VALUATION REVIEW

There is no comparable

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How to train appraisers and grow for the future

Whether you view the state of the valuation industry as positive or negative these days, there is one thing most industry professionals can agree on: There are some very real challenges facing the appraisal profession in 2013.

As highlighted by our **2013 Voice of the Appraiser** survey that polled more than 1,400 industry professionals, some of appraisers' main concerns are the low fees being generated for their work, increased regulations that have manifested themselves in the form of increased workloads and extra scrutiny and lack of loyalty from specific lenders and AMCs.

Because of these challenges, many appraisers are concerned about the future of the industry. The aforementioned issues are exacerbated by the fact that the average age of appraisers skews older (most estimates cite the average age of appraisers to be somewhere in the 50s). These statistics don't necessarily bode well for appraisal companies looking to grow their businesses in the years to come. And in the appraisal business, like any other profession, the incentives to pursue a particular career have to outweigh the potential shortcomings to entice new recruits.

With these concerns in mind, *Valuation Review* held a webinar sponsored by McKissock titled, "Recruiting Tomorrow's Appraiser: Incentives, Initiative and Industry Standards." Led

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by industry professionals with experience recruiting appraiser trainees, and more importantly, converting them into quality appraisers, the webinar offered real-life answers for how to grow appraisal companies for the future.

Industry misconceptions

One fear that many appraisal companies have is that the trainee they bring in and spend money and time developing will go and become their competition after their training period ends. While this is certainly a possibility (as retention in any company isn't guaranteed), bringing in trainees can be worth the effort if trained properly.

"How do I train my competition? I don't want to do that; it's scary to me. But on the other hand, how do I grow my firm?" **Mark Chapin**, president of C2C Appraisal Services asked hypothetically. "Well, I can take on fully vetted appraisers and do that, but wouldn't it be great if I could grow my firm into something that was a multiplier of myself, where everybody had the same ideals or everybody moved forward together?"

Although molding a trainee's skills can be beneficial, it can also limit the productivity that the supervisory appraiser, or the appraisal company as a whole, currently enjoys.

In many ways, this is simply the cost of doing business, the panelists said.

"Everybody worries about those limits in their productivity when they're training people. I try to look at that as an investment in my company," Chapin said. "It is true when you bring on new people and you have rookies in your presence, they're going to slow you down for awhile. But over my career, I've looked at that as my investment because once the rookies are trained, the money multiplied that they can make you is substantial."

Trainees can become valued assets once they learn the ropes, which is why keeping a properly trained appraiser in-house should be a company's primary concern. For this reason, our panel advised consulting an attorney to help draft contracts to limit the risk associated with taking on tutorial responsibilities.

"If you've invested in [a trainee], one thing you don't want them to do once they get that certificate is for them to run off and become your competition," Chapin said. "So, I have seen, and personally used in my companies, non-compete documentation and employment-period documentation. In simple layman's terms, 'If I'm going to train you, you are going to stay with me for this length of time,' or, 'If I'm going to train you, you will not compete with me as far as calling on or trying to steal my clients for a certain length of time.'"

Even though hiring an attorney to draft such documentation can be costly, it can payoff in the long run by making sure that everyone is treated equitably.

But retention within a company shouldn't just be centered on binding paperwork. Promulgating a strong business with employee incentives is the best way to convert trainees to full-time appraisers.

"It's not all about non-compete [paperwork], if you have a well-run company, you will attract talent to you," said **Greg Stephens**, chief appraiser and senior vice president of compliance for Metro-West Appraisal Co. "They won't want to leave; they're going to want to join you."

Understanding regulations

A big concern that arose in the aftermath of the Home Value Code of Conduct (HVCC) is the liability that trainees might bring to a company because of their inexperience and unfamiliarity with industry regulations.

Although the risk for malfeasance is real, taking precautions and putting a comprehensive training program in place can help ensure that trainees learn proper measures to remain compliant. Specifically, the ethics provisions of USPAP can offer clarity in areas where there may be some uncertainty. While trainees need to be drilled on the regulations that permeate the industry, ultimately, the responsibility of compliance starts at the top.

