

IllinoisAppraiser

Appraisal Alternatives

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An historian once quipped, "I cannot predict the future, but give me six months and I'll tell you why it was inevitable."

Residential appraisers who work in the mortgage arena began to experience the sea change when UAD arrived amongst much fanfare in September of 2011.



in big, spray-painted balloon letters for everyone to see.

The future for appraisers specializing in residential mortgage work is coming to an end.

No bang. Not even a whimper.

Years of portals, hard-stops, and overrides have settled into an uneasy routine.

We've already seen changes to closing docs as a result of TRID (*TILA RESPA Integrated Disclosures*).

That adventure began in November 2013.

Washington DC, never content to maintain any level of consistency has already changed TRID to KBYO (*Know Before You Owe*).

Whatever.

Under its new policy announced October 24, 2016, Freddie Mac will **waive** appraisals in lieu of an *appraisal alternative* in a host of situations, including first-purchase loans.

There's serious talk in Congress of raising the *de minimis* from \$250,000 to \$500,000.

The writing is not only on the wall but

In 1991 I attended an NAIFA seminar that offered a grim view of the residential appraiser's future.

At that time there was talk of *neural nets* eventually phasing out residential appraisers by...1996.

That never happened in the same way that my generation was never provided jet-packs like we were promised when I was ten.

Twenty years later, however, we're edging closer to that promised reality of computers eliminating "*boots on the ground*" residential appraisers.

The Other Front—

I flew down to St. Louis for the November **AQB** meeting at the Embassy Suites.

As you know, since January 2015, *all* certified appraiser *applicants* are required to have nothing short of a Bachelor's Degree before upgrading.

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Appraisal Alternatives

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Currently, the AQB is pondering *alternatives* to the Bachelor's degree requirement.



Significantly, they are only seriously considering *walking back* the Bachelor's degree requirement for certified *residential* appraisers while maintaining the degree requirement for certified general appraisers.

My personal request was that they eliminate the Bachelor's degree requirement from *both categories*.

Why would I suggest such a thing?

For years the AQB has operated under the premise that *any degree is better than no degree*.

My point to them was that, here we are, *twenty-five* years after licensing began and we are still no closer to a Bachelor's Degree program *dedicated to real estate valuation* than we were in 1991.

Other countries have such a program of study. Why don't we?

How can someone holding a Bachelor's Degree in *Middle Eastern Studies* or *Philosophy* be considered to be better qualified to become an appraiser than someone, *without a degree*, who

has been actively working as a real estate professional for ten years or more?

In 1979, when I attended real estate classes at junior college, I was told that *soon* there would be a course of study just for appraisers.

Here it is, 2016, and I'm *still* waiting.

Since 2007, Illinois has watched 838 or (27%) of its certified residential appraisers exit the profession.

Where did they go?

They retired, mostly.

After all, the average age of an appraiser in Illinois is approximately 58.

During that same period, 902 or (70%) of our trainees have disappeared.

Where did *they* go?

Most were unable to find a supervisor or were unable or unwilling to complete a Bachelor's Degree program.

The average age of the **2016** class of Illinois trainees is 34.

These are *second-career* people. They finished college, if they went at all, a decade ago. They're not going back.

There are those who hold that there is a *perceived* loss in the number of licensees in appraising.

If Illinois represents a microcosm of the profession, then the loss is real.

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Appraisal Alternatives

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Even when you look at California, our most populous state for licensed appraisers, the most casual observer can see the dramatic shift.



In November of 2005 there were **18,854** appraisers in the golden state. Compare that to 2016 when that number is down to **10,852**.

That's 8,000 California appraisers (42%) in eleven years...gone.

The rest of us cannot ignore the demographics of this profession.

The existing appraisal population is hovering around 60 years of age, nationally.

Trainees, overall, if Illinois is any indication, average between 30 and 45 years of age.

We're not getting any younger in either category and fewer are entering the profession.

Without a dedicated valuation program we can't even begin to guess from where the next generation might come...if they come at all.

In any event, neither the market participants nor the federal government have any interest in preserving the residential real estate appraisers as we recognize them today.

In 2013 and 2014, Illinois saw 56 applicants successfully upgrade to a certified credential. This year, that number has fallen to 33.

Applications for the trainee credential have fallen by 94.56% since 2005.

Since June, only two individuals have taken the Certified Residential exam.

Two in a state this large.

This is the new *normal* for appraisal in Illinois.

In time, most, if not all residential valuations will be performed by algorithms.

They won't be any good...but they'll be good enough.

My question remains, "*when was the last time an algorithm walked through someone's house?*"

In St. Louis, the AQB repeatedly asserted that whatever their decision is on the degree issue and other things, it will have nothing to do with the appraiser population in the US.

Fine.

Then keep doing what you're doing. In ten years or less...it probably won't matter anyway.

Tentative Schedule of Formal Hearings

January 4, 2017

IDFPR v Tade

January 25, 2017

IDFPR v Bernacci

February 1, 2017

IDFPR v Olson

CE Policy Shift

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**Bryan Schneider
Secretary**

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In response to how Illinois real estate appraiser continuing education enforcements have been historically processed, the Division of Real Estate is making a significant policy and practice change.

