

the APPRAISAL “REVIEW”

Who is reviewing
Your Appraisals?

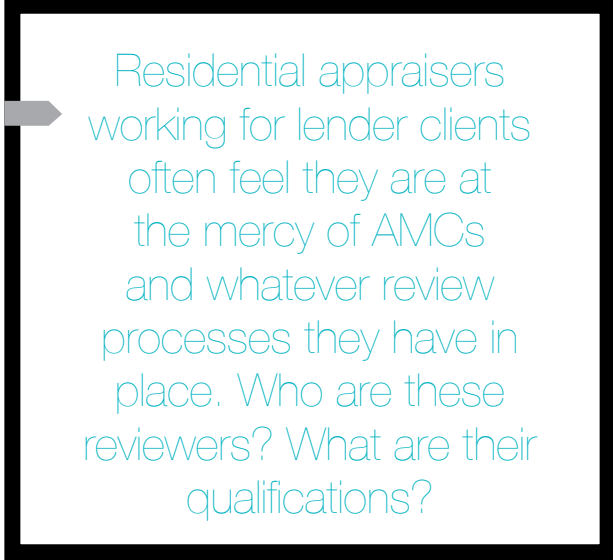
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As we embark upon a new year we are still cleaning up our files with the vast array of senseless reviewer requests, addenda and helpful advice from an “appraiser analyst.” Our hope for 2011 is that with all of the sweeping regulatory changes, our industry can agree to some fundamental requirements for the appraisal and quality control review processes. It’s shocking that in an industry where you need a license to appraise, show the home, write the loan and even drive a car to the inspection, the person who is responsible for determining the quality of the appraisal report could be unlicensed and unregulated. Furthermore, a reviewer may have limited or no knowledge of the appraisal process.

Is the Quality Control Reviewer Qualified?

Appraisers are engaged to produce a well-reasoned and supported report in compliance with applicable lender and secondary market guidelines. Meeting these guidelines within the context of a Fannie/Freddie form is only part of the challenge. With the independence of appraisers regulated by the Dodd-Frank Wall Street Reform Act and HVCC leading to the increase in AMCs, we now need to jump through the hoops placed by AMC review teams as well. The Interagency Appraisal and Evaluation Guidelines that went into effect on December 10, 2010 include the requirement that lenders utilize competent reviewers to evaluate their appraisals. Residential appraisers working for lender clients often feel they are at the mercy of AMCs and whatever review processes they have in place. Who are these reviewers? What are their qualifications? What makes an “appraiser advocate” (aren’t those two terms oil and water in the USPAP lexicon?) or “appraiser analyst” more knowledgeable about the appraisal than the “boots on the ground” appraiser? In our dealings with clients we often find ourselves at odds with a reviewer whose computer program or cheat sheet does not allow for the complexities of a real-world situation. Although the scope of a quality control review is not the same as a USPAP review, some level of familiarity with appraisal principles and methodology should be possessed by the reviewer. Simply running a computer program with a keyword search function does not provide a QC reviewer with the necessary understanding to make decisions regarding the worth of an appraisal prepared by a state-licensed or certified appraiser. Some banks and lending institutions appear



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to have the right mix of quality QC reviewers, appraiser analysts, and licensed appraisers in place to help make lending decisions; others do not. In some cases, the prerequisite for the position of QC reviewer could be as minimal as a high school diploma and a clean drug test. The Appraisal Institute offers classes on appraisal review. NAIFA (the National Association of Independent Fee

Appraisers) offers certification for appraisal review. However, this is geared towards certified appraisers and does not apply to the QC reviewer. Our industry needs to implement similar qualifications for the QC reviewer.

Are They Licensed?

Make it a point to visit the offices and operations of your clients. By doing so you will have an opportunity to see who is reviewing appraisals for banks, AMCs, credit unions, mortgage companies and other lending institutions. Through

our efforts, we have discovered the actual people who have your appraisals on a screen for review vary from: state-licensed/certified appraisers, CPAs, underwriters, former loan officers and temporary office workers to high school graduates with no appraisal experience. Currently, there is not a regulated license or formal designation for quality control reviewers.

Are They Temporary Help?

