APPRAISAL TODAY

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Communicating with non-lender clients: Very, very different than lenders!!

We are all familiar with doing appraisals for lenders. You get the initial order information, decide if you want to do it, then bid. Maybe a few questions, such as phone number does not work, etc. Some back and forth on bidding maybe.

Non-lender appraisals are completely different.

Communication with the client is critical. For example, the person who contacts you may be an estate trustee who knows nothing about appraisals. What about communicating your report so they can understand it? Is this person the client, or is it their attorney or accountant?

What does the client need? They may not know the possible effective dates. You typically do not get an order form sent to you. You must get the information.

Since I have been doing many types of non-lender work since 1986, I include examples from my own experience, especially on tough issues. I wish I would have had this information available in 1986, when I started my business. Fortunately, I met local appraisers at SREA and AIREA meetings who helped me a lot.

Wipe Fannie, FHA and other lender requirements from your mind

You are subject to USPAP and sometimes legal requirements, such as definition of value.

For example, adjustments are not required in your appraisal report, there are no requirements for comps such as how old they are or if they are future sales, etc.

You never put UAD code or any other lender requirements into your appraisals.

You can always get comps or other data. If they are not very good, I explain in my report that they are less accurate than if better data was available and the value is less reliable.

You never use Fannie form reports.

You set your fee, turn time, etc.

Two types of non-lender clients: Professional and Other

I have categorized them into Professional and Other. They are very different.

Professionals are those have experience with real estate appraisers and appraisals. Examples include attorneys, CPAs, and Enrolled Agents. Also included are insurance companies, relocation companies, bail bond agents, public agencies, etc.

"Others" have little or no experience using appraisers or appraisals. These are "private individuals".

Many thanks to appraiser John Rusting for this suggestion!

Lender vs. non-lender factors

	Lender	**Non-lender**
How got your name	Appraiser list	Internet, referral Previous client
Appraiser requirement	State Certified	Professional qualifications
Initial contact	Email or phone	Same
Turn time	Lender decides	You decide
Fee payment	Bill	COD, No billing

What is needed	Appraisal	Appraisal, consulting No appraisal needed, etc.
Bid competitors	Can be many	None or a few typically
Property access	Quickly	Can be delayed
Effective date(s)	Date of inspection	Current, past, future
Number of dates	One	One or more
Turn time	Lender decides	You decide
Type of value	Market Value	You decide
Type of report	Lender defines	You decide
Cert. and lim. Cond	On appraisal form	You decide
Engagement letter	From lender	You decide
Type of appraisal	From lender	You decide
Use of appraisal	Mortgage Lending	You decide
Communicate Report	Lender decides	You must match to client

Summary of Professional vs. Other clients

	Professionals	**Others**
Order communication	Not difficult	Can be tricky
What do they need?	Need to clarify	Can be tricky
	Sometimes changes over time	Same
Regular client	Often	Occasionally
Selling your serv.	Typical	Can take time explaining
Order info	Typical	Can be tricky
Who is client	Not too difficult	Can be tricky
3rd parties	Resolve issues	Can be tricky

My experience with non-lender work

When I started my business in 1986, I had worked for an assessor's office and had never seen a Fannie form. I was open to all types of appraisal clients and uses. They were all new to me. I was a professional appraiser and knew how to appraise.

For the first 10-15 years I appraised many types of properties for many types of clients, such as:

• Attorneys - expert witness, divorce, loss in value, estate, easements, bankruptcy, etc.
• Insurance companies - improvements destruction, missed easement, etc.
• Title company - missed easements, etc.

• Private individuals - selling home or lot to tenant or neighbor, private sale, estate
• Commercial tenants and landlords - lease renewal, disputes
• Relocation companies - future value
• Government agencies - usually a possible sale or purchase
• Consulting - whether to buy or sell, reasonable price on listing, financial planning, etc.

Over time, I decided the types I preferred were estate/trust and private individuals.

Who is the client?

This is a very critical question as it determines who you owe confidentiality to.

This can be tricky. If a divorce, is it the husband's or wife's attorney, or both attorneys. If an estate, in my area it is often the executor or trustee, who pays the fee. The attorney works for them.

I recently was interviewed by two opposing attorneys who had two appraisals on a 4 unit property that were very different and the two brothers could not agree on a value. They were looking for a third appraiser. In my area, the client is typically the executor, who pays for the appraisal.

However, one of the brothers did all the management and repairs. I suggested that my clients be the two attorneys. One of the brothers definitely had a conflict of interest as the value was based on the income and expenses.

The initial contact by a prospect

The person may, or may not, know much about appraisers and appraisals. Match your communication with who they are. Be sure to ask if they have any questions

You are the expert and need to tell them why. For example, "I have done many appraisals over the past 15 years in your neighborhood." Or, "I live in Alameda and know the market very well (for an Alameda property).

Don't forget selling and closing. Always ask for the assignment, such as "when would you like to schedule an appointment at the house" or "I will email you an engagement letter tomorrow."

As you can see below, there are a lot of questions that are not asked when doing a lender appraisal.

When I get an email inquiry, I ask for the address so I can check out public records for the property. I also do street and aerial views. If it is a phone call, I run public records while speaking with them to get basic information.

How did they get your name? This is critical for marketing purposes. If a referral, who is it from (so you can thank the person)? About half of mine come from "the internet". They seldom remember how they got your name (probably google)

What is their connection to the property? Owner, trustee, attorney, accountant, tenant, seller, etc.

Why do you need an appraisal? Maybe they want to list their property (a common situation). I suggest contacting local real estate agents. If they need a referral, I give them two names.

