems, especially for AMCs who can have a large number of appraisals to manage.

Watch out for any late payments, poor order processing, appraisal requirement changes, etc.

What about small AMCs - local and regional?

Keep a very close watch on how long it takes for you to get paid. Don't run up large unpaid billings.

Go by their office or call on the phone. If the person you normally speak with

is not there any more, try to get more information. See if the person has been replaced or if they are downsizing because of financial problems.

If no one answers the phone for a while, or if there are a lot of empty desks, it may be too late.

The primary source of problems - fear and greed

Why do appraisers keep accepting orders even after they have past due billings from a client? Why do appraisers accept all clients without checking them out? Why don't appraisers contact clients soon after a billing is past due?

Fear - they won't get another appraisal order from the client, or they will never get another appraisal order from anyone.

Greed - want to make as much money as possible (or at least bill out as much as possible).

Don't ever, ever put all your eggs in one (AMC) basket

Don't ever rely on one client for a large part of your billings. Why? Clients come and go, for all types of reasons, including going out of business.

Pre-screen your AMC clients - don't take work from anyone before you check out the company

When you receive a call from someone you don't know or haven't worked for recently, google their name. You may be surprised at what shows up!! Google the company.

It can be difficult to find information online. Try to search at www.appraisersforum.com, facebook appraiser groups, yahoo email chat groups, etc.

What can happen if you don't pre-screen or monitor your clients?

Here are a few sample comments from appraisers:

- 12 attempts (6 invoices, 6 calls) to collect, promises of payment, but no results as of yet
- Took them to Small Claims Court. They didn't show up. Ruling in my favor. Still can't collect!
- Paid on only 11 of 20, tried working with, no response.
- This company has disappeared into thin air! If you know anything about them, please e-mail me!

Know your clients' payment patterns

Some clients pay within 2 weeks. Others can take 90 days or more.

Government clients tend to be very late.

If you don't want to work for late payers, even if they always pay and are no hassle clients, don't take any work from them. Find other clients who pay fast or require pre-payment, at the door.

Check your AMC contract or whatever they have in writing. If you don't like it, for example, payment in 90 days, don't take work from them.

MOST IMPORTANT: How do you monitor your accounts receivables?

A good way for a small appraisal company is to keep the unpaid appraisal file on your desk so you see it every day. The files are taken off your desk when they are paid.

If you have a larger company with many billings, you can use software such as Quickbooks. I have used both Quickbooks and the file on the desk method. In my current small appraisal company, my assistant uses the "file on the desk" method. All the unpaid appraisal files are very visible and not in a file drawer. We can both see them every day, multiple times.

When I had a larger company, my assistant ran the accounts receivable report at least once a week.

Why I have very few uncollected billings

Since 1986, when I started my appraisal business, I have had fewer than \$2,000 in uncollected billings.

When I started my business I realized that I hate worrying about getting paid. I turned down a lot of work unless it was a major lender. I did work for a few mortgage brokers when I used to do FHA appraisals.

In the bad downturn in the early 1990s, when my high appraisal volume slowed down significantly, I had no unpaid billings. My office assistant called all my late paying clients until they paid. I wanted to be paid first. Other appraisers did not get paid.

The Squeaky Wheel Gets the Grease!!

The Two Primary Rules of Collections

Every appraisal business has collection problems, unless you get every payment up front, in cash or money order.

The two primary rules of collection are:

1. The squeaky wheel gets the grease. With problem clients, phone every day, send duplicate invoices and letters, use a collection agency, etc.

2. The longer you wait to start collection efforts the less likely you will be able to collect. Statistically, for all businesses, 80 percent of accounts are collectible within 4 months. After 4 months past due, on average, only 20 percent are collectible.

Who does your collections?

Monitoring your accounts receivable doesn't do any good if no one follows up on late payers.

Having someone other than the owner of your appraisal firm make the calls often works better than the owner calling. They are less likely to be emotional, and are more likely to follow through. Offering a percent of the money collected is a great motivator for billings that are way past due.

If you are a "one person" office, you'll have to do it yourself, which means you may procrastinate or get into shouting matches. You may be able to get a spouse or adult relative to make the calls.

FIRST Collection Step - Check your contract with the AMC or any document specifying their payment terms.

If the AMC states they pay within 90 days, start collection efforts on the 90th day after you have sent your appraisal and invoice.

If you want to be paid sooner, don't take any new work from the AMC.

DO NOT WAIT TO START COLLECTION EFFORTS.

If the AMC does not state its payment terms, use your invoice. Your invoice sent with the appraisal is the most important document. What does it say?

Start collection efforts the day after you specified payment. For example, you require 30 days payment. Call them on day 31 after sending the appraisal and the invoice.

No payment terms on your invoice? You have learned your lesson. From now on, put it on every invoice.

SECOND Collection Step - Accounts payable clerks - the payment disbursers

In most larger companies, such as AMCs, accounts payable clerks process payments of invoices. They don't want their desks clogged up with invoices that can't be paid because there are approvals missing.

Typically, checks are written once a week for those invoices that are approved and are due.

Be sure you know what information the client wants included on an invoice and how many copies are required.

Why is payment delayed?

Possibilities include:

1. The person who received your invoice has lost it, misplaced it or failed to send it to accounts payable for payment.
2. Your invoice has no payment terms and goes to the bottom of the pile. Be sure your payment terms are prominent on your invoices.
3. Your invoice was received after the cut-off time for payment the next time checks are written.

How can you speed up payment?

1. If your invoice has a discount, and the company always wants to take them, it will be at the top of the pile.
2. Make sure the invoice has all the necessary information on it, such as a reference number, purchase order number, borrower's name, department name, person's name, your tax ID number or whatever the client requires. Include a copy of the work order.
3. Send the number of invoices the client wants. Some want one, some two, and some more.

