

Residential Appraisers: A Dying Breed ?

A Presentation By:





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The Washington Post

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THE IMMINENT EXTINCTION OF THE APPRAISAL INDUSTRY?

By James Donovan, Associated News Press
Saturday October 17, 2015 at 6:34 a.m.

Late yesterday afternoon a bill was introduced in the House of Representatives that would alter the mortgage process and ultimately the way millions of Americans receive a mortgage.

HR 1108 would eliminate the need for an appraiser to appraise a home prior to the funds being dispersed to the homeowner. The bill, which was heavily lobbied by the American Banking lobby, calls on "real estate professionals" to assume the role of valuing homes rather than licensed and certified appraisers.

The growing lack of appraisers resulted in turnaround times that lengthened to a point where bank and financial institution customers became unhappy their loans are taking 4 weeks to close due to the appraisal. This in turn has made financial institution executives worried they cannot serve their customers efficiently and further

grow their profits.

The banking lobby sees this as an economically viable solution to the shortage of appraisers and a way to better serve millions of Americans buying and refinancing homes each year.

Looking back, it wasn't that long ago that appraisal fees were on the rise, appraisers were in demand and appraisers were as sought after and referred to as the most important aspect of the mortgage transaction. What has happened in the past few years started rather innocuously.

The number of appraisers has declined because of the aging of its members and the lack of new, younger individuals joining the profession.

New, more stringent requirements from The Appraisal Foundation to become an appraiser have further constricted the growth of new appraisers. The rate of decline in the total number of appraisers over the past five years was approximately 4% per year and the number of new appraisers entering the market was about 1% per year.

Appraisers have for years refused to train others in to their profession due to the perceived extra work required to accommodate a trainee and out of fear that the newly trained appraisers would take their clients and destroy their businesses.

In their effort to keep their own costs down and outsource their responsibilities, banks and financial institutions have heavily relied on appraisal management companies,

or AMC's, that some say coerce appraisers into accepting appraisals at artificially low, non-market driven fees. AMC's state their services are critical in implementing the requirements of The Dodd/Frank Act and appraiser independence while appraisers state they are mere middlemen that offer no real value to the process, but take up to 50% of the fee, or more in some extreme cases.

In late 2010 regulations became effective to pay appraisers "customary and reasonable fees" yet, the language in the *clarifying* rules release by the federal banking agencies just added to the confusion by introducing a conflicting Presumption of Compliance.

Some industry veterans who have been calling for the "Cost-Plus

About the National Appraisal Congress

- The National Appraisal Congress(NAC) is a non-partisan Five Star Institute member-led organization, established as a vehicle to positively impact the residential valuation and appraisal industry.



About the National Appraisal Congress

- The NAC was created to serve the needs of valuation professionals and the clients they serve by facilitating problem solving, policymaking, education and advocacy.



About the National Appraisal Congress

- NAC Members represent a diverse cross-section of the valuation industry, including appraisal firms, appraisal management companies, title companies, background investigation providers, technology platform providers.



About the National Appraisal Congress

There are Five Member Committees

- Communications/Marketing
- Education
- Practice/Procedures
- Regulatory/Government Affairs
- Technology



About the National Appraisal Congress

NAC Advisory Board Members

- Alfred Pollard - Federal Housing Finance Agency
- Anne Petit – Ohio Dept. of Commerce-Division of Real Estate
- David Bunton - The Appraisal Foundation
- Debra Rudd, Arizona Dept. of Financial Institutions.



About the National Appraisal Congress

Recent Activities by NAC Members

- March 2015 – Met with members of Congress and top regulators from the CFPB and Dept. of Housing and Urban development to advocate for sensible and streamlined regulations in the valuation space



About the National Appraisal Congress

- August 2015 – Submitted written response to AQB Concept Paper, Alternative Track to the Experience Requirements in the Real Property Appraiser Qualification Criteria



About the National Appraisal Congress

- September 2015 – Coordinated general assembly session at Five Star Conference in Dallas, Texas bringing appraisers, collateral risk officers, regulators and other residential valuation professionals together to resolve timely issues impacting the residential valuations profession.



About the National Appraisal Congress

- October 2015 –Members testified at Arizona Dept. of Financial Institutions recommending removal of restrictive Supervisory Appraiser requirements relating to property inspections.
- Members also met with Congressional staff in Washington D.C. addressing the barriers to entry into the residential real estate valuation industry, shared proposed solutions.



Why We Are Concerned

- Residential real estate is the largest asset class in the US.
- Understanding its associated collateral risk(s) is a key to avoiding another global financial crisis.



Why We Are Concerned

- As a result of a combination of market conditions, state and federal regulations, investor overlays, and lender perception, the residential appraisal industry has experienced unprecedented attrition in the past several years.



Why We Are Concerned

- The Appraisal Subcommittee Annual Reports provide data relating to the population of appraisers based on information obtained from the National Registry of Appraisers.