What is the actual address? It is not unusual for the address they give to not match public records, so you can get more info while you are speaking on the phone.

Who is the owner? I check public records and ask if this is the owner and the correct address. There may be multiple owners.

How do you get access to the property?

Who is the primary contact person(s)?

What is the effective date of the appraisal?

More questions below.

What are you appraising?

You are appraising the land and the structures on the land.

The first question is what are the lot dimensions. Assessor's office plat maps are not a legal description. Lender appraisers seldom are concerned with this.

This can be unclear. Many people, including attorneys, don't know this.

Having a current title report available is unusual. Sometimes there is an old one.

If I am not clear on the property boundaries, I always require a legal description. Fortunately, my MLS supplies deed recordings for a nominal fee. For example, I was asked to appraise an apartment property built partially on an old sea wall built in the mid 1800s. The assessor's plat map was not accurate. I obtained the legal description, went to the property and followed the metes and bounds description.

I may require a survey, particularly if in a rural or semi-rural area.

In my city, it is not unusual for people to own adjacent properties. Sometimes improvements such as garages are built on (overlap) both properties.

Leased fee or fee simple? Is there a tenant (commercial properties usually)? If so, I require a copy of any current leases and any older leases. If a home, is it on leased land?

Highest and best use (HBU)

I was trained at an assessor's office. The first question on every property was "what is the highest and best use". We always did a land appraisal, which made this clearer.

Unfortunately, most residential lender appraisers seldom encounter (or see) this issue. They have been trained not to see it. If the HBU is not the current use, the lender may not want to do the loan and you lose the appraisal order.

When you see two appraisals that are very different in value, it is typically a HBU issue.

For commercial properties, the current use may or may not be the HBU, as uses change over time.

HBU may be affected by planning and zoning requirements, changes in nearby properties, etc.

When appraising raw land or a property with a large lot or acreage, be very careful.

I strongly suggest taking a class in HBU for residential with case studies. The Appraisal Institute has a 2 day class, Residential Market Analysis and Highest & Best Use, live and online. I strongly recommend live as HBU is a difficult topic.

Having another appraiser to call is very, very helpful for HBU issues. Several local residential appraisers call me when they have a problem. You need to have someone to call. Maybe an appraisal instructor or another very knowledgeable appraiser who can "think out of the box" of lender appraisals.

It is best to have a local appraiser. Online is possible, ifit is a local discussion group. Unfortunately, online HBU (and other) issues deteriorate quickly and participants don't know your local market.

Value pressure - high or low

I prefer to know if they are "looking for" a high or low value so I can write appropriate comments in my appraisal report. Some appraisers do not want to know.

I prefer to make it clear up front that I use the most probable sales price (bell shaped curve), not the highest or lowest. Then, they can try to find a "deal maker" appraiser if that is what they want.

It is somewhat unusual not to have a client who prefers a high or a low appraisal, for various reasons. For example, for a private sale, the buyer prefers a lower value and the seller prefers a higher value.

For estates, most of my appraisals are to establish a value when the first spouse passes for a stepup in basis for capital gains purposes. When my husband died, I saved hundreds of thousands of dollars of capital gains taxes when I sold our house 4 years later as prices had gone up significantly. If the second spouse dies, a lower value is preferred to reduce capital gains. There is more pressure on lower values.

This is particularly important for attorney clients who often have the most value pressure. They want to win. I have lost some attorney clients for not making my appraisal fit what they wanted.

What about apartments where there is little information available as the person is deceased?

Usually, you ask your client to find out the rents and expenses on the effective date of the appraisal. If there is a property manager, it is easy. If it was managed by the deceased, records they can find may be spotty. This is not unusual. You just have to do the best you can.

The family members sometimes have limited information as they have not recently seen the properties. For example, to confirm which utilities were separately metered, I often count the meters. But, they could not find the water meters. There was also a problem with a non-legal unit. Both required that I do additional research.

A few years ago I appraised 15 properties, including 12 apartment properties, where the owner fell down the basement stairs, hit his head on concrete and died. (Note: Ever since then I have been very, very careful going down basement stairs.) His two sisters came from New Orleans to handle the estate. There was limited information available as he managed the properties himself.

The value was relatively current, so the clients obtained information on the current rents that were being paid, utility bills, etc. The city building department had records on any repairs done with permits.

Of course, this additional work was reflected in my fee.

Scope of Work changes

This happens sometimes with lender appraisals but are fairly straightforward.

Be sure you get your scope of work carefully explained to your client, especially if an "Other" client.

Non-lender scope of work can have changes, sometimes significant, after you get the appraisal order. The changes can affect your fee.

For example, you start your preliminary research and find out that the property does not conform to current zoning and planning requirements. It will take more time to determine if it does conform (measuring improvement locations, getting a survey, etc.

Rent surveys for homes and your fee

Sometimes market rent is needed for a home: current and/or retrospective. This can be needed for estate and divorce appraisals. The farther back in time, the higher my fee. This information can be difficult to obtain. I have gone back as far as 20 years, with an estimated market rent for each year.

I charge by the date. For example, 20 annual estimated rent times $50. I use a Bay Area rental service with data that far back. It is not cheap and I pass that cost on to the client.

I also need any changes to the property over time, affecting the rent.

Retrospective appraisals: How far back in time - available sales, property changes and your fee

For me, the most difficult information to obtain is what the property was like on the effective date of the appraisal.

Your fee (and whether or not you accept the assignment) depends on what information is available on the subject as of the effective date and if you have (or can get) sales data.

If the effective date is in the 1960s (or earlier), for example, often local newspapers are used. Sales prices are available on public records, although it may take some searching.

