

# Montana Chapter Newsletter

## President's Report

### Membership

Active Affiliates – 8

Active Practicing Affiliates – 40

Active Candidates – 19 (15 General- 4 residential)

Active Designated Members – 24 (19 MAI's – 5 SRA's)

Semi/Retired/Non-Practicing Designated – 11

In the past six months our chapter has had two new designated appraisers, Shannon Luepke, MAI and Sunny Odegard, SRA.

### Chapter Issues

This has been reiterated many times, but we are geographically challenged as we are a smaller organization spread over a large state. As a chapter we have used teleconferencing for the majority of our chapter and board meetings, which has actually worked out quite well. We focus on trying to have our in person chapter and board meeting in conjunction with our education offerings.

We will continue to work with the Seattle Operating Support, which has also worked out quite well for our chapter. At the present time we have no legislative initiatives ongoing.

We are planning to send to designated members, Ellie Clark, MAI and Jennifer McGinnis, MAI to LDAC in 2014. We have lacked representation at LDAC the past several years, thus we felt we had the funding to send two participants in 2014.

Overall, our Chapter appears to be consistent with member participation and education year after year. In my opinion the biggest draw to our chapter is the AI education that we consistently offer several time a year. In 2014 for the first time we offered the 7 Hour USPAP Update in Missoula MT and Bozeman MT to try and attract participants from both sides of the state. Overall this was successful for our chapter financially and for the exposure it gave to the quality of education we provide.

Future education plans and offerings:

- April 29-May 2, 2014 – *General Appraiser Market Analysis and Highest & Best Use*  
[Click here to register!](#)
- September 2014 – *Part II Residential Applications: Using Microsoft Excel to Analyze and Support Appraisal Assignment Results*
- January 2015 – *15-hour USPAP*

- April 2015 – *Income Approach for Residential Appraisers*
- September 2015 – *Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book)*

Respectfully Submitted,

Keith O'Reilly, MAI  
President of the MT Chapter of the Appraisal Institute

## **General Appraiser Market Analysis and Highest & Best Use – April 29-May 2**

This AQB-approved course will help you apply meaningful market analysis in valuation assignments. It presents the basic concepts and terminology of market analysis and marketability studies, then shows how marketability studies provide vital information for the highest and best use decision. Throughout the course, the emphasis is on conducting a reliable analysis of demand. You'll gain practice in applying methods for inferred, or trend, analysis to three property types—a suburban residential subdivision, an existing multifamily property, and an office building. Using the tools introduced in the course will help you increase the reliability of your highest and best use analyses and support the conclusions you reach in the three approaches to value.

The course also provides a transitional discussion to prepare you for marketability studies using fundamental demand analysis, which is covered in the Appraisal Institute's Advanced Market Analysis and Highest & Best Use course. *Please note, attendees will be on their own for lunch.*

### **[Click here to register](#)**

**INSTRUCTOR:**

John H. Urubek, MAI

**LOCATION:**

Hilton Garden Inn  
2023 Commerce Way  
Bozeman, MT 59715

## **Good News for Candidates!**

Did you know that education offerings now fulfill your annual attendance requirement? Join us in class and kill two birds with one stone.

[See the Candidate Policy Manual](#)

## **Logging Required Candidate Attendance**

AI Board of Directors this month approved amendments to AI Regulations that would broaden the definition of the Candidate Attendance Requirement. Regulations will now allow Candidates to attend at least one (1) meeting of their

chapter or an AI event (Chapter, Regional, National) approved by the ADQC. Please note: A Candidate who already holds another Appraisal Institute designation is not subject to this requirement.

Fulfilling this requirement became problematic for some Candidates due to geography or other factors. In late 2013, the ADQC proposed broadening the definition of a meeting so that an array of events will now satisfy the intent of the attendance at meetings—which is to foster a community of appraisers through networking. The ADQC will still have discretion to determine which types of events would satisfy the requirement.

[Candidate Attendance Approved Events](#)

## **AI CE Points System**

AI recently implemented a points system, transitioning over from an hourly system for required AI Continuing Education. Although AI still tracks hours (for state continuing education purposes) it also now weighs all education based on point values. Designated members (required) must earn 500 points during every five-year cycle while Candidates and Practicing Affiliates must accrue 350 points.

The points system offers an incentive to individuals who attend advanced education. Unlike in the past, AI will now reward individuals who take and pass exams. The system's tiered point structure allocates [higher point values](#) to courses and seminars defined as advanced education. **For more information, please visit the [CE FAQs on the AI Website](#).**

## **AI Connect – Annual Meeting Registration Now Open!**

AI Annual Meeting registration is [now open](#). Be sure to take advantage of early bird pricing! This year's event will be held Aug. 4-6 at the Hilton Austin in Texas, and will feature educational opportunities for AI and state continuing education credit, networking, exhibits and an awards dinner.

Retired astronaut Eugene A. Cernan, the last man to walk on the moon, will serve as the keynote speaker this year. During his 20 years as a Naval aviator, including 13 years with NASA, [Captain Cernan left his mark](#) on history with three historic missions in space. After flying to the moon, he also holds the distinction of being the second American to walk in space and the last man to have left his footprints on the lunar surface.

View AI Annual Meeting details [here](#).

### **When**

Monday, August 4, 2014 - Wednesday, August 6, 2014

### **Where**

Austin Hilton  
500 E Fourth Street  
Austin, Texas 78701

[Click here](#) for full information and registration

## **College Degree Requirement**

AI Board of Directors this month approved amendments to Regulation No. 2, requiring Residential Candidates who are admitted or readmitted to residential Candidacy on or after January 1, 2015, to hold a four-year undergraduate degree (or higher). Individuals who are admitted as residential Candidates on or before December 31, 2014, and who continuously maintain their residential Candidacy, could satisfy the college degree requirement if they eventually receive an Associate's degree by the end of their designation timeline. The changes provide such candidates with a grace period to satisfy the college degree requirement with an Associate's degree.