Appraiser license renewals occur on September 30th of every odd year.

Appraisers are required to have completed 28 hours of continuing education prior to renewal.

Renewals, through 2015's cycle, were mailed out to licensees beginning in July. Licensees would affirm on the return card that they would have completed their entire continuing education obligation by September 30th. In some instances, appraiser licensees, particularly *out-of-state* licensees who are accustomed to various renewal dates around the country, would fall short of the 28 hour requirement by September 30th.

The Division would notify these licensees about their deficiency beginning in November.

Even if, as was the case with most licensees, they were able to complete whatever coursework was required after being notified by Licensing, they were still deemed to be in violation for not only being late but for issuing a false statement of compliance at the time of renewal.

This resulted in an ethics violation.

To alleviate this issue, Real Estate Division Director, **Kreg T. Allison**, has put forward a new procedure that will take effect *before* the September 30, 2017 renewal deadline.

Due to the paperless initiative that started in 2015, all renewals will be completed *on-line*.

Appraisers will need to have completed all of their 28 hours of continuing education by June 30th.

If Licensing & Testing determines that licensees are *deficient*, (*short of courses or in accumulative hours*) beginning in July, appraisers will have until September 30th to complete their continuing education obligation, *without sanction*.

If there are appraisers who have still not completed their obligation by September 30th, they will be referred to prosecution for enforcement action.

Disciplines at this stage will include a matrix of monetary fines and suspensions.



We anticipate that this new process will be a welcomed change by the licensees by substantially reducing the number of continuing education enforcement actions through a fair and equitable process.

Contract Amendments; When?



Fannie Mae recently issued the following:

Currently, we require the lender to provide the appraiser with all amendments made to a sales contract, including amendments that are made after completion of the appraisal. With this update, we have clarified when the appraiser must be provided with updates to the sales contract and circumstances that warrant updates to the appraisal.

For example, if the contract is amended in a way that affects the description of the real property used by the appraiser, then the lender must provide the updated contract to the appraiser and the appraisal should be updated.

*However, minor updates to the contract, such as changes to seller paid closing costs or **changes to the contract price**, do not require an updated appraisal.*

In addition, we have updated the policy to require disclosure of changes to financing information (such as loan fees and charges, and subordinate financing provided by interested parties) to the appraiser only for purchase transactions.

Let's be clear.

While a lender may not be *required* by Fannie Mae to share changes to the contract price with the appraiser; it would be a good idea for you to keep what is provided to you in your workfile.

Because AMCs are conduits for lenders who use them, this Fannie Mae requirement is for them as well.

We receive numerous complaints about appraisers who "*missed the sale price*".

Those complaints come from both consumers *and* lenders/AMCs.

It would be to *your* advantage to be able to say, definitively, that the contract you relied upon was the last one provided by the AMC or lender.

Multiple Iterations—

For years the Board has been urging licensees to adopt good computer housekeeping habits.

One of the enduring problems that we still see are complaints that include three, four, five or even nine versions of the same report.

The appraiser, when asked to produce each version for investigation, is unable to comply because the only report in existence was the last version they created.

All of the others were overwritten using the same file number.

Your workfile needs to be complete.

This means all versions of the report that were tendered to the client.

Get in the habit of assigning unique file extensions so as to distinguish between the first and fifth version.

This will go a long way toward saving you and your E&O provider, major headaches.

Life After Dodd-Frank

IllinoisAppraiser

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Republican control of Washington DC will mean one of two things:

- *A scaling back of Dodd-Frank, or*
- *The elimination of Dodd-Frank*

Like it or not, one of these two scenarios will play itself out in 2017 or 2018.

What about AMCs?

The AMC Final Rule was deemed that...*the registration and supervision of AMCs is voluntary, and that a State may elect not to establish such a program for any reason, including if its resources do not support such a program.*

Will the states walk away from AMC regulation?

Perhaps not all, but definitely some states will either bypass the registration and licensing of AMCs or may repeal their existing regulations.

The question becomes, *what happens to AMCs who are no longer regulated?*

Nothing.

AMCs will continue to operate whether there are regulations or not.

If AMCs are not regulated in a state, won't that affect their ability to process federally related transactions?

About 4% of all residential transactions fall into this category and yet, no one is quite clear which transactions those are.

Appraisers treat *every* assignment as if it was a federally related transaction

even though 96% do not fall into this category.

Remember, **AO-30** in **USPAP** discusses what is and what is *not* an **FRT**:

What is a "federally related transaction"?

The term is defined in Title XI of FIRREA as "*any real estate-related financial transaction which —*
(A) *a federal financial institutions regulatory agency or the Resolution Trust Corporation engages in, contracts for, or regulates; and*
(B) *requires the services of an appraiser."*

The agencies' appraisal regulations define when the services of an appraiser are required. The agencies' appraisal regulations also list specific categories of transactions that do not require the services of an appraiser.

