APPRAISAL TODAY

# November 2019

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## What is Fannie doing now and what are their future plans? UAD, Forms, Bifurcated

In the June, 2019 issue of Appraisal Today newsletter I wrote: "Fannie's big changes: "New Forms, Revised UAD and Bifurcated (Hybrid) Appraisals".

The new "forms" will be dynamic (see below) in the cloud. You will not be using forms software on your desktop.

Most of this article focuses on Bifurcated appraisal. There is lots more new information on Bifurcated, so this article mostly discusses them.

There is new information on the timeline for UAD and Appraisal Reports.

For more detailed information, see the June 2019 newsletter, available on the paid Appraisal Today web site subscriber page.

I have been writing about the GSEs and appraisals since the 1990s. Over the years, I established reliable sources of information. There is not much, if anything, written on timeline changes or Bifurcated by the GSEs. So I contacted them for information. Unfortunately, I do not have any sources at FHFA. I contacted them for more information, but they did not respond --by my deadline.

The UAD and forms will take quite a while. Testing Bifurcated started in 2018, or earlier.

NOTE ON “INSPECTIONS”: This is now called Property Data Collection (PDC). I often use inspection instead of PDC in this article, as it has been used for a long time for appraisals..

**What is the Plan for Appraisal Modernization?**

There are two separate "sections" or initiatives: new UAD/Appraisal Reports and Bifurcated Appraisals.

**What constitutes Appraisal Modernization?**

Fannie's oversight entity, the Federal Housing Finance Agency (FHFA) has laid out key objectives Fannie Mae is expected to accomplish.

The letter states; "Since 2018, our scorecard objectives have included appraisal modernization, with two areas of focus."

The first is to "collaborate with Freddie Mac on updating the Uniform Appraisal Dataset (UAD) and appraisal forms."

Second, the agency (Fannie) is to work independently on "modernization of the appraisal process." A variety of technologies and methodologies that could enhance the GSE's ability to manage collateral risk and make the process more efficient for lenders, borrowers, appraisers, and investors have been examined to achieve the "scorecard objective."

Source: Fannie April 2019 Appraiser Newsletter.

Bifurcated appraisals are part of the Appraisal Modernization Initiative.

**What are the current timelines for UAD/Forms Initiative?**

In the June newsletter I included a Timeline starting in January 2018. This did not go beyond Quarter 3 2019. It has not been updated. A timeline of 2-3 years was planned.

In early 2019, I was hearing 1-2 years for completion, but this did not seem reasonable.

Freddie and Fannie now say UAD and forms will not be completed until Quarter 4 2021. However, this date is "flexible", maybe extending into 2022. The UAD and new forms is much, much more complicated. I did not hear about anything happening now from Fannie or Freddie about UAD and forms, except Fannie is "working on data standards".

**FHFA says appraisal modernization and Bifurcated are not top priorities due to possible GSE privatization**

Some appraisers have been saying that FHFA, Fannie's regulators, was putting the initiatives "on hold" or "postponing until after the election", starting with the recent Valuation Expo starting Sept. 30 in early October. I heard about this "rumor" on October 1 and contacted my sources to see what this meant. No one could say where it came from. Then I contacted FHFA the week of Oct. 14. I had several emails about possibly scheduling an interview, but did not hear from them until after the deadline for this newsletter.

Per Jonathan Miller's Housing Note blog post on 10/18/19, "Mark Calabria, Director of FHFA who regulates the GSEs, said at the American Enterprise Institute (October 16) that their sole focus is to privatize the GSEs so they can leave receivership, 11 years after being bailed out."

"Bifurcation and a slew of other initiatives for "modernization" are just pilot programs at this point and not the top priority of their FHFA regulator."

To read more and listen to full recordings of both days, google "AEI-CRN Housing Conference". Calabria spoke on the first day, starting at 40 minutes, 7 seconds.

This makes sense. Big changes are proposed for the GSEs. This is FHFA's the top priority.

Unfortunately, once again, appraisals are low priority. It was almost like Calabria had both the emails I sent requesting information on the "rumor".

However, Fannie and Freddie employees, including chief appraisers sometimes have been speaking and having booths at many appraisal conferences. The GSEs are still testing Bifurcated appraisal inspections (PDC) and appraisal reports, so I guess they are doing something.

**Timeline for Bifurcated appraisals?**

Bifurcated appraisals have been in use for decades for portfolios, etc. Inspections (PDC) are nothing new. Fannie is using 1004p form, a desktop appraisal which was developed, but not used much. Testing on this started at least since early 2018, including using designated AMCs that are ordering them. I did not get a timeline for completion. There is different terminology, but in this article I use "Bifurcated appraisal".

Note: The three sections below and the image are from Fannie's

Uniform Appraisal Dataset (UAD) and Forms Redesign Initiative, August 2019.

To read the full document google the name.