## **Knowledge Center Resources**

The [Resources section of the Knowledge Center](#) is a hub for all tools, forms and manuals for students. Sign in with AI username and password and get access to student applications, forms, your downloadable course materials, and additional web links and documents useful for students. [Check it out today!](#)

## **An Historic Perspective On USPAP**

*By Steven A. Hall, MAI, CCIM*

A brief introduction to set the base tone of the article from the perspective of (now) one of the gray hairs of the chapter. I began my appraisal career on July 1, 1975. I was fortunate to gain employment with a local MAI in Missoula, starting out doing single family residential appraisals. At this time, there was no regulation of appraisers, no government oversight and only professional organizations had members & candidates that adhered to professional standards & ethics. The predecessor organization to AI was AIREA (American Institute of Real Estate Appraisers which was a part of the National Association of Realtors). If an appraiser, not associated or affiliated with a professional appraisal organization produced a flawed or misleading appraisal, the public had absolutely no court of resolution unless the appraisal could be proven to be fraudulent and then it would require legal action; not professional standards & ethics review.

For anyone practicing in this profession in 1989, you would have experienced the Savings & Loan debacle and the resulting federal legislation enacted to "cure" those problematic appraisals (and appraisers). This legislation was called FIRREA which stands for the Financial Institutions Reform, Recovery & Enforcement Act of 1989. This led to federal oversight of the appraisal profession and it required individual states to enact legislation that provided for the oversight of any & all appraisers who provided appraisals for federally related transactions.

I was one of three appraisers in Montana who co-authored the legislation in Montana and was involved in getting the Montana appraiser license & certification bill passed. Joe Moore, IFAS of Helena and Pat Asay, MAI of Manhattan were the other two appraisers involved in this legislative process; a process all three of us agree we hope to never have to experience again. What resulted is the enactment of professional licensure (regulation) of appraisers in the State of Montana. Montana opted to be classified as a voluntary State meaning appraisers who do not provide appraisals for a federally related transaction are not subject to the oversight and regulation by the Montana Board of Appraisers. Since FIRREA (1989) and the passage & enactment of the Montana professional licensure of appraisers, the number of appraisers who aren't regulated has diminished to the point of irrelevance, meaning simply, the broad

spectrum of practicing appraisers have oversight and are subject to regulatory control. More importantly, all of us, as appraisers, are now subject to standards of professional appraisal practice.

For those unaware, the initial passage of this legislation was not an easy process and there were detractors from all segments of the appraisal community AND the Montana Association of Realtors. Those appraisers in the membership of a professional organization felt USPAP and the legislation proposed DID NOT GO FAR ENOUGH to improve the regulation of appraisers while the Realtors argued there was no necessity to regulate appraisers so, thank you very much but let's not pass any regulation of appraisers (legislation excluded CMA's and BPO's). From the professional appraisal organizations, it was argued this legislation was setting the qualifications & regulation of appraisers, aka "the bar" way too low. For those appraisers without any oversight, this was an attempt to take away freedoms & they did not want anyone looking over their shoulder and making them follow any set of rules & procedures.

The key point here, USPAP was born and it accomplished two critical things. First, it altered public perception of appraisers and what we provide. No longer called an industry, such as real estate brokerage, we were embarked on the path of being recognized by the public as a true profession. Secondly, there was now oversight & regulation of appraisers who are held to Uniform Standards of Professional Appraisal Practice; whatever that really meant. This also carried with it national oversight through the creation of The Appraisal Foundation which is charged with developing and enacting Appraisal Standards and Appraisal Qualifications. This is the beginning of widespread acceptance of continuing education to ensure appraisers remain current in their understanding of principals and are constantly reminded of their obligations to adhere to uniform standards and ethics.

In the early days, the transition did not proceed smoothly where all appraisers embraced this new legislation. You could say there was a group noted for their unwillingness to abide by the new order. Gradually, over the intervening years from 1991 when the law went into effect to now, those minimum standards initially enacted have been gradually and begrudgingly raised where there is now more education required, more experience required and initial oversight through a trainee classification where mentoring happens at the beginning of the appraisers career, rather than years later & often with disciplinary consequences.

Is USPAP all it was intended to be & has it done everything hoped for? That is an answer for each and every one of us Professional appraisers. The regulatory bar is higher than when this legislation was passed and that is a good thing. The emphasis on education and continuing education is a positive feature and it promotes public trust that appraisers are remaining true to their professional calling. Has it done everything it was intended? I believe we can answer that with a lowering of our collective heads and mumble a simple no. No, there are still ethical problems, there are still standards of practice problems but, hey, we are still a relatively young profession here in the United States (AI was begun in the 1930's). Do each of us, every working day, try to be a professional appraiser, one who recognizes and abides by the need to protect the public trust in what we provide? After all, isn't that what USPAP is really all about, the simple things of providing a professional, unbiased, third party opinion of value, rendered in such a manner as to ensure the public trust in our service. This, in turn, provides our profession with longevity because we do fill a very necessary wealth component of/in this country.

So, the next time we are all faced with having to attend and be engaged by the latest USPAP update course for those agonizingly painful 7 hours, remember it does help all of us to maintain our professionalism and get reacquainted with our standards and ethics; which is a very good thing!

