

IllinoisAppraiser

3 - Year Reporting – Now What?

By T.J. McCarthy

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The Appraisal Standards Board has made revisions to the Conduct section of the Ethics Rule of USPAP that became effective January 1, 2010. The specific language that has been added to the Ethics Rule is:

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in the subsequent report certification:

any current or prospective interest in the subject property or parties involved; and

any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

Comment: *Disclosing the fact that the appraiser has previously appraised the property is permitted except in the case when an appraiser has agreed with the client to keep the mere occurrence of a prior assignment confidential. If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three year period.*

This disclosure requirement will allow a prospective client to know, at the time of the assignment, whether the appraiser is performing, or has performed, other services with regard to the property, such as property management, leasing, brokerage, auction, investment advisory services, etc. thus allowing the client to determine potential conflicts.

At least that's what the ASB thinks. Personally, I think this Rule change is going to create more problems than it is

trying to prevent. Don't get me wrong, I'm sure many users of appraisal services will like this disclosure for many reasons. I'm just concerned about what will come next once the appraiser opens this Pandora's Box. Maybe this...

When did you appraise this property?

Who did you appraise this property for?

What was the opinion of value?

How much did you get paid?

We want a discount since you did this appraisal 2 years ago.

Send us a copy of that report.

We are going to use someone else... thanks for letting us know.

...and I'm only talking about appraising it in the past three years. I'm sure it could get more complicated if you provided any other non-appraisal related service.

The Rule also states:

"If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three year period."

I don't like the fact that this Rule change would now restrict an appraiser from accepting this assignment.

The ASB wrote a Q&A regarding this Rule change in April, 2009. I would urge every appraiser to read the Q&A at the

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Three Year Reporting

link given at the end of this article. It gives general direction that some may find useful.

For example, how should the appraiser disclose a prior appraisal or service to the client at time of engagement? Email, oral, fax, etc? The following is the ASB's response.

USPAP does not specify how the disclosure upon acceptance or discovery must be made. It may be appropriate in some cases to provide an initial oral disclosure. If the client decides to proceed, it may be appropriate that the appraiser's disclosure be restated in writing. One way to accomplish this is by including it in a letter of engagement. In other cases an email would be appropriate.

The Record Keeping section of the **ETHICS RULE** requires that the appraiser's workfile include *"all data, information, and documentation necessary to...show compliance with this Rule..."* So, the disclosure prior to acceptance or upon discovery must be documented in the appraiser's workfile.

I have written the following additional Certifications, which I will be including in my reports, to comply with the ASB's revisions to the Ethics Rule. I would recommend keeping any additional Certification language simple.

If the appraiser provided a prior Appraisal:

Additional Appraiser's Certification Pursuant to the Conduct Section of the Ethics Rule of USPAP, *"If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in the subsequent report certification any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity."*

I have previously appraised this property in the three years prior to this assignment.

The appraiser is not aware of any other
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USPAP does not specify how the disclosure upon acceptance or discovery must be made.

Too Many Amenities to List Here!

We've all seen real estate ads that make a similar boast. The problem that many appraisers seem to have is how to adjust for all of the "toys" that homes may have.

Part of the problem is that too many appraisers get hung up on the confines of the forms that clients expect us to use.

There just aren't enough lines to adjust for all of that "stuff".

What I see at the complaint level are grids like the one noted on *page 4*. A house may have a dozen or more unique amenities but the URAR only has three lines with which to cram all of

those features.

What was Fannie Mae thinking when they crafted this form?

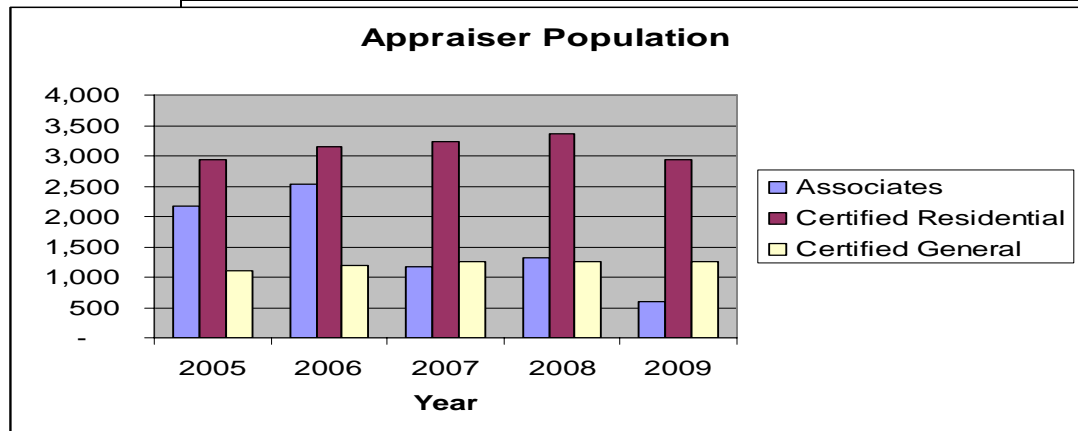
They weren't thinking of the 250-room **Biltmore Estate**. They were probably focused on the garden-variety residences that most of us inhabit.