The accounts payable clerk who handles appraiser payments is the first person to contact when your payment is delayed. He or she can tell you what is needed, the deadline for receiving approved invoices, etc.

One way to help keep your invoices from becoming lost is to print them out in a different colored paper.

How and when to make collection phone calls

Remember Rule Number 1, The Squeaky Wheel Gets the Grease. Your first call should be to find out if there is additional information the client needs, such as a taxpayer ID number or a copy of the invoice.

When to call? Within a week after the payment was due, at the latest, depending on the payment terms on your invoice.

If that doesn't work, gradually accelerate your calls in frequency and urgency until you are calling every day.

There are many books on techniques to use when calling deadbeat clients. Get one of the books and study it. Practice phone scripts.

What about your regular clients?

Continuously monitoring all your accounts receivable is very important. Keep on the lookout for warning signs, such as:

- They used to pay within 30 days. Now it is 60 days or longer.

- You read about an upcoming merger in the newspaper.
- Their phone number has been disconnected.

Any client can develop payment problems for lots of reasons. Some reasons are:

- The clerk in the appraisal department who processes invoices is on a long vacation or is sick.
- Your lender client is gobbled up by another rapidly expanding bank. Merging their accounting systems is a nightmare.
- Your long-term client goes into bankruptcy.
- The person who approves payments quits.
- They switch to a new accounting system.
- They develop financial problems and decide to postpone paying bills for as long as possible.

Letter to Lender (not AMC) accounts payable - advice from an appraiser

"FIRST If I'm having a problem collecting from an AMC, I send the invoice directly to the bank that originated the order "Attention Accounts Payable".

"I include a letter explaining my efforts to collect the invoice including dates and who I talked to. I've always been paid within 10 days. It appears the banks don't like the concept of the AMC's not paying the appraiser. After all, the bank has paid the AMC for your appraisal."

"Remember, the banks don't know anything about their selected AMC except what the AMC tells them. As appraisers we can let the banks see the AMC's like we do."

"SECOND - Call every day email, and be polite, but very persistent."

"THIRD - Contact state appraisal board to see if AMCs are required to pay within a certain period. Or get surety bond information and send a letter."

Next month's issue will discuss these topics in more detail.

Good collections advice from a long time appraisal office manager

"I am well versed in this subject. You could say it has always been a pet project of mine. I manage my husband's appraisal practice (over 25 years now) and with a bookkeeping background I have gotten pretty good at collections."

"I don't especially like collections, but I get pretty mad at how hard we have to work for each assignment, putting in many hours of work per appraisal, so I am on top of collections. Also, not being the appraiser, kind of makes it easier "arms length" you might say,.It's not like the appraiser is having to call and get into a big fight with the lender."

"My recommendation would be to appraisers that are solo, have someone

else do it for you, your accountant, pay a college kid to help out in administrative duties."

"I had an AMC we never worked for before not pay us, sitting on my desk. The bill was hitting the 90 day mark. I sent them an email listing the steps I would be taking on certain dates if payment were not received within 5 days."

"Over the years, my experience has been you have to TAKE the time to stay on top of collections. I have a shelf adjacent to my desk, with a wire rack I color code my collections and each company gets a color and everytime I look up I see the collection folders (it reminds me to take the 5 minutes and do it)."

"It takes 5 minutes everyday to work the file. I seldom have more than one open past due file these days."

"I simply shoot an email and COPY myself, I take my copy of the email, put it in the file for reference, then I file the email ELECTRONICALLY in a file for that particular company. The next time I have to send them an email I forward the original email and type on the top SECOND NOTICE, and then start giving them time lines."

"It gives me the paper trail I need, and if a company orders an appraisal say a year later, I look them up to see if there any any details of a collection problem."

Many thanks to Jeannie Fitzgerald!

Collecting from lenders - advice from an appraiser

"While the lender will say they paid the AMC, our position is that is not relevant to their responsibility to be sure we are paid for services rendered."

"We round that off with the clear statement that we will lodge complaints with state and federal regulators and state a definite timeframe (generally 30 days) for the submission of these complaints. 100% success so far."

"We made our demands through any lender contact we had from the order in question and our responses were either payment or return call/contact from a processor for the transaction which escalated to management decision to pay the fee."

Editor's comment: AMCs don't like to have their lender clients hassled by appraisers who have not been paid.

Refuse to send appraisal

One very effective method is to refuse to complete and send an appraisal (or several appraisals) until you are paid for your past due invoices. This can be very effective.

This often doesn't cut you off from new work as the larger AMCs can have appraisal ordering and accounts payable far removed from each other.

Using a collection service or letter service

A pre-collection letter service is an inexpensive way to help your collections. They send a series of letters, usually one to five, and must be used early, usually between three and six months past due. Many appraisers use them. Ask around in your local appraisal network for referrals.

Collection services are used for your deadbeat clients, who, after letters, calls, and faxes still haven't paid. These services aren't cheap, but something is better than nothing. They are the experts on lame excuses from deadbeats. To select a collection service, check with other companies who have used them. Don't just go by price.

Best Option: Using an accounts receivable factoring service to speed up getting paid

These services are very useful for VA appraisals. You cannot turn down work, even if you have had collection problems. Using a factoring service is relatively inexpensive for AMCs as they know that the lender is ultimately responsible for your fee.

These companies take a relatively small percent of your fee and pay you in full. They are responsible for collecting. You do this soon after billing the client. It is not for long past due billings.

Appraisers have used Treasure Valley Factors, www.treasurevalleyfactors.com, which has had booths at several national conferences.