"Fannie Mae and Freddie Mac (the GSEs) are collaborating to update the

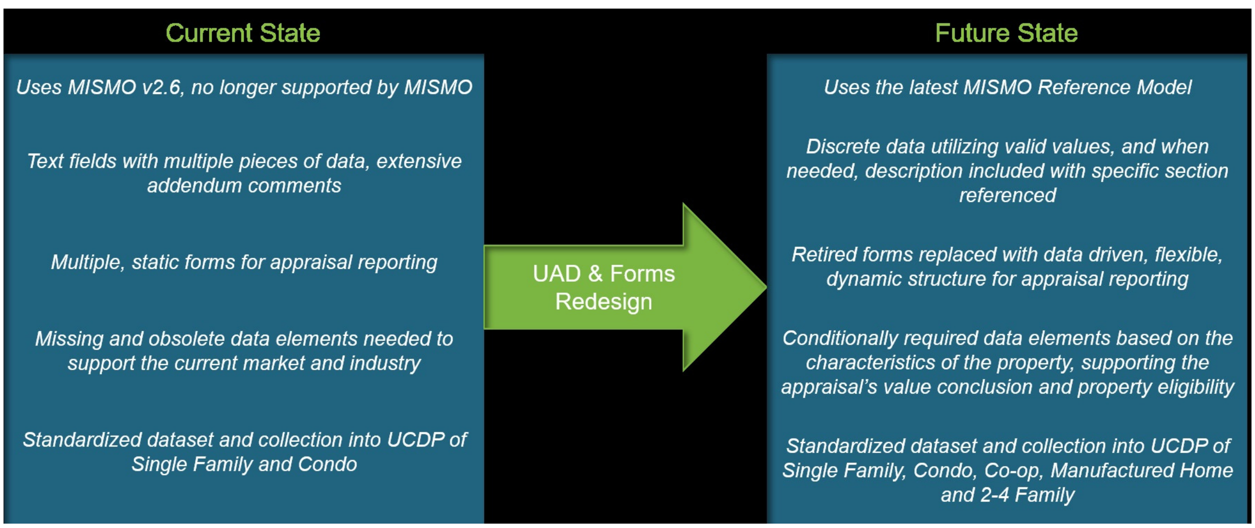
Uniform Appraisal Dataset (UAD), retire the existing appraisal forms, and redesign the Uniform Residential Appraisal Report (URAR)."

"This initiative is part of the Uniform Mortgage Data Program® (UMDP®), a joint-GSE effort to enhance data quality and standardization at the direction of the Federal Housing Finance Agency (FHFA)."

**Giving the UAD and URAR a makeover**

"The GSEs are evaluating the UAD from two perspectives:
1) upgrade to the latest MISMO® Reference Model and
2) assessment of current data elements - to determine what new data elements are needed and if current data elements should be revised or removed."

"The joint-GSE team is working with an experienced report design vendor to create a dynamic new URAR. Using this new URAR, appraisers will provide data through the use of vendor software. The new URAR will have a similar look and feel to the redesigned Uniform Residential Loan Application (URLA), the Loan Estimate (LE), and the Closing Disclosure (CD)."




**Partnering with industry (Fannie August 2019)**

"In 2018, the joint-GSE team engaged key industry stakeholders, including appraisers, lenders, appraisal management companies (AMCs), government agencies, and trade organizations, to identify pain points and gather requirements. The GSEs broadened their outreach in 2019, conducting an industry-wide survey and participating in industry events, to reach a wider pool of stakeholders to gather input and feedback on sections of the draft URAR."

"… The redesigned URAR will provide greater clarity to lenders, investors, and borrowers, while building a foundation for further modernization, by simplifying and enhancing the dataset and updating the data standard and certifications."

**What are the two goals for the UAD and forms?**

The first goal is to speed up getting appraisals completed by changing forms to increase usability and functionality. We all know there are serious problems with the old 2005 forms.

The second goal is to improve the appraiser credibility by making their appraisals more reliable, such as accurate GLA adjustments.

**Dynamic Forms**

This is definitely planned for the new forms, where you only fill out the relevant information that is needed. More information on this is on Page 4 of the June 2019 issue of Appraisal Today.

A good example is TurboTax. For example, if the tax return is for a single person, "jumps to" requests different information than if the return is for a married couple.

They will be in the cloud and not look like the current forms on your screen. You will use your web  browser, not forms software on your computer.

Reports will be dynamic and not forms driven. Sections will go in and out, depending on what is needed. There may be an executive summary of the data.

Residential appraisal reports maybe set up with one master file with fields for 1004, condos, co-ops and 2-4 units. For example, if you are appraising a condo, the software selects the appropriate sections for a condo report. Or, Fannie may start with the 1004 redesign and add others later.

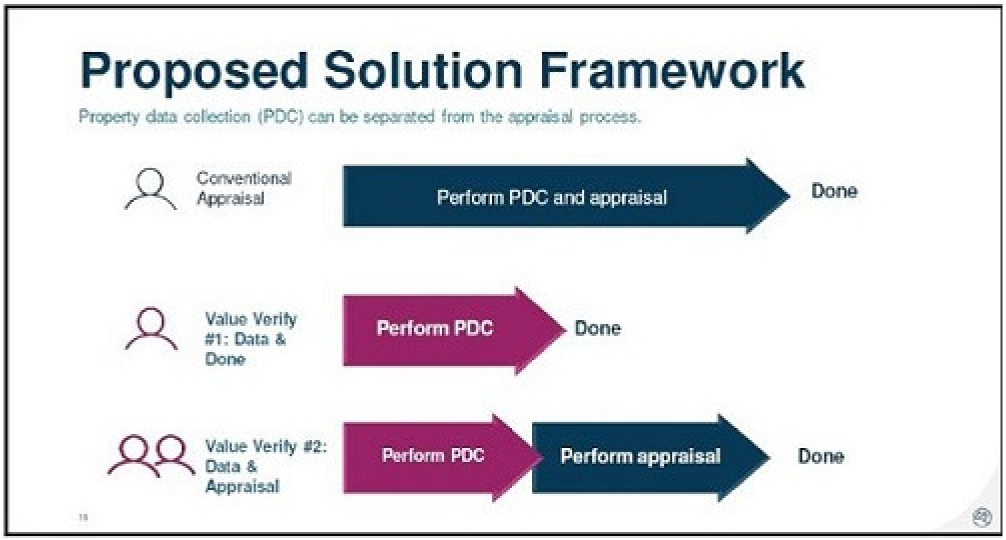
The first dynamic report, The Uniform Residential Loan Application, has been approved and was scheduled to be released 1/1/2020, but the dynamic version has been delayed by FHFA to include several changes. This is much, much easier than an appraisal report to redesign. My June 2019 article has more information, including an image of part of the form.