Increasingly appraisers are left to develop opinions of value for homes with more and more custom features.

This is not an article about adjustments to such features. This is about what to do
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The Illinois Trend Since 2005

The profession continues to be shaped by the economy, AQB criteria, a tougher exam and the dwindling appetite for *Associate Trainees*. Associates peaked in 2006 at 2,534 and have since dropped 76% to the current level of 596. Certified Generals have essentially flat-lined at 1,258. Certified Residentials actually topped out in 2008 at 3,355 and have fallen below the 2005 level at 2,926 for a 13% decline.



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services, as an appraiser or in any other capacity, performed on the subject property within the past three years.

If the appraiser provided a prior Service

Additional Appraiser's Certification
Pursuant to the Conduct Section of the Ethics Rule of USPAP, "If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in the subsequent report certification any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity."

I have provided a previous service regarding the subject property within the three years prior to this assignment.

If the appraiser provided no prior Service or Appraisal

Additional Appraiser's Certification

Pursuant to the Conduct Section of the Ethics Rule of USPAP, "If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in the subsequent report certification any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity."

I have not provided any previous services regarding the subject property, including an appraisal, within the three years prior to this assignment.

USPAP does not require the appraiser to include a certification like the one above if there has been no prior service or appraisal in the past three years. I will probably be putting it in my reports so there will be no question that I researched and addressed the issue for my client or any other entity that may view my report (*State Appraisal Board, other intended users, etc.*).

I have not provided any previous services regarding the subject property, including an appraisal, within the three years prior to this assignment.

Too Many Amenities

SALES COMP	Heating/Cooling	GFA/Radiant/AC	GFA/Radiant/AC	GFA/Radiant/AC	GFA/Radiant/AC
	Energy Efficient Items	Typical	Typical	Typical	Typical
	Garage/Carport	4 Car Attached	5 Car Attached	4 Car Attached	3 Car Attached
	Porch, Patio, Deck, Fireplace(s), etc.	Jacuzzi, Sauna	Patio, Fire Pit	Wine cellar/Bar	Home Theater
		4 Fireplaces	6 Fireplaces	2 Fireplaces	3 Fireplaces
	Fence, Pool, etc.	In-door pool	Gazebo/Barn	Tennis Cts/Deck	Basketball Court

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with limited form space.

Note that the grid contains a hodge-podge of features that are unrelated. Yet, I see this time and time again. An appraiser will pack features into the URAR like somebody sitting on a suitcase in an effort to close it.

It's inappropriate to try to show line adjustments for multiple features. You really can't expect a reader to understand how a Jacuzzi & sauna can be compared to a patio & fire pit, a wine cellar & bar, and a home theater.

The same can be said of an in-door pool, gazebo & barn, tennis courts & a deck, and, a basketball court.

Grouping features and adjusting in a clump serves only to confuse the reader.

A better strategy would be to have individual items listed in an addendum and carry the adjustments back to the main grid.

Compare apples to apples. Don't attempt group comparisons.

CE Renewal Cycle

Our renewal cycle begins October 1 of every odd year and ends September 30 of the following odd year.

That's 730 days in which to accumulate 28 hours of required CE. That's 7 hours every half year. A one day course every six months.

Care to hazard a guess as to how many appraisers decided that a good head-start on CE meant taking their first class on September 29th?

Most of these licensees couldn't get it done in time. Most finished in October or December.

Too late.

By the time you read this article, you should have already taken the new 2010-2011 USPAP National Update course. I have.

When you think about it; what's the point in taking the 2010-2011 USPAP National Update course in September of 2011?

In order to maintain the integrity of the Illinois Appraisal Program, the Real Estate Appraisal Administration and Disciplinary Board has no choice but to be inflexible with regard to CE compliance.

Illinois has more than 60 providers and well over 300 courses from which to choose. You can take everything on-line. Everything. The Board will accept most out-of-state offerings provided that you complete the form requesting credit and pay the \$50 fee per course.

I have to take CE as do the members of your Board. You have two years in which to wrap it up.

Who knows? You may learn something.