Here's a quote from their web site: "Factoring is all about cash flow. Factoring is selling your accounts receivable to get paid immediately for the work you have done. You would send your documentation and invoices to Treasure Valley Factors who then purchases the receivables, less a discount. This allows you to have money in your pocket in a few days instead of a few weeks."

"Treasure Valley Factors then does all the invoicing and collections on the invoices that are factored. Financing accounts receivable enables our clients to spend more time developing and growing their business and less time doing paperwork and collection calls."

Collection efforts - timing is critical!!

I strongly recommend starting as soon as possible, to greatly increase your chance of collecting. You can still try after that, but the success rate goes way down.

Waiting no longer than 90-120 days is strongly recommended for the legal

remedies below. The longest recommended wait time is 4-6 months.

First - contact AMC after your payment is due (per contract or your invoice).

Don't wait very long to do this. See the tips below on what to do.

Second - If your state has laws or regulations regarding non-payment of fees or AMC surety bonds, contact your state. More information in a future issue of Appraisal Today.

Third - Send demand letters to the AMC/Lender.

Fourth - Small claims court.

Fifth - lawsuit against AMC - a last resort. Can be expensive.

What if you want to keep the client?

Use standard business methods of calling, emailing, etc. These are normal business practices.

I DO NOT recommend being rude. Be business-like in your contacts. Be assertive, not aggressive. Remember, the person you are contacting is often a lower level employee.

DO NOT accept more work from the client if they are not paying in a reasonable length of time.

Mechanics lien

Check your state laws. Mechanics liens are not allowed by appraisers in most states.

Unfortunately, not many homeowners care about this until they sell or refi their homes, but it may get your payment.

I don't recommend this as the homeowner has already paid for the appraisal. It is typically used for contractor work that was done and not paid for.

However, some appraisers have been paid when they threatened an AMC that they were going to do this.

Several appraisers mentioned this in their emails to me, even though their state does not allow appraisers to file the liens.

Check your state AMC regulations and laws

Some states include fee payment requirements and/or surety bonds.

Every state is different. Check your state AMC laws and regulations for two things:

- (1) If the state's AMC laws have a provision requiring that the AMC pay panel appraisers within a certain period of time; and
- (2) If the state requires AMCs to post bonds and whether those bonds are required to secure the AMC's timely payment to appraisers. If you don't see anything in

them, work on getting timely fee payment and/or surety bonds added, if possible. The amounts of the bonds tend to be low, such as \$25,000, so don't wait to contact your state regulator.

Going to small claims court

Do this within 120 days. It doesn't matter if the AMC or lender are out of state. This is very easy to do and is often "consumer friendly". You are going up against the Big Lender or the AMC. Don't be intimidated.

You've called, faxed, bullied, and you're finally fed up. The deadbeat just won't pay. Many appraisers are intimidated by small claims court, but every appraiser I have spoken with who used it said it was not really that much of a hassle.

If your claim is within the limit for small claims in your state, do it. Contact your small claims court for the necessary paperwork and procedures. Watch small claims court on Court TV to see what it is like, or spend an hour or two at your local small claims court.

Often, you can send an employee if you don't have time to appear. Of course, you still have to collect the money after you get a judgment. See the reference at the end of this article for two excellent books on small claims court by Nolo Press.

Small claims against lender - advice from an appraiser

File a small claims suit at your local court. Sometimes the lender will pay upon notice of the suit! Thanks to appraiser Ken MacDonough SRA!

Small claims - keep copies of all checks - advice from an appraiser

The appraiser should always make copies of the checks they receive from anyone so if they have to go to Small Claims Court, they know what bank and the bank account number.

Small Claims Court is quick & fast. If they get a judgment, they can file a Supplemental Proceeding, provide the bank name and account# and the Court will "freeze" that bank account- at which time the debtor will pay very quickly to get their account released.

The more accounts a business takes to a particular small claims court, the more likely they are to win.

Business credit bureaus

About 6 years ago, I spent a lot of time researching credit bureaus for AMC data. Getting a credit report on an individual is very easy. When you make a

payment on a loan or a credit card, it is recorded. But, for service businesses such as AMCs, it is very difficult. Most of their expenses are for employee salaries or payments to independent contractors, similar to appraisal businesses.

I spent a lot of time researching credit bureaus for AMCs data, but finally gave up. Even if I could get some information there have been so many mergers, acquisitions, going out of business, etc., it wasn't very good.

What if you just can't collect the billing?

You've tried everything and even got a judgment in small claims court, but they still haven't paid.

All appraisal businesses have uncollected billings, at one time or another. Just consider it a lesson learned about when you shouldn't extend credit.

Research ideas for AMCs

Some research ideas:

- Go to the AMCs' web sites. See what you can find out.
- Google them.
- Go to www.appraisersforum.com and search for the company. Try appraiser facebook groups and yahoo appraiser email groups. Post a message asking other appraisers if they are having problems.

Where to get more information on collection

Most information on collections is about collecting from consumers, which is heavily regulated. Those rules do not apply to business collection.

My favorite book on collections for business to business credit is "The Check Is NOT In The Mail", written by Leonard Sklar. It is available at www.amazon.com.

Nolo Press has two good books on Small Claims: Everybody's Guide to Small Claims Court, National Edition and a version of the same book for California. To order, go to www.nolo.com or amazon.com.

Planning for 2019 - Set up a budget to manage your income and expenses

Self-employed appraisers either have too much business or not enough. It is "Just right" for a couple of hours or maybe a day.

An excellent way to handle the inevitable ups and down of self employment, including appraisers, is to use budgeting.

I have done budgeting for many years - both personal and business. But,

when researching and writing this article I found several very good ideas which I will start doing in 2019.

