

Functionally Obsolete Appraisers

Appraisers - The Reason You Have No Business... Functional Obsolescence.

Functional obsolescence is the reason many appraisers are going out of business. On a daily basis, appraisers moan: "It's because of the HVCC that my business is down" or "that AMC or X or Y or Z caused my income to decline." Really? Are you sure? So, why is my company buried in business and you're not?

We've all heard about blacksmiths being out of work; Seems the use of horses has declined. And the need for typewriter repairmen, the demand just isn't what it was 20 years ago. The people in these jobs failed to adapt; Maybe appraiser are having the same problem. My company, American Home Appraisals, provides consulting and Expert Witness services to law firms, prosecutors and, government agencies. We review hundreds of appraisals in preparation for trial. We look through appraisal files and see how others operate their businesses. After examining their reports and business, I'm called to court to testify about their failures under "an appraiser's typical standard of care." A shame many of you can't even reach that Standard. Appraisers, I find your failure to adapt is a problem.

Appraisers often tell me puff, puff: "My work is in the top 10% of my peers." Most of the time, these appraisers have no idea how little they know and fail to recognize how bad their work really is. More than likely it's because they are sole-proprietorships cut off from interacting with other, better, appraisers. Their lack of knowledge and skill will likely make them go the way of the Dodo bird, **well unless.....**

Let me stop and give you a few examples of appraisers "Failure to Adapt" then I'll offer suggestions for improvement.

Adjustments

Our office reviewed an appraisal on a **nice** \$5,000,000 home. The appraiser was making adjustments at a rate of \$5,000 per bedroom and \$50.00 per square foot. Upon reviewing his Workfile we found no data, nothing, zip, nada that indicated how he had determined the adjustments. In Deposition, he stated "the adjustments are based upon my 20 years in the business" and "these were the adjustments Underwriters would accept." In response, I had the attorney ask:

- Do you know how to chart a "Trendline" on Excel?
- Can you perform a simple Regression Analysis?

- Can you derive an adjustment by using a GRM?

His answer was “No.” In effect he was saying that his skills were **functionally obsolete**
Speed

“Appraisals are taking longer.” “I’m spending a lot of time answering stupid phone calls from the review appraiser.” OK... however;

- Do you know how to download comparables directly from the MLS into your appraisal software? What! You didn’t know that was possible? Well have you taken a class on how to operate **ALL** of the functions of your appraisal software?
- Have you customized your appraisal software to match your individual way of entering data?
- Did you take a class on how to use **ALL** of the search functions on the MLS, or did you just take the class on how to find comparables?
- Have you moved the 4-6 comparable page to be located right behind Comparables #1-3 or did you leave it behind the signature page where it’s tough to find and review?
- Fannie Mae/Freddie Mac require certain interior photos, did you rebuild your 1004 form to swap out the old photo pages with the new?

If you answered “No” to any of the above, then **you, the appraiser**, have functional obsolescence.

Report Writing

Many appraisers do not properly describe appraisal **issues**, “**analysis**” and **conclusions**. As a result clients, review appraisers and, Courts are lost when they read appraisals. Appraisers who complain about “stupid review appraiser requests for more information” have often failed to **efficiently** convey information in the first place. The appraiser’s skills are functionally obsolete. Here’s an example. Banking auditors are taught to read appraisals. Their official **Federal Auditors Handbook** has the following quote:

“The objective of an appraisal is to communicate the appraiser's reasoning and conclusions logically so that the reader is led to the appraiser's opinion of market value.”

Did your report accomplish this task? If not then:

- Have you **recently** taken a refresher class on basic English Grammar?
- Have you taken a class on report writing?
- Are you using “all caps” when writing a report?
- Do you use Word or WordPerfect when writing your comments or did you use stripped down appraisal software’s addendum writer?

Are you form filling... or **communicating**? If you are not **communicating**, then your skills out of date - Functional obsolescence.

Cloning

In depositions we discovered that one bad appraiser cloned his old reports when creating new. He said: "What's wrong with cloning old appraisals? I've been doing this for 30 years!" Here's a good reason: This is in regards to a 2006 appraisal for a big AMC, you know the one that didn't pay a customary and reasonable fee. The home is in foreclosure, the bank is out of business and the FDIC is demanding that the **appraiser pay** the difference between his appraised value of \$3,500,000 and the **true market value** which was \$2,000,000. The FDIC was suing the appraiser for the \$1,500,000 loss (Ouch!). We were tasked with reviewing the appraisal and providing expert witness testimony. The appraisal had numerous factual errors including the wrong flood map number, wrong site size, dated market information, math errors, photographs from the MLS and one sale that was not even slightly comparable. The errors resulted in a higher value for the subject.

As a method of "saving time" the appraiser cloned his report from an older one in the same neighborhood. In his rush, or due to an interruption by a phone call or Tweet, a visual scan of the report didn't catch minor issues. Some of the facts in the appraisal were based on the other, cloned property (Oops! It's called "Negligent Misrepresentation")

Now for one additional point - The buyer and seller lied about the source of the down payment and the sales price was puffed. The transaction is fraudulent and the **appraiser was being sued**, along with the rest of the stupid people, on civil "RICO" charges. One of the five charges included the term ***"If not for the poor quality of the appraisal, this scam could not have succeeded."*** While I don't believe the appraiser was "in" on the deal, I do believe his negligence failed to stop the fraud. It started out as a civil suit for negligence and may end up as a criminal indictment. The prosecutors will then call the appraiser - a **"co-conspirator."**

Here's something for you to consider:

- Have you created a generic template, not a clone, but template with your company information and lots of drop down boxes designed for specific neighborhoods and/or property types?
- Have you figured out how to import **current** data directly from county records into your appraisal form?

