

# APPRAISAL TODAY

## 2019 year-end tax planning for appraisers It's not too late to save on your 2019 taxes!

There is lots of complicated advice available on reducing taxes, but most does not apply to appraisal businesses. Travel and entertainment for marketing purposes is one example.

Most appraisers are sole proprietors so this article covers these deductions, including business and personal. If you have another structure, such as LLC or Corporation, contact your tax advisor or check online.

### Your greatest savings in taxes is usually by contributing to a SEP-IRA, Solo 401-k, or other type of retirement account

There are modest increases for 401k, etc. but the limits are relatively low.

I personally have a solo 401k for self employed persons  
The maximum amount a self-employed individual can contribute to a solo 401(k) for 2019 is 20% of income or \$56,000 if he or she is younger than age 50. Individuals 50 and older can add an extra \$6,000 per year in "catch-up" contributions, bringing the total to \$62,000.

For a Solo 401k you effectively can contribute up to 20% of your net self-employment income as an

employer (your business income minus half your self-employment tax), though those contributions must be made with pre-tax dollars. These pre-tax contributions lower your taxable income and help cut your tax bill.

I contribute the maximum allowed for my income. My enrolled agent does the calculations, which can be tricky

Check the limits for your retirement account and penalties for early withdrawal.

Taxes will be paid as you withdraw the money.

There are other options, such as Roth IRA. You can also save taxes by setting up an S-Corp (pay yourself a salary). They are more complicated to set up and are used less often, so I don't include them in this "last minute" tax tips article.

The big advantage, of course, is that the income is not taxable unless you take money out.

The minus is RMD (Required Minimum Distribution) starting at 3.65% (of your retirement account). It starts the year you turn age 70 1/2, going up every year. I am 76 and pay 4.55%. At age 92 it is 9.80%. This is so the IRS gets some of your retirement account taxed every year.

There is a possibility that there will be a change, such as the RMD starting age will be increased as many of us are living much longer and are worried about running out of money.

I am still working and this income goes on top of my business and Social Security income (85% taxable), putting me in a high tax bracket.

There are significant penalties if you do not pay this. For the first few years, I called Vanguard to make sure it was done.

I also assume you are using a tax professional who will check this for you.

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## When to start taking Social Security

Although this article is not about taxes (except paying taxes on up to 85% of your Social Security) many of us are getting older and this is a very important decision.

As we all know, people are living longer and longer. My mother died 15 years ago at the age of 82. Now, many are living into our 90s, we need to plan for living much longer than we did in the past.

When the Social Security program was initiated in 1935, the average life expectancy was 61 years old. Now, in North America, a man can expect to live to between 75 and 78 years of age, depending where he lives. For women, life expectancy hovers between about 80 and 83 years of age.

I always recommend waiting until age 70 to start collecting Social Security. The longer you wait to start, the more money you get. For example, if you start receiving retirement benefits at age 67 instead of age 66, depending the year you were born, you'll get 108 percent of the monthly benefit because you delayed getting benefits for 12 months. At 70, you'll get 132 percent of the monthly benefit because you delayed getting benefits for 48 months.

In 2016, just 4.6 percent of women and 2.9 percent of men first claiming Social Security benefits were age 70 or older. This seems to be the most recent data available.

Some start early because they don't trust the "government" to keep paying Social Security at the same level they do now. I suspect that those who are already collecting will be "grandfathered" into their current rate or a similar rate. Others just want the money.

I have a friend who is 65 and has always had a relatively low income. She plans to wait until age 70, so she has the highest possible Social Security payments. Another friend, 63 years old, retired with a pension at 60, and is now self employed working long hours so she can increase her Social Security benefits at age 70.

Remember that, for most appraisers, 85% of your Social Security is taxable, so be sure to set aside money every month for the tax payment. If your combined income was more than \$34,000, you will pay taxes on up to 85% of your Social Security benefits. For married couples filing jointly, you will pay taxes on up to 50% of your Social Security income if you have a combined income of \$32,000 to \$44,000.

Of course, if there are health issues or a family history of dying early, you may not want to wait.

Or your income is very low, you don't expect it to increase and really need the money. I have another friend, a former newspaper reporter and editor, who lost her job when she was age 59 and was not able to find another job. That job market crashed and gets worse every year. She started collecting at age 62.

Starting at age 62 costs you. For example, if you were born in 1956 and you decide to begin receiving benefits exactly at age 63 this year, then you'll collect 73.3% of the amount you'd collect at full retirement age. Thus, if your full retirement age benefit is \$1,000 and you claim at age 62, you'll receive \$733 per month in Social Security income.

Remember, this does not reflect the cost of Medicare when you reach 65.

You can wait until after you are 70, but then you are giving them all your payments. There is no retroactive payments if you don't start taking it at age 70.

The maximum monthly Social Security benefit that an individual

can receive per month in 2020 is \$3,790 for someone who files at age 70. For someone at full retirement age the maximum amount is \$3,011, and for someone aged 62 the maximum amount is \$2,265.

Your Social Security may increase if within the past 35 years you had an income less than your 2019 income. The new higher income will replace a previous year of lower income.

## Ways to defer income

If you are self-employed and on the cash basis of accounting, bill your clients near year end if you can. They will probably pay you next year.

If you work for AMCs that require a fast turnaround and send your invoice with the appraisal and pay quickly, this may not be an option.