## **State and National Government Affairs Report**

*by Darwin Ernst, SRA*

As the Montana Chapter Chairman of the Government Relation Committee (GRC), I wanted to take a moment and try to cover a few issues that may affect some of our Chapter's members. The financial lending industry is in a constant state of flux these days and newly passed or proposed legislation, rules, and policies aimed at financial lending reform will likely continue to affect our profession for many years to come. The AI follows these State and Federal legislative actions through its highly experienced and knowledgeable staff in DC, the GRC, the Leadership Development Advisory Council (LDAC), and the Political Action Committee (AI-PAC). I encourage our chapter members, candidates, and affiliates, to take a few moments to read through the summary of current activities taken by the law makers and regulatory agencies that will most likely have some type of impact on each of us working within the real estate valuation profession.

### **New Rules for AMCs as drafted by the Consumer Financial Protection Bureau (CFPB)**

The CFPB was charged with writing the final rules for the Appraisal Management Company (AMC) related provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) of 2010, which amended several prior laws, such as the Truth in Lending Act (TILA) and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) that are important to appraisers. Since the passage of the DFA in 2010, there were interim final rules established for the DFA laws and these interim final rules are now being replaced by final rules, which are drafted by the CFPB, open to the public for a comment period, and then eventually passed by the CFPB into final rules that each State must then alter their laws and rules if necessary to come into compliance. It is a long process and one that is not taken lightly by the members of the AI's National GRC, which is comprised of the 10 Regional GRC representatives.

The AI's GRC and especially Scott Dibiasio, who is the AI's State Government Affairs Director, has been very active in helping Montana appraisers over the past few years. The residential appraisers in Montana, who were negatively affected by the lending industry's move toward AMCs to broker appraisal services, were the recipients of Mr. Dibiasio's expertise and data. The Montana AMC law was based primarily on the template and input provided by Mr. Dibiasio from AI. In fact, this same template was used by all state and jurisdictions that passed AMC laws!!! The Montana AMC law was passed into law in 2010 and included a provision intended to protect the independence of professional appraisers. The law was implemented to help the consumers of financial lending services by raising the level of sound lending practices, such as the AMC's appraiser selection process, as originally required by the Government Sponsored Entities (GSEs) through the Home Valuation Code of Conduct (HVCC) and replaced by similar provisions within the Truth in Lending Act, as amended by the passage of DFA. Several parts of this financial reform legislation were drafted with direct input from AI. The MT AMC law ALSO requires all AMCs working in Montana to pay an annual registration fee to the Board of Real Estate Appraisers, which is the regulatory body charged with regulating the AMCs within the state of Montana.

These annual AMC registration fees increased the Montana Appraiser Board's budget by more than a quarter of million dollars over the past several years, while also keeping the licensing fees of appraisers from increasing to cover the rising administrative costs associated with regulating the appraisers and AMC companies licensed within Montana. The annual random audit provision within the Montana AMC law and the rules associated with auditing AMCs are to be discussed for further potential changes at the March 25th Full Board meeting in Helena. Currently, the AMC audit rules are limited in scope and require AMCs chosen for random annual audit to provide their written policy documentation; however, the Board is currently completing an extensive rule re-write, so all Montana licensed appraisers and AMCs will soon have a chance to comment on any potential proposed changes to the AMC audits during the upcoming public comment period for proposed rule changes. The AMCs will definitely provide comment if changes are made, so it is important that appraisers also take the time to provide comment, or their voice will not be heard by the Board.

The current draft of the CFPB's proposed final rules affecting AMCs can be viewed on-line by following the following link: <http://www.federalreserve.gov/newsevents/press/bcreg/20140324a.htm>

The Montana's proposed rule changes should be posted soon on the Board's website at [http://bsd.dli.mt.gov/license/bsd\\_boards/rea\\_board/board\\_page.asp](http://bsd.dli.mt.gov/license/bsd_boards/rea_board/board_page.asp)

### **SBA policy changes**

Another part of the GRCs efforts has been directed toward the new policy written by the SBA that somehow precluded the use of real estate appraisers in their list of persons qualified to complete valuations of special use properties with going concerns. A detailed letter supported by AI was signed by 15 members of Congress and sent to the SBA's acting administrator on March 6<sup>th</sup>, which addressed this issue and pointed out the reasons why qualified appraisers should be included in the list of professionals capable of providing valuations on the real estate portions of these types of loans. Along with the Appraisal Institute, this letter has the support of organizations such as the American Bankers Association, Credit Union National Association, National Association of Federal Credit Unions, Real Estate Roundtable, National Association of REALTORS®, BOMA International, National Association of Convenience Stores, American Hotel and Lodging Association, and the Petroleum Marketers Association of America.

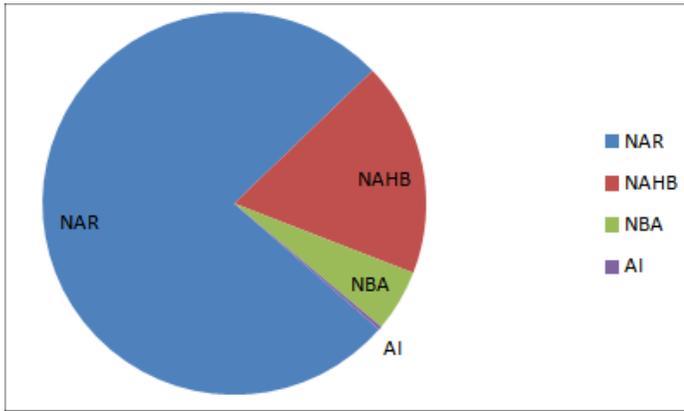
### **Federal Legislation aimed at winding down the GSE's within the secondary lending market**

There is also a current movement within the Senate and House that could alter the secondary lending market. The Senate recently drafted proposed bipartisan House Financial Reform legislation that is based primarily on prior legislation drafted by Senator Tester from Montana last year. The proposed legislation would "wind down" and replace the current secondary market giants, Fannie & Freddie, with private industry. I'll keep you posted as this legislation moves forward, but for now, the key principles are as follows:

- Protect taxpayers from bearing the cost of a housing downturn.
- Promote stable, liquid, and efficient mortgage markets for single-family and multifamily housing.
- Ensure that affordable, 30-year, fixed-rate, prepayable mortgages continue to be available, and that affordability remains an important consideration.
- Provide equal access for lenders of all sizes to the secondary market.
- Facilitate broad availability of mortgage credit for all eligible borrowers in all areas and for single family and multifamily housing types.