If the property has changed after the effective date, I often interview the most knowledgeable person then go with them to inspect the property, looking for any improvements. I look for new paint and floor coverings, new roof, remodeling, etc. It is easier to do when at the property.

If the property has been sold, or demolished or had significant damage, I interview the listing agent (sale), neighbors, etc.

Last month, I received a call from a woman whose spouse died in January 2002. They purchased the home in 1966 and she sold it in 2018. To avoid capital gains taxes, she needed an appraisal for the 2002 date. I have MLS data going back that far, plus the subject was listed, so I was able to get information on the condition of the home when it sold. I looked at permit histories, interviewed the real estate agent and the owner, to estimate what it was like in 2002. The home had been fixed up and staged for sale.

Another home I appraised had turned from a crack house (on date of death) into a completely remodeled home. The property had been sold and access was not available. The owner's grandson had moved in and done drug dealing. A relative had remodeled the home with spotty information. I interviewed relatives, neighbors, listing agent, etc. and did the best that I could do.

For most states, how far back you can go in time for a retrospective value does not have significant data issues. However, I am in California. Proposition 13 in 1979 eliminated any increases in assessed value except for market conditions (up and down), new improvements and a sale of the property. For values prior to 1980 I tell the owner to contact the assessor's office to get property data and the use the assessor's office values for similar homes at that time.

Effective date (s) of appraisals - current, retrospective and prospective

This is key factor for some appraisals. Be sure you get the date(s) correct.

Clients need retrospective appraisals for many reasons. For divorce, it can be the current date, date of separation, dates when improvements were made, etc. or any combination of the above dates.

For damaged properties, the client may need current and "as of" date of damage.

A few years ago, I did an estate appraisal for a 56 unit apartment property. The client was paying significant capital gains taxes. Values had declined, so I recommended using the 6 months alternate valuation date, 6 months after the date of death.

All of their properties had to have the same effective date. The family home had gone up in value, but not the apartment property. 1 month before that date, there was a significant rent control vote, with 2 competing measures. One was the current rent control, relatively weak, instituted 1 year before. The other measure would have meant one of the strictest rent controls in the country in Alameda. Of course, there was no interest in the property until after the vote. I submitted 100+ page reports for the date of death and alternate valuation date. They saved tens of thousands in capital gains tax.

In your state, the assessor may have good information for old effective dates without MLS data or other records.

Are any property reports available?

I always ask and include the request in my engagement letter. I prefer to get anything I can. I know of few appraisers who say they got too much.

I ask for (depending on the property) structural pest control inspections, cost and dates of improvements, income and expenses, home inspection reports, environmental reports, easements and other use restrictions, building plans, etc.

Fee payment - COD, billing, etc.

For homes I usually collect a check at the home on the day of inspection and provide a short Engagement Letter (if I have not already sent one). For assignments that are over $1,000, I require 50% in advance and 50% before they get the appraisal(s).

I never discuss the value, or release the appraisal, until I am paid.

Billings can be difficult to collect sometimes. I always require payment from private individuals as collecting from them is tricky due to collection laws.

Extending credit to attorneys can be risky as it does not cost them much to delay payment requests, especially if they lose their case. I prefer not to extend credit for new attorney clients, particularly for litigation. They can also be slow paying.

Public agencies are notoriously slow paying. They do pay, but it can take a long time. If you are thinking about working for a public agency, check with local appraisers about how promptly they pay.

What is your fee?

If someone's first question is "what do you charge" it very seldom results in an assignment. There is always someone cheaper.

As you can see in this article, you should be charging significantly more for non-lender appraisals than for lender appraisals. For example my house fee for estates is $650 with the typical lender fee of $450.

I never quote a fee before I get my critical questions answered. I do not like to increase the fee after accepting the assignment, but I have done it. Sometimes I just return the fee as the appraisal is getting too complicated with tricky issues.

I recently returned two $1,500 checks for apartment appraisals that got too complicated with issues I did not want to deal with (fighting brothers - one was the property manager, "hidden" life estate).

I have returned fees in the past from "crazy people" who were a big nuisance after inspecting the property. In both cases, I was not the first appraiser to return the fee.

Turn times vary widely

Wipe from your mind lender 2 day turn times. You decide your turn time, not the client.

I always ask if the appraisal is needed by a certain date, such as filing an estate tax IRS form.

Attorneys sometimes just want to name you as an expert witness. They don't know when, or if, they will need an appraisal.

I prefer not to give a definite date for sending the appraisal as I never know for sure how long it will take. Also, then I am not "locked into" a specific date.

If the client needs an appraisal by a specific date, such as filing a tax return or other reasons, I will accept it if I can complete it by the specified date.

I always do bail bond appraisals as fast as possible. All cash, up front, significantly higher fees. But, sometimes I must put my other appraisals on hold to complete them.

Time from initial contact to delivering appraisal can be a very long time

That is why I don't like to give turn times.

Sometimes there is more than one contact person. Coordinating can be tricky.

Client does not return multiple emails or phone calls. Attorneys seem to be particularly bad about this.

Waiting for signed engagement letter with payment.

Waiting for information from the client such as reports, deeds, income and expenses, etc..

Delayed access to the property. I have been waiting since last summer for access for an estate house appraisal. I appraised 5 small apartment properties for 4 brothers who were trying to decide what they wanted to do with them. Took 3 months to get access to 4 of them, then another 2 months to get access to the 5th property.

Engagement letters

There are two basic types of engagement letters: litigation and non-litigation.

For non-litigation on one property, such as a house, I use a simple letter, especially for “Other” clients.