Budgeting is very important because of volatility in income and, also, it makes you think about your expense and income trends.

For fee appraisers, just like many other self-employed people, income varies widely, but expenses are steady as most don't change when your income changes.

This article focuses on business budgeting, but you should also set up a personal budget so that you know how much money you need to "pay" yourself every month for your personal expenses.

Personal income and expenses - how much "salary" you need to pay yourself every month

Don't forget your spouse's income, any investment income, or other income you will receive.

You do your personal budgeting the same as your business budgeting, just different types of expenses. Plus, some expenses are part personal and part business, such as your home if you claim a home office deduction, and auto expenses.

Personal expenses include mortgage, health insurance, clothes, food, entertainment, etc, etc.

Set up a personal budget so you know how much you need to live on: using the techniques in this article.

Why budget?

Employees who receive regular paychecks only have to do a personal budget. But, fee appraisers' business income is seldom the same from month to month.

It can really help you in financial planning for your business. For example, business goes way up. Or, a computer crashes and you have to buy a new one. Or, your car has a major repair bill. You can modify your budget.

Income budgeting - cash flow vs. budget

See how your cash flow patterns have been over the past several years. Are there certain months or time periods when income is low or high? For example, your high months are the summer and your low months are the winter.

In my business I almost always have lots of income in November and December because of year-end tax appraisals for estates. The other months are very unpredictable.

If you do lender/AMC work your income may be steadier.

Forecasting your 2019 income may be difficult, but it is important to try. You can always modify your budget estimate during the year.

Set up a monthly budget with your best estimates. You can use Quickbooks or Excel to set it up. Quickbooks is the easiest to use.

How much to budget for monthly income

There are several ways that the self-employed do this. One way is to use their estimate of total income divided by 12 months. But, I think there are better ways.

If you have certain times of the year with a higher income or a lower income, estimate your average income for these months as they are more certain.

Be conservative on your monthly income budget. Which months were low? What was the average for those low month?

Maybe you don't have any typical low or high months? Look at your monthly income for the past few years and calculate the high, low, and average or median. Maybe you want to budget for a median or lower income.

Excel may work the best to get started

If you haven't done any, or very little, budgeting start with an Excel spreadsheet before using Quickbooks. You can do it with pen and paper if necessary, but Excel really helps by allowing you to easily change categories and will calculate totals for you.

If you've never used Excel, or only used it for appraisals, starting with a blank spreadsheet may be intimidating. Google "Excel budget spreadsheet".

Monthly, quarterly, or annual budget?

If this is your first time budgeting, I strongly recommend doing a monthly budget. For expenses that do not occur on a monthly basis, have an "accrual" budget where you set aside money every month for expenses that do not occur on a monthly basis. Quarterly and annual budgets are also very useful.

Keeping track of your income and expenses vs. your budget - mandatory

I have been using Quickbooks (formerly Quicken) for over 20 years. I use it to write all my checks and I record all my bank deposits. I can run income and expense reports at any time for any period. I can run expenses by category and by vendor and income is by client.

What if you are unable to work?

For many years, when I had family to support, I had disability insurance,

which can really reduce your financial worries. I strongly recommend it.

Overhead savings account - income and self employment tax

Pay yourself a certain amount every month, to cover your personal and business expenses. All the rest goes into your "overhead" account. A good way is to put around 30% (or more) of each check or deposit into this account (15% income tax and 12.3% self employment tax).

A special "overhead" account can be used for income taxes, months when income is low, retirement, etc.

Another method is when you have a month with high income (over your minimum budgeted income), put the extra income into this account. I recently started collecting Social Security at \$2,800 per month. The payment goes directly into this savings account along with extra income from high months.

Vacation savings

Vacation, what's that? When I was employed I always took all my vacation and sick leave. Since I became self-employed I seldom took vacations longer than a long weekend. Why not set aside money every month for a vacation/sick savings account? Or, put extra money into your overhead account (see below) for a vacation?

Emergency savings account

For employed people, it is often 3-6 months, only to be used in emergencies. For self-employed, who don't have to worry about getting laid off and finding another job, you could put 10% of each deposit into this account.

Retirement savings - a great way to save on income taxes

Retirement savings, particularly for a SEP-IRA, is very important. Relatively few baby boomer fee appraisers have much set aside for retirement. If you are younger, don't make the mistake we made. Saving something, even if a relatively small amount, can really pay off.

Remember, SEP-IRA contributions are pre-tax and can save substantial amounts on your income taxes. You don't pay taxes until you withdraw money (after age 59 ½). There is a 10% penalty for withdrawing money before age 59 ½, which makes it much less likely you will take out money.

Don't count on using Social Security and/or working well into your 80s as a source of income. All the appraisers I know who retired with a comfortable income invested in real estate, a Most Excellent option.

How much money do you need every month to cover your personal and business expenses?

This is a very important number. Some appraisers use a separate checking or savings account for this.

Fixed vs. variable expenses

Most appraisal business expenses are fixed. In other words, they are the same whatever your income.

On the plus side, they are easily determined. On the minus side, if your income declines they still have to be paid.

Some months you can pay yourself and other months you will not be paying yourself enough.

You need to know what your "bottom line" is.

First, make a list of your expenses and when they occur

Go through the past 2-3 years of expenses and see what they are and when they occur. For example, MLS dues are paid once per year and cost \$500.