### **AI's call for help from its members**

Ultimately, the Appraisal Institute, its GRC, staff in DC, and the on-going efforts of the Appraisal Institute's Political Action Committee (AI-PAC), are continuing to work behind the scenes on the behalf of its members and there will soon come a time when AI will ask each Member for a small contribution of financial support to continue their ongoing efforts at the State and National levels. They will be asking for financial support for the AI-PAC, which was not properly funded this year due to glitch in the annual invoicing system. I am hopeful that our Chapter members will follow the lead of the AI's leadership, who have already donated to this essential component of our organization. To reach the ongoing challenge that we face regarding AI-PAC funding and match the approximate efforts spent on during the prior year, the goal has been set to raise approximately \$6,300 from AI members within the various Chapters of Region 1. Here is a look at various PAC funds that were spent on lobbying efforts in 2013 by the various organizations within the lending industry. You may, or may not, be able to see the AI portion, represented by the small purple-colored sliver of the pie chart located below, but it should be obvious by looking at the graph, as to what AI-PAC must overcome to have AI's voice heard by members of Congress.



Please feel free to contact me if you have any questions regarding proposed State or National legislation affecting our profession or if you are interested in joining me on this Chapter's committee. We could really use a group of motivated individuals who are willing to share in AI's commitment to remain a strong voice in government activities. **To read more about AI's appraiser news, log into the AI website and click on the "NEWS" tab, then choose appraiser news on-line under the E-Newsletter heading.**

**Current Montana Chapter Breakdown**

Active Affiliates – 8

Active Practicing Affiliate – 40

Active Candidates – 19 (15 gen, 4 res)

Active Designated Members – 24 (19 MAI, 5 SRA)

Semi/Retired/Non-Practicing Designated – 11

P.S. Also please don't forget to congratulate our newest designated member, Sunny Odegard, SRA.

Great job Sunny on receiving your SRA designation!!!

**Help Appraisers' Voices Be Heard - Make an AI PAC Contribution Today!**

Dear Fellow Appraiser,

The Government Relations Committee ("GRC") of the Appraisal Institute is starting a pledge campaign to fund its political action committee - AI PAC - to ensure the voice of appraisers is heard in Washington. While it's always the most committed members of a group or organization who are active, right now, only 600 out of nearly 16,000 Designated and candidate members contribute to AI PAC.

If we want appraisers to be the voice of appraisal policy on Capitol Hill, and not the larger players in the real estate industry, this has to change! So, in order for us to reach our goal of doubling our current balance, we are asking as many AI Designated and candidate members as we can to donate \$100.

At this level, most Regions would need less than 100 members to contribute to meet our goal! GRC members are coordinating the efforts of AI members in each Region to accomplish this task, and yes, all GRC members have contributed to the PAC this cycle.

With sufficient funds, AI PAC can open doors and generate important contacts that can lead to meaningful action on such issues as:

- Reversing the Small Business Administration's new policy on "going concern" appraisals.
- Stopping legislation in the Senate adding more appraisal exemptions
- Passing the SAVE Act, which would improve communication between lenders and appraisers on "green"/high performance valuations; and
- Concerns related to the real estate appraisal regulatory structure

To give you an idea of what we are up against, here are few organizations and the amount their PAC contributed during the 2012 election cycle\*:

National Association of Realtors:	\$14,701,824
National Association of Home Builders:	\$3,473,712
Mortgage Bankers Association:	\$1,003,243
Appraisal Institute:	\$56,500
<b>Appraisal Institute Current Balance:</b>	<b>\$35,000</b>

In the next few months, we will be contacting as many Designated and candidate members as we can to explain the need and ask for contributions! In the meantime, if you're as convinced as we are that this is worth your investment, click the link below, log in to your AI page, and contribute!

**[Make an AI PAC Contribution Today!](#)**

Thanks for your help! We will be talking with many of you soon.

Sincerely,

Government Relations Committee

Justin Slack, MAI, SRA, AI-GRS, AI-RRS, Chair  
Douglas Potts, MAI (Region II)  
Amy McClellan, SRA (Region IV)  
Don Boucher, SRA (Region VI)  
Glenn Garoon, MAI (Region VIII)  
Ann McCarthy, MAI (Region X)

Darwin Ernst, SRA (Region I)  
Michael Maglocchi, MAI (Region III)  
Thomas Dorsey, MAI, SRA (Region V)  
Eric Garfield, MAI (Region VII)  
Dennis Key, SRA (Region IX)

**[Review-The Appraisal "Bible"-The 14th Edition](#)**  
*By Ann O'Rourke Publisher and Editor-Appraisal Today*

The Appraisal of Real Estate, published by the Appraisal Institute has been in publication since 1951. Prior to the early 2000s, it was published by the predecessor organization American Institute of Real Estate Appraisers (merged into the Appraisal Institute).

### Previous editions

The 2013 edition is the largest edition, with 847 pages. The 13<sup>th</sup> Edition, published in 2008, had 742 pages. The 12th Edition, published in 2001, had 760 pages.

