

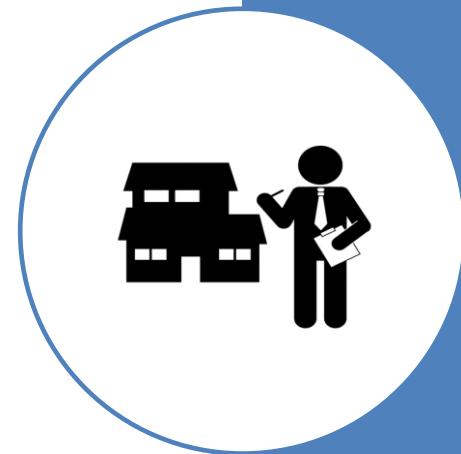


UNDERSTANDING APPRAISERS & THE APPRAISAL PROCESS

REALTORS® and appraisers are professionally interdependent, yet widespread misunderstanding exists regarding the role of the appraiser, and the methods they use to value real property. REALTORS® with an advanced understanding of the appraisal process will be better equipped for success!

Instructor Qualifications

- **Mark H Maschger, ASA, SRA**
 - Practicing appraiser in MO & KS
 - Former regional chief appraiser at Bank of America
 - Owner of Appraisalytics, a regional appraisal management company
 - Co-owner of The Williams Group, a Kansas City appraisal firm
 - General Certified, managing residential & commercial assignments
 - Appraisal Institute
 - SRA Designated
 - MAI Candidate for Designation
 - Kansas City Chapter 2011 President
 - Approved Instructor
 - American Society of Appraisers, ASA Designation
 - Fellow REALTOR®, as appraiser and broker
 - Proud to serve on your HMLS Board, as the appraiser representative



Course Objectives

- Attendees will better understand the important role played by the real estate appraiser.
- Attendees will better understand regulatory landscape affecting appraisers and the appraisal process.
- Attendees will become more knowledgeable of the appraisal process.
- Attendees will gain insight as to the future of appraisals.
- Attendees will become more knowledgeable of the 1004 Report Form, used for all types of residential lending.
- Attendees will take away tips for handling appraisal disagreement and/or rebuttal.

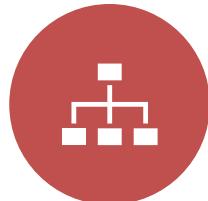
Understanding the mindset of appraisers

- To understand appraisers you must first recognize that they do not think like real estate agents. Appraisers are naturally drawn to the professional role of ***knowledge worker*** - individuals such as data analysts, product developers, planners, programmers, and researchers who are engaged primarily in acquisition, analysis, and manipulation of information as opposed to the production of goods or services. This term was popularized by the US management guru Peter Drucker. (businessdictionary.com)
- Appraisers must pay very close attention to the smallest level of detail to be successful, or more importantly to an appraiser - credible. They would rather work with numbers than people in most cases. There are exceptions of course.
- It may be that you know some appraisers who aren't ***knowledge workers***, whose work you've found to be technically unreliable. This may be related to prior licensing levels, which allowed many to become appraisers who never should have been.
- While appraisers should never become emotionally or financially connected to your transactions, they endure the same cyclical peaks and valleys in volume, and generally, find no enjoyment in delivering bad news.
- Despite a variety of threats from technology and business model change, the role of the appraiser has been validated by industry regulators, lenders and NAR. Viewing appraisers with respect and appreciation will lead to reciprocal treatment toward you.

What you should expect from appraisers

- Appraisers are REALTORS®
 - Must abide by Code of Ethics and Standards of Practice of the National Association of REALTORS®
- To be competent
 - The Competency Rule (per USPAP – Uniform Standards of Professional Appraisal Practice)
 - Economic competency – discerning trends, highest and best use analysis
 - Geographic competency
 - Competent to value particular property types
 - Upper bracket, green housing, acreage home sites, specialized commercial, etc.
- Accuracy
 - Thorough research and analysis
 - Multiple data sources (MLS, KC Data and others when available)
 - According to scope of work
- Professional courtesy toward you and your clients
- To be in good standing
 - www.ASC.gov
 - MO & KS provide periodic reporting of state level disciplinary action (get on their mailing lists)
 - Verify the identity of appraisers and their membership in KCRAR / HMLS

Understanding what appraisers need from you



Often, REALTORS® are the only people with the information needed and yet many will not provide it. Some of you have taken time to understand what is required in an appraisal and offer it proactively to appraisers.