**Terminology for Bifurcated**

Three overall terms: Bifurcated, Hybrid, and Alternative Scope of Work. Personally, I prefer Bifurcated as then it is clear what is happening - Inspection (PDC) and Appraisal can be done by different people.

PDC - Property Data Collection. When someone goes to the property and does the inspection.

PIW - Property Inspection Waiver. A better term is Appraisal Waiver, as there will be no inspection or appraisal.




**Why test Bifurcated first?**

The 1004p, an older Fannie form, can be run through DU, so a new form is not needed.

**Who is testing Bifurcated inspections (PDC)?**

A small group of providers, such as AMCs, is participating in the test. Fannie is working on standardized inspection data (PDC) collection. For now, the data is not standardized.

The plan is for the providers to each develop a dynamic mobile app, using Fannie's standardized data, with the data sent to the appraiser. The person will follow the prompts. They are working on pulling the inspection data (PDC) into the appraisal form (autofill).

At the recent Valuation Expo conference, part of an inspection (PDC)form was shown on screen. The form was "not relevant when the presentation was over (or at the end of the day)". This reminded me of the old Mission Impossible spy TV series where the message "will you accept or not" for a possible mission self-destructed after it was read. Some appraisers in the audience were not comfortable in reporting deficiencies, roof condition, etc. and other problems typically done by home inspectors.

**Who is being tested for inspections (PDC)?**

Fannie prefers appraisers, but is still collecting data to analyze.

Fannie has listed appraisers, appraiser trainee, insurance inspector, realtors/agents, property preservation services and smart home services for inspectors.

**Can the same appraiser do the inspection (PDC) and the appraisal?**

It is possible, but providers may have different lists for appraisers (some that do inspections and some that only do appraisals).

**What about the older reports, prior to Fannie's Bifurcated?**

"Hybrids" have been around for a long time with the appraiser receiving inspection data from someone else.

Who else is ordering other types of reports? There are a lot of different versions of inspection and appraisal forms that have been used for awhile.

But, there are no consistencies regarding data standards. This maybe the source of the $25 to $50 inspections and/or appraisal reports.

**Bifurcation Pilot Test**

Testing New Technologies

1. Mobile apps to capture data
2. Artificial Intelligence to process data
3. New Cameras (photos and videos of interior and measurements)
4. New integration processes (get info into appraisal)

**Side by side comparison of 1004 and 1004p**

See if your forms software has the 1004p, sometimes called Residential Appraisal Report.

Link to side by side comparison of 1004 and 1004p
https://draftable.com/compare/sFziGE
JJThHl?fbclid=IwAR2rmyqnVzlKszZS
LYfdW-dxzLsM-E6Qg4FfSAmQKWqkzxRxPq0Mkdvuu8
NOTE: copy and paste this long link.

**What is Value Verify?**

Fannie uses this term in its recent Appraiser Updates. It has the goal of separating the property data collection (PDC) from the appraisal process. I was not able to find an "official" Fannie definition.

Per Fannie, in a recent WorkingRE article, "In the Value Verify framework, there are two possible outcomes: Data & Done and Data & Appraisal. When the process results in Data & Done, it reduces the cycle time by several days."

**Appraisal waivers (formerly PIW - property inspection waivers) will increase**

For now, appraisal waivers require that Fannie has a previous appraisal and other requirements.

By using Bifurcated appraisals, they can use inspections to approve loans.

The graphic above illustrates the process. My summary is next:

Step 1. CU says property not eligible for appraiser waiver using old criteria or higher risk (FICO, LTV). Go to inspection.

Step 2. Inspection ok. Approve loan. If not okay, go to desktop appraisal.

Step 3. CU evaluates loan using appraisal results.

Note: there are new requirements for appraisal waivers on some rural loans.

**What does this mean for you?**

Per Fannie, in the future, appraiser's role will be focused on market analysis rather than the historical role of data gathering. Fannie wants appraisers to be analysts rather than data collectors.

Fannie wants appraisers to help them analyze risk. Their focus has changed from collateral valuation to risk assessment. Why do a full appraisal with an 800+ FICO score, low LTV, etc.? I have done many of them, including on the same property when rates were going down. I did them, but it seemed like a waste of borrower money.

We all know the current appraisal forms are antiquated, awkward and difficult to use. Few, if any, appraisers want to keep them. Digitizing will really help.

It is a business decision to do Bifurcated appraisal inspections or desktop appraisals.

I suspect that some appraisers will say no. If you say yes, there will be more of this work. If you say no, there will be loans requiring full appraisals due to risk factors such as low FICO score and high LTVs, but many fewer than are done now.

If you are doing Bifurcated appraisals now, or intend to do them, be sure to read the Fannie September 2019 Appraisal Update. Google the name.

Of course, there is always doing non-lender appraisals.

**Where to get more information**

Information seems to be changing regularly on this topic. My free newsletter has links to new information that I am aware of.

Information keeps changing, such as the Director of FHFA saying that they have much more important issues than appraisal modernization.

This article combines all the sources and analyzes them to help you decide if you want to do Bifurcated appraisals or PDCs.

Fannie's regular Appraiser Updates are very useful. They also speak and have booths at many conferences.