#### Previous editions

<i>1st edition</i> 1951	<i>8th edition</i> 1983
<i>2nd edition</i> 1952	<i>9th edition</i> 1987
<i>3rd edition</i> 1960	<i>10th edition</i> 1992
<i>4th edition</i> 1964	<i>11th edition</i> 1996
<i>5th edition</i> 1967	<i>12th edition</i> Summer 2001
<i>6th edition</i> 1973	<i>13th edition</i> June 2008
<i>7th edition</i> 1978	<i>14th edition</i> Summer, 2013

### **A Behind-the-scenes look at the 14<sup>th</sup> edition**

I always like to hear about the "background" whether I am doing appraisals or writing a book review, especially since this book was first published in 1950. Excerpts from "A behind-the-scenes-look at The Appraisal of Real Estate, 14th Edition: technical writers commentary, published in the fall 2/13 of the appraisal Journal published by the Appraisal Institute Written by Michael McKinley, a book editor at the Appraisal Institute for over 15 years.

This humorous discussion of an appraisal book is very refreshing. Below is an excerpt from the beginning of the article.

"The development of a new edition of The Appraisal of Real Estate is a complicated, high-stakes undertaking, akin to producing the hotly anticipated new sequel to a successful Hollywood blockbuster. The potential for critical and box office failure betraying the trust of longtime fans and thereby squandering the franchise's residual goodwill looms over the enterprise from its earliest stages. Every summer, it seems, some comic book-based action movie feels the wrath of loyal fans who object to the absence of an old character or the introduction of someone new who in the eyes of the devotees does not fit in the established universe. And every five to seven years, readers and users of The Appraisal of Real Estate seem just as nervous about the possibility of encountering an unwelcome surprise in a new edition of the textbook or the absence of verbiage that they've been quoting for years. In the first quarter of 2012, when the initial plans for a new edition of The Appraisal of Real Estate were developed, the aftermath of the financial crisis of 2007–2008 still seemed to be the most significant issue on the minds of those involved. The 13th edition of the textbook had been written before that economic tempest had hit real estate markets with full force, and the market-gutting effects of that credit crunch were still foremost in many people's minds as discussions about the 14th edition began." "The tension between continuity and progress is as much a part of the creative friction that generates a successful new edition of the Appraisal Institute's flagship textbook as in any new movie worthy of the Iron Man name. Expanding the audience for a historically successful franchise is a challenge, both because of the audience's familiarity with the intellectual property and because of the preconception that the sequel can never be as good as the original. Screening rough cuts to test audiences can help ensure that the sequel will be as well received as its predecessor. Ultimately, though, the latest new installment — whether it's a movie studio tent-pole offering or a textbook series dating back more than sixty years—has to stand on its own merits, blending the past with the future to be relevant to a contemporary audience."

### **What's new in this edition? (excerpt from book)**

"Readers of the textbook will find significantly more discussion of scope of work (in its own chapter for the first time), data standards and related issues, appraisal review, consulting, and intangible assets.

Also, the new edition of the textbook includes expanded coverage of topics introduced in the last edition such as green building, the use of statistics, and valuation for financial reporting, which have all developed into relevant areas of inquiry in appraisal practice and continuing education with a growing body of literature.

The fundamentals of statistical analysis are covered in the section of the text devoted to data analysis in recognition of the central role that descriptive statistics and statistical analyses play in market analysis, highest and best use analysis, and the application of the traditional approaches to value. In other words, statistical applications are not just for specialists anymore.

And readers who want direction for further study of more advanced applications can find a detailed supplementary discussion of regression analysis and model building in a new appendix. In the data analysis section of the text, readers will find a clearer, more rigorous discussion of market analysis and a more concise discussion of highest and best use analysis. The revised highest and best use chapter strips away some of the unnecessary verbiage that had previously clouded this central concept in the valuation process."

### **Is the book understandable?**

Although it is a textbook, it is well written and understandable with good illustrations and photos. It is much more comprehensive than the edition I used when I took my classes in the 1970s as it includes the use of statistics, modeling and other topics. But, the basic appraisal principles have changed very little over the years.

### **What about residential appraising?**

I used this book in my first appraisal classes as it covers all the primary appraisal topics. A few of the 50+ content reviewers and consultants were residential appraisers. Also, a few of the MAI, SRAs may do a lot of residential appraisals. But, like most appraisal books, much of the examples and analysis is focused on general appraising, where you appraise many types of real estate. However, this book is considered the most accepted book on the topic of real estate appraising, so it is good as an overall reference book. Residential appraisers only appraise one type of real estate, 1-4 residential units. Of course, single family is very different from 2-4 units. Most residential work is for lenders, so only one definition of value (market) and only a few different definitions. In contrast, commercial appraisers often do non-lender work where different definitions of value apply and there are many more appraisal techniques. I did a search in the PDF version and found these specific topics relating to residential 1-4 units (other than mentioned in an overall discussion of appraisal topics, such as 1 paragraph in Standards for measuring residential properties):

- One-Unit Residential Districts and
- Multi-family Residential Districts
- Excess Land and Surplus Land
- Building description Chapter, Residential section- many building components are the same, whether residential or commercial
- Highest and Best Use Chapter has residential information scattered through it.

The residential examples are mostly apartments, but it is helpful. If you are unsure about highest and best use, it is very useful. The Appraisal Report Chapter has a section on form reports. Unfortunately, the Market Analysis does not have much practical advice that is relevant for lender appraisals, which has become a significant issue since 2007.

### **How to use this book**

I recommend getting the pdf version for specific topics, especially if you are a residential appraiser. The textbook version is easier to read if you want to review general concepts. Skim through it and see what is in the book. If there is a topic you're not sure about, such as Highest and Best Use, read that chapter. It is a "textbook" set up to cover overall information on appraising all types of properties. It is very good for a review of appraisal concepts and practical examples. If you never used an "upscale" textbook like this one, it is a very good idea to read sections.