For Professional clients I use something similar to the Appraisal Institute's suggested letter. Google Appraisal Institute Engagement letter. Liability Insurance Administrators has a similar sample.

I wrote about litigation engagement letters in my previous article on expert witness. They are often many pages long (20-40 pages). Many appraisers receive suggested letters from their litigation attorney clients. I have received a few.

Insurance companies

This is typically for a completely destroyed property. If there is a disaster, appraisers are needed.

You may need two values: before and after the fire.

If you are required to do after the fire, but be sure to find out how far after the fire. This can be difficult and controversial. Get a copy of Randall Bell's book, Real Estate Damages, Third Edition available from the Appraisal Institute. He is The Expert.

I have not done any disaster appraisals, but know many appraisers who have. You can find good information online as there seem to be increasing disasters. Check with other appraisers and see how they are handling the disaster appraisals.

Determining what the property was like before it was destroyed is very difficult, especially if all that is left is the fireplace and maybe the foundation. You have to do the best you can.

I did an appraisal on a local popular restaurant that had a fire. What was left was completely demolished and removed before I saw the property. I was one of the few locals who had never eaten there. I contacted the owners for photos, spoke with many people who had eaten there, checked building department and assessor's records, etc.

I have never done one for a home. There was a disaster here in 1991 (Oakland, CA firestorm). I had done many appraisals of homes there that were destroyed. I could not even find them as all that was left was fireplaces (the foundations were destroyed). It made me so sad, I was unable to work there for two years.

Unfortunately, the best source of info was family photos. But, many residents left them behind when they fled the fire.

Appraisers used assessor's and building department records, previous listings, family interviews, etc.

Public agencies

These appraisals can take a long time to get a contract, plus a long time to get paid. For larger assignments, they sometimes send out multiple bid requests. I have an MAI and get a lot of them.

I have worked for two local cities. I was requested to appear and possibly testify at a city council meeting, but was not called to speak. I was the only bidder on the two appraisals I did. One was for a fire station and the other was a residential property.

I decided not to do any more as I did not like the hurry up and wait, but they may work for you.

Should you do non-lender work?

Most residential appraisers do both lender and non-lender work. This is what I did until I quit doing residential lender appraisals in 2005, primarily because of the wide swings in volume of work.

If you specialize in high demand, very good fee appraisals such as divorce, you may be able to only do non-lender work. I have always done both commercial and residential appraisals, which has allowed me to eliminate residential lender appraisals.

I like figuring out the various "puzzles": who is the client, what is being appraised, highest and best use, etc. I don't mind dealing with the communication issues.

I specialize in estate and trust as that is what I prefer. I feel "called" to help people who have had someone die and have personal experience with it (spouse, mother, brother, favorite in-law). I always take time to let them tell me about the person who passed, family issues, etc. In contrast, divorce appraisals had too many "personal" issues for me. But, I have never been divorced. Maybe you are "called" to a particular type of non-lender client also.

Try an estate, pre-listing (to be covered in a future article), relocation or another type of appraisal to see how you like it.

Lender appraisal requirements are changing rapidly. AMCs do not care about quality. They focus on fee and turn time. Now is time to consider non-lender clients who see you as a professional appraiser and are not shopping for the cheapest and fastest appraisals.

Manifesting Support for Adjustments

by Steven R. Smith, MSREA, MAI, SRA

In the appraisal world of lender work, there is never enough time or fee to develop support for adjustments before the report is due. And, yet appraisers are increasingly being asked to document and support adjustments.

Many were trained and have gotten by using a List of Adjustments, from some unknown date and origin. Some appraisers are using the same List today, even though they have been appraising for years. The point is, the Lists being used may not be tied to the market, especially the current market as adjustments change with the market conditions.

Another important point is that Adjustments change over time due to market conditions. The same line item adjustment may be different in a rising market, or a declining one. Take the Time adjustment, at the peak in 2005, some of the worst neighborhoods in my immediate area were reported by MLS data as having increased 57% in one year, only to go down 36% a year later, then down again for the following four years.

As the Price Per Square Foot increases, the $/SF adjustment typically decreases. Rising market conditions can cause this indicator to rise, so can Location or Quality. Knowing which and when to use what adjustment is a sign of a real appraiser. Not knowing and not being aware is simply not.

Location, Lot Size, Amenities all change in value with rising or falling market conditions. Adjustments derived during a rising market, will be too large as everything gets compressed in a declining market.

Some adjustments that can be developed during rising markets, all but disappear during declining markets. Adjustments derived during rising markets are larger than when it is declining. Adjustments derived during declining markets may be too small for use in a rising market, resulting in under valuations.

Markets are seldom stable, and when they are, it is for a shorter period of time than when rising or falling. We each need to Know what the markets we serve are doing. Gaining a Knowing is an active process, not a passive one.

Appraisers who actually Know things, can articulate them in a powerful way, and as such, their reports become more powerful, credible, believable. All of which are points toward USPAP compliance. Being unaware and doing nothing but using a List of Adjustments will not allow for USPAP compliance which requires knowledge of the nuances of the market. This includes the nuances of market conditions, location, product type {large or small, quality or not}, amenities, etc.

This topic is about how to develop support for adjustments on a daily basis, effortlessly. It is offered as a helpful way for the practicing appraiser to be able to deliver more credible work products, help improve their reputation, and perhaps their client base and fees.

It is all about awareness. Example, how many saw a red car on the road today or this week? When I ask that question in class, few hands go up. And, when I ask students to watch for red cars on their way home, the next day almost all saw red cars that afternoon. About 20% of cars on the road are some shade of red.