Of course, although you have deferred taxable income, you have also deferred receiving taxable cash until 2020, so your income will be higher in 2020.

## How to increase deductible expenses by timing payments

Pay as many bills as you can by the end of the year, such as property taxes, software maintenance agreements, etc.

## Equipment purchases limits increased to \$1,000,000 for 2019

The Section 179 Deduction is now \$1,000,000 for 2019. This means businesses can deduct the full cost of equipment from their 2019 taxes, up to \$1,000,000, with a "total equipment purchased for the year" threshold of \$2,500,000.

Section 179 is squarely aimed at small to medium businesses that purchase anywhere from \$5,000 to \$2,500,000 worth of equipment.

For appraisers, this typically applies to auto purchases. This is a bit more complicated. For example, these deductions are only for vehicles used more than 50% of the time for business purposes. The deduction is

limited to the amount of use. Some vehicles (like taxis, airport shuttle vans, and limousines) are considered only as business vehicles so they can be deducted at 100%.

Second, the vehicle must be purchased and put into service (used) during the year in which you are applying for the Section 179 deduction.

Check with your tax advisor on auto purchase, depreciation, leased vehicles, and other requirements.

### **Charitable contributions**

Consider making charitable donations before the end of the year. Credit card payments for business or charitable donations made by December 31 are deductible. Don't forget that your Appraisal Today renewal and other business subscriptions are tax deductible.

### **Take advantage of all business deductions not paid out of business checks or business credit cards**

Review your records and cancelled checks carefully to take advantage of all business deductions. Be sure your deductions are adequately supported by written records that indicate time, amount and business purpose.

Be sure to check for any business expenses paid using a personal checkbook or credit cards. For example, sometimes a vendor will not accept my business Amex credit card, so I have to use my personal card. Also, I sometimes use a personal credit card for paying expenses on my rental property. Every year I go through my personal checking account and credit cards to be sure I don't miss a deduction.

I hate cash purchases as I don't keep track of them very well and

sometimes forget to throw the receipt into a special "petty cash" box.

### **More ideas for reducing 2019 personal taxes**

If your personal itemized deductions are close to the standard deduction, consider "bunching" your expenses every other year.

Pay your fourth quarter state estimated tax payment in December instead of January every other year. Pay your January mortgage payment on December 31 every other year. Just be sure the bank reflects this extra payment in the annual mortgage interest paid form so that your deduction matches the information the bank sends the IRS.

Pay your property taxes early, if allowed. You must have been billed to pay early per IRS regulations. In California, annual tax bills are sent out every year with 2 payments allowed. The first payment is due in December and the second payment in 2020.

### **Charitable contributions**

Clean out your closets every other year and contribute your unwanted items to a charity for a deduction. Be sure to get a receipt for all donations and contributions, regardless of the amount. Photos can also work well for verifying your donations.

You can contribute by using a credit card by 12/31/19. Then pay it off when you receive your credit card statement.

### **Medical expenses**

Beginning Jan. 1, 2019, all taxpayers may deduct only the amount of the total unreimbursed allowable medical care expenses for the year that exceeds 10% of their adjusted gross income. It was 7.5% in 2018.

If you had significant medical expenses in 2019, look into whether you can pay your medical bills next year instead. By "bunching" your medical expenses into one year, you

might be able to get over 2019's 10% threshold.

For the self-employed, 100% of health insurance premiums are deductible to reduce AGI rather than as an itemized deduction.

### **Keep receipts for all deductions**

If you are audited by the IRS, they expect to see receipts for all expenses. I did not do this. In my recent IRS audit, I had to spend a lot of time getting receipts for 2015, because the IRS goes back in time. Banks, credit card companies and many vendors did not keep records older than 3 years.

Your credit card statements are not adequate. You need receipts.

### **Keep an accurate mileage log**

Business mileage is targeted by the IRS.

I was not able to obtain any statistics, but I am sure that many small businesses, including appraisal, do not have accurate business mileage records.

Like many appraisers, I used to drive a lot of miles and just used 90% of my mileage for business, without keeping an accurate mileage log. This is a big mistake.

Last year, I wrote about my recent IRS audit. I failed the auto expense deduction as I did not keep a mileage log and significantly over estimated my business miles.

For the audit, I made a mileage log using google maps for all my appraisals for the audit. It was a big hassle. If you don't want to do this, do the best you can for mileage estimates. If necessary, you can estimate it by using your calendar for days of appraisals, medical appointments, and charitable activities for all mileage deductions.

You will need accurate beginning and ending odometer readings for the

year. The best method is to use auto repair receipts where the odometer reading is listed. You can pro-rate the monthly mileage.

I am now using a smartphone app to keep accurate mileage records. I have auto repairs close to the end of the year or the beginning of the next year.

### **Mileage deduction increased for 2019**

For 2019, the standard mileage rates for the use of a car (vans, pickups or panel trucks) is up 3.5 cents to 58 cents per mile for business miles driven, up from 53.5 cents for 2018.

- 20 cents per mile, up 2 cents driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations - no change from 2018.

### **Education expenses**

For appraisers, CE costs are another deduction, including travel expenses. Be sure to keep complete records, including receipts, especially if going to a conference or other CE where you are staying overnight.

Don't forget meals. If you don't keep good record of your meals you can use a standard deduction. If you are driving, be sure to record it in your mileage log.