WorkingRE recently published a Q and A with Lyle Radke, their Chief Appraiser. It gives the "official" Fannie position. Google "Bifurcated appraisals workingre".

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## Adjust your adjustment, or adjust your attitude?
## The Hype and the Reality

**George Dell, SRA, MAI, ASA, CRE, CDE**

*Editor's comments: When Fannie started using  CU in 2015, I spent a lot of time looking at what was available on adjustments in writing or in classes and seminars. There was not much.*

*Black Box adjustment software is tricky to use and the algorithms used are confidential.*

*Like George, I did not find much that was useful. I have been using qualtiative, no dollars, adjustments on my non-lender appraisals. My state regulator wants to see "support" for dollar adjustments. I don't do lender appraisals any more.*

*Statistical analysis has been transformed into Data Analysis.*

*Appraisers are starting to listen to George. I have known him for many years.*

**Adjustment is a big part of the appraisal process. But no one seem to know what the "correct" one is!**

Yet we hear: 'Prove and Support' your adjustments! But none of these seem any better than what we were doing before -depending on my **experience**, from the **adjustment guide** my trainer gave me, or **by asking** a fellow appraiser or calling real estate agents and asking what they thought.

We are sold "technology" promises for money. "Prove your adjustments" and "Apply our advanced analytics." "Buy our most advanced technology and your problems go away!"

The truth is what you knew all along.

**There is no magic wand. There is no enchanted software.**

**What is an Adjustment?**

In theory, an adjustment should reflect how a typical buyer reacts to a particular, single element of comparison. In theory, we would take the same set of buyers and have them choose between two identical properties, in the exact same location, at the exact same time, with the exact same set of competing nearby properties for sale.

I wrote my SRA demonstration report on pools. The Appraisal Institute required one element of some kind of obsolescence. I chose pools. They cost $22,000. Many buyers put less value on them. But some buyers' kids wanted a pool. Some kids threw bigger longer tantrums if their parents would not consider a pool. Their parents were willing to pay more for a pool.

Some parents went ahead and bought a house without a pool, and suffered the consequences. Some of them later saw the light, and had a pool installed. $22,000.

I used multiple pairs to do the adjustments, after days of turning MLS pages and copying potential pair comps. As there were fewer sales with pools, I looked at them first, then tried 'matching' the most similar house without a pool. It was kinda like a card game.

It worked. And it only took a couple of days' work.

Another time a reviewer/underwriter told me to 'support' an adjustment with a pair. I did find one, and somehow, it supported my opinion -- exactly!

**What do the Appraisal Authorities Say?**

While we have many who claim to have the authentic way to "support and prove" an adjustment, there seems to be four categories of appraisal 'authority':

- **Publishers**, such as The Appraisal Foundation and the IVSC (International Valuation Standards Council).
- **Professional groups**, such as the Appraisal Institute, the American Society of Appraisers, and others.
- **Software forms** and narrative providers, who market 'ease of use,' with automatic adjustments.
- **Schools**, who find it more pleasant to avoid the realities of adjustment complexity.

Each of the these four is motivated by the need to profit. This is to be expected. Survival and motivation are necessary.

So, what do these authorities say?

**The Appraisal Foundation.**

The Appraisal Foundation, through its Appraisal Standards Board, publishes revised standards of integrity and performance every two years for federally insured real estate transactions. It has the power to tax through numerous fees and book sales. The Foundation describes itself as: "The nation's foremost authority on the valuation profession."

So what does this authority say about how to make adjustments? **Easy. USPAP never uses the word "adjustment".**

No help.

The Appraisal Foundation also started a group to create new practices or restate old practices called the Appraisal Practices Board. "From 2010 until 2017, The Appraisal Foundation utilized an independent Board for the development of voluntary guidance on recognized valuation methods and techniques." This board did not develop any new practices, as it appears it was limited to restating recognized methods and techniques, not new ones. This board was suspended in 2017, "Citing the desire to examine the current needs of appraiser professionals related to guidance on recognized valuation methods and techniques."

So far there has been nothing heard from this voice regarding examination of current needs … and of course, nothing about how to calculate, estimate, or judge adjustments.

In a related effort, The Appraisal Foundation motivated another committee (per one of its subject matter experts David Layne): "To form [an] Alliance [for Valuation Education] and establish its goals" - **a National Education Partnership Task Force (NEP)**.

The student manual for one resulting NEP course provides a **definition** of "What is Meant by Comparable." Basically, it says a comparable should be **recent, sufficiently similar, and an arm's length transaction**. Then it goes on to say that the appraiser extrapolates that information, makes adjustments and allowances, then uses judgment to apply the judgment number. (Extrapolates means 'to go outside of the data frame).

No help. Use judgment to help your judgment it says.

Later in that manual, it says a strong comparable comes from positive factors - in the eyes of the appraiser. A weak comparable comes from negative factors - in the eyes of the appraiser.

It says opportunities are from the prospective (sic) of a client, when a comparable is "more appealing to a client…" Hmmm. Threats are issues from the perspective of a client... *"…and are some feature of a comparable that would result in the client feeling that it should not have been used or that it was less appealing to the client."*

It goes on to mention **violations** of client's guidelines regarding freshness of a sale, distance limits, too-many adjustments, and too-large adjustments.

So: use judgment that is constrained by protecting the client's feeling by using appealing comparables.

Fortunately, that NEP class and those instructions about client feelings and client guidelines violations are no longer taught.