Why We Are Concerned

National Appraiser Credential Statistics (Source: ASC Annual Reports)						Extrapolated Data for Residential Appraisers		
Appraiser Registry Credentials—Year-End 2004–2014								
Year-End	Certified General	Certified Residential	Licensed	Transitional	Total	Combined Residential (Cert Res & Licensed)	Reduction Yr x Yr from Peak	Reduction Total from Peak
2004	33,725	40,726	25,095	46	99,592	65,821		
2005	34,074	43,327	28,185	52	105,638	71,512		
2006	34,812	46,701	29,921	51	111,485	76,622		
2007	36,881	54,177	30,286	63	121,407	84,463		
2008	37,851	56,704	25,931	65	120,551	82,635	-2%	
2009	38,061	57,253	21,434	43	116,791	78,687	-5%	
2010	37,807	55,522	16,674	23	110,026	72,196	-8%	
2011	38,016	54,201	13,900	13	106,130	68,101	-6%	
2012	37,834	52,504	11,875	12	102,225	64,379	-5%	
2013	38,332	51,893	10,648	0	100,873	62,541	-3%	
2014	38,777	51,240	9,507	0	99,524	60,747	-3%	-28%



Why We Are Concerned

The combination of Certified Residential and Licensed appraiser categories provides the most direct reflection of residential appraisers. The numbers as reported above have decreased from the peak of 84,463 in 2007 down to 60,747 in 2014. That is a 28% reduction in force, continuing downward over the 7 years examined, without realizing any semblance of stabilization in the foreseeable future. In fact, the ASC in its annual budgetary process has projected a further decline in the number of appraiser credentials for 2016.

While this decrease in the number of residential appraisers is, in part, due to the decreased mortgage activity over the period, the cause of the reductions go well beyond a simple reaction to supply and demand elements.



Looking Ahead

**Ernie Durbin
&
Tony Pistilli**



Looking Ahead

Several Factors Impacting Shortages

- Aging Appraiser Population
Leaving Industry – Retiring/Other
Causes
- Scarcity of New Entrants
- Forecasted Growth in Mortgage
Lending



Looking Ahead

Not a Question of “IF” but “When”

The resulting shortage of appraisers will lead to

- Increasing fees
- Extended turn times
- Expanded Coverage Areas – beyond knowledge and expertise



Looking Ahead

Impact on State Agencies

- Reductions in New Application Income
- Reductions in Renewal Income
- Reductions in Reciprocity and Temporary Practice Income



The Risk of Failing to Act

- Without immediate and meaningful changes to our current environment, we will experience an increasingly noticeable shortage of residential appraisers, and all stakeholders - including consumers - will be negatively impacted.



Key Issues

- The current process for entering the appraisal profession has remained static, while the requirements associated with obtaining certification & appraisal practice continue to increase.



Key Issues

- Education and Experience Criterion
 - 200 Class Hours
 - 2,500 Hours – 3,000 Hours Field Experience
 - Minimum 24 Month Training Period



The "Why" Behind Our Current Situation

NAC's Call to Action



Historical Perspective

- Some supervisors had trainees working in the field without any oversight.
- This type of practice was common well before the financial crisis of 2008.



Historic Perspective

- Trainee appraiser's were allowed to physically inspect properties without the supervisor having to indicate that they also inspected the home being appraised



Historic Perspective

- Beyond the bad actors abusing this model, the economics of having the trainee inspect solo worked, allowing the trainee to earn anywhere from 40-60% of the total appraisal fee.



Historic Perspective

- Instead of mitigating the risks of bad actors...
- The powers that be began requiring the supervisory appraiser to co-inspect each dwelling, thus eliminating the force multiplying affect the trainee had on the supervisors revenue potential.



Historic Perspective

- Lender/investor overlays limit the value a trainee offers their supervisor.
- That, in-turn, limits the financial proposition to the trainee.



Short-Term Solutions

- The most immediate opportunity to buoy the profession is through bettering the financial proposition to both supervisor/trainee and implementing more directed educational protocols.



Short Term Solutions

Another immediate opportunity to buoy the profession is enabling direct supervision to be competency based in all states.

- Property Inspections
- Appraisal Development
- Appraisal Reporting



Long-Term Solutions

- Longer-term solutions, including the proliferation of programs that allow a candidate to complete their apprenticeship concurrent with their Bachelor's Degree (in the academic environment) are sound, but the transition will take time. Time we don't have...



NAC Recommendations

NAC Training Initiative and S.T.A.R.T. Program



- The NAC Training Program is not intended to be a single solution but is offered as an optional path to hopefully facilitate and provide short term relief while longer-term solutions are pursued.



- In 2011 a select group of industry participants collaborated on a recommended program called
- “Training the Next Generation of Appraisers”



- In that paper they outlined a recommended training program called S.T.A.R.T.

“Standards To Assure Responsible Training.”



- The NAC Training Program and the S.T.A.R.T. program share the same objectives and are outlined in the following slides.