### **Who should do your taxes?**

I strongly recommend using an enrolled agent or a CPA. Why? They are tax experts and, also very important, they can represent you if you have an IRS audit. They can calculate such items as Alternative Minimum Tax, depreciation, and advise you on deductions.

I always fill out a form that I am sent by my tax service provider. Don't show up with a box of receipts unless you want to pay a very big fee. If you don't use Quicken or Quickbooks, make a commitment to do it ASAP. Don't wait until just before April 15 to start using the

software.

Once, I represented myself at an IRS tax hearing about my husband's commercial fishing business. It did not go well as I had no experience or training in what to do at the hearing. I lost.

At my recent random audit (looked at everything, personal and business, visited my home office, etc.) I did not speak with the IRS agent. My enrolled agent handled everything.

### **Keep business and personal expenses separate**

I am always surprised when I get a check for a newsletter subscription from an appraiser that is written from a personal account, not a separate business account. Big Mistake.

Or, appraisers who don't have separate business and personal credit cards.

Of course, you should have separate business checking and credit cards. If you don't, do it now and try to get your 2019 personal vs. business expenses straightened out ASAP.

Most of us occasionally pay business expenses in cash or with personal credit cards or checks. Be sure to check your records or box of receipts. I try to do as few cash payments as possible as they are a hassle to keep track of.

The IRS scrutinizes personal expenses that may have been claimed as a business expense, such as the use of a business vehicle for personal use. Be diligent about keeping good records.

### **Use Quickbooks to keep track of your business expenses**

I am always very surprised that some appraisers don't use Quickbooks. When I started my business in 1986, it was all manual. I hired my mother to do it. When Quicken was first available I started using it, then went to Quickbooks when it became available. My mom retired and my office assistant started

using Quickbooks.

Why Quickbooks? Relatively inexpensive, easy to use, and widely used. Most small business bookkeepers use it.

What if you have never used Quickbooks? Taxes are not due until April 15, 2020. Do it yourself or pay someone to set it up for you and enter all your income and expenses.

### **What am I doing?**

I will definitely maximize my contribution to my Solo 401k because it has a maximum fixed amount per year.

I am looking for the highest expenses for 2019. I go through my personal checks and credit cards. Sometimes I have to use a personal credit card if they do not accept my American Express card.

Make charitable donations. My total personal deductions are well over the standard deduction.

Get some repairs done on my rental property.

Buy whatever business supplies and equipment I need by year end. Pay early my business insurance, property taxes, etc.

I should have started earlier!!

### **Where to get more information**

Google "year end tax tips self employed". Most of the tips for appraisers are in this article. But, sometimes it is a good idea to read how someone else explains it. And, there may be tips not covered in this article applicable to your personal tax situation.

Contact your tax advisor with any questions. I am not an attorney or accountant, and have never played either one on TV, Youtube, or in a movie!

# Starting over again

**By Rachel Massey, SRA,  
AI-RRS**

**A** little over a year ago, I received the dreaded call. My position was being terminated, and with it, my job.

Thrust into the fee world again after almost four years as a reviewer was a bit of shock. It came at a time when there was a general retraction of business in the market, and there I was, basically a newbie, trying to get on panels and back in the swing of things. I thought it would be much easier than it was.

After all, I have been a full-time appraiser since the late 1980's, and before that sold real estate. All in the same market. I'd never let my status with the board of Realtors lapse, and had remained active in the local real estate community related to education and networking. It should have been a slam dunk; make a few phone calls, and be back up and running.

The reality however, differed markedly from the fantasy. The fantasy was that I'd have recruiters contacting me for a plum position in governance or compliance for a lender or one of the GSE's; or that I'd have attorney clients chomping at the bit to have me completing their appraisals. The reality was, that I was a newcomer in a very saturated market.

The first six months were brutal. The next six months were better, and I am now turning away more work than I take on. The fantasy of being picked for a plum position in governance or compliance is gone, and the reality of the profession and what it is now, and where it is going, has sculpted my business. As with my return to the field, our profession is ever changing, and we have to be flexible related to our futures.

There is a certain level of navel gazing that we all need to do to understand who we are, and what we

are suited for. I've done a lot of navel gazing over the years, and know my *raison d'etre* to be more of a detail oriented deep-diver, than that of a surface-skimmer. That has led me to pursue work that requires a level of due diligence that may not be needed for other types of work.

I have focused on relocation work, work for attorneys related to estate and divorce primarily, and with direct lenders who want to have better control of the quality of their work product. It has been slow going, but am at a good level with repeat business. Like other appraisers, I get the occasional offer for a hybrid type product, but I am not comfortable with it so am not planning on going that direction.

The market is changing, and appraisers have to adapt. That either means we have to pick up new service types such as hybrid appraisals, or stretch our comfort levels into other arenas. I am gradually stretching into the other arenas as the navel gazing has informed me that I would rather go into another field altogether than to do less than what I believe to be required.

I have worked with another appraiser locally who is an expert with farm appraisals. We have even tried our own version of hybridization, without success (found it was more time consuming than less, even though we trust and respect each other).

Oddly enough, as more appraisers make their way into the private arena, I am finding that more direct lenders are asking me to take on their work. These lenders do seem to be concerned about customer relations, and see the appraisal report as part of the overall relationship. They want a report that is logical and credible, and that fits in well with my aspirations. That is a type of flexibility - the goal was to pick up more private client work, but because of more competition, I am finding myself gravitating to

direct lender work. I am happy to work with anyone who is respectful and polite, and offer them the same in return. After all, we provide a service and there is the need to properly communicate with our clients, be they the large institutional mortgage lender, or the executor of an estate who has no knowledge of what we do.