The same holds true for Pairings. If we are not looking for them, we do not see them. So, the first step is to raise our awareness level, and be watchful for them.

A key not understood by many is that the Pairings do not have to come from the Primary Data used for Direct Sales Comparison and adjustments. Pairings can be stored for later use. Some adjustments derived from Pairings may become flat dollar adjustments, some may be square foot adjustments and some may be percentage adjustments.

Another important fact not talked about is that Pairings will not provide absolute proof for any particular adjustment, but multiple Pairings will provide a supportable range, from which we must reconcile and conclude for each individual report we use them on. One can only get to a Knowing about this factor if and when they do Multiple Pairings for one line item. Then, and only then will they Know that no one Pairing provides absolute proof.

When I am working on a detrimental conditions case, a large part of the fee is for the research and analysis time to find Pairings that would be helpful to support adjustments. Fees for this type of work run in the $X,000 range, not $X00, and timing is usually not an issue, weeks instead of days to do the work.

Still, with the GSE's and HUD guidelines asking for support for adjustments, and AMC Reviewers asking for them; it behooves each of us to be aware of and watch for Parings of any kind, and save them for later use.

The Society of Real Estate Appraisers had a seminar on Appraisal Office Management back in the 1980's. Two takeaways from the class for me was that you can maximize your income by two main ways, 1} on the backs of underlings working for you and 2} by reusing data already in your file and charging a full fee to the new client.

Some have been told to use Depreciated Costs for their Adjustments. A perfect way to do this, using the example of a pool, would be to have two model match homes of the same quality and condition with the only amenity difference being the pool. One home had a 1-year old pool, the other had a 10-year old pool, match them up and see if there is a difference. What a perfect world that would be. How would an appraiser Know the age of the subject or any comparable pool? Check the Building Permit file on both.

The point being that a pool amenity might have a different value for various reasons from date in time or market conditions, location, age/condition, to size/shape and elements. A salt water pool might be worth more than a regular pool. The same for one with a pebbletech finish, waterfall, slide, grotto, etc, etc, etc. These can all be Paired, it is just a matter of time, billable time.

Sometimes a particular amenity such as a pool, might actually suffer Functional depreciation. Example, I appraised a home with an almost new 25' X 48' {1200 sf} Diving pool that was 10' deep. The owner spent $100,000 on the pool, spa and decking. This was in a $1,500,000 price range for the property. The average pool/spa being built at that time, cost less than $50,000 for a 450 sf pool. The average pool/spa package was worth about $70,000. In this instance, I used $30,000 as a Functional depreciation adjustment, because there was no market support for the oversize and depth pool.

So, be it a pool, or other adjustments, they may be different depending on the market condition, location, age/size, and quality of the amenity in question.

The Lists of Adjustments that have floated around our industry, may have had some connection to a particular market or market segment when created, or maybe not. The point being, using adjustments from some List of unknown origin or time period, is patently wrong. Using forms programs with automatic adjustments based on such Lists may look good, and be fast, but wrong.

For the lender appraiser, perhaps the best thing to do is offer a Menu of Services of what the client wants included in the preparation of the report.

This can include Verified or Unverified Market Data. Verified being when we interview someone involved in the sales to find out about motivations, terms, concessions, personal property, cash back, etc. And, to validate that it is in fact a bonafide, arm's-length sale. Adjustments for motivation alone can be larger than any GSE guideline, +-20-30%, etc.

Citing two Sources of information on the market data is not Verification, but Corroboration. It is sometimes amazing what one finds out when they talk to the agents involved in the sales, not only about the motivations of the parties but amenity factors as well, and about the market. I always ask a closing question which is Could the Property be resold today for the same Price without sweeteners or concessions? If the market is hot, then not, if the market is cold and declining, then not. The answer to this one question can be very enlightening.

Talking to market participants is easiest done via the agents, but sometimes a principal can be enlightening too. Example I was field reviewing a home near the Beverly Hills Hotel, it was 4-years old. Upon inspection I found that the home was being torn apart and redone. I met the buyer at the property and asked him why. He said his wife did not like the finished. I ask then why did they buy this house, the answer was because it was in walking distance to the hotel. He said they did not like guest staying in their {12,000 sf} home, so put them up at the hotel, and called them when meals were being served.

Another example, while doing a field review of a home in Holmby Hills, I met the buyer and asked her why she bought the home and how she arrived at the price. Her response was I can change the home, but where can you get 3.5 acres in this neighborhood? I bought the lot.

While doing a field review in Sausalito, I drove up to the home and looked at the comparable map. It was up on a hill overlooking the city, the comparables were nearby, but down in the flat lands. I drove up to the first Sale and noticed the owners had just come home from shopping. I was driving a white Crown Victoria with black out windows, wearing a dark suit and sunglasses. The owner saw me, so I got out and walked to greet him with a friendly smile. I told him what I was doing and pointed to the house on the hill and said his home had been used as a comparable. He said, You Can't Do That, and then proceeded to march me through his garage to the back yard, where there was a 50' dock and gorgeous sloop. He said, I bought the Dock, the home came with it.

When we do not talk to market participants we don't Know anything. All we have are indicators derived from published data. Before Pairing data, it is good to Verify the Motivations, Terms, Concessions, Personal Property and adjust them first. There is a reason why this is the first adjustment in the Order of Adjustments.

Then, adjust for Time if necessary. Or any other ancillary line items first, leaving the one item being Paired for last. The results can sometimes be confusing as we derive things that may be completely different than our List of Adjustments. Also, no one Pairing is proof of anything, while multiple Pairings provide only a Range which then needs to be reconciled for the date in time, location, etc.