### **Other good books for residential 1-4 unit appraising**

I recommend using these books. Unfortunately, these books have not been updated for some time but they are still very useful for residential appraisers. There are no PDF versions available, except for Valuation by Comparison.

- Appraising Residential Properties, Fourth Edition, \$60. Published January, 2007. 500 pages (much smaller size than the Appraisal of Real Estate). It is an older book, focusing on the "new" 2005 forms but is very useful as it focuses on residential use. Unfortunately, there is no plan to update this book as most residential AI members prefer to use the Appraisal of Real Estate. There may be some "monographs" or short publications on residential topics, which has been done for some commercial topics.
- Frank E. Harrison, Appraising the Tough Ones: Creative Ways to Value Complex Residential Properties (Chicago: Appraisal Institute, 1996) This is the best book I have ever read on advice on handling the "weird properties" such as no nearby comps
- Valuation by Comparison: Residential Analysis and Logic Mark Rattermann, MAI, SRA, 115 pages, 2007. Very good. It also includes good information on appraising 2-4 unit properties. I reviewed the Harrison and Rattermann books in the 10/12 issue of Appraisal Today, available on the paid subscriber page at [www.appraisaltoday.com/infuse.htm](http://www.appraisaltoday.com/infuse.htm) (Link good through 1/14)

### **How to purchase the books**

Go to [www.appraisalinstitute.com](http://www.appraisalinstitute.com) and click on Publications (top of screen), then new books. It can be a bit tricky to use. Appraisal of Real Estate: The price for print is \$125, pdf \$125 (nonmembers) and \$95 each for members. The book package price for both is \$185 (non-members) and \$145 members. PDF, kindle and e-pub versions are available. I recommend pdf version as it is much easier to use. You can cut and paste relevant excerpts for use in your appraisal reports. Be sure to reference the source. Valuation by Comparison PDF or print: Regular Price: \$40.00, AI member Price: \$30.00. Appraising the tough ones: Price: \$45.00/AI Price: \$35.00

### **What topics are covered (list of chapters):**

*PART I Real Estate and Its Appraisal* Chapter 1 Introduction to Appraisal Chapter 2 Land, Real Estate, and Ownership of Real Property Chapter 3 The Nature of Value Chapter 4 The Valuation Process *PART II Identification of the Problem* Chapter 5 Elements of the Assignment Chapter 6 Identifying the Type of Value and Its Definition Chapter 7 Identifying the Rights to Be Appraised *PART III Scope of Work Determination* Chapter 8 Scope of Work *PART IV Data Collection and Property Description* Chapter 9 Data Collection Chapter 10 Economic Trends in Real Estate Markets and Capital Markets Chapter 11 Neighborhoods, Districts, and Market Areas Chapter 12 Land and Site Description Chapter 3 Building Description *PART V Data Analysis* Chapter 14 Statistical Analysis in Appraisal Chapter 15 Market Analysis Chapter 16 Highest and Best Use Analysis *PART VI Land Value Opinion* Chapter 17 Land and Site Valuation *PART VII Application of the Approaches to Value* Chapter 18 The Sales Comparison Approach Chapter 19 Comparative Analysis Chapter 20 Applications of the Sales Comparison Approach Chapter 21 The Income Capitalization Approach Chapter 22 Income and Expense Analysis Chapter 23 Direct Capitalization Chapter 24 Yield Capitalization Chapter 25 Discounted Cash Flow Analysis and Investment Analysis Chapter 26 Applications of the Income Approach. Chapter 27 The Cost Approach Chapter 28 Building Cost Estimates Chapter 29 Depreciation Estimates *PART VIII Reconciliation of the Value Indications and Final Opinion of Value* Chapter 30 Reconciling Value Indications *PART IX Report of Defined*

Value Chapter 31 The Appraisal Report Table of Contents vii *PART X Appraisal Practice Specialties* Chapter 32 Appraisal Review Chapter 33 Consulting Chapter 34 Valuation for Financial Reporting Chapter 35 Valuation of Real Property with Related Personal Property or Intangible Property *ADDENDA* Appendix A Professional Practice and Law Appendix B Regression Analysis and Statistical Applications Appendix C Financial Formulas

## **Appraisal Institute Introduces New Review Designations: Make Appraisal Reviews Part of Your Marketing Plan**

*Douglas G. Smith, SRA*

From the volume of calls I receive requesting field reviews, I can tell that lenders are having significant problems locating appraisers who will do residential appraisal reviews. In the current economic climate and with increased Scope of Work demands, appraisers are scrambling to make deadlines for appraisal reports and feel time spent reviewing appraisals are not the best use of their time and resources. Field reviews, and for that matter desk reviews, given the time spent on them, have not in the past yielded as much revenue as a regular and standard appraisal. No one likes to give up business but appraisers are quickly dismissing the opportunity for review assignments without much consideration of the overall impact on the appraisal firm. A quick check with appraisers concentrating on commercial work finds that requests for reviews are running at normal levels with appraisers accepting these assignments at the same rate as two to three years ago. The shortage of appraisers willing to do reviews appears confined to the residential appraisal arena. The increased effort to exert quality control and State AMC regulatory requirements for reviews are fueling the volume of review requests. Should appraisers turn down review assignments? Despite the heavy workloads of handling regular business, any time business is turned away, it is good practice to match up this decision with the overall marketing plan strategy. Under careful scrutiny, what seems to be a practical decision may not be in the best interest of the overall economic health of the appraisal firm. There are also some very practical benefits of accepting review assignments. There is a new development on the horizon that may be of interest to all appraisers willing to consider review work. The Appraisal Institute just announced two new designations that focus on review work with these designations providing a means of favorably differentiating appraisers who complete quality appraisal review work. These designations may also pave the way to more work from litigation assignments and review work from State appraisal boards and Federal agencies.