A little over a year after my termination, I am more than ever determined to be the best possible appraiser I can be, and not only to succeed, but to exceed all expectations. It is slow-going, but it is moving in the right direction.

Most of the time I am much happier with where I am, than I was in a job that would never have let me grow. The only limits now placed on me, are by my own thoughts and beliefs in myself. Referrals are now starting to roll in. My reputation as a thorough appraiser is growing within some of the clientele I am trying to attract. It simply takes time, and having been out for a while did essentially put me back to square one. It is doable however, and patience and persistence does pay off.

If you find yourself on the wrong end of a pink-slip, do not despair. There is life after a corporate job, and there are benefits to controlling your own destiny in this crazy field we all seem to love. The only limits out there, are the ones that are self-imposed.

## **About the author**

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# Marketing with holiday gifts and cards - An Easy and Most Excellent marketing tool!!

*Editor's Note: I write about this every November or December, and it makes me remember to get some cards at the office supply store!!*

*When we worked for lenders and mortgage brokers, we often had personal relationships, which included in-person deliveries of gifts, etc. With AMCs it is much more difficult, but a personal holiday email can work.*

*However, gifts delivered works well for non-lender clients. However, be careful when sending to government agencies (see below).*

*There are not many changes since last year, but it is good as a reminder of easy ways to say "thank you" for appraisal business, being very helpful on an appraisal, etc.*

*In the past I used to get many holiday cards from vendors, other appraisers, etc. Sometimes I would get a gift such as a Starbucks gift card. But, this has slowed way down in recent years as a residue of the recession I guess. If you send something, it will be remembered.*

## **Why would you want to send holiday gifts and cards?**

It is one of the few times in the year that sending something is not unusual. A few appraisal assignments or referrals, or even one, will more than pay for the cost. Send them to current clients, previous clients, new clients, prospective clients, etc. Don't forget the real estate agents that were willing to spend time to explain their sale and appraisers that helped you on an appraisal.

Appraisers tend to be very weak on all types of marketing, even the easiest, such as sending holiday cards and gifts!

## **This is one of the easiest types of marketing you can ever do!!**

No web site, no email solicitations, no phone calls!!

Just compile names and addresses from people you already know. Does not take much time, except for writing addresses on envelopes and maybe including a personal comment.

What if you don't have any clients except AMCs? Say thank you with a card to helpful real estate agents, property managers, appraisers, employees at vendors who have been helpful such as forms software companies, etc.

## **What about AMCs?**

If there is someone who has been helpful, send them a gift card. If you don't have their postal address, send a personal thank you email. I doubt if they will get many from appraisers!! Don't forget the chief appraiser or appraisal managers. They probably have postal addresses so you can send holiday cards.

## **When should cards be mailed?**

By December 10. Get started now!!

## **When to send gifts?**

What if you don't have time to do this now, or want to send at another time, so you will be remembered?

There are many times to send gifts. For the traditional holiday gifts, you can send them before Christmas, between Christmas and New Years, and after New Years.

Some like to send at the traditional week before Christmas, others near Thanksgiving, and others early the next year. Your gift stands out more if not sent at the traditional time, but you may prefer the traditional holiday season.

Be sure to send thank you cards throughout the year, sent out soon after receiving a good referral or data you really needed. This is a "must."

## **Who to send gifts or cards to**

1. Best clients.
2. Second tier clients.
3. The rest of your clients.
4. Referral sources - as many as you can. Other appraisers, real estate agents, accountants, attorneys, your neighbor, etc.
5. Vendors who have been especially helpful.
6. AMC employees who have been helpful.
7. Appraisers and real estate agents who have been helpful with data and/or advice.
8. Good prospects.
9. Instructors and speakers that you liked.
10. Authors of articles that you liked.

## **What am I doing this year?**

We got our holiday cards at the local Office Depot, but go ASAP before the cards you like are gone. We learned that the hard way - by waiting too long!

My best attorney client - flowers for the office. I did it last year and I'm sure they will really appreciate it this year. I'm sending holiday cards with personal notes to many clients, referral sources, appraisers, real estate agents, etc.

Starbucks gifts go to many of the appraisers and real estate agents who have helped me this year. Plus, attorney clients who I regularly get work from once or twice a year.

Holiday cards are a good reason to contact clients I have been trying to get for many years. Plus a few vendors who have been very helpful.

### **Why send holiday cards**

"Unlike the cards we mail to loved ones, greetings we send for business are generally used for two purposes: as a thank-you to individuals at other companies with whom we have an ongoing relationship, or as a means of staying on the radar of an existing, former or prospective client," says manners expert Thomas P. Farley.

### **What type of holiday printed cards are best?**

A "season's greetings" card is usually a more suitable for business choice than a Christmas card, so you don't offend anyone. I am located in the very diverse San Francisco Bay Area, so I always send neutral holiday cards.

A handwritten address on the envelope is a very good idea.

Always, always include a personal signature. A short handwritten note is good also, especially if you know them.

Be sure to be "generic" in your cards and your message. Don't mention a specific holiday.

Humor is risky and not recommended. But, sending a humorous card to someone you know well may work.