### International Valuation Standards Council

The IVSC also publishes International Valuation Standards (IVS). In Section 10 on Valuation Approaches and Methods, it does acknowledge that **subjective** adjustments may be needed particularly where a market is inactive. In Section 20 it states: "Those adjustments must be reasonable and valuers must document the reasons for the adjustments and how they were quantified."

What I get out of this for adjustments is:

- Be able to be reasoned (reasonable);
- Document the reasons;
- Document how the adjustments were quantified.

Note it does not say "show your work" - only to state how you quantified it.

In Section 30 (Comparable Transactions Method) it does require the valuer to "make **necessary adjustments**," but does not say how to decide if an adjustment is necessary or not necessary.

It appears there is no specific technical **guidance** in IVS regarding adjustments. I do read:

- **Subjective adjustments** are sometimes necessary; and,
- You must describe **how you quantified** the adjustment (but not provide the actual algorithm).

### The Appraisal Institute

"The Appraisal Institute advances global standards, methodologies, and practices through the professional development of property economics worldwide."

The AI provides both the *Standards of Valuation Practice (SVP)* and the predominant textbook in the field, *The Appraisal of Real Estate (TARE*).

The AI also provides a substantial portion of education in traditional appraisal methods, and the legacy body of knowledge developed since the 1930's

The SVP is designed to be a principles-based document, rather than procedures-based. It has no analytic guidance regarding data selection nor prediction to a value conclusion.

TARE mostly discusses adjustments as something done in the Sales Comparison Approach, which is most useful when similar properties have recently sold.

The appraiser estimates the **degree** of similarity or difference between the subject property and the comparable sales by considering various elements of comparison.

(What is 'similarity' is another topic for another time.)

Ten-plus types of "elements of comparison" are mentioned. These include **property rights, financing, sale conditions, expenditures upon use, time, location, and physical/economic/legal characteristics,** along with non-realty components of value, and miscellaneous elements such as government restrictions, easements, and off-site improvements needed for vacant site development.

The comparative techniques in the Sales Comparison Approach assume the appraiser has selected recently sold properties, after identifying units of comparison (such as package sale price for homes, or income ratios). The adjustments should **be relevant and market-derived**. (Although no measure of relevance is mentioned.)

**Time** (market conditions): Three years back is stated as a minimum sale history, with an ideal being "all relevant historical sales data from which a market conditions adjustment could be developed." WOW.

TARE goes on to suggest the use of charts of the subject's sales, pendings, listings, and offers. There is no mention of the use of plots of the comparables or the Competitive Market Segment (CMS)©.

More meat - **Techniques Used in Quantitative and Qualitative Analysis**

**Quantitative analysis** techniques include: paired data; grouped data, secondary data, statistical, cost-related, and capitalization differences. *Graphic and scenario* analyses are included as statistical techniques.

**Qualitative analysis** techniques include: trend, relative comparison, and ranking.

TARE also mentions the *Sequence of Adjustments*, which it then declares are determined by the appraiser based on the market data and his/her analysis. It separates these into two groups: *transactional adjustments, and property adjustments.*

TARE then discusses the "Application of the Three Approaches to Value" - rating each as a process from least intensive to most intensive, depending on the scope of work needed for a particular problem. The most intensive process includes a "thorough search of all available data sources" and "adjustments via **paired sales analysis**."

And there we have it. Paired sales - a method which has been fully debunked and is held in disdain by every appraiser I have ever asked. Paired sales.

There is simply too much variation in each of the sale prices, even if you get a near perfect physical match. Sales do not each occur at the "most probable sales price". They occur in a range around that hypothetical range of negotiated prices. That is the reality.

We have 80 years of evolving Appraisal body of knowledge. And there is still no answer to question: How do you calculate an adjustment? 80 years.

**Now What?**

Lets' see what *deeper* help we get from our best traditional appraisal authority: *The Appraisal of Real Estate*.

There is an entire chapter dedicated to "Comparative Analysis." Again, quantitative and qualitative adjustment techniques are explained. It notes that logic can usually be found to support adjustments. It details **how to do adjustments quantitatively** first.

TARE again mentions paired data analysis, but warns that
it should be developed with *extreme care*;

- the appraiser should ensure that the properties are *truly* comparable; and, that other differences do not exist.

Next it discusses **grouped data analysis**, which is like a pair, but uses several pairs. No mention is made of the interaction of other variables which need to be controlled. In particular, it uses *date of sale* as a grouping independent variable, similar to what was done in the former *1004MC*, which also was debunked as an example of statistical 'information loss' that often returns sale price trends in the wrong amount, and even in the wrong direction! This is a common, yet fundamental statistical error. (See recent articles by George Dell in the Appraisal Journal.)

**Secondary data analysis** is classified as using data "that does not directly pertain," is from outside compiled sources, and "may need verification."

Next it mentions **Statistical Analysis** where "the appraiser must understand (and properly apply) fundamental statistical concepts as well as the particular methodology selected."

- It warns against using a precise mathematical result, saying it is *"meaningless or inappropriate."*

- It suggests simple regression, but only if the result forms a *"reasonable pattern."*
- It suggests testing the results, which might show *"that the indicated adjustments are incorrect."*
- And it says to not mix regression coefficients with other comparison techniques.

**Scenario analysis** is described as a way to forecast future events by alternatives, useful to provide a range of values and risk analysis. (Although this seems to be a way to show alternate results, not a way to estimate adjustments.)

**Graphic analysis** is described as a way to show variations from predictor variables or to "*reveal submarket trends*." It suggests that, *"The most reliable equation for the best-fitting curve be plotted."*

**Cost related adjustments** use cost figures as the adjustment. This is explained: *"The appraiser should be able to provide market support for cost-related adjustments because cost and value are not necessarily synonymous."*

**Capitalization of income differences** can indicate an adjustment because income levels will be different for different features or deficiencies.