Fully executed contracts
With all amendments and addenda



Site price & characteristic
New construction



Property characteristics
What we can't see in MLS



Post sale partnership
When your sale becomes a comp



Communication
Smart REALTORS® return calls from appraisers

Understanding what appraisers DO NOT need from you

Comps	<i>An appraiser's duty (noted exceptions)</i>
Salesmanship	<i>Remember the 'knowledge worker'</i>
List of improvements	<i>- Focused on gathering information</i> <i>Most appraisers will accept such a list</i>
Strong direction	<i>Only list items</i> <i>Time lapsed since updating</i> <i>Avoid totaling – sum of receipts</i> <i>Proposed construction different story</i> <i>Don't subordinate appraisers</i> <i>"I do a lot of business with this lender"</i> <i>"We shouldn't have any problems with this appraisal".</i>

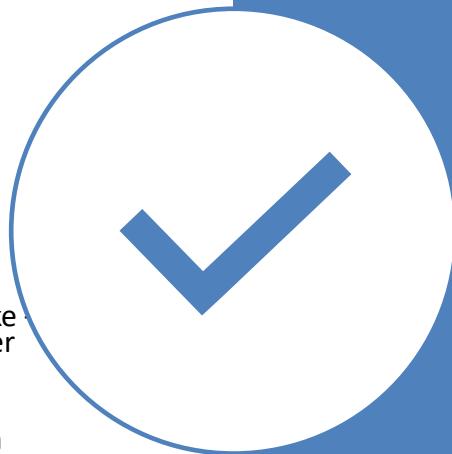
Understanding the regulatory landscape

As of May 1, 2018 the requirements for becoming an appraiser were lessened in terms of experience required and length of apprenticeship. This is related to a perceived shortage of appraisers. Opinion: generally positive with unintended consequences.

	Degree Requirement	QE Education	Experience Hours	Lngth. of Apprenticeship	
Prior to May 1, 2018					
Licensed Appraiser	30 hours college-level coursework	150	2000	12 months	Non-complex, no trainees
Certified Residential	Bachelor's Degree	200	2500	24 months	FHA, no limits on complexity
Certified General	Bachelor's Degree	300	3000	30 months	Commercial
May 1, 2018					
Licensed Appraiser	None	150	1000	6 months	
Certified Residential	Bachelor's / College Equivalents	200	1500	12 months	
Certified General	Bachelor's Degree	300	3000	18 months	