This question relates to the fact that to cut costs, several companies are outsourcing their review process to foreign countries. A person reviewing a file overseas exacerbates the difficulty in completing a competent quality control review. As interest rates fluctuate, many banks, lenders and their respective AMCs’ staffing needs fluctuate as well. In many cases, help is needed immediately and temps are hired. Certainly, you can see the potential problems that arise from a temp who spent the previous month working in a dental office and is now reviewing your appraisals. Recently, we had a conversation with a reviewer regarding an appraisal that was completed in Florida. The reviewer asked our appraiser if the word “foreclosure” meant four closed sales. This is an example of the competency level of someone who has been hired to review the appraisal of a state-certified, designated appraiser. Obviously, there is a need for minimum standards for a QC reviewer in our industry. >>

Quality - There is Plenty of Blame to Go Around

Our company is inundated daily with samples from appraisers seeking employment with our firm. Reviewing thousands of samples has allowed us to get a very broad sense of the appraisal quality spectrum across the country. Only 10% of these appraisers are actually invited for a first interview. One would think that an appraiser would put their very best reports forward when supplying their work for consideration. We routinely see spelling and grammar errors, inconsistent data, missing exhibits, and unsupported reconciled values and conclusions. Clearly, the average residential field appraiser has created a strong need for a competent QC reviewer. The continued flight to quality demanded by the industry is on the correct path. However, the blind leading the blind will derail the quest for quality. Stiffening licensing requirements and higher industry standards for appraisers are leading to a higher-quality product. These same requirements and standards should be demanded from the QC reviewers as well.

The Need for Written Guidelines

Not all appraisers have been trained and mentored in the same fashion. In an effort to provide guidance, we created a manual for all of our staff appraisers and QC reviewers.

The manual is an outline of applicable standards, reasoning and methodology provided as guidance for appraisal production within the organization. This is the code to which all of our appraisers and appraisals are held. The manual mirrors all Fannie, Freddie and HUD-specific guidelines delivered to our employee's thorough mandatory training meetings. The purpose of the training is to make our staff aware of all of our expectations when it comes to fundamentals and methodology. The manual takes the appraiser and QC reviewer through each

section of applicable forms and provides them with a breakdown of various scenarios that may arise in the field. The manual also provides some examples of acceptable comments and reporting needed to produce a credible assignment. This information is critical to ensure that we are producing high-quality appraisal reports for all of our clients. We suggest an in-house manual as the minimum amount of training that should be required of a QC reviewer. State licensing and formal education in appraisal practices is really the answer to safeguard the competency of the QC reviewer.

Is There Bias When a Licensed or Certified Appraiser Reviews a Competitor's Report?

State licensing and formal education for QC reviewers is not the only solution. It is evident that not all licensed/certified appraisers know how to complete a review appraisal. Attending classes offered by the Appraisal Institute or NAIFA can help the licensed appraiser understand the requirements for completing an appraisal review. However, not all appraisers have had the opportunity to take these classes. In the aftermath of the mortgage meltdown and the addition of federal requirements for lenders to complete random reviews of appraisals, there has been a subsequent increase of forensic review appraisals. In this new era of appraising, it's evident that when an appraiser receives an order for a "field" or "desk" review, the immediate assumption is there is something wrong with the original report. Forensic reviews force an appraiser into an appraiser assassin's role whether they want to be a sniper or not. The review appraiser may not have an intentional bias but they may feel that they need to justify their service and their fee. In this environment, forensic review appraisers are often taking appraisal reports from 2005 and 2006, finding the lowest three REO sales (that may only be a small percentage of the overall data pool) at the time of the original appraisal, and then cutting the original

value significantly. This may result in the originating appraiser being placed on the lender's DNU(Do Not Use) list. To add insult to injury, the lender is now required to report any potential USPAP violations to the state regulatory board. Unfortunately, there are appraisal reports that may not pass the due diligence test and these appraisers should be held accountable. However, at the same time, some very good appraisers who had solid comparable sales to reconcile a value are now being removed from approved vendor lists.

What is wrong with this picture? As appraisers we are bound by USPAP to police ourselves in the way of these "review" assignments. Are we all playing on the same field? Has a reviewer ever had a higher value than the original appraisal? Are reviewers intentionally pulling the lowest sales in the neighborhood and cutting the value accordingly? If so, this type of approach is not at all credible when trying to pin a foreclosure on an appraiser for an "inflated" value. The challenge to the review appraiser is to go back in time and use only the knowledge that was available on the effective date of the appraisal. Hindsight is always 20/20.

Until our industry develops a set of standards for QC review, we will continue to see additional work and revision requests that do not add any value or clarification to our original appraisal reports. We are all working on the same team and working toward the same goal: that of providing solid appraisal reports with a methodology that is understandable to all. Although there are some highly qualified QC reviewers, there remains no minimum standards agreed upon by all members of the appraisal and lending communities. Forensic reviewers need to remember that they were hired and engaged to review the report provided by the lender and that they are not applying for a position with that lender. Our hope for 2011 is that the industry implement minimum standards for quality control reviewers. ■