Next, TARE considers how ***qualitative analysis*** "recognizes the inefficiencies of real estate markets and the difficulty of expressing adjustments with mathematical precision."

**Trend analysis** (it says) is only good when you have a lot of market data. Three applications of trend analysis are noted. First is the testing of market sensitivity. The second is inferring the future from the past (i.e., trends). The third is either a "time series", or simply "the use of statistical techniques to make comparisons of variables other than time."

**Relative comparison analysis** is used where there is an ordinal (ordered) relationship in the data, but quantifying is not inherent. It suggests the use of bracketing between "superior and inferior" comparable properties.

**Ranking Analysis** is claimed to be a method to test for market sensitivities. This done by ranking and looking at the relative position of each datum.

Upon further review, it appears that there are a lot of cautions and qualifiers, and admonitions to be careful and understand statistics. But…but…**no specific analytical algorithms** are suggested. More detail is available in actual curriculum materials in Appraisal Institute classes, or those provided by other appraisal organizations. Yet, to date, none of those seem universal or well-accepted.

After 80 years of the *recognized* appraisal body of *knowledge*, this is what we have. It appears we may have to look elsewhere for real answers to adjustments.

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**Looking Elsewhere**

We find two sources claim to have answers:

1) Residential forms and narrative report software; and,
2) Education to "prove and support" adjustments.

Each of these has problems. For forms, if it could provide magical adjustment calculations, you would not need to read this article. You would just push the button and get the result. And if either worked, someone else would just push the button, and you would not be needed at all. For narrative reports, most packages are based on or assume underlying spreadsheet work. In short, spreadsheets were developed for accountants keeping books. Everything after is an add-on. Spreadsheets have severe limitations and even math errors for the analysis of data. Lack of integration, reproducibility, and error checking are among many issues far better resolved with true analytics software, such as R.

*Editor's Note: R is a statistical software program specifically for statistics. Excel, which many appraisers use, is a spreadsheet with limited statistic ability. George teaches his classes using R.*

Much forms software relies on multiple regression and the use of regression coefficients as estimates of adjustment amounts. This is wrong. The math behind regression coefficients is quite different from the implied math behind traditional adjustment amounts. Also, there is a dearth of explanation of the other multiple assumptions and considerations in the use of multiple regression. It does not work in the current culture and environment of appraisal education and commercial software offerings.

Pushing the button is getting better. But someone still needs to make decisions and use judgment.

So perhaps our goal may need to be changed. This change comes from the world of data science. Data science is broad. But special parts of it really get to the heart of what needs to be done.

Data science thinking seeks to refine and enhance judgment through the smart use of algorithms. Link to George Dell's series of blog post on Algorithms Here.

The difference in this approach is that the choice of algorithm is in the control of the analyst - the appraiser. Different algorithms do different things. Different data levels require different algorithms.

What needs to be done is recognize that adjustments are not all the same. There are different data levels, different reliability levels, different measurement errors, with different levels of judgment.

The modernized appraisal: In modern asset analytics we can summarize some of the today's truth.

1. You can't get objective results from subjective (trust me) data.
2. Three or six comps is seldom ideal.
3. Different kinds of data require different algorithms.
4. Some adjustments are exact, some are estimated, and some are wrong, but useful.

**What Does the World Need Now?**

Clients need to know risk/reliability results, not a point-value opinion.

Consumers need to know the real value of housing assets, not pumped-up prices.

Our regulatory public trust needs to obstruct another overexuberance-based economic meltdown.

Our clients no longer find a point value opinion very useful. They need more. This is what the Community of Asset Analysts© strives to motivate.

We now have a group of appraisers becoming "Asset Analysts©." Our group actively seeks to learn and provide real solutions and real service to clients, consumers, and the public trust.

Data science explicitly recognizes the need for the field-related expert, the experienced appraiser. And it requires some competence in modernized tools, modeling judgment, and visual methods. It requires movement toward reproducible valuation and risk scoring.

This is the essence of modernized valuation.

We believe there will be less and less need for appraisers with an opinion - but greater need for asset analysts© able to provide other services, building on the traditional market-price paradigm.

**Adjust Your Adjustment Thinking**

A few types of adjustments can be exactly calculated. Others can only be estimated. Still others are 'biased' - yet still useful. Each of these require modeling decisions. Modeling decisions can only be made by someone with field-related expertise. For valuation, this means:

- Valuation knowledge
- Market area and type familiarity
- Algorithmic modeling competence
- Modern, flexible analytic software tools

This means an adjustment of attitude about adjustments. There is no magic button to buy for $299. The solutions appraisers can sell require new competencies: market expertise, modern modeling, and maker-technology tools.

**What is required is a combination, a blend of new valuation education and algorithmic software. Under the control of the analyst, not the software programmer.**
The Valuemetrics.info classes (Stats, Graphs, and Data Science), the Analogue Blog (georgedell.com), and TAAR (The Asset Analyst Report) all support the birth of our *Community of Asset Analysts*.

The community was born at a happening September 23-27, 2019 in Detroit. It was a group of influencers. The universal belief of the group was "we have to do something."

**Join us in spirit and in action.**

**Let's do something.**

**THE END…OR THE BEGINNING?**

*David Layne, SR/WA, Right of Way magazine, July/August 2013.

**About the author**

George Dell, SRA, MAI, ASA, CRE, CDEI is an AQB certified USPAP instructor

George consults and trains in modern data science methods for valuation and asset collateral risk. The EBV (Evidence Based Valuation)© theory and protocol - brings reproducibility to value and reliability authentication, and enables measurable risk/reliability scoring of valuations.