Regularly recurring expenses - examples

- Self employment tax - Social Security/Medicare - 15.3% of income and income tax - a good "rule of thumb" is 30% of income
- Auto insurance
- Gas
- Telephone
- Data services
- MLS
- Online services - email, web site, etc.
- Publications
- Dues - Association of Realtors, appraisal association, Chamber of Commerce, etc.
- Home office expenses - taxes, insurance, etc.
- Software maintenance
- Auto maintenance
- Office - paper, printer toner and drum

Auto expenses

One of residential appraisers' largest expenses is automobile because of the amount of traveling required.

For mileage, be sure to keep a daily log of your business vs. personal. Don't take a chance on getting denied this valuable deduction. There are plenty of apps,

or you can just do a manual log that you keep in your car. If you use multiple vehicles, keep a log for each vehicle.

Expenses paid with cash

I hate expenses paid in cash. I have always had a problem keeping track of them. My bookkeepers have really hated them. Even though I really try not to have them, they do occur. For example, I need to buy a pen or some other small office supply item and am not close to an office supply store so I can use my business credit card to keep track.

When traveling to a seminar or business event I often go out with a group and we split the bill, using cash. It is a travel expense for meals so I just write down a note on a piece of paper.

Keeping track of these expenses is a real hassle, but is worth it. You need to keep copies of receipts whenever possible.

Fortunately, there are apps that can do this for you, including scanning receipts. Or, just throw the receipts in a box, with a handwritten note, which is better than nothing.

Planned expenses - what are you planning to buy this year, and when - examples

- Computer - hardware and software
- Auto maintenance
- Education - tuition and travel

Unplanned expenses - examples

- Auto repair
- Computer problems

Increases and decreases in expenses

Will some of your expenses be going up or down for 2019?
For example, you switched to a less expensive software maintenance plan or the plan will be increased for 2019.

Budgeting for income taxes

This a large expense for self-employed persons. You need to budget for your quarterly or annual IRS and state payments.

Monitoring your actual vs. budgeted income and expenses

Recording your expenses and not comparing them to your budget is okay,

but the maximum benefit is by keeping track of actual vs. budgeted income and expenses.

Your budget is not fixed. You can change yours at any time.

Fortunately, appraisers don't have to set up an annual budget that is fixed, such as large companies, cities, etc. do.

You can change it any time you want. If you're not sure or are worried, do it monthly.

I regularly change mine over the year, as actual and forecasted expenses change.

Typically appraiser income changes. Sometimes expenses go up and down. Your budget help you manage your income and expenses.

Where to get more information

Google "budgeting tips for self-employed persons". Most of it is what I cover in this article, but sometimes it is good to see how another writer explains it. Almost all self-employed persons have wide variations in income, difficulty saving for retirement, etc.

New Year's resolutions. Set goals for 2019 and how you will accomplish them

It is easy for me to write about appraisal business topics. I just look in the mirror... Of course, this can be done at any time, but most of us think about New Year's resolutions (or did in the past) so this is a good time to work on them.

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

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

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

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

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

Nothing in this article is new. I am just applying these well-known techniques

to appraisers. There have been many studies showing that they really work.

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

How much time will this goal planning take?

It will take little time to write down your goals. What is more challenging is taking the time to really think about them. Set aside some "quiet" time to get some ideas. Think about it while you are driving around.

There are many, many possible goals, both personal and business. Decide some that you are likely to accomplish.

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

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

Don't just say "I will do it some time". Instead, make a definite date and set how many goals, such as setting two business and two personal goals by March.

What time period to use?

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

What is most important to you?

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

Why New Years resolutions fail

50% of Americans set New Year's resolutions.

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

- Pick one, or a few, resolutions.
- Start with small, specific goals.
- Tell others.

- Write them down for yourself.
- Identify obstacles and possible solutions. Expect setbacks and learn to recover from them.
- Reward yourself when you accomplish your goal. For example, going to a movie or reading a fiction book, such as a mystery, thriller or any other type for a few hours. I am a big science fiction fan, but don't seem to have time to read much or watch movies.

Share your resolutions with friends and family

You will be much more likely to do them. For example, tell your spouse or a good friend that you are going to take a vacation at least four days long in the month of May. Or, tell an appraiser that you will attend one meeting in March of a local appraisal group that he belongs to.

Or, tell a local Chamber of Commerce regular that you will see her at a scheduled event in April. Or, have a spouse "date night" once a month.

I have found that when I let others know about my goals, I am much more likely to accomplish my goal/resolution. Every time I speak or see the person I am reminded.

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

Business resolutions

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

o Set up a budget for 2019 by the end of February (See the article in this newsletter.)

- Bring your lunch one day of the week when working in the field. (Saves time and money, plus is healthier)
- Fire two AMCs by the end of February.
- Start working on your income taxes in January.
- Update your Web site by the end of March.
- Work on getting a more positive attitude toward your clients, fees, etc. Pick one client to start with.
- Work on not getting very upset with client stupid requests. The client does not care and it takes a lot of your time and energy "steaming". Even more important, don't let it affect your family. Start with one client or one incident. Relaxation techniques and exercise can really help.
- Get one good new client in the first six months. Start your search in February. Get another new client before the end of the year - start looking in April.

- Maintain contact with a few local appraisers that you know. Call them every other month, starting in January. Discuss local appraisal issues, data services, etc. Try not to do too much complaining.
- Learn how to do something new on your software programs or databases.
- Learn how to use a new software program or smart phone app.

Examples (pick what is important to you):

- Using more of your MLS' (or any other data source) features plus how to use them more effectively. Your goal for April.
- Take two CE classes to update your appraisal skills, not just "get hours". Check provider calendars or on-line offerings. Do one in the first half of the year and the other on the second half of the year. Pick specific dates and sign up early so you will be less likely to cancel. Local often work best, especially if it is a local instructor.

Pick one or two business activities to do.