### **Government and institutional employees - be careful**

When I was first employed by a county Assessor's office in the mid-1970's, I was told not to accept anything from a taxpayer. If I went to lunch with someone, I was to pay for my own lunch.

Many government agencies have similar policies. Before sending anything other than a holiday card, be sure to check.

Some banks and other institutional clients have strict policies, although few are as strict as government agencies. Check to be sure.

Some of my lender clients requested that any gifts be for the entire appraisal department, such as flowers or candy.

### **Email "cards"**

Postal mail is best, but it is sometimes hard to get postal addresses.

Email addresses can sometimes be difficult to obtain. Send them to people that you have current email addresses for.

When I checked online, many of the e-cards had music, which can be very annoying.

Search for Business Seasons Greeting Cards or Business Holiday cards if you prefer not to send Christmas cards.

Another option, which may be better, is to just send a personal holiday email with maybe a photo of yourself or another photo embedded in the email. And a personal message. We don't get many emails that say Thank You!!

### **"Special" one time gifts**

Remember the mortgage broker days? Many businesses send one time gifts, such as homemade cookies or candy. Gift certificates are also popular, with an almost endless list of choices, including restaurants, book stores (don't forget the online stores such as amazon.com), car wash services, movie theaters, etc.

A gift basket is another good choice. To get an idea of the endless varieties of gift baskets, go to your favorite search engine and look for "gift baskets."

"Perennial" flowers such as poinsettias are good. You can also have cut flowers delivered.

### **Gifts that last**

One gift I see almost every morning is a coffee cup from a local appraisal firm that I received many years ago.

I used to send out a small desk calendar with my company info to about 100 people. They loved it and called me when they didn't get one.

One year I set up monthly flower deliveries to a lender client that gave me lots of work. It went to the

appraisal department, not the chief appraiser.

### **Ideas on what to send**

Sending gift cards, such as Starbucks, is a very easy choice.

Most of us select gifts appropriate to the volume of work, how easy the client is to work with, and the likelihood of continued work. For example, a gift basket for your best clients, and a calendar or card for others.

A gift that would appeal specifically to the person is always good. For example, a gift certificate to a popular restaurant for two for someone who likes to eat out, or a gift certificate for a "meal delivery" company for those with children who are too busy to go out for dinner. Or, a box of chocolates for a "choc-o-holic."

A gift that is seen every day, such as a desk calendar, mouse pad, or paper clip dispenser, personalized with your company name works well.

Some other possibilities:

- Home baked cookies, pastries, or candied pecans.
- Gift baskets - food, wine, chocolate, many choices.
- Dom Perignon champagne - for the top clients
- Modest gift at Christmas and a card at Thanksgiving or New Year's
- Baskets from local fruit wholesalers
- "Happy New Year" cards and wine
- Desk nameplates
- Rum soaked holiday cakes
- Starbucks certificates
- Sticky Note Pads (540 Sheet Ones) with your name printed on all 4 sides
- Souvenir Stick Pen (\$.75 Each)
- Massage therapist for an hour to do chair massages one afternoon between Thanksgiving and Christmas (*Editor's note: this one is my favorite!*)
- Chocolate cheesecakes on Halloween and boxes of chocolates on Valentine's Day.

- House shaped paperclip holders with your company name & info printed on the roof.

### **Your employees (including family)**

Don't forget your employees - a special holiday lunch and gifts really make a difference. What if your family members are your employees? It makes an even bigger difference!

### **Where to get gifts**

For gifts personalized with your name, do them ASAP. Advertising companies are used to last minute requests, but they are all busy before Christmas.

For gifts with your name on them, use an advertising specialties company. Use the Internet to locate them.

### **How to send gifts**

Personal delivery by the principal or owner is always best, even for cards. If at all possible, do this for your best clients.

For non-local gifts you can use the U.S. mail or UPS.

### **What personal message should you include in your cards?**

Remember, this is for business, which is different than sending cards to personal friends and family. Look in the mirror. What type of message do you like to receive?

This depends on how well you know the person. For example, you can mention about a spouse or a hobby.

Don't make it too much of a "sales pitch".

Go to a store and see what is on the cards there. Check out messages online for business card companies. Do not include a business card.

### **Business law and gifts**

Bribery is the primary issue from a legal viewpoint. Appraisers seldom give such large gifts, but it has happened. For example, you're bidding on a big appraisal contract and pay for a Hawaii vacation for the person making the decision before you are awarded the contract.

### **USPAP and gifts**

Some appraisers mistakenly believe that USPAP doesn't allow giving gifts to clients.

USPAP doesn't include much about marketing and gifts.

"The payment of undisclosed fees, commissions, or things of value in connection with the procurement of appraisal, review, or consulting assignments is unethical."

"Disclosure of fees, commissions, or things of value connected to the procurement of an assignment should appear in the certification of a written report and in any transmittal letter in which conclusions are stated."

Thus, appraisers try to avoid situations where USPAP would require such disclosure.

Understand that payment of fees, etc. in order to get an assignment is not prohibited by USPAP. It just has to be disclosed.

### **USPAP and gifts after getting assignments**

Although USPAP doesn't forbid giving current clients "things of value" as a "thank you," it does not address how far you can go (i.e. trip around the world for two). Business law does.

Remember the stories in the newspapers about business owners being accused of bribery? U.S. law is pretty strict on giving bribes to get work from a current customer or a prospect.