Do the agencies' appraisal regulations apply to FHA, VA, Fannie Mae, Freddie Mac, Farmer Mac, or Sallie Mae?

FHA, VA, Fannie Mae, Freddie Mac, Farmer Mac and Sallie Mae are *not* under the supervision of the federal financial institutions regulatory agencies and therefore are not subject to their appraisal regulations.

That's pretty much everything residential appraisers do, isn't it?

Do you think that it makes sense to continue to regulate a profession that consists of 4% of the entire market for services?

The Resolution Trust Corporation was shut down in December of 1995.

New Financial Institution Member



Photo by: Steve Becker

Calvin L. Holmes has served as the President of the Chicago Community Loan Fund (CCLF) since 1998. CCLF is a nonprofit, certified Community Development Financial Institution (CDFI) that provides flexible, affordable and responsible financing and technical assistance for community stabilization and development efforts and initiatives that benefit low- to moderate-income neighborhoods, families and individuals throughout metropolitan Chicago. Under his leadership, CCLF's lending is leveraging \$1.1 billion in additional public- and private-sector capital in over 66 lower wealth Chicagoland communities, in turn supporting nearly 7,500 units of affordable housing, more than 3.1 million square feet of community facility and commercial/retail space as well as 2,500 jobs. In addition, CCLF has solidified its position as a leading early-stage lender for community developers, a primary lender for affordable housing cooperatives and social enterprises and a principal promoter of sustainable development in metropolitan Chicago. CCLF controls over \$66 million in assets, making it one of the 10 largest nonprofit Community Development Financial Institutions (CDFIs) in Illinois, and was one of only eight organizations worldwide honored with the 2009 MacArthur Award for Creative and Effective Institutions. CCLF was also the recipient of Woodstock Institute's 2014 Community Investment Award for providing credit in communities of color that suffered from abandonment and winner of the 2014 Alford-Axelson Award for Nonprofit Managerial Excellence.

Holmes' community development career spans 30 years, including work as a budget planner for a \$140 million rapid-transit project and as property manager of a 200-unit assisted housing portfolio. He currently serves as an advisor to the Community Development Advisory Board (*appointed by President Obama*), Bank of America National Community Advisory Council, Kroger Community Development Entity, LLC, PNC Bank Advisory Board (*Illinois*) and the Great Lakes Region Sustainability Funds LLC. He serves on the boards of the Cook County Land Bank Authority (*Treasurer*), Chicago Community Land Trust (*Treasurer*), Community Reinvestment Fund & NMTC CDE, South Suburban Land Bank and Development Authority and the Interfaith Housing Development Corporation of Chicago (*Secretary*). He also serves on the awards selection committee of the Chicago Neighborhood Development Awards. He is a recognized expert in community development finance, the Community Reinvestment Act and community issues involving housing and access to capital, and regularly presents at conferences and events on these topics.

He holds a master's degree in urban and regional planning, with a concentration in real estate development, from Cornell University and a bachelor's degree in African American Studies from Northwestern University. Holmes received further leadership and skills development from Stanford University and the National Development Council.

We welcome Mr. Holmes to the Board.

New Public Member



We are pleased to announce our new Public Board Member, Katie DeVelvis.

The following is from her company website, as is the portrait:

Ms. DeVelvis is a Director with **The Claro Group** located in Chicago. She has been with the firm since its inception in 2005 and is part of the firm's DCI Group (*Disputes, Claims, and Investigations*), specializing in litigation risk analysis and complex claims consulting.

Katie has extensive experience performing litigation risk analysis and has developed detailed valuation models to examine ground-up litigation risks for complex commercial litigation cases. She has been hired as a disclosed expert in the valuation of litigation-backed assets. Katie also has experience valuing litigation-backed assets for purposes of financial reporting under IFRS. She has experience valuing liabilities and long-lived assets under GAAP for use in SEC filings. Katie has experience with many aspects of insurance claims consulting including

claims analysis, future claims projection, allocation analysis, and retrospective premium computations.

While working on a variety of complex commercial disputes, Katie has gained experience performing case risk analyses; determining appropriate settlement demand and target ranges; developing settlement strategies; performing valuations of large-scale commercial litigation for financial reporting purposes; performing valuations of liabilities and long-lived assets in support of M&A transactions as well as for financial reporting purposes; working directly with auditors regarding financial reporting issues; performing detailed claim and allocation analyses as well as retrospective premium computations and adjustment review.

Katie earned a MBA from The University of Chicago Booth School of Business and a Bachelor of Science in Finance from Miami University.

We welcome Katie to the **Real Estate Appraisal Administration and Disciplinary Board**.

AMC Renewals

As of this writing, approximately 33% of the 192 registered AMCs have successfully renewed. All AMCs looking to conduct business in Illinois must complete their renewal no later than by December 31, 2016, if they wish to avoid the \$500 late renewal fee and interruption of business.

Appraisers are reminded that AMCs not registered to operate in Illinois cannot order ANY assignments.

If your AMC client has not renewed, please remind them of their responsibility to do so otherwise all work must cease come **January 1, 2017**.