It may seem hard at first, but once one has done this a couple dozen times, a realization will sweep over us, that everything we had been told was simply wrong when it comes to adjustments.

Additional comments on Fees for Verifying Market Data and Documenting Adjustments.

Example: delivering a report based on corroborated data from two sources might be $450 for a standard house, depending on the region.

Verifying Data might be worth another $75-$100. Each of us needs to decide what to charge, based on how many comparables are going to be Verified.

Supporting Adjustments might be based on line items, depending on which ones the client is concerned with. Still, there would be a range for supporting any individual line item adjustment.

Offer clients a discount when they want more than 2-3 line item adjustments documented. My experience is that 80%+ of the property value is going to be contained between the line for Motivations and Finished area of the home. Concentrate on these lines.

Still there are times when a ADU, Pool/Spa, Tennis Court needs support. Having data in file, one could charge a reasonable fee to document for any individual report.

About the author

I have known Steve for many years and have attended several of his seminars. I have also hired him to teach seminar when I had a CE business. His is very knowledgeable.

He has an MAI, and SRA from the Appraisal Institute. And a Certified General License and is based in San Bernadino CA.

Steve has been appraising full time since 1976, with sales, title, and lending background prior to that. Specializations have included Luxury Homes and Estates, as well as Apartments and Market Studies.

Experience includes: Civil and Criminal cases have involved bankruptcy, judicial foreclosure, specific performance, casualty loss, dissolution, construction defects, encroachments, partial takings, easement and partition actions. Since 1976 he has testified in state and federal cases, and at the appellate level in the Soderberg vs. McKinney case, Cal Apt, 1996.

Steve started (and still moderates) my favorite place to network with "upscale" appraisers at the National Appraisers Forum (formerly Inland Appraisers) groups on Yahoo (no whining, negative useless comments, etc. allowed). I have been a member since it started.
http://smithraltyadvisors.biz

Lots of ways to cut costs, and increase profits and cash flow

Now is tax time for many appraisers. When doing your taxes (or after doing them), look through what you are paying out, by category and vendor. I am sure you will find at least one item that can have a reduced cost or dropped as you no longer need it.

Business has slowed down for most of us and fees are down. To increase profits you increase income or decrease expenses. In the short term, it's time to cut costs. Don't forget personal expenses while you are looking to cut business expenses.

Unfortunately, many costs are fixed, such as MLS, data services, car insurance, and other costs. Even if your business hasn't slowed down, why not try to spend less money? Then there will be more money in your pocket.

Some of the advice in this article is for larger appraisal firms, but most applies to all of us. If you're the only one in your office, your spouse or another appraiser may be able to provide feedback.

For appraisal firms, some of the costs are variable, based on volume of business. For example, if your work volume drops, your gasoline expense and appraisal fee split labor also drop.

But fixed costs, such as car payments and data services can cause financial problems when appraisal assignments drop off quickly.

Have a cost-cutting brainstorming session with your associates and support staff. If you're working alone, set up a lunch with your accountant or other appraisal business owners to swap ideas. You'll get many ideas you've never thought about before.

Where are you spending your money?

Go through your accounting records (or checkbook) and credit cards looking for expenses that may not be necessary. Do this for your personal and business expenses.

As I usually do when writing an article, I did this myself. I am now saving over $400 per month.

Look through regular credit card charges.

Often we forget about monthly, quarterly, and annual services that we don't use much. Although they often are not much individually, they can really add up.

These are typically for online services.

Review your credit card statements.

Here are a few I found:

A data service I don't use much and downgraded my plan.

• Stopped a monthly computer checkup that I can do myself.

A few ideas for what you can look for:

• MLS in areas you don't work very often. Find another appraiser or real estate agent who can help you.

• A less expensive public records data service..

• Downgrade your Internet service to a slower speed.

Saving money when working in the field

• Brown bag your lunch. Doesn't take much time and is much healthier than fast food.

• Save on gasoline. See the article in an upcoming newsletter.

• Don't go back for additional comps. Get MLS access on your smart phone, Ipad, or laptop computer in your car.

• Plan your trips to avoid peak traffic times.

Utility savings

• Turn off your computer and lights when out of your office.

• Turn down your office thermostat

The Two Primary Rules of cash management

There are two primary rules used by all properly managed companies, from one-appraiser firms to Fortune 500 companies:

1. Pay your bills only when they are due.
2. Get your income as soon as possible.

Cash management

1. Pay no bill before its time. Don't pay any bills until they're due. See who has a late charge, and who doesn't. Send checks out on Friday to take advantage of the weekend "float."
2. Exercise dormant lines of credit. Frequently business owners set up lines of credit they don't use. The bank may drop your line of credit if it is not used for a certain period of time, so be sure to check its use requirements. If there is an annual cost, such as 1%, many business owners consider dropping a line of credit. But remember the rule of banking: If you really need the money, you probably can't qualify for the loan.
3. If you don't have a line of credit, set one up now - business or home equity. Check around for competitive rates. It's a lot cheaper than using credit cards if you're really in a cash flow pinch.
4. Closely monitor your three sources of cash:
• Appraisals in process, not yet completed
• Appraisals billed out, but not yet collected
• Paid billings: cash on hand
5. Complete and bill out appraisals as fast as possible. The sooner they're billed, the sooner they'll be paid. We're all tempted to "let the work fill up the time available." But it delays payment of your bill. If they don't have the appraisal, they won't pay the bill.
6. Give your associate appraisers a higher fee split if they're willing to wait to be paid until you're paid for appraisals. This policy can be a substantial help to cash flow problems because the highest percent of expenses is appraisal labor.
7. Be very aggressive with past-due accounts, particularly AMCs. If the mortgage business declines significantly more, AMCs will go out of business. Let them be late paying someone else, not you. In collections, the "squeaky wheel gets the grease." Call every day if necessary.
8. Get as many pre-payment or CODs as possible. Offer a discount, if necessary. Require pre-payment from private clients, or business clients that may cause payment problems. If they won't pre-pay or COD, turn down the work. Don't work for free.
9. Pay bills online. Saves time and postage once it is set up.