Examples:

- Attend a local Chamber of Commerce meeting every other month, starting in January
- Attend a meeting of a local appraisal group. Set the date.
- Attend a local, regional, or national appraisal conference. Sign up ahead of time.
- Start your own local appraisal group.

Personal resolutions

- Plan a vacation and pay for it ahead of time so you will be reluctant to cancel it.
- Schedule specific times for your family and friends and don't cancel.

Examples:

- Regular "date nights" with your spouse on the 2nd and 4th Sundays of the month.
- Regular family events, such as attending a sporting event, child's music performance or sporting event.

Put it on your calendar.

- Take a non-business short class to learn something. Look for class offerings. Register for them so you will attend. There are many, many excellent free online lecture classes such as Kahn Academy and free classes from top-rated universities. Or, something you used to do in the past, such as photography, and want to get updated. Set a specific time, such as the 2nd Saturday of the month.

Local community colleges and adult schools offer short classes. Senior centers are a good place, for those over the age limit (50 in my city).

My mother took classes her entire life, in all types of topics. She never got a degree, but really wanted to learn. I have taken a lot of live nonbusiness classes

over the years, in topics I am interested in.

Where to get more information

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

How to get non-lender business by networking at meetings

You've finally decided to try to get non-lender work. But, how do you contact potential clients and referral sources? One easy way is networking at meetings, such as Chamber of Commerce, local bar associations, real estate agent meetings, appraiser meetings, etc.

I have not done any residential lender work since 2005. All my business is from referrals (50%) or my web site (50%). How did I accomplish getting so many referrals? Networking at meetings. When I started my business in 1986, I always emphasized that I live and work in Alameda, California. When someone is looking for an appraiser here, my name almost always comes up.

It took me a long time to build up a referral network. I started with very few referral sources. I had not appraised in my local area, so no one knew me. You probably have people who know you as an appraiser, so you have some possible referral sources already. Walking into a room with no one there you know can be scary. Fortunately, the techniques are very easy to learn.

"Cold calling" prospects is a possibility, but is very, very difficult. If you are successful at cold calling, you can make a lot of money in nonappraisal sales. But you can get a lot of business from referrals, a "soft sell". Sending mass post card mailings to attorneys sometimes works, but you give business to people you know, not from a post card.

The Primary Rule of Getting Business

If no one knows who you are they can't give you any appraisal business. I receive many calls and emails from desperate appraisers looking for nonlender work. When I ask them what they are doing to look for work, the phone typically goes silent.

What groups have prospective clients or referral sources?

Every time I have attended a real estate related meeting or event I have gotten referrals and/or business. How many other appraisers are at the events? There are seldom any appraisers there, except for me.

I get lots of referrals from other appraisers. Why? They don't work my geographic area or (more likely) don't want to do the appraisal because they don't want to try anything new and difficult.

How do they know me? Mostly from participation in appraisal groups and networking at educational offerings.

Why network at meetings?

Do you want any new good clients? Want to do some easy marketing? Would you like to have qualified prospects call you? Why network? You give business to people you know. If no one knows you, they can't give you business or referrals. How do you hire an accountant, mechanic, or hair stylist? You know them or they are referred to you.

Most of my appraisal business is by referral. I get referrals from other appraisers, real estate agents, attorneys, accountants, and many individuals. How do I get these referrals? I am well known in my city and in the appraisal and real estate communities. How did I build up this business? By going to meetings and being active in associations. I don't like "cold calling" prospects I don't know. It is easier for me to meet people face to face.

When I started my business in 1986, I joined the local Chamber of Commerce. At Chamber mixers, I have gotten an appraisal of a bank building, chatted with a new local divorce attorney, and received many referrals.

Volunteer for registration table and committees

An excellent, very easy, way to meet people is to handle registrations at the door. You can also volunteer for a committee, an excellent way to meet people.

Fear of strangers

Does the thought of walking into a room full of strangers make you break out in a sweat? If it does, you're normal. According to at least one study, the #1 fear is going to a party with strangers, followed by public speaking as the #2 fear. Fortunately, many techniques of "working a room" can be easily learned.

"Working the room"

A method used by politicians called "working the room" can be very helpful for appraisers.

1. First look for a familiar face and "press the flesh" (shake hands).
2. After you feel comfortable, ask your acquaintance if he/she recognizes any other participants. If he/she does, suggest going over to meet them. Or, suggest going to meet with an interesting person that also might be a loner or might have

similar interests. Form a group.

3. If you recognize no one, introduce yourself to someone, find out where they live and what they do, why they are attending, etc.

4. Or, you can talk about nonappraisal topics, such as "how's the food here," or "do you attend many meetings?"

5. If you find someone to relate to, ask if they would like to sit with you at the dinner. This could start an acquaintanceship.

6. Last, trade business cards and perhaps plan on meeting or going together to another meeting.

Participating in organizations

I recently spoke with an appraiser who was trying to increase his attorney work. He had advertised in the local bar association newsletter and had a booth at one of their events. He did not get any appraisal orders. Why? You give business to people you have met face to face.

Advertising without personal contact is not very productive. Advertising plus personal contact works very well.

You don't usually have to be a member of an organization to attend the meetings. But it can become awkward, when asked to be on a committee, to admit that you're not a member.

Networking opportunities are greatly increased by being an active member, by volunteering to serve on a committee, or as an officer, or help out with registration at a course offering.

What types of organizations are good for networking?

Real estate agents are top referral sources for appraisers.

For residential, the local real estate board and MLS are very good. Most of my referrals are from real estate agents.

For commercial, CCIM, SIOR and other organizations are good. Also, local commercial real estate agent meetings. Apartment owner's meetings are also helpful.

Also good are local Bar Associations. I have been to their local meetings and gotten work.