"Never open a restaurant unless you know how to cook," Stephens said. "Don't take on a trainee program without knowing what the requirements are, both for the supervisory appraiser as well as for the trainee. And there are some really good resources out there that you can access, and they're readily available. One of them, you can go to the Appraisal Foundation website, and they have in their resources, the Student Appraiser Guide. It's a 41-page resource and a fantastic resource for both supervisory appraisers and trainees to read through and get an idea of what is involved."

Ensure that trainees are meeting the Appraiser Qualifications Board (AQB) Real Property Appraiser Qualification Criteria for state licensing, certification and re-certification to become an appraiser. The AQB provisions that mandate trainee appraisers must complete a course prior to being issued an appraiser trainee credential will go into effect Jan. 1, 2015, and some states have already enacted requirements for trainees to help facilitate compliance.

The webinar panelists suggest going to the Appraisal Subcommittee website (asc.gov) as a way to help understand the changing mandates.

Once trainees are knowledgeable enough that they understand the rules and regulations of the industry, they can then participate in completing appraisals. There is a misconception by some lenders and AMCs that trainees shouldn't be part of the appraisal

process, but there is no justification to support that.

"The CFPB made it very clear, it was never the intent of the regulators to ever exclude trainees from [the appraisal] process," Stephens said. "That is another thing we are in the process of getting reversed, is to make sure that everybody clearly understands that a trainee should be able to be involved in that process."

Understanding the trainee's place in the future

Taking on trainees is a surefire way to help grow an appraisal company, but what about those who are worried about the future of the industry? After all, what sense does it make to bring in trainees if you don't know where the industry is headed?

Even as the economy has stabilized in the wake of the Great Recession, many appraisers have questioned whether the role of the appraiser will expand or contract in the coming years. To see where the future of the industry might be headed, the panelists suggest looking to the past.

"Greg, you and I have probably been through six booms and six downturns together, and certainly, I always see [the economy] come back," Chapin said. "If you are on the fence, and you are worried about what the future looks like, we're going to be slow for awhile before we finally click down the interest rates. The immediate media attention that gets will get everybody all stimulated and happy again, and we'll be busy."

Despite the fact that business may not have recovered fully, appraisal companies need to be prepared for a pickup in business in the coming years. If appraisal companies are not outfitted with enough qualified appraisers in the future, lenders will have to look to other avenues (e.g., developing technologies) for their valuations.

"There is going to be an increasing demand for appraisers," Stephens said. "Our concern is, if we're not able to meet the demand, the lending community is going to be looking for some alternative other than the appraisal — we don't want that to happen. We want to make sure that we have a sufficient supply of qualified, competent appraisers out there that are able to meet those demands."

In the meantime, there are business opportunities available for those that will go out and grab them.

"That's one of the things that got lost in the chat the last couple of years — everybody thinks you have to go through an AMC," Chapin said. "There are plenty of direct lenders out there who have appraisal departments that act as that firewall, or that shield, between them and the appraiser. So, beat the bushes a little bit and understand that there are some opportunities out there for you to work through that and will give you that push to get your firm growing, to bring on new people and to move forward."

Appariser News

Valuation vulnerability: Protecting the appraisal from evolving mortgage fraud schemes

By Jacquie Doty | CoreLogic

Mortgage fraud is an extremely complex and ever-changing crime of opportunity. Although the risk of fraud in general seems to be declining, fraudsters will always find new weaknesses and develop more sophisticated schemes. The good news is that there is hope for those of us battling property-related fraud.

According to the latest *CoreLogic Mortgage Fraud Report*, there has been a recent transition away from property fraud, which occurs when a person intentionally misrepresents a property's value as higher or lower than true market value to achieve illegitimate gains. In fact, the report concluded that property-related mortgage application fraud risk decreased 20.8 percent year-over-year as of the second quarter of 2013 and 7.1 percent on a quarter-over-quarter basis.

But though the numbers are improving, mortgage fraud is driven by market conditions. As the market goes, so goes fraud. It's reasonable to expect that fraudsters will seek out opportunities on the origination side as the industry returns to a purchase-based market. For this reason, it's crucial to understand what fraud looks like in the valuation space — whether it's an appraisal, a broker price opinion (BPO) or an automated valuation model (AVM) — in order to identify red flags and mitigate risk for everyone involved.