Rent - office and storage

• If you're renting office space, move "back home" and work out of the garage, spare bedroom, or even the dining room table. If you think it's too cramped, consider it only temporary until business picks up again.
• Shop around for low-cost storage space. We have to save our appraisal files for at least 5 years, and many of us save them for much longer. What to keep and

throw out in files is an individual decision, but you can shop for a lower storage cost.
• Get rid of excess stored stuff, such as old office furniture. Sell or donate it. Don't pay storage costs for things you really don't need. Don't be a packrat.

Software

Do you really need an expensive support contract? How often do you call support? I never buy support contracts. I seldom call and am willing to pay the fee, usually around $50 to $100 per call. A lot cheaper than a contract.

Are you using all the "bells and whistles" that cost extra? Do you need all of them?

Maintenance contracts can be expensive. I only upgrade my appraisal software when forms change. For other software, I wait for an update that has something I really need. I very seldom upgrade. I have upgraded after using the same forms software for over 5 years. I just paid the extra fee, which was much less than the total of 5 years of upgrades.

Electronic file storage

We have to save all of our work files and scanning is a hassle. But if you keep only electronic copies of your appraisals, that can save space.

Use an inexpensive online service to automatically save copies of your files and even your entire hard drive. I use Mozy.com. Many appraisers prefer to use a la mode for appraisal report file saving, but there may be a much less expensive option.

Ask for business discounts

When purchasing building supplies (Home Depot), office supplies, etc., inquire about business discounts. It never hurts to ask. The worst that can happen is they say no. Home offices are businesses.

Pricing

• Keep close track of your competitor's costs. Don't underbid or lose work because you overbid. When fees are changing, don't get left behind and lose valuable assignments from overbidding, or income from underbidding.
• Don't offer lower prices to a client that isn't price sensitive. Why give away your profits? Not everyone gives assignments to the low bidder. Some don't even do competitive bidding.
• Know your costs on appraisals. The high fee jobs may not be the most profitable. It may be more profitable to set up referral alliances with appraisers in other

geographic areas, rather than spend the time traveling and doing extra research on an area you're unfamiliar with.
• Dump high hassle, low pay clients as soon as you can, so you will have time for marketing to new and old clients.

Dues and publications
• Carefully review each organization where you pay dues. Do you really participate, or do you send in dues because "you always have." You can always rejoin later, when business picks up if you feel guilty about dropping out.
• Change to online newspaper publications.
• Review the publications you subscribe to. If a publication isn't useful, consider not renewing. Hopefully, you find this publication useful!!

Labor costs
• Consider hiring family members, especially older children, as employees. There are tax advantages.
• Use part-time support staff. They don't require benefits and usually have more flexible hours. Laying off a part-timer, or cutting back their hours, is much easier than a longterm loyal, full-time employee.

Education costs
• Have one person attend a seminar, and then later "show and tell" the rest of your staff. For example, we all wanted to find out about the new UAD form, but the seminars can be expensive. You could have just sent one person, who gives a "mini-seminar" to your other associates and yourself. If you work by yourself, work this out with another appraiser and trade off attending seminars.
• Attend only local seminars to eliminate travel costs. If there's an out-of town seminar you want to take, call the sponsor and see if it will be offered locally. Or see if you can purchase CDs.
• Broaden staff responsibilities. For example, instead of paying an outside bookkeeper, have your secretary do it. If you have to lay off a full-time secretary because your work has dropped, consider letting a less experienced associate appraiser do parttime clerical work. At least they'll have some income. Instead of having outside firms do janitorial and delivery services, have your employees do it. It's better than getting laid off, or sitting around worrying about getting laid off.
• Get free or low cost consulting from a local college business school's small business consulting programs, or the SBA's SCORE (Senior Corps of Retired Executives) program. They can give you advice on such topics as marketing, collections, and cost accounting.

Insurance

• Be sure you're not overpaying for workers compensation. How are your appraisers classified? They are relatively low risk for a claim and should be classified as real estate agents or some other category, rather than as much more expensive inspectors.

• Do comparative shopping for all your insurance. Sure, it's easier to just renew with the same company, but you may save money by switching.

• Look at your auto insurance coverage. Consider dropping collision on older vehicles. If the car is only worth $1,500, why pay $200 per year extra for collision?

• Raise deductibles on such coverage as auto collision, disability, property/ casualty, and liability insurance. For example, have disability insurance "kick in" after 90 days instead of 30 days.

• Evaluate all your insurance policies for their risk/benefit, and decide which ones you think you will really need. Don't over-insure.

Taxes

• Don't overpay your income tax quarterlies. If you anticipate that your taxable income will drop this year, don't pay taxes based on last year's income. Work with your accountant to pay quarterlies based on a more accurate estimate. If you've already overpaid your quarterlies, ask your accountant about a quick refund.

• Close to year-end, schedule a tax planning meeting with your accountant to shift income and expenses.

For example, shift income into the next year to decrease this year's taxes.