The basic rule is that the gift must be appropriate to the work performed. For example, a client has given you \$2,000 in work over the

past 12 months. A box of candy, flowers, etc. is certainly appropriate. If a client has given you \$150,000 in work, a more expensive gift would be appropriate, say a set of golf clubs.

### **Planning for next year**

It may be too late to order personalized gifts, so plan now for next year.

If you want your gifts to have your company name on them (a very good idea), order them now. Suppliers can get back logged at holiday time.

### **Where to get more information on gifts**

For gifts with your name on them, use an advertising specialties company. Google for local companies. Baskets can be ordered from local stores or national companies over the Internet. Sometimes they are available at grocery stores. Check with local real estate agents and see who they use.

### **Where to get more information on cards**

Google Holiday Business Cards for vendors, if you want them custom printed or emailed.

For ideas on what type of a message, go to web sites that sell business cards or Office Depot or other local store that sells cards.

# USPAP 2020-2021 - What's New?

By Tim Andersen, MAI

*Editor's comments: Whether or not we really need a USPAP update and a required class every two years is a controversial topic. This short article does not cover all the changes. You will have to take your required USPAP class to get all the other details. Below are some useful changes, discussed below by Tim Andersen, our USPAP Guru/Expert/Etc.*

*Since it is effective January 1, 2020 it is most useful to take the USPAP class as soon as possible. Sometimes the discussion questions are interesting. I really like that the Standards Rules now have descriptive names. I never can remember which Standard goes with what topic. For example: Standards Rule 1-3 with no description.*

*USPAP has been available since October 1, 2019. I strongly recommend purchasing the electronic version so you can search for what you need. The paper version is \$75, eUSPAP is also \$75. Purchasing both is \$99 - worth the price. Search youtube for Appraisal Foundation to see a good video on how to use the new search features.*

Appraisal water cooler talk (for those who have water coolers anyway) sometimes centers on USPAP and its biennial changes. Yes, it changes every two years whether we *like* those changes or not (and whether we *understand* those changes or not).

There are always good reasons for those changes. However, in the 2020-2021 USPAP, those changes, while not earth-shattering, are worth understanding.

USPAP still has the same focus, the same spirit, the same ethics, and the same philosophy. However, the structure and architecture of the document is now sleeker and easier to follow.

In this article we will go over some of those changes. If you've already taken the 2020-2021 USPAP update, this will be a very short review. If not, this will be a very short preview of what you've got coming. Thanks for reading!

## USPAP has been shortened by 4 pages

First of all, the part of USPAP that pertains directly to real property appraisers, the definitions, the Rules, the Standards, and the Standards Rules, are now shorter than before, by about four pages. Right there is a uniform standard to rejoice!

However, this does not mean there is less of USPAP. Rather, it means the document is now more concise. That should make it easier to understand, as well as easier to enforce. Both of these were TAF (The Appraisal Foundation) goals in making the changes.

## Individual Standards Rules now have labels

Another change is that now the individual Standards Rules have *labels* to identify them whereas before they did not.

For example, Standard 1, the appraisal development standard has always had six (6) standards rules. These serve as a road map, as it were, of the appraisal process which appraisers could use as a checklist to get the development of an appraisal up to USPAP requirements. Standard 1 still has six (6) standards rules, but now they have labels explaining what they are.

For example, before the current USPAP edition, SR1-3 was "Standards Rule 1-3". Now, however, it is "Standards Rule 1-3, Market Analysis and Highest and Best Use". With the change, it is now clear where the highest and best use standard is, thus making it easier to find. Before this change, SR1-3 consisted of the language of SR1-3, then (a) and (b), both of which had extensive Comments. Now, however, the components of the identification and analytical requirements are clear in SR1-3(a)(i) thru (v). It is now much clearer what USPAP (and, therefore, state boards) expects from appraisers when it comes to the requisite development components of SR1-3, the highest and best use section of the report.

## Definition of appraiser - clarification of using service contractors

For another example, go to the definition of *appraiser*. When you do, you'll note the definition is the same, but that the Comment is gone. Before the removal of the Comment, an appraiser was, to some extent at least, defined in the context of a state credential (since we all have a state credential of one level or another).

However, in removing the Comment, TAF put the concept of an appraiser back where the definition originally meant it to be - in the sole context of someone whom the public expects to provide competent and independent, impartial, and objective valuation services.

"So what?", you say. Now, with the removal of the Comment, USPAP looks at *anyone providing appraisal services*, their level of state-credential notwithstanding (even if they do not have a state appraisal credential), as an appraiser (which has ramifications to you).

Thus, if you contract out your inspection services (including such tasks as measuring the property), as far as USPAP is concerned, that contractor is an appraiser. What this means is any services that contractor provides to you are valuation services, just as they would be if you, as a credentialed appraiser, carried them out yourself.

As a result, you are fully responsible (to the client and to the state board) for the competent, independent, impartial, and objective acts of your contractors in the appraisal services they provide to you. In reality, this has always been true. However, now, with the removal of the Comment, this relationship is clearer.

#### **Addition of definition of misleading - a major change**

Another change, this a major one, is the addition of a definition of *misleading*, a word USPAP had bandied about for years but never defined. The problem was not that there was not definition of *misleading* applicable to real estate appraisal, but that some of the business- and legal-oriented definitions required an intent to mislead, whereas others did not.