According to the Appraisal Institute, there were about 12,500 review appraisers in the United States in 2012. In addition, many appraisers take on review work as an integral segment of business offerings. While appraisal reviews have been a part of the appraisal profession, the last economic turn-down has brought new levels of scrutiny to appraisals and a new focus on risk management and loss mitigation. In a recent announcement the Appraisal Institute will offer the AI-GRS designation, which stands for Appraisal Institute General Review Specialist; and the AI-RRS designation, which stands for Appraisal Institute Residential Review Specialist.

The Appraisal Institute will offer four new courses to address review designations:

- Review Theory-Residential and Review Theory-General
- Review Case Studies-Residential and Review Case Studies-General

Each course is two days with a test at the end of the class (17 hours; 15 hours of class and 2 hours for the exam. The class offers an optional 1 hour review session prior to the exam.

The intent of the new designations is to enhance the credentials of its already designated members. Qualifications, however, mirror the qualifications of the MAI and SRA designations. Check the Appraisal Institute website for more detail of these qualifications. In short, designated members need only complete the Theory Course and submit five reviews. Each designation requires educational minimums. Candidates for the designations will need to receive credit for at least 1,000 hours of qualifying review appraisal experience that will need to meet Standard 3 (or equivalent) This experience requirement has a generous ten year look-back period which makes the experience qualification more reachable from appraisers who have consistently taken on review work.

### **The Importance of the Second Opinion**

Standard 3 in the 2014-2015 version of USPAP takes up 7 pages with the developing and reporting steps folded into one standard. An Advisory Opinion addresses reviews in AO-20 AO-20 addresses the appraisal assignment including the reviewer's own opinion of value. Revisions made to the 2003 edition of USPAP as well as the 2013-2014 edition, tightened the requirements for reporting the reviewer's own opinion of value. With the attention given to Standard 3 and the supporting Advisory Opinions, the ASB signaled their concern about the review process and the importance to the overall process of appraising.

The overall function of the review process is quality control. The goal is to verify not only that each appraisal report is reliably prepared but also that the supporting information and conclusions are communicated in a logical manner. In the atmosphere of greater regulation and demands for more accountability, appraisal reviews have become increasingly important.

### **Why appraisals are reviewed**

The overall premise of licensing appraisers was that with more education, specific education about USPAP, experience hours and time spent in the field, appraisers would necessarily be more competent. If there was such a high degree of training, why should appraisals be reviewed? We learn from other trades and professions. Virtually in every trade and profession, individuals review, criticize, critique, examine, cross-check, retest, question, judge, or comment on the work of others. It is no different for those for whom appraisal reports have been prepared. The end result is to increase the confidence level that the conclusions are sound and the information leading to the conclusions is reasonably supported. There has also been an increase in control over financial institutions and, in the increased regulatory environment; there is a greater emphasis on compliance. There is a distinction between the valuation process and the valuation report. The purpose of the valuation report is to reach a conclusion. The purpose of the report is to communicate that decision. Reports, then, do not appraise, appraisers appraise; reports set out their conclusions.

In an Appraisal Institute Publication, "Appraising the Appraisal: The Art of Appraisal Review, Richard C. Sorenson, MAI summarizes the reasons why each appraisal report should be carefully reviewed:

- "To provide a test of reasonableness for the user of the appraisal report.
- To test whether the methods and techniques employed in the appraisal are appropriate to the assignment.
- To bolster their client's confidence in the appraisal.
- To help lending institutions manage risk.
- To bolster their client's confidence in the appraisal.
- To support litigation and dispute resolution.
- To assess the work product of other appraisers for clients who do not have internal appraisal capabilities."

Review appraising is an integral part of the appraisal profession and an accepted part of the entire valuation process. The quality control function cannot be emphasized enough but the review process also raises the level of professionalism among practicing appraisers promoting high standards in both developing and reporting the results of valuation assignments. Beyond any benefits to the appraisal practice, performing appraisal reviews is simply the right thing to do.

I'm very busy; don't bother me with appraisal reviews.

Weed out clients in the slow pay lane. Don't give credit to out-of-state loan companies who don't have an office in your state and do not have a registered agent in your state. Almost all states now have AMC regulations. Book mark the web site in your state where registered agents and or appraisal management companies are listed. It is usually the Secretary of State or the State appraisal board. In less than a minute, you can see if they have a registered agent or are registered as an AMC... If they don't, you have no chance to sue them for a past due account. While the same tests apply to companies requesting field reviews, most companies requesting reviews don't fall into the category of dead beats, slow pays and fly by night mortgage lenders. Rarely, however, do these types of clients request reviews.

### **Fitting in Review Work**

If appraisers accept that review work does provide incremental income, the next step is to find the time to do the work. A lot has to do with workflow, scheduling and reporting. In most cases, review work when combined with other assignments can fit in to regular work. While on one assignment, the property can be viewed and photographed with out cutting into the time of the primary assignment. Also, when the assignment is placed, there is time to negotiate a desk review. Pressed for any results, more lenders are satisfied with a desk review or leave it to the appraiser's judgment if a field review is necessary. This step is very individual with the appraiser and for that matter the local market. Again, it is important to understand the basic change in USPAP regarding the scope of the assignment.