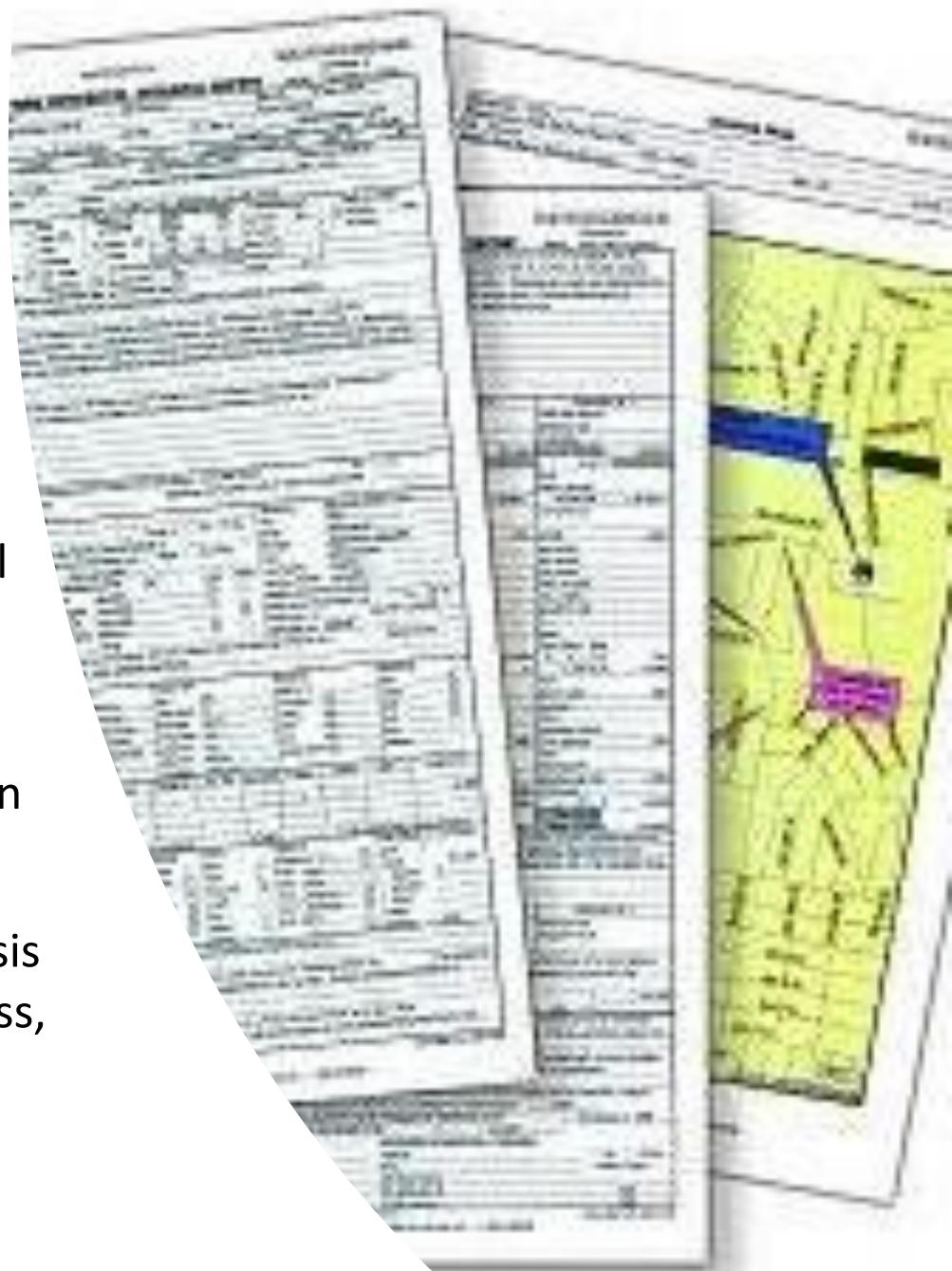
Understanding The Appraisal Form

- Most appraisals **developed** for mortgage related transactions are **reported** on the 1004 URAR form. This two-part process of developing an opinion of value and reporting it according to client expectations, is the essence of appraising.
- Each time Fannie/Freddie, FHA/USDA and VA amend or change their reporting requirements, all involved must be aware of the specific requirements and the reason(s) behind the change(s).
- Recent supplemental reporting requirements by Fannie Mae and Freddie Mac, and now FHA/USDA and VA
 - Expanded market conditions reporting
 - Additional comparables (for declining and increasing markets)
 - Interior and other photos, including the angle from which they should be taken
 - Covid-19 protocols for interior inspection and alternative sources of information.
- **Uniform Appraisal Dataset (UAD)**. A monumental change for appraisers and lenders alike took effect September 1, 2011. Continues to affect mortgage underwriting and appraiser practice.
- Now far ahead of read-only PDF utility, the new paradigm involves a dynamic conversion process that allows the GSEs, FHA, and others, to leverage the data in appraisals for a variety of purposes. Now operating as “Collateral Underwriter” or “CU”.
- More than ever before, appraisers are being weighed and measured, through automated and manual review processes that vary from lender to lender, from platform to platform, including quality and service scoring for every appraisal. Quality control is the primary focus of underwriting today, based on the threat of loan buybacks should a loan go bad.
- Some would argue that the appraiser shortage is reflective of undesirable working conditions, as appraisers are simply refusing to do work for lenders and appraisal management companies with exhausting tracking and QC requirements.