- 1. Provide a structure and process that affords the delivery of appraisals, prepared in compliance with the program, that will provide the same level of integrity and credibility as if the appraisal was completed solely by the supervising appraiser.



2. Provide a system that allows trainees to be utilized within the appraisal process in a manner that is financially feasible for both the trainee and the employing entity/Supervisor.



One of the keys to success is to create a system whereby the users of appraisal services can be confident that a Trainee will be competent to perform property inspections on their own without the Supervisor being physically present.



Current weakness

Lack of Instruction to understand
Construction Components

Impacts Inspection Competency
Subject Property
Comparable Properties.



Frank O'Neill

The Solution



Solution

- Addressing these key elements form the foundation of the NAC Proposal.
- Successful implementation will necessitate cooperation and joint efforts of many entities, organizations, and individuals.



Solution

We begin by Addressing the Needs

- Trainee
- Supervisor/Mentor
- Clients



Trainee

- Education focused on developing competency in residential construction, property inspection / analysis, and market analysis



Trainee

- Will be allowed to progress to increasingly higher levels of independent performance in compliance with USPAP Competency Rule



Supervisor

- Will be able to leverage an organized program
- Add technical competency and apply skills to training program
- Have an economic incentive



Client

- Will be assured the assignment is completed competently and credibly
- Will face no economic disincentive when allowing use of a trainee.



Trainee Accreditation Program

- Key Elements - Trainee
 - Successful completion of 75 Hours Qualifying Education including the 15 Hour USPAP prior to entering program.



Trainee Accreditation Program

- **Key Elements - Trainee**
 - Will complete additional formal education course on residential construction, property inspection and Trainee responsibilities.



Trainee Accreditation Program

- Key Elements - **Supervisor**
 - Will complete additional formal education course on residential construction, property inspection and Supervisor responsibilities.



Trainee Accreditation Program

- Begins with Structured 90 day Direct Supervision Program
- Minimum 30 Property Inspections
- Advance only after competency demonstrated



Trainee Accreditation Program

- As trainee passes periodic testing to ensure mastery of skills, trainee will be allowed to perform additional tasks with less direct supervision.



Trainee Accreditation Program

- Level of Trainee's involvement in the property inspection and appraisal development will be documented in the appraisal report in compliance with USPAP.



Trainee Accreditation Program

- Supervisor and Trainee will be operating from an NAC Training Manual that incorporates field experiences that complement and enhance the classroom education.



- **Step 1.** Train the trainee on all aspects of the physical inspection / property analysis during a residency program that lasts a minimum of 90 days.
- **Step 2.** Train the supervisor on the art of providing competent, effective supervision.



Step 3. Administer a standardized examination - Trainee.

- Trainee will demonstrate their competency with regards to the physical inspections, knowledge and ability to analyze building components and distinguish differences between various property types.



Step 3. Administer a standardized examination – Supervisory Appraiser.

- The Supervisor will demonstrate their competency with regards to offering comprehensive support and oversight.



Summary of Accreditation Program

By Completing this process, Trainees will have demonstrated competency in property inspections while continuing to benefit from the support of an active mentor for the remaining experience development period, prior to becoming a Certified Appraiser



Summary of Accreditation Program

This will provide clients and regulators with assurances in the Trainee's competency to perform inspections on their own, while strengthening the Trainee's overall preparation for certification.



Greg Stephens

Steps to Implementation



Steps to Implementation

The Trainee Accreditation Program will not require additional legislation or regulatory structure to implement.



Steps to Implementation

Market acceptance of the program will be needed to reconsider and modify policies relating to the use of Trainees.

Lenders, investors, secondary market participants, and the AMCs who represent them will need to allow Accredited Trainees to begin inspection of properties on their own with competency-based supervision.



Steps to Implementation

State laws and regulations must be examined to identify any provisions that would prevent implementation of the program.

Any states with restrictive laws or regulations should pursue amendment to resolve the exclusion of or limitations imposed on Trainees.



The Benefits



Benefits

- Short term opportunity for trainees to acquire knowledge, experience and competency in a formal structured and supervised environment.
- Program will develop more qualified and knowledgeable service providers.



Benefits

- Program will result in increased efficiencies and reduced costs for those experienced appraisers serving as Supervisory mentors creating more economically sustainable valuation enterprises.



Benefits

Living Proof.....

- Forsythe Appraisal and Metro-West Appraisal, two of the nation's largest staff appraiser firms have documented increased efficiencies, lower turn times, higher quality ratings by Supervisory Appraisers and Trainees.



Benefits

- Program success will create economic incentive for college graduates to enter the profession.
- Newer / younger entrants into the profession bring with them technology skills to lead the industry into the next technological paradigm



- **Not a Static Process**

- Revisions to the process will continue to be incorporated into the program, and will be employed over time, but the immediacy of our needs requires us to develop and implement deployable short-term solutions..... **Now.**



Conclusion

Q & A