The Appraisal Foundation found this troubling, as did a lot of state boards, and the legal counsels of appraisers who came before those boards. So, now, with the current definition, it is clear that lack of intent to mislead is not an area a state board

will examine particularly closely. USPAP's new definition of misleading is:

"Intentionally or *unintentionally* misrepresenting, misstating, or concealing relevant facts or conclusions" (see line 139; emphasis added).

Your required USPAP update class will go over more changes

Since it is not the purpose of this article to replace the 7-hour USPAP update class (there is no reason to withhold that joy from you), there is no reason to go over every change. Again, this article is a mere introduction to those changes, mostly as a preview of what you will learn when you take the class.

If you have any questions, or need to consult confidentially on USPAP matters, please contact me at [tim@theappraisersadvocate.com](mailto:tim@theappraisersadvocate.com). It will be a pleasure to hear from you!

#### **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 dotting on his grandchildren.

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# Evaluations Are Appraisals!!

*Editor's comment: Tim Anderson's "Differences between Evaluations And Appraisals, Part 2" are in the October issue of Appraisal Today.*

*Tim says that appraisals are not evaluations.*

*This month, Julie Friess writes the opposite. Definitely a controversial topic!*

*FYI, I can't decide who is correct, can you?*

## **By Julie Friess, SRA, AI-RRS**

Appraisals are not Evaluations per Tim Andersen, MAI, Julie Friess says:

I DON'T THINK SO!

If you didn't hear me the first time... let me say it again!

I DON'T THINK SO AND I AM LAUGHING SO HARD IT HURTS!

I am sorry but does everyone believe that appraisers are so ignorant that they are reading this junk science and supporting your position? Tim Anderson and those who write the Interagency Guidelines, you're trying to sell our profession down the river without a paddle and any appraiser who is taking the bait is doing so because they are the one's who should not be appraising in the first place and you already know that!

So, let's begin.

In Act-II, Scene-II of William Shakespeare's play, *Romeo and Juliet*, Juliet says, "What's in a name? That which we call a rose / By Any Other Name would smell as sweet."

## **What is the meaning of A Rose by Any Other Name?**

***The importance of a person or thing is the way it is; not because of what it is called. Simply, it means the names of things cannot affect what they actually are*** (<https://literarydevices.net/a-rose-by-any-other-name/>).

Of course, they cannot affect what they actually are! Call it an appraisal, an evaluation, a brokers price opinion; Call it whatever you WANT to call it! An appraisal by any other name is still... ***an opinion of value.***

ANYTHING that is an opinion of value qualifies as an appraisal, period. Maybe for our next magic show, we will start calling an appraisal an appraisal in a different language? THEN will it not be an appraisal?

Is it any surprise that throughout the Interagency Guidelines there are references to Highest and Best Use in USPAP? Is there any surprise that there are references to the most important parts of Standard 1 of USPAP throughout IAG (Interagency Guidelines) when discussing Evaluations? Mr. Anderson, can you please explain why USPAP is referenced throughout IAG and you have decided that this is literally MEANINGLESS?

Can you please explain why when IAG uses the SYNONYMS for words such as CREDIBILITY, this is considered DIFFERENT and how exactly does State Law trump USPAP when USPAP is Federal Law?

USPAP is required by FEDERAL LAW, and Federal Law TRUMPS State law. FIRREA, Title VI; 1989 requires all appraisers who complete Federally Related Transactions, which are all those Fannie and Freddie transactions that appraiser's complete (and a lot more) to comply with USPAP. The Appraisal Subcommittee (ASC), also requires appraisers to

comply with USPAP, as do almost all Federal lending institutions. Many of the appraisal's completed by appraisers are sold repeatedly (appraisals have "legs") and even if an appraiser completes an Evaluation for one entity that is supposedly legal and "safe" per state law, there is no possible way for that appraiser to know if that loan will be sold to a Federal institution at a later time.

Should that Appraisal, aka Evaluation, end up like the hundreds of thousands of appraisals that ended up in the last market crash of 2008, in a default mortgage pool of loans that are being analyzed, dissected, and sent back to the lenders, servicers, PMI companies, and anyone and everybody involved, for repurchase demands/buybacks, who do you think everyone will be looking at for retribution? YOU! The appraiser who was convinced that an EVALUATION was not an Appraisal!!

If The Appraisal Foundation (TAF) derives a way for appraiser's to complete Evaluations in compliance with USPAP that differs greatly from the Standards that already exist, then not only has TAF been completely watered down and compromised, there is no longer any reason at all for anybody to be a licensed real estate appraiser. It will be time for all licensed appraisers to abandon their licenses because there will no longer be any regulations or enforcement whatsoever. At this point, ANYBODY ANYWHERE will be able to complete appraisals, licensed or not.

I highly recommend reading Tim Anderson's write ups, and then sending ME your questions. I will dispel all the inaccuracies right here, in public using the facts and Standard's. Appraiser's are under attack. If we want to maintain our profession, we cannot sit by and allow this type of misinformation to be published and we cannot allow our reason for being here to be lost. We are the experts. Raise the bar. Learn the Uniform Standards of Professional Appraisal Practices and UNDERSTAND them. If you do not understand them fully, ASK QUESTIONS. Do not ask people who publish articles that say things such as completing Evaluations are okay and do not violate USPAP. Do not ask USPAP instructors who disagree with what is written here unless they're willing to be in a public debate with me, in front of every appraiser about any and all USPAP related issues. I say BRING IT ON!