Limitations of the appraisal form

- Designed to be a summary report
- The problem - one size doesn't fit all
- Used to value all homes across the country
- Checked boxes are insufficient
- UAD mandated quality and condition ratings do not allow for descriptions
- The Sales Comparison grid does not allow room for more complex analysis
- Form-filling isn't an analytical process, and some appraisers spend a career checking boxes without really developing an understanding for market dynamics.



Understanding Comparable Selection

Location	N;Res;
Leasehold/Fee Simple	Fee Simple
Site	10526 sf
View	N;Res;
Design (Style)	Trad./Ranch
Quality of Construction	Q4 ▾
Actual Age	58
Condition	C3 ▾
Above Grade	Total Bdrms. Baths
Room Count	6 3 1.0
Gross Living Area	1,152 sq.ft.
Basement & Finished	0sf
Rooms Below Grade	
Functional Utility	Typical
Heating/Cooling	FA/CA
Energy Efficient Items	ThermalWdws
Garage/Carport	1 Attached
Porch/Patio/Deck	CP/LgWdDck
Fireplace	1 FP
Exterior Features	Fnc./Shed
LP/SP Ratio-DistressedSaleAdj	N/A

COMPARISON APPROACH

- Introducing the concept of bracketing
- Appraisers base their comparable selection on **elements of comparison**. The elements include those the form authors found to be most relevant, and they included three additional lines for those the appraiser chooses to add such as Fireplace and Exterior Features. As underwriting requirements have increased, appraisers are using those extra lines to report builder/ agent relationships, and list-to- sale price ratio, for example
- Some appraisers do not adequately identify, analyze, nor equalize property differences. However, most attempt to consider the significant elements of comparison for each subject property and adjust the comparables based on units of comparison (\$/sf, \$/bdrm, etc.)

Understanding Comparable Adjustments

The appraiser should adjust for both **quantitative** and **qualitative** differences. While it is rather simple to develop and apply adjustments for differences in room count and gross living area, it becomes more challenging to derive an adjustment that reflects the impact from a busy street or a spectacular view.

Above Grade	Total	Bdrms.	Baths	Total	Bdrms.	Baths		Total	Bdrms.	Baths		Total	Bdrms.	Baths		
Room Count	6	3	2	6	3	2		6	3	2		6	3	2		
Gross Living Area				1,464 sq.ft.			1,488 sq.ft.		-720		1,550 sq.ft.		-2,580		1,379 sq.ft.	+2,550

Most understand that adjustments are applied to comparables based on how they differ from the subject. The principle is based on the fact that Comparables #1 and #2 are superior to subject for having greater GLA and deserve adjustments as such. So comparables with superior characteristics receive negative adjustments to their respective sale prices, and those inferior to subject receive positive adjustments (1,379 sq.ft.).

Understanding Comparable Adjustments

- Adjustments applied should vary based on the factors in play for each appraisal. So what are the adjustments based on? There is no set value for adjusting room count or GLA, and the adjustments applied are often the result of professional judgment.
- So how good is an appraiser's judgment? The answer again is relative and depends on the level of education, experience and professional commitment an appraiser applies to each appraisal.
- Not a subjective work but an empirical process based on law, regulations and industry standards.
- Typical Practice, an evolving peer standard, is now measurable through automated review processes run against every appraisal written for mortgage purposes.
- Appraisers are taught and should practice ‘Paired Sales Analysis’ – An appraisal technique used to discover the contribution of one particular attribute.

The "Pairing Process"

1



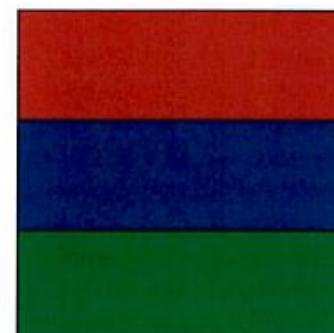
500

2



750

3



1,000

How much is Green worth?

250

(No pure pair)

How much is Red worth?

250

(Pair 2 & 3)

How much is Blue worth?