I am almost always the only appraiser at these meetings.

Chamber of Commerce meetings are good for attorneys and real estate agents. Also service organizations such as Rotary and Kiwanis.

Referrals from other appraisers

I get many referrals from other appraisers. Participating in an appraisal

organization can provide both marketing and professional advantages. You can build up your referral network while learning about new appraisal issues. Also, it's very easy to talk with other appraisers, as you have something in common.

From a marketing prospective, the main reasons for joining and participating in an appraisal association are networking and referrals. The reasons for not joining are that the organization doesn't provide adequate networking or referral opportunities.

Good networking requires attending regular local meetings where you can meet other appraisers. You don't really have to be in an association to do this. Many appraisal business owners have small, informal groups that meet on a regular basis; for example monthly breakfast meetings.

The meetings are generally informal, and various topics are discussed, such as which clients are late-payers, and local market conditions.

Of course, many appraisal firm owners have other appraisers they call to discuss problems with, even without any formal meetings. However, more formal meetings allow you a greater ability to expand your contacts.

Why don't we do more networking at meetings?

We know it's important, so why don't we do more networking at meetings?

Reasons are:

1. I don't have time: too busy trying to get more appraisal work or get more appraisals done.
2. I'm too shy. Everyone is shy at one time or another, including the other people in the room. You can easily learn to overcome it.
3. I don't like to "sell." When networking at a meeting, remember you're not trying to get appraisal assignments, you're trying to be known for referral purposes. In fact, it's best not to try to sell. Selling comes later. Meeting people is what it's all about.
4. I don't like to mix business and pleasure. But business runs on personal relationships. Many social events are sponsored by businesses.

When you talk with your clients you usually start with social talk, don't you, such as: "The weather's been really cold lately" or "How's your daughter's soccer team doing?"

What are your objectives?

Before you go to the meeting, decide your objectives. Why are you going there, instead of working or watching television?

Some objectives are:

1. Become more visible and get more name recognition.
2. Meet certain attendees who may be able to offer referrals.

3. Find out what's happening with lenders/AMCs: are they restructuring, etc. (trade gossip).
4. Meet at least one new interesting person, and establish a business/social contact.
5. Find out how other businesses are dealing with some new tax law issue, (for example).
6. Become more comfortable making "small talk."
7. HAVE FUN! If you don't have a good time, it will be hard to keep projecting a positive, upbeat attitude so people will want to talk with you, and possibly refer business to you.

Be a host, not a guest.

What did you do the last time you had a party at your house? You didn't sit around waiting for someone to come up to you and start talking. You made sure your guests had food and drink, and made sure no one was left in the corner by introducing people. You greeted your guests when they came in. Actually, this is a form of networking.

Have the same attitude when attending a meeting of strangers. Look for the person standing alone, clutching a drink and looking uncomfortable. Introduce yourself. When you host a party, you know the guests. When you're at a meeting, look for common interests. If you're at an appraisal meeting, there's much in common. At a Chamber of Commerce meeting, you and the other attendees live and/or have businesses in the same city.

Introduction tips

Plan and practice a simple, short, statement of self-introduction. It includes your name and company name, what you specialize in, and some bit of information, such as "we specialize in divorce appraisals".

Match it to the meeting. If it's an appraisal group, you can be more technical, such as: "I'm Jane Thomas. I specialize in estate and divorce appraisals, and have been appraising for over 15 years." If you're at a local real estate agents' meeting, you could say: "I'm John Jacob, with the Tampa Bay Appraisal Company. We specialize in residential appraisals in the Tampa Bay area. If your clients need an appraisal for divorce, estate, relocation, etc. they can contact us for fast, reliable service."

Include a social "ice breaker" in your introduction. You can use a question or statement about the event, such as "This is my first meeting, are you a member?" or "Tonight's speaker's topic looks really interesting". Always be positive.

Have two or three ice breakers prepared. Topics could be a local sports

team, the organization hosting the meeting, or a recent newspaper article on a business topic.

Listen and remember

The key to good conversations is to be interested in the other person. Listen closely to the other person's comments, and don't let your eyes wander. Be attentive; show you care.

Don't forget to smile. Don't just put your name on your name tag, also put your company's name. Use large, clear letters. Pin the name tag on your right side so people will see it when shaking your hand.

It is impressive and most important to remember names. There are techniques to remembering names. When introduced to another person, repeat the name of that person immediately as if to get the name right. Within the next minute or two, repeat that name to the acquaintance and in the next 20 to 30 minutes repeat it again trying to get a mental connection between face and name.

Before you leave the meeting try to again talk to that person even if you have to make an excuse such as: "please repeat your name so I won't forget it." The next time you meet the person be sure to greet him or her by name.

Business cards

Be sure to take enough business cards with you. I'm always surprised how many meeting attendees, including appraisers, don't have business cards.

Also, check to see if they're dog-eared (that's a no-no). Have a system for carrying your cards and collecting cards from others. Write a comment on each card you receive, so you'll be able to remember who it was, such as "Co-ops in NYC" for an appraiser or "apt. loans" for a loan officer. If you want to get someone else's card, offer them yours. They'll almost always hand you their card if you offer a card. Don't just pass business cards out to anyone. Use them after a relevant conversation.

When you receive a card from another person, don't stick it in a pocket. Psychologically, what you are telling that person is that their card isn't important enough to be put in a special place and will probably be put in the wastebasket (round) file.

Put their card in a purse or wallet, or a pocket case or notebook storage pocket. Make sure you're seen putting the offered card in a special place.

Try to store the business cards you received in some meaningful way, so you can find them later. Some use computer programs, and some use a manual filing system, filing the cards by date and type of event as a group. After all, you went to a lot of trouble to get the business cards.