The Hits Keep On Comin'

Wells Fargo released a product on February 13th that they refer to as an RVS Desktop. I read their 24-page highlight and instructional sheet.

For a \$55 fee, an appraiser will complete this "Desktop" assignment. It appears to be a hybrid form somewhere between the nearly forgotten 2065 Qualitative Report and its preposterous, prehistoric ancestor, the old 704 form. They label it a **Restricted Use Appraisal Report**.

Make no mistake. This IS an appraisal.



Of note, if an appraiser submits a report with a value you are charged \$4 as an FNC/AppraisalPort fee.

Already the appraiser is down to netting \$51 for their trouble. This is also predicated on the appraiser's ability to grind this out product within two days. Aside from this, the appraiser must make corrections within 24 hours.

Assignment Conditions

First, let's examine what USPAP states about assignment conditions. Under the Scope of Work Rule we have:

"An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use."

There are several numbered assignment conditions referenced as **"RVS Desktop Appraisal Report Minimum Requirements"**.

1. Local MLS as the primary data source.

This begs the question, "What if your most meaningful sale wasn't in the MLS?"

Maybe the appraiser has the best sale in his/her files and it was a FSBO. According to this first assignment condition; the appraiser is prohibited from using it, aren't they? On the other hand, if you don't use it, you've misled the reader and have committed a USPAP violation by omission.

2. There is an AppraisalPort charge to you of \$4 for each assignment completed and returned with a value.

This is the appraiser's problem.

3. There will be no fee paid for a "No-Hit", and no charge to you for returning a "No-Hit" through AppraisalPort. (Note: This product has a "No-Hit" component which means that either it is an ineligible property type or you were unable to develop a credible value. The compensation of \$55 takes into consideration that you will from time to time have a "No-Hit". For more on "No-Hits", see the report instructions on page 6.)

They point out that the appraiser will receive NO FEE if the subject property is classified as a "No Hit". Their examples of a "no hit" are when the appraiser:

- Cannot produce a credible value (e.g., insufficient subject data)
- Determines the subject is an ineligible property type
- Is unable to meet the identified minimum report requirements
- Determines the subject is zoned commercial/industrial (check "Other" box and state zoning)
- Determines the subject is not at Highest and Best Use. The appraiser must check the appropriate box that supports the reason for the "No-Hit." If "Other" is

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The Hits Keep On Comin'

(Continued from page 5)

checked then the appraiser must provide a brief comment with the reason why it is a "No-Hit". The appraiser then submits the form through AppraisalPort and the assignment is completed.

Keep in mind that this is NOT a staged assignment. If the appraiser marks "No Hit" then the appraiser is done. Do not pass "go"; do not collect \$55. For the tidy sum of nothing, the appraiser must figure out and report back any of the bulleted points. Imagine that you drive 25 miles one way just to squint at the zoning map (that isn't online) and you discover that your subject house sits on a site zoned B-2 commercial. You now must drive back 25 miles and check the box for "No Hit" and be happy about the nice day you spent in the car for free.

4. There will be no additional charges to you for using Data Express provided that you are only accessing the RVS Desktop Form and Location Map features. Using any other features (plat map, comps search, etc.) will result in additional charges (refer to published pricing plan in Data Express). RVS and WSS are not responsible for any additional charges that you incur completing these assignments.

Now they're telling the appraiser that additional exhibits and research will result in additional charges. The more the appraiser tells them; the less they stand to make. It's not the fee that's the issue; it's the charges. It appears to fly in the face of:

An appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.

Seems a bit biased, doesn't it? The incentive is to keep the report "thin" and the incentive is purely financial.

5. The Service Level Agreement (or turn-around time) is two (2) days.

Good luck with this.

6. All of these reports will be reviewed by the RVS Quality Control Department and reports returned to you for correction must be resubmitted within 24 hours.

Good luck with this too. Imagine if their QCD wanted the appraiser to remove some of the additional exhibits (that were also charged to the appraiser on the upload) that the appraiser felt was necessary.



As we all know, reports are not USPAP compliant. Only appraisers can achieve that. So, how does this form stack up? Strictly speaking their own Scope of Work contradicts the first assignment condition or Minimum Requirement. While the Minimum Requirement insists on the appraiser using MLS data as the primary source; the SOW states that a source can be "prior appraiser files".

Which is it?

The SOW further states the following:

"The appraiser has excluded the Cost and Income Approaches to value, due to being inapplicable given the limited scope of the appraisal."

In other words, the Cost and Income Approaches are excluded because Wells Fargo doesn't want to see them. Isn't this the appraiser's call?