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Let's get real and discuss our Standards and learn right from wrong for once and for all!

#### About the author

Julie Friess has a lot of varied experience.

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Currently Certified in AZ and FL as a residential appraiser and working on her PhD in criminal justice with an emphasis on white collar crime.

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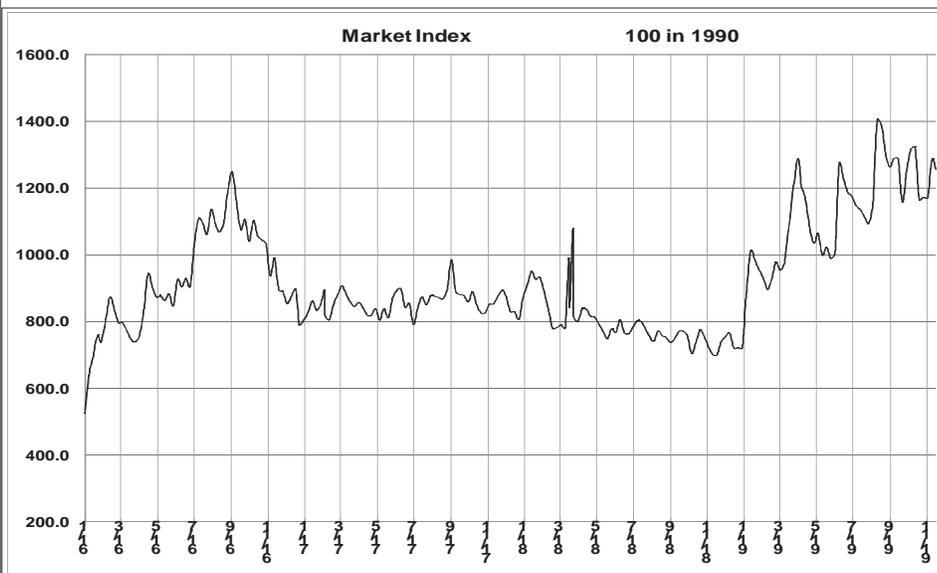
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### MBA Loan Volume Application Index – 1/16 to 11/19



# Bifurcated inspection-only option "paused"

Fannie's plans for bifurcated appraisals has changed significantly since last month (November), when I wrote "What is Fannie doing now and what are their future plans? UAD, Forms, Bifurcated". For lots more details, see that article.

For appraisers, bifurcated was much more controversial than changing UAD and forms.

In Fannie's Value Verify program (see graphic below) the inspect-only option (no appraisal required) would result in fewer desktop appraisals. I was unable to get any data on what percent were inspect-only, but it could be high.

At that time, what Fannie's regulator, FHFA, was changing was uncertain. There were rumors that appraisal modernization initiative was put "on hold". There was nothing "official" from FHFA.

However, my sources said that bifurcated appraisals would continue being tested and used by some vendors and that UAD and forms would be delayed. Data changes (UAD) was still being worked on.

What work, if any, will be done with UAD (data) and forms is not known, except that some Fannie employees may be working on data and specifications for forms.

Bifurcated is very easy to change, as the 1004p form is available and can be run through CU. Inspection forms, and who will do the inspections, is being worked on.

Bifurcated appraisals have been done by appraisers for many years for portfolio analysis, etc., using many different forms and inspection reports.

This article is an update of what we know so far about what is happening. For lots more details see my article in the November issue.

In November, an article by WorkingRE clarified the current plans for bifurcated.

## FHFA Puts Brakes on Fannie's Bifurcated Program (WorkingRE)

Fannie Mae told WRE recently: "In early 2020, at the instruction of FHFA, we will adjust the Value Verify process to pause the Data & Done option (our bifurcated valuation process that does not ultimately result in the delivery of an appraisal)."

"We will continue to offer the Data & Appraisal option within Value Verify on a limited pilot basis as a means to evaluate possible improvements to our collateral risk management and create a more efficient appraisal process."

"FHFA is essentially halting the Value Verify #1 Option: Data and Done, while allowing Fannie to continue with its bifurcated pilot model Value Verify #2: Data & Appraisal."

Below is the modified graphic, showing that the option of no appraisal was no longer available.

To read the full article, google the title.

## What do appraisers think about bifurcated? (WorkingRE appraiser survey)

"According to the OREP/Working RE National Bifurcated Appraisal Survey, which now has over 3,000

respondents, most appraisers still have not participated in the pilot program, and most do not intend to. The main reasons are liability concerns regarding the quality of data furnished by a non-licensed appraiser, as well as the difficulty appraising a property without inspecting it or visiting the neighborhood."

Survey results are not available.

To take the survey, go to [www.workingre.com/hybridsurvey/](http://www.workingre.com/hybridsurvey/) To read more, google the article title.

## What about the future?

No one knows what "paused" means for bifurcated inspection option, of course.

Because FHFA is working on significant changes in the GSE's, I don't see much happening for UAD and forms until late 2021 or 2022. Who will win the 2020 presidential election is very uncertain. Like many others government agencies (and businesses), FHFA is delaying when any appraisal modernization changes will happen.

Bifurcated appraisals are the future. Fortunately, for now, all will require desktop appraisals. No one knows what percent of Fannie loans will require full appraisals vs. no appraisal (appraisal waiver, etc.) vs. bifurcated appraisal.

## Proposed Solution Framework

Property must undergo PDC and be approved from the lender's portfolio.

