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Frustrated by Appraisals? Here Are Four Things You Can Do

Understand the Challenges, Demand Appraiser Competence, Combat Bad Appraisals & Report Bad Actors

Arizona REALTOR® Magazine — January 2012

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While

announcing the October 2011 existing home sales numbers, NAR Chief Economist Lawrence

A NOTE ON DISTRESSED COMPS

Should appraisers be allowed to use distressed properties as comps? The short answer, according to Friess, is that it depends.

Short sales are generally not



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Yun explained that contract failures continue to hamper a housing recovery. One of the biggest causes for failure in today's market, he noted, are appraisals coming in below the negotiated price. Sound familiar?

Listen to REALTORS® talk about appraisals lately and you're likely to hear words like "spoiler" and "deal breaker." Agents across Arizona are reporting concerns about the competency of the appraisers sent to evaluate properties and the accuracy of the appraisals delivered. So what can be done? We're glad you asked.

Understand the Challenges

Think it's hard being a REALTOR® in today's market? It's no picnic for appraisers either. "The state of our union is bleak," said [Frank Gregoire](#), chairman of NAR's Appraisal Committee, during a [session on appraisals](#) at the NAR convention in Anaheim in November. "It's dismal."

A brief background: Inflated

considered to be arms-length transactions by appraisers because the agreed upon sales price has been influenced by factors beyond market value. Appraisers should try to avoid them, says Friess, but if there are no other sales to use, short sales can be included if appropriately identified. "Appraisers should put little or no emphasis on short sales unless they have studied the sales, discussed them at length with the parties involved and determined if they were in fact arms-length," she reports.

Friess also says that REOs may be appropriate as comps, depending on the neighborhood. "There are markets where the entire market is distressed," says Friess. "In other markets, there is a clear distinction between REOs and seller-owned properties."

"The question is: Are the properties truly comparable or not?" says Friess. "This is where discernment is required. It's about the experience, knowledge and competency of the appraiser."



appraisals contributed to the housing bubble. The Home Valuation Code of Conduct (May 2009) and the Dodd-Frank Act (July 2010), which supplanted HVCC, sought to combat inflated appraisals by erecting a firewall between appraisers and loan originators. As a result, appraisal management companies (AMCs) have proliferated. “We needed a firewall,” notes [Julie Friess](#), SRA, the president of the Coalition of Arizona Appraisers and a Sedona-area appraiser. “But we didn’t need a firewall that was unregulated, unlicensed and untrained. That’s no better than what we had before.”

“An unintended consequence [of the new regulations] is that AMCs (some, not all) tend to award assignments to appraisers who provide services at the lowest fee and in a minimum amount of time,” Gregoire reports. “With very few exceptions, quality doesn’t enter into the equation. As a result, you have an appraiser who is willing to work cheaply and fast,

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[Webinar: Productive Engagement with Appraisers](#)

Thursday, January 12 | 3pm ET

REALTOR® Magazine hosts a talk with Anna Ruotolo of RPM Mortgage in Walnut Creek, CA about what questions to ask of appraisers, what kind of information practitioners should give them, and what to do if a practitioner believes an appraisal is inaccurate in a webinar about today’s uncertain appraisal climate.

[12 Questions to Ask Before Letting the Appraiser in the Door](#)

Appraisers and real estate educators Richard Hagar, SRA and P.E. (Pat) Turner, Jr., SRA & SRPA have put together this useful list of a dozen questions you should consider asking.

[Indemnification Woes](#)

One-sided clauses may increase appraiser’s liability, potentially

and the appraiser doesn't, in most cases, have an awful lot of incentive to provide a quality product."

hurting real estate sales.
REALTOR® Magazine – November
2011

So the book of business appraisers developed over years of service has been rendered irrelevant. They face increased regulation at the federal level. They are under pressure to perform appraisals for less money in less time. And they also face higher liability and rising certification standards. The result?

"We see a huge drop in appraisers staying in the appraisal industry," reports Friess. "This has become a real concern. Young appraisers are not joining the industry, and we are aging quickly."

But don't give up hope, REALTORS®! "Just like there are good agents and bad agents, there are good AMCs and good appraisers out there," Friess says. "It's always the negative ones that make everyone else look bad while the others are trying to do good things and working hard."

Demand Appraiser Competence

Your first goal should be to increase the likelihood of having a geographically competent appraiser evaluate the property in question. In the appraisal session in Anaheim, [Anna Ruotolo](#) with RPM Mortgage, a privately held mortgage bank in Walnut Creek, CA, advised: "Do not let an appraiser go out to your property without speaking to them first." HVCC and Dodd-Frank have created some confusion in the market about what communications are allowed between agents and appraisers. Ruotolo asserts that as long as you are not being coercive or intimidating, you can talk to the appraiser about anything.