Office supplies

• Shop for the best prices. Don't pay too much attention to percent discount. Look at the bottom line. No one pays full retail. Purchasing supplies in bulk may be worthwhile.

• Shopping online can often lead to lower prices. I recently used Amazon to purchase printer supplies. Much cheaper, sometimes not taxable, and free shipping.

• Use office warehouse companies like Office Depot. They usually offer the lowest prices. Many will deliver. Don't forget discount stores such as Wal-Mart and Costco. Many carry some of the most-purchased office supplies, like paper, pens, and laserjet cartridges. You don't always need to buy brand names. Use their delivery services to save time and money.

• Keep close track of inventory so you don't have to pay someone to "run over" to the nearby high-priced office supply store, or do it yourself.

• Use email or fax instead of U.S. mail, UPS, or FedEx whenever possible. It's cheaper and faster.
• Use the back side of old copies for rough drafts to cut your paper costs.
• Cut "post-it" pads into smaller sizes to use for page markers.

Equipment and phones
• Sell or donate excess office furniture and equipment. Storage space is expensive. You can sell it to employees, the public, or by advertising on Ebay or a local newspaper. Or donate
it to local charities or schools. Be sure to get a receipt for your taxes. If an expensive donation, take a photo.
• Reduce phone lines. If you have fewer staff, you need fewer phone lines. Cancel some of the optional features you don't really need.
• Carefully evaluate your cell phone use. Now that you can keep the same number when changing services, it may be worthwhile to change.
• Phone costs are dropping. Be sure your long distance and local call carriers are the same - you will get discounts. Check with competing phone services.

Data services
• Shop around and see if you can get your public records data from a less expensive vendor. I am getting it from my local MLS, including plat maps, saving $60 per month.
• Do you really need all the data you are paying for? If you only appraise occasionally in a county, consider dropping the data. You can always get it when you need it, although it may be less convenient.

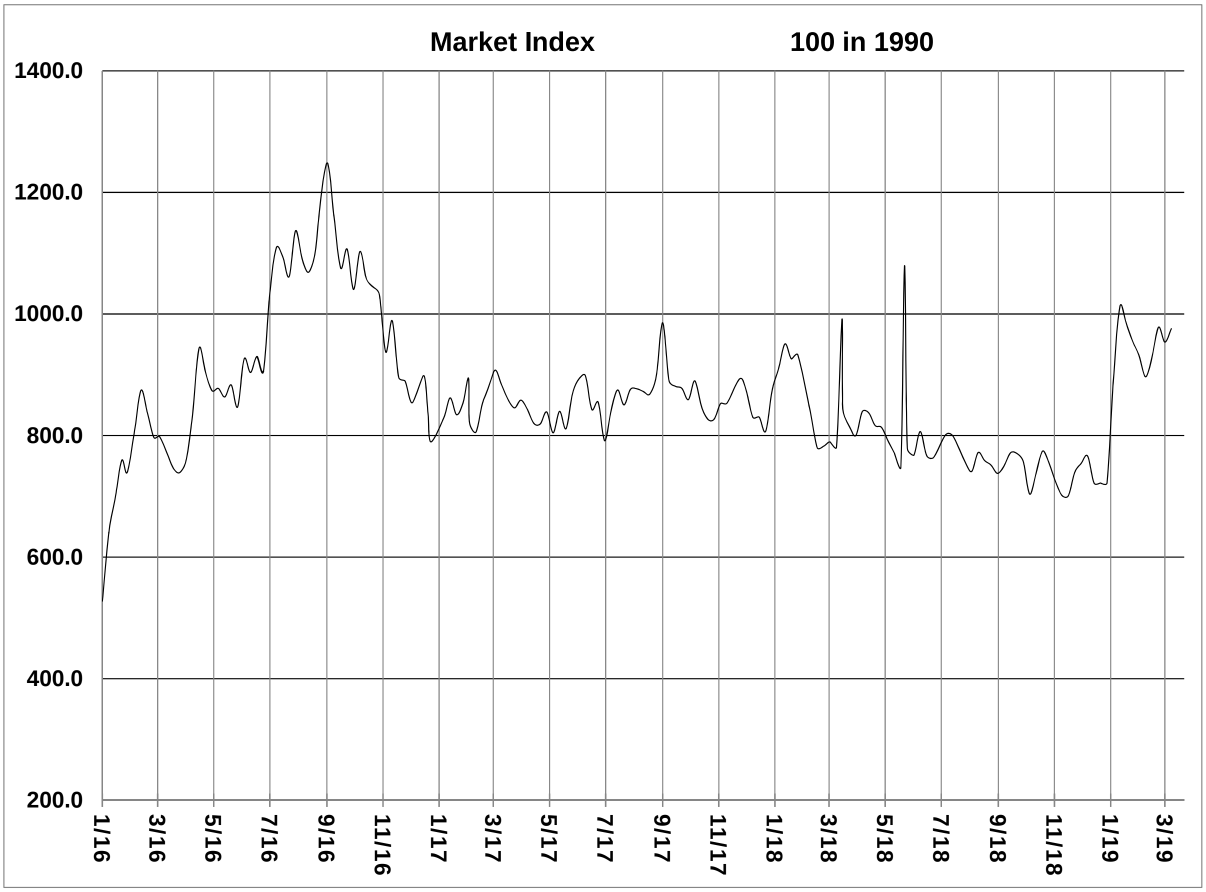
Where to get more ideas

Every business is different. If you use Quickbooks, go through your expense categories and vendors.

Carefully look at every way you spend money. What can you change?

Google small business cost savings for lots more ideas.

MBA Loan Volume Application Index – 1/13 to 2/19



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.

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