The georgedell.com weekly blog, raises often-controversial issues.

(Editor's comment: Short blog style commentary. Plus some fun fotos. I have subcribed since soon after it started.)

The related www.valuemetrics.info website provides information on upcoming classes.

He also publishes TAAR (The Asset Analyst Report), and the CIAR (Collateral Investor Assay Report).

Sign up for George's blog now, and get more info on his classes at: www.georgedell.com

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## State Board Complaints - What happens if you are found guilty?

**By Tim Andersen, MAI**

Here are some questions I've received recently relative to what happens after charges are leveled against an appraiser, and then the appraiser is found guilty.

**1. Alternative appeal process?**

Is there an administrative appeal process from the decision of the state appraisal board?

Outside of the state of Texas, no there is not. You can complain to the governor. You can write a letter to one of your state representatives. However, because both of these are political animals, such a complaint will get you absolutely nowhere. So, again, once the state appraisal board has rendered its decision there is no administrative appeal process from that decision (other than in the state of Texas).

**2. If there is no appeal process - sue the state board**

Given that there is no such thing as an administrative appeal process from the decision of the state appraisal board, what remedies do I, as an appraiser, have if I feel the state board's decision is incorrect?

The only redress you have is to sue the state appraisal board in the local Circuit Court. Typically filing such a suit results in a stay of the appraisal board's decision. Therefore, during the tenure of the trial, you can continue to practice real estate appraisal while the court decides what to do. Please note that, during the tenure of the trial, you should stop doing whatever it was that the state appraisal board charged you with, and then of which it found you guilty.

If you do choose to sue the state appraisal board, your attorney will decide whether to ask for what amounts to a new hearing, or if you should merely seek to have the court review the board's decision. The first one is a brand-new trial; the second one is less intense, thus less expensive. However, it does not let you introduce any new facts into the situation. The court will merely review the board's decision to see if it was made according to the law.

**Some warnings**

Please understand that courts typically do not like to overturn the decisions of state appraisal boards. The reason for this is that the court concludes the appraisal board knows more about appraising than it does, thus the appraisal board is the "expert", while the court is not. Therefore, it is imperative that you and your attorney show the court there was something arbitrary, capricious, or unlawful about the state appraisal board's handling of the complaint filed against you.

**Should you sue the state board?**

If you decide just to sue the state board, please understand that, in addition to all the time and money spent as part of the state procedure, you will spend more money in the lawsuit. Please be aware, in addition, that the state appraisal board is very aware of this situation, as well as aware of the fact that appraisers tend not to have a lot of money to spend on lawsuits. Your errors and omissions insurance policy may cover this. However, it may not.

Therefore, part of the process of deciding to appeal the decision of the state appraisal board goes beyond that of the mere search for justice. As with everything else, it always comes down to money. Therefore, your decision to sue the state board is a business decision, given the amount that is costs to fight it in court.

These costs will include attorneys' fees, court costs, expert witness fees, and all of the other miscellaneous fees and costs are included in such a process. Further, understand that a trial is not something that happens quickly (unlike what happens on TV in all of the corporate dramas).

Filing a suit against the state appraisal board will occupy a great deal of time, thus eat-up a great deal of money.

**3. Why courts don't like to overturn state boards**

What do you mean courts are not anxious to overturn the decision state appraisal boards? Aren't the courts there to see that justice is done?

Again, judges are trained in how to interpret the law. They are not trained as appraisers. Therefore, what they look at is whether the state appraisal board, followed the law in reaching its decision against you. If the court determines the state board followed the law it is highly unlikely court would overturn that decision. However, if you can show the state board did not follow the law, or it reached a decision that was arbitrary, capricious, and/or unlawful, the court might be willing to reverse the board's decision.

**Few courts reverse state board's decision**

Please be aware, however, that reversals of a board's decision are rare. What typically happens is the court remands the decision to the board to reconsider its original decision. That remand also includes instructions to the board as to what it did "wrong" in the first place, thus what it must "fix". There is no guarantee this fix will go in your favor.

As the plaintiff in such a lawsuit you have a large burden of proof. Can you show the board demonstrated bias against you? Was the board's decision capricious or arbitrary? Was the board-imposed penalty in-line with the penalties imposed for similar infractions by other appraisers? Did the board fail to take into consideration extenuating circumstances? Did the board give too much weight to aggravating circumstances? Did the board observe properly its own rules of procedure? Did the board properly protect your rights of due process?

Of these seven, unless you can show that the board did not comply with the majority of these, the court will generally uphold the board's decision against you (since court assumes the board was "right" in its decisions and sanctions).

**4. Can I appeal court's decision to a higher state court?**

Yes, of course. There is no guarantee, however, that the appellate court will even take the case. Appellate courts like to look at "important" cases and administrative law case, such as a state appraisal board sanctioning an appraiser, is generally not important. Generally, there is no precedent to be sent in such an administrative case.

Appellate courts are even less likely to overturn state board decision than our lower courts. Note that, in an appellate matter, the original facts don't matter anymore. Typically, the appellate court merely looks for any errors the lower court made. If it made no errors, it will typically decline to change the lower court's decision, even if it does not agree with that decision.

Therefore, again, the decision to appeal a lower court's decision to a higher court comes down to time money. Such an appeal will take a great deal of time, as well as cost you a great deal of money.