Here are five questions Ruotolo encourages agents to ask:

1. How far is their office from the subject property?

2. Do they have MLS data?
3. Are they familiar with the area?
4. How frequently are they in the subject market area?
5. When was the last time they were in the subject's area?

"I have people ask me these types of questions all the time, and I don't have a problem answering," agrees Friess. Look at the totality of the answers before deciding how to proceed. Just because an appraiser's office is more than 15 miles from the property does not mean they do not have geographic competence. "Competence is not about proximity," notes Gregoire. "Competence is determined by knowledge of that market and property type."

Friess related the story of an appraiser who got out of his car at a home in Clarkdale and said to the agent, 'Wow, it's really beautiful up here. I've never been here before.' Clearly, that's not supposed to happen. "Here in Sedona, I get blast emails from management companies about properties in Snowflake," says Friess. "I've never even been there! I shouldn't be offered appraisals in that area."

"If you can show that the appraisers do not have geographic competence, you can deny them access," insists Ruotolo. "A listing or selling agent can deny access. It's your right and obligation."

Combat Bad Appraisals

Ruotolo advises that you prepare three items before the appraisal occurs:

1. Gather a solid list of comps. They should be similar to the subject in location (within a mile radius), not more than 15% larger or smaller and sold within 90 days.
2. Put together a one-sheet detailing predominant features in the home. This

should not include items appraisers consider irrelevant, such as fresh paint, but can include a view or significant upgrades.

3. Document any discrepancies with the assessor's data.

You can send these items to the appraiser in advance or present them when you meet the appraiser at the property. On site, don't be afraid to ask for picture ID to ensure that the appraiser is the one you were expecting, counsels Friess. "People have been known to send trainees... cutting corners because of low fees." Show the appraiser around the home and point out the features on your one-sheet. But remember your audience. Don't speak to an appraiser as you would speak to a potential buyer. Appraisers respond to facts and figures, not emotions.

So, let's say you've done your best. You were able to get a geographically competent appraiser. You presented your three reference items. And yet the appraisal that results is nowhere near what you or your clients were expecting. First, review the appraisal for gross errors, counsels Ruotolo. Absent those, there are two likely reasons for the surprising appraisal value: either you are wrong or the appraiser is.

"Recognize that if you have an issue with an appraiser, the first thing you are asking the appraiser to admit is that he was wrong. Are you good at admitting you're wrong?" asks Gregoire. "You have to find a tactful, logical, meaningful way to get the appraiser to admit, at least to himself, that he may have made an error. And the way you do that is usually by providing the appraiser with information that wasn't available to him or her. You should say, 'I know you didn't have access to this, but...'"

If you decide to fight the appraisal with the AMC, remember that the folks who answer the phone are not likely to be appraisers. Present your case accordingly, advises Ruotolo. "With some AMCs, you'll get lost in the

process, but stay the course and battle for your clients.”

Report Bad Actors

Appraisers. If you suspect that an appraiser is violating [Uniform Standards of Professional Appraisal Practice](#) (USPAP), you are required by the Dodd-Frank Act to turn the appraiser in to the [Arizona Board of Appraisal](#) or the [FBI](#).

AMCs. The [Interagency Appraisal and Evaluation Guidelines](#) emphasize that institutions should select appraisers that are “competent, independent and [have] the relevant experience and knowledge for the market, location and type of real property being valued.” If you feel that an AMC is violating these guidelines, you can report them to the [Consumer Financial Protection Bureau](#), the [Office of the Comptroller of the Currency](#), the [Federal Reserve Board](#) and/or the [Arizona Attorney General](#).


This article was based on an AAR interview with Julie Friess and on the “Appraisals: What You Absolutely Need to Know” session at the NAR Conference in Anaheim in November 2011.




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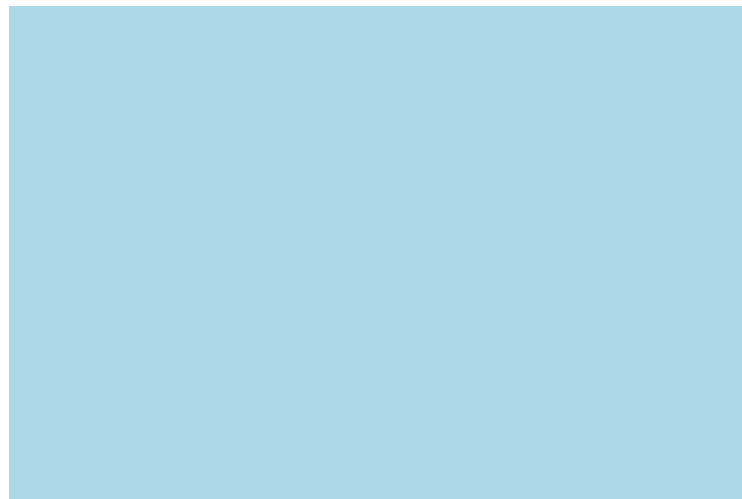


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