500

(Pair 1 & 3)

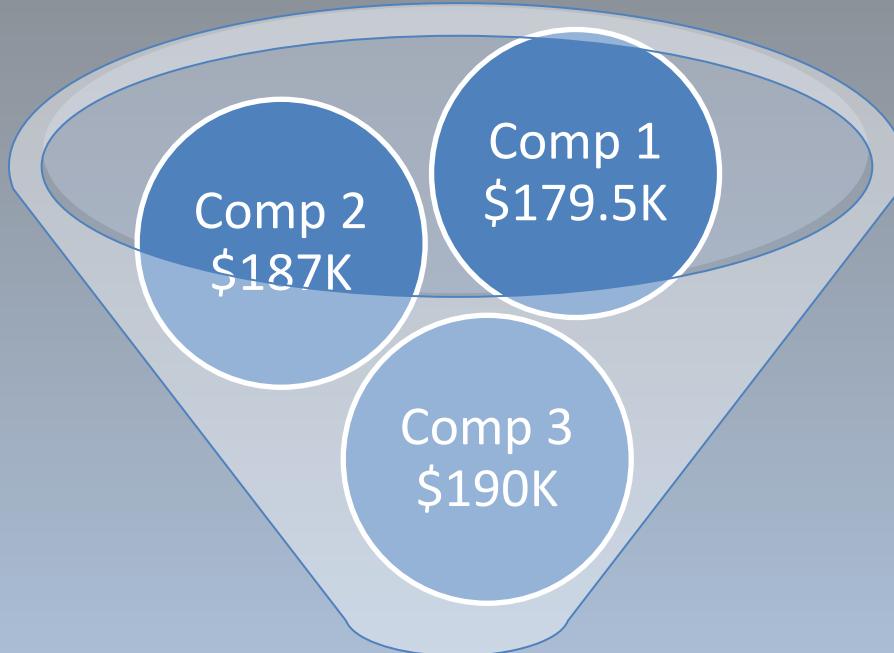


appraisalytics

Paired sales example

Address	484 S 137th St Bonner Springs, KS 66012-5203	521 S 137th Avenue Bonner Springs, KS 66012	486 S 137th Street Bonner Springs, KS 66012	487 S 138th Street Bonner Springs, KS 66012			
Proximity to Subject		0.28 miles SE	0.01 miles	0.11 miles W			
Sale Price	\$ 180,000	\$ 179,500	\$ 187,000	\$ 190,000			
Sale Price/Gross Liv. Area	\$ 122.95 sq.ft.	\$ 130.17 sq.ft.	\$ 124.17 sq.ft.	\$ 127.43 sq.ft.			
Data Source(s)	Viewing/MLS/C	MLS/Cnty/City	MLS/Cnty/City/KC Data	MLS/Cnty/City/KC Data			
Verification Source(s)	Inspection	DOM 91 MLS#1675985	DOM UC MLS#1643201	DOM UC MLS#1686551			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment
Sales or Financing Concessions	0 None Reported	Conventional None Reported		FmHA Seller Paid	-3,500	FHA Seller Paid	-500
Date of Sale/Time	12/22/2010	08/24/2010		06/15/2010		11/01/2010	
Location	Lei Valley	Lei Valley		Lei Valley		Lei Valley	
Leasehold/Fee Simple	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Site	7,200 Sq.Ft.	7,360 Sq.Ft.		7,200 Sq.Ft.		8,442 Sq.Ft.	-3,000
View	Residential	Residential		Residential		Residential	
Design (Style)	Split-Level	Split-Level		Split-Level		Split-Level	
Quality of Construction	Fr/Stn/A-AG	Fr/Stn/A-AG		Fr/Brck/A-AG		Fr/Stn/A-AG	
Actual Age	2 Years	6 Years		New		New	
Condition	Never Occupied	Avg/Good	+3,000	Never Occupied		Never Occupied	
Above Grade Room Count	Total Bdms. Baths	Total Bdms. Baths		Total Bdms. Baths		Total Bdms. Baths	
Gross Living Area	1,464 sq.ft.	1,379 sq.ft.	+2,550	1,506 sq.ft.	-1,260	1,491 sq.ft.	-810
Basement & Finished Rooms Below Grade	734 Sq.Ft. 0	Partial Bsmt .5 Bath	-1,000	Partial Bsmt 0		Partial Bsmt 0	
Functional Utility	Typical	Typical		Typical		Typical	
Heating/Cooling	F/A/C/A	F/A/C/A		F/A/C/A		F/A/C/A	
Energy Efficient Items	Thermal Wdws	Thermal Wdws		Thermal Wdws		Thermal Wdws	
Garage/Carport	2 Built-In	2 Built-In		2 Built-In		2 Built-In	
Porch/Patio/Deck	CovPch/Patio	CovPch/Deck	-1,000	CovPch/Patio		CovPch/Deck	-1,000
Fireplace/Exterior Features	No FP	1 FP	-1,000	1 FP	-1,000	1 FP	-1,000
Builder/Agent Relationship	Tiner/Smith	Picturesque/Maher		Tiner/Smith		Emerald/Smith	
LP/SP Ratio	OLPS179/102%	OLPS185/97%		OLPS189/99%		100%	
Net Adjustment (Total)		<input checked="" type="checkbox"/> + <input type="checkbox"/> -	\$ 2,550	<input type="checkbox"/> + <input checked="" type="checkbox"/> -	\$ -5,760	<input type="checkbox"/> + <input checked="" type="checkbox"/> -	\$ -6,310
Adjusted Sale Price of Comparables		Net Adj. 1.4 % Gross Adj. 4.8 %	\$ 182,050	Net Adj. 3.1 % Gross Adj. 3.1 %	\$ 181,240	Net Adj. 3.3 % Gross Adj. 3.3 %	\$ 183,690