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County-by-county:
Where's the competition?
Check the website soon
for the quarterly update!



The Hits Keep On Comin'

(Continued from page 6)

What if the condo unit is rented and there's an active rental market?

What if the subject house is two years old and is in a new subdivision?

They've also included the following:

"At the client's request, and unless otherwise noted in the report, the following extraordinary Assumptions have been made: (1) The subject is considered to be in average overall condition, and (2) There are no adverse environmental conditions (hazardous wastes, toxic substances, etc.) in, on or in the immediate vicinity of the subject property, and (3) The subject's projected use is not intended to change, and (4) There are no significant discrepancies between the subject's public record information or other data source(s) and the existing site or improvements. The use of any extraordinary assumptions might have affected the assignment results."

So, if the subject property is located in Hartford, Illinois where four million gallons of gasoline have seeped into the ground, creating a widely known underground plume, then the extraordinary assumption appears to be a silver bullet, right?

Wrong.

What Wells Fargo SHOULD have included was a *Hypothetical Condition* which is contrary to what exists but is supposed for the purpose of analysis.

An appraiser relying on the EA for the Hartford example would be subject to discipline. And yet, the **Statement of Assumptions and Limiting Conditions** still contains the following:

"3. The appraiser has noted in the appraisal report any adverse conditions observed during the analysis of the subject real

property or that he or she became aware of during the normal research involved in performing the appraisal. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the real property or adverse environmental conditions (including the presence of hazardous wastes, toxic substances, etc.) that would make the real property more or less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, expressed or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the real property."

Wells Fargo would have the Hartford property appraiser rely on the EA while attesting to the limiting condition that they noted the environmental condition somewhere in the report. Maybe they did so in the exhibit that they had to pay to upload.

But then, maybe this would result in a "No Hit".

I could go on but I think that we can all see where this is going.

This is a contingent assignment.

The Illinois Appraisal Board cannot prohibit appraisers from using specific forms. Appraisers need to think about the consequences that await them for failing to follow USPAP. It may end up costing far more than \$55.

As far as your board is concerned, this form is a "No Hit".

IllinoisAppraiser

Provided as a service to licensed Illinois appraisal professionals as well as Illinois course providers. This publication promotes a greater understanding of USPAP, the Act, and the Administrative Rules of the State of Illinois.

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Reciprocity—What it Never Was

When the governor signed our amended bill in December it eliminated all of the reciprocity agreements in favor of Endorsement.

Reciprocity agreements have been a constant source of confusion throughout the profession. This is particularly true during CE audits.

Appraisers who took courses in a “reciprocal” state like California or Arizona would insist that the reciprocity agreement meant that Illinois recognized and accepted *any and all* courses accepted by the reciprocal state.

This was never true.

What does the ASC Policy Statement say about reciprocity?

Section 1122(b) of Title XI, 12 U.S.C. 3347(b), states that the ASC shall encourage the States to develop reciprocity agreements that readily authorize appraisers who are licensed or certified in one State (and who are in good standing with their State appraiser certifying or licensing agency) to perform appraisals in other States.

Under reciprocity agreements, an appraiser who is certified or licensed in State A and is also reciprocally certified or licensed in State B must comply with both States’ appraiser laws, including those requiring the payment of certification, licensing and National Registry fees and continuing education. Indeed, the appraiser for all intents and purposes is treated as if he or she were separately certified or licensed in each of the States.

All that reciprocity did was eliminate the need for an out-of-state appraiser to pass an Illinois exam before being issued a license. It had nothing to do with accepting CE from providers that the board never heard of or blindly approving courses that meant nothing in Illinois.



What we have in its place is:

(225 ILCS 458/5-30)

(Section scheduled to be repealed on January 1, 2012)

Sec. 5-30. **Endorsement.** *The Department may issue an appraiser license, without the required examination, to an applicant licensed by another state, territory, possession of the United States, or the District of Columbia, if (i) the licensing requirements of that licensing authority are, on the date of licensure, substantially equal to the requirements set forth under this Act or to a person who, at the time of his or her application, possessed individual qualifications that were substantially equivalent to the requirements of this Act or (ii) the applicant provides the Department with evidence of good standing from the Appraisal Subcommittee National Registry report. An applicant under this Section shall pay all of the required fees.*

(Source: P.A. 96-844, eff. 12-23-09.)

This streamlines the process while adhering to the intent behind the old reciprocity agreements. In effect, this makes Illinois “reciprocal” with every jurisdiction that complies with AQB criteria without having to solicit and maintain individual agreements with all 55 participants.

Pat Quinn, Governor

**Brent E. Adams,
Secretary**

Daniel E. Bluthardt, Director

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