If you rush the appraisal **process** and keep doing things the "way you were taught" way back "when," then your methods are out of date. Soon a younger person with current skills will be applying for your job. The demand today is for an accurate appraisal. Can you deliver them without cloning?

Clients and Money

Many (not all), but many appraisers have short work days or lack focus. Appraisers often get to work after 9:00 am and/or may quit work after a long.....6 hour day. Or, they may work long hours but spend time dealing with email, Twitter or the sports web site. Appraising is a complex process that requires time, hard work and **focus**. People often ask how I get so much accomplished? It's easy.....I work long hours. I'm up at 5-6, at work 7-8am and often don't go home until 8 pm. 10-15 hour days are common. I accomplish twice as much, because I work twice as long. The hours produce income and opportunities that others miss. Thomas Edison said it best: ***"Opportunity is missed by most people because it is dressed in overalls and looks like work."***

Your chances for success are improved if you get into the office early, focus and, work longer hours. If you don't have an appraisal to finish, then read about an appraisal issue in the local trade magazine, or learn about your local real estate business. If you don't, work harder and gain knowledge, you've made yourself functionally obsolete.

Do you still hold on to the belief that the HVCC damaged your business? Why are we busy and you are not? With the advent of the HVCC our business increased. But then again, we planned on the change and altered our "client mix" years before the HVCC. We saw what was coming and upgraded our skills in preparation.

Was your business model based on business from mortgage brokers? Guess that didn't work to well did it! Stop blaming the HVCC. Over the past 3 years the number of mortgage brokers dropped by 70+%. More than likely, the "good" client you used to have, is out of business. Why? Well the HVCC didn't do that. Many of the mortgage brokers simply couldn't pass the criminal background check. Others can't pass the licensing test. In Washington there used to be 18,000+ mortgage brokers. Fewer than 5,000 were licensed by the end of 2010. Why? Their past skills are no longer sufficient. The old fashion mortgage broker of yesterday is outdated.... functionally obsolete. You, the functionally obsolete, are trying to get business from the out-dated mortgage broker; How sad is that!

When business was good, did you obtain business from the "low hanging fruit" the mortgage brokers or other easy to please clients? Now that they are gone, do you have the **ability** to obtain business from fastidious clients that **demand quality**?

Are you still trying to get business from a declining client base? Just like the switch from analog to digital TV broadcast... what was easy to obtain "through the air yesterday," likely doesn't exist today and you don't seem to recognize the shift. Your skills are the problem, not the HVCC. **Many appraisers can only get low paying business from AMCs because their skills are out of date, archaic, outmoded.... obsolete. You're getting paid peanuts, because that is all your skills are worth.**

I'm **desperate** to hire appraisers with skills that meet the demands of today. Appraisers must have **good -correct that - excellent** working knowledge of appraisal and spreadsheet software. They must be able to create, format and insert graphics using their word processing software. If their computer has a printing or PDF issue, they must be able to find the solution and fix their problem. I have an appraiser here that downloads EVERY sale from the County's web site and then, with customized search queries, parses them into meaningful data that auto-fills into his reports - can you do that? Now you know why younger appraisers are hired and older.... put to pasture.

In 1998 we had approximately 50,000 appraisers nationwide. At the peak there were approximately 120,000 appraisers. Bad appraisers hired anybody that could breath and as a result, our profession has many poorly trained, "**Form Filling Monkeys.**" These people had only enough dated knowledge to fill out an appraisal form and not enough skill to **analyze** the transaction and meet today's needs.

Most of the appraisers I sit across from in trial, they only think they know what they are doing. They falsely believe their knowledge is "better than average." In trial, these people, and their work, are an embarrassment to their clients, most should have their certificate revoked. I beat them and their functionally obsolete appraisals into the dust and enjoy doing it.

Let Me Offer Some Solutions

Improve your skills, get educated. Take classes in basic spreadsheets, word processing, appraisal software. Do not be a person with only a basic understanding (just enough to get by) of your major tools. Take these classes:

- Market Value and How to Adjust for Concessions,
- How To Determine Adjustments,
- Top 20 Questions Asked of Appraisers - and How to Answer,
- Appraiser Independence and Mandatory Reporting,
- UMDP/UAD – Fannie Mae's New Language of Appraisal.

High paid sport athletes are paid millions. They practice several weeks each spring. They improve their skills, learn and make themselves worth more. Do you take "spring training" to update your skills? Without **high quality** training, you can't make yourself worth more.

Stop working by yourself. By working in a one-man-office, your ability to measure your skills against others is gone. Your ability to become a better appraiser is archaic. Find a way to join a larger, regional appraisal company.

Join a professional trade group. Get out there and talk to other appraisers. Learn from the experienced. Get designated. The process of "designation," makes you a better appraiser and increases your "value." The path and hardships I had to go through to become an SRA made

me a better appraiser. Anyone that says a designation isn't important, does not know what they are talking about or can't cut it. Listen to people who have achieved.

Stop operating out of fear. Get some guts, quote higher fees to the AMCs. Many of us have worked hard to get AMC licensing in place, but only you can make it work. Our society pays what a person makes themselves worth. By setting your fee below \$500 (standard 1004), you have stated your worth at something less than \$20.00 per hour. Make yourself worth more. Appraisers, take a good look at your skills and stop blaming others. Likely, the small fee you feel "lucky" to get from the AMC or "Big-Bank" is because your "form filling" abilities are functionally obsolete, out of date, and no longer needed. To get paid more, you have to make yourself worth more and complaining isn't the path to a higher fee. Do something positive about your problem, increase your skills and knowledge and make more money.