Another way to view the grid



Range before adjustments \$10,500

Range after adjustments \$2,450

What's it worth?

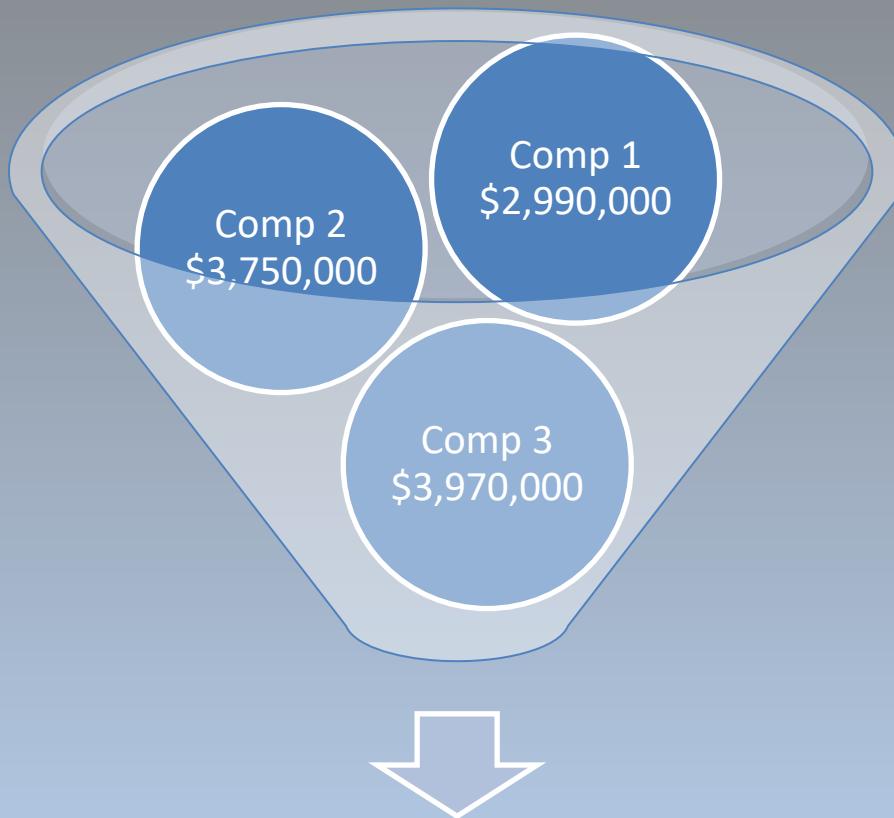
Appraiser's opinion = \$182,000

Rounder to \$1,000



55th & Ward Parkway

Another way to view the grid



Range before adjustments \$980,000

Range after adjustments \$251,575

What's it worth?