**5. What is it I should do once the entire process is complete, especially if the courts uphold the board's decision against me?**

First of all, make sure that you have paid those whom you hired to help and advise you. They have done their job. They did not guarantee that you would come out of this process completely whole and completely unscathed. They merely agreed to represent you and advise you. If your professional education is not as extensive as it should be, take the necessary classes to fill the gaps. Frankly, this may require university-level classes involving critical thinking, rather than merely continuing education classes that require nothing more of you than to stay awake.

You might want to consider retaking the 15-hour USPAP class. This time, however, it makes sense to pay attention. This will not count toward education.

If you have not yet taken the 7-hour USPAP update class, consider taking it. If you have any specific questions, you can consult with a subject matter expert who will be happy to help you. This will not be free and you should expect to pay up to approximately $200 an hour for this consultation.

If a state board applies a sanction against you, comply with its terms within the stipulated time. If you need an extension, ask for it. Boards are generally willing to grant them assuming you are making a good-faith effort to comply with the terms of those sanctions. Take the sanction for what it is, a learning experience (albeit a really expensive one).

While the sanction is public record, as is your name, there is no reason to complain about the sanction on Facebook, Twitter, on-line appraiser forums, your website, and so forth. The reason for this is that, despite the fact your name and your sanctions are public record, the public doesn't read state appraisal board minutes. Therefore, if you do not make an issue of the penalties, relatively few people will know about them. Besides, whining is bad form.

Make sure that your errors and omissions provider is aware of what is happening. Indeed, this should have been the first phone call you made after receiving notice of a complaint. If it is not your first phone call after receiving the notice, your provider has the right not to extend coverage under the theory you were trying to misrepresent something to it.

Once you have exhausted all the appeals you choose to exhaust, the best step you can take is to get on with your professional life. Yes, a state sanction is something that will remain with you the remainder of your professional career. However, there is no reason to let it ruin the remainder of your profession. Learn from it, then move on.

**About the author**

Timothy Andersen is a Florida state certified general appraiser.

In addition to his work helping appraisers defend themselves against charges of USPAP violation, teaching USPAP, and helping appraisers write USPAP compliant reports, he enjoys spending time riding his bike and doting on his grandchildren. Contact him at tim@theappraisersadvocate.com.

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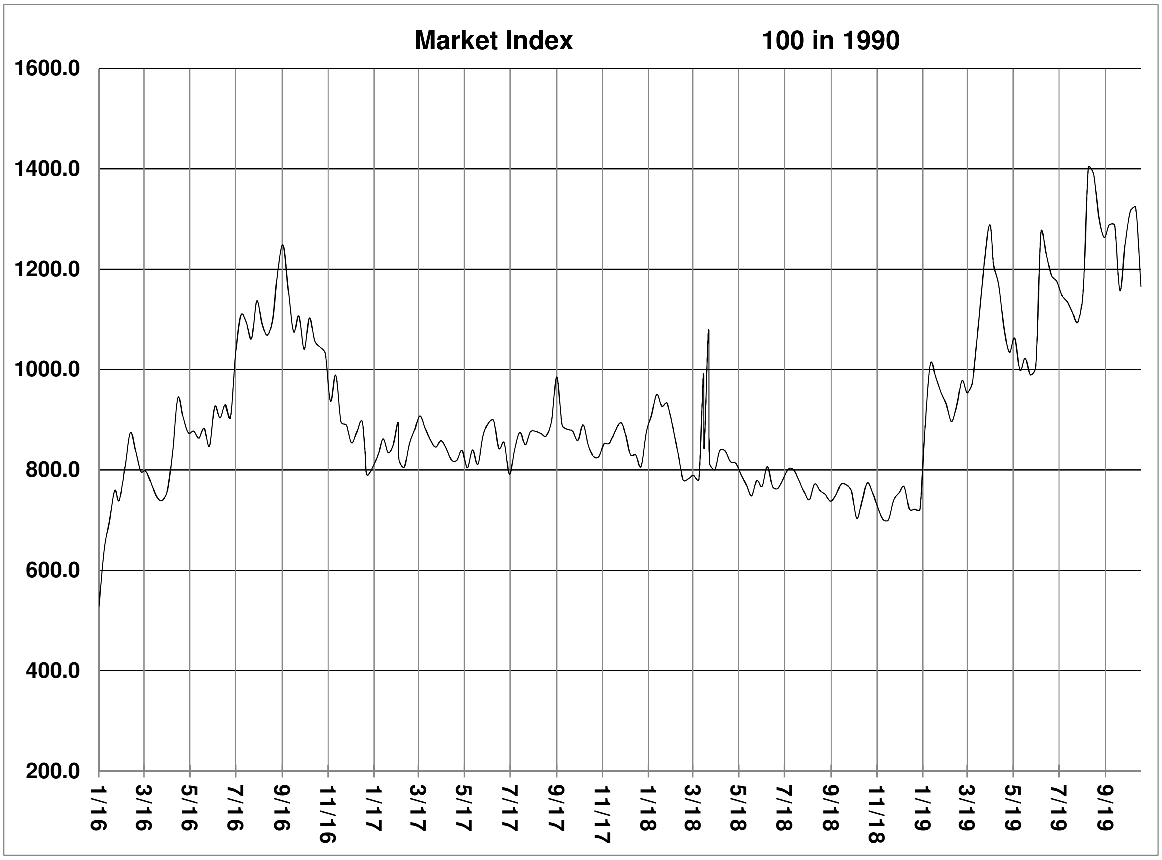
www.theappraisersadvocate.com

MBA Loan Volume Application Index – 1/16 to 10/19




As you can see above, between 2016 and today, volume peaked and came back recently. In 2019 the peak has been going up and down. The forecast is fewer loans in for various reasons. 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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