Keep moving

Keep moving and meeting new people. Once you've been talking with someone interesting, it's very tempting to keep talking for a longer time. But don't spend all your time with only a few people. Remember, you came to the meeting to network. And above all, don't dominate the conversation.

To move on gracefully, use a phrase like, "Let's talk more later," or, "I've enjoyed meeting you. See you at the next meeting." To escape from a long-winded person, say, "Excuse me, it's been interesting talking with you." You could add, "I see one of my clients over there".

Avoid breaking in where two people look like they're having an intense conversation. For groups of three or more, stand on the edge and wait to be acknowledged by a verbal or visual acknowledgment, then move into the conversation. Don't forget to include someone else in your conversation if you see someone on the periphery of your group conversation. Remember, people like to be questioned. It's a sign of recognition. After asking a question, be a good listener!

Fortunately, most people will be courteous and pleasant. But occasionally you will encounter a very unpleasant person. Just move on ... quickly. Resist the temptation to be rude to them. It doesn't change them, and brings you down to their level. Don't take it personally. They're probably that way with everyone. More likely, you will encounter people who are always looking over your shoulder to see if there's someone else more "important," complain about the room or food, or have had too much to drink and are loud. Just move on.

Take it as an example of how not to behave.

Arrive early and leave late

Arrive early and leave late. Try to arrive at least 15 minutes early. Be sure to attend the social hour, as once the meeting starts, conversation opportunities are much more limited.

Don't rush off as soon as the meeting is over. Stay 15 minutes to exchange cards and follow up on previous contacts. Say goodbye to any new people you met. Say "thank you" or some other complimentary comment, to the president or person in charge of the event. This is a good time to make future dates for meetings, power breakfasts, lunches, or joint future events.

Always, always follow up

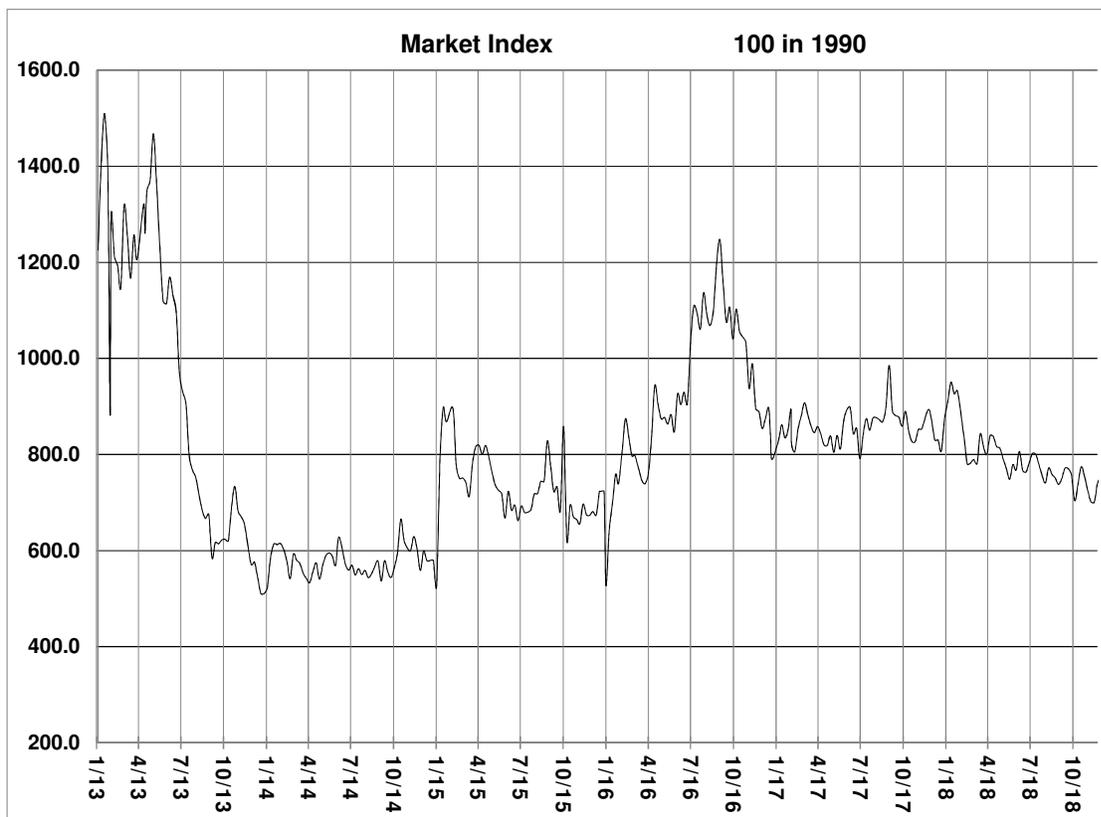
Always follow up after the meeting. Send a note or card to the people you met. To a prospective client or referral source, you may want to send a brochure or

follow up with a phone call. Hopefully, you will be attending future meetings. Be sure to say hello to people you met when you see them again.

Where to get more information

Susan RoAne's books are excellent. Many of her ideas are in this article. Two of her books are: "What Do I Say Next?: Talking Your Way to Business and Social Success" and "How to Work a Room: The Ultimate Guide to Savvy Socializing in Person and Online." Both books are available at www.amazon.com.

Susan has updated these books and has other books. Search for Susan RoAne.



As you can see above, between 2013 and today, volume peaked in early 2013, declined, then peaked again in 8/16. The most recent peak was in early

2018. Today, it has been gradually declining. The forecast is fewer loans in 2019 due to increasing interest rates. This is a good demonstration of the ups and downs of mortgage lending.

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

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