Appraiser's opinion = \$3,675,000

Rounded to \$25,000

FHA versus Conventional

FHA

- Must be Certified and FHA approved
- Inspection **still** requires sampling, inspection of mechanical systems, attic and or crawl space
- Photos – all sides, contributing improvements, physical deficiencies
- Safety, Security, Soundness
- Welcomed exceptions - cosmetic

Conventional

- Appraisers may be licensed only
- Inspection doesn't require representative sampling
- Photos – recent changes mirror FHA
- More changes on the way

Equally focused on preventing improper influences on appraisers

Switching from Conventional to FHA – more than a clerical change

USDA follows FHA, VA catching up slowly

Let's talk about contracts

- Why do appraisers need the contract?
- Repairs required when written as-is
- But conventional doesn't require repairs!
- What about multiple offers?
 - Can only accept one, presumably the best
 - Defining "best"
- Seller paid concessions
 - Did the seller concede?
 - Contracts above list price, often equal to supposed concessions
 - Financed closing costs not the same as concession
 - Why are comps adjusted for concessions when subject and other comps include concessions?
- Why don't appraisers handle this the same way?
- What's the big deal?
 - Adhering to definition of market value
 - The area of greatest risk in the pre-Covid environment

FAQs / Q & A

- How far away can appraisers go for comparables?
- How far back in time can they go?
- Why don't appraisers count basement finish as GLA?
- Why don't appraisers count the swimming pool, outbuildings?
- How can a home be worth less than the cost to construct?
- Why don't appraisers consider Energy Star or HERS rated construction?
- Why do appraisers include REO/Short Sale transactions?
- How can I get a copy of the appraiser's adjustment list?
- Others???

What to do when the appraisal comes in below contract price?

- One person's opinion
- Consider that it may be right
- **Read the appraisal – all of it**
- Identify general discrepancies
 - Often parties discover misinformation and/or unknown issues from the appraisal
 - Some people agree to buy without doing their homework
 - Market conditions / emotional behavior
- Identify specific / factual errors and omissions
- Study comparables chosen
 - Search for alternative evidence
 - Must be equally comparable – location, physical and functional
 - Must have **sold** within same range (time, distance)
 - Don't send active, cancelled or withdrawn listings
- Don't communicate with appraiser – he/she has signed and delivered the report to their client
- Communicate with lender and request reconsideration – demand review by appraiser
 - The lender should review the appraisal, the evidence provided, and determine whether reconsideration is warranted
- Be professional and factual rather than emotional. If you are right, there should be evidence to support pricing

What about Zestimates?

With all the advancement in technology and integration, Zillow and all other automated valuation models disclaim their limitations. There's no substitute for local knowledge, especially in a non-disclosure territory

Zestimate (ZEST-ti-met)

The Zestimate® home valuation model is Zillow's estimate of a home's market value. The Zestimate incorporates public and user-submitted data, taking into account home facts, location and market conditions.

It is not an appraisal and it should be used as a starting point. We encourage buyers, sellers and homeowners to supplement the Zestimate with other research such as visiting the home, getting a professional appraisal of the home, or requesting a comparative market analysis (CMA) from a real estate agent.

METROPOLITAN AREA	MEDIAN ERROR	HOMES WITH ZESTIMATES	WITHIN 5% OF SALE PRICE	WITHIN 10% OF SALE PRICE	WITHIN 20% OF SALE PRICE
Detroit, MI	2.4%	18.4K	78.9%	94.3%	98.4%
Houston, TX	--	24.0K	--	--	--
Kansas City, MO	--	11.7K	--	--	--
Los Angeles-Long Beach-Anaheim, CA	1.7%	32.1K	85.5%	96.3%	99.3%
Miami-Fort Lauderdale, FL	2.3%	59.0K	82.4%	95.1%	98.9%

The case for including distressed, REO & short sales

The appraiser is responsible for determining which comparables are most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. For example, if the appraiser believes a foreclosure sale or a short sale is an appropriate comparable, then the appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether **any stigma has been associated with it**. The appraiser cannot assume it is equal to the subject property. A foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. The appraiser must conduct the proper research in order to complete the assignment and provide an accurate opinion of market value.

Fannie Mae
Announcement SEL-2010-09