The second benefit to the appraiser is the opportunity to learn. With all the shenanigans of the last few years regarding pushing for value, I certainly have learned a lot from the review process. I have learned that at a certain angle, a singlewide manufactured home can be photographed to look like a doublewide. I have learned that sometimes 1.5 miles is 3 blocks. I have learned that a house with a story and one half is sometimes a two-story house. I have learned that properties that were appraised can be sales and when there are no sales; sales can be invented to bring symmetry to a report. I have learned how important symmetry is to make the cost approach a little higher than the opinion of value. Of course, I have also learned there is no reason to include the comparable across the street when the one two miles from the subject makes the report more supportive of a value. While everyone can learn from good example, there is worth in learning from a bad example and there is a lot out there from which to learn.

The review process clarifies and forces the appraiser to challenge his or her assumptions. When looking at report done by another, it might be a good time to run those adjustments again. Adjustments are not forever. When signing off on a report, it is always good to keep in mind, it is a summary and everything in that report requires back up and that back up is current as of the date of the report.

### **Field Reviews and the Appraisal Firm's Marketing Plan**

Marketing in the appraisal firm is done day to day but every aspect of marketing has a long-range aspect. Accepting appraisal reviews may be difficult to fit in today but there may be great benefits in the future. There is one certainty about the lending climate today. Refinancing is waning and not likely to see resurgence in the near future. We are clearly in a cycle and current level of lending is proving to have a long crest but the lending climate is cyclical and there will be a down turn. Desperate for appraisers to do review work, lenders are streamlining their application procedures and taking on new appraisers. Once on the panel, there very well may be work in the future. Review work, then, is a very easy way to expand the client list.

### **Marketing to new clients**

The second marketing aspect of accepting review assignments is the lead in to new sources of assignments. In the last twelve months, I have completed appraisal reviews of reports done more than 24 months previously. I believe this is a trend along with the trend in property seizures and short sales. The number of REO properties is still increasing and along with that increase comes more and more opportunities for appraisers. With an increase in lenders wanting to have old appraisals reviewed it is probably a good time to review pricing. A review of an appraisal done two years ago requires more research than the typical assignment and should be priced accordingly.

Adding an Appraisal Institute Review designation may very well interest attorneys involved in litigation. At the onset of any court testimony, attorneys vie to “out-credential” the opposing side. Obtaining a designation specially geared to reviews positions the appraiser to provide support for credible testimony in litigation matters.

### **Know your competitors**

The first rule of marketing is know as much as you can about your competition. The review process allows great opportunity to learn about our competition from what software they use to how they present their product. My views about the sketch I put into my report are entirely based on seeing the work of others. One of the first things I learned about doing residential appraisal reports is the homeowners, in most cases, get a copy of it. While they don't understand most of report, they do understand the sketch. If it is crudely done with just four walls and interior walls approximately placed it leaves an impression, and one that I feel is negative. My chief competition in my market has excruciatingly detailed drawings. How do I know this? I have reviewed her work. After, completing a review assignment, spend some time comparing how the competitor's reports stack up to your own.

The level of appraisal work is now inconsistent and sometimes hectic... Appraisers are responding by turning down work and some of this work is review work. The decision to turn away review business may deserve a second look. The review process is a very integral part of the appraisal profession and as such is important to the overall maintenance of high standards and professional conduct. Appraisers can play a part in ensuring the well being of the appraisal profession by accepting appraisal assignments even in busy times.

Besides this emphasis on review appraising as the right thing to do, there are immediate benefits to the appraisal firm and important aspects of marketing strategy that should not be overlooked. Review appraising provides important incremental income to the firm that may, if segregated as incremental income, provide a source of retirement funds, for instance. Older appraisers, phasing into retirement, may wish to emphasize review work that does not involve extensive on-the-ground inspections. The review process is in most cases is an eye opener, an opportunity to learn from bad examples as well as the good. Accepting reviews is an opportunity to increase the client list and open the doors to new business opportunities. Lastly, doing reviews gives us first hand information about the competition.

Marketing an appraisal firm is not something to put on the shelf during busy times. There is a marketing aspect of almost everything we do and deciding to accept or reject review work is no different. The overall goal is the economic health of the appraisal firm and there may be positive benefits in the long term of accepting review work that are worthy of consideration. Now, with the prospect of obtaining an Appraisal Institute review designation, there are new marketing opportunities to clearly differentiate from the competition.

## Reach Email Zen-Tame Your Inbox

By Chase Pursley

I doubt any of you leave unread (snail) mail in your mailbox because it would fill quickly and your post office couldn't deliver any new mail. What you actually do is quickly sort through your mail - you toss the junk mail right away, immediately open what seems to be important and put less important letters into bins or designated piles to be reviewed later (like taxes...).

### Inbox Zero

This analogy is pretty good - but falls a bit short because modern email products like Gmail and others basically have unlimited email storage. I think this is a problem. With a little self-discipline we can apply a similar technique to our digital counterpart with a technique coined "[Inbox Zero](#)" by [Merlin Mann](#). In essence, **Inbox Zero is:**

...a basic filing system where you treat your inbox like a to-do list, with each email representing a specific task resulting in an organized, empty inbox.

The way Mann describes it is delete, delegate, respond, defer and do. I'm sure there's different ways to interpret this, but **my take** is this:

1. Read through new email subject lines and quickly determine *what's important*.
2. Address important messages immediately and then *move them* from the inbox to a specific folder you've created for that client/project/subject matter.
3. Move all other less-important email to *specific folder* for reading later
4. *Toss junk* mail or anything with a less than 60% chance of you revisiting.
5. Keep only *unread messages* in your inbox - and only temporarily.

### Looking Back-What to do with the old

And what if you already have an inbox full of months, even years of emails - read and un-read? Parse through the weeks most important emails, create folders for their specific topics as mentioned above and move them there now. You can [create a new folder](#) from the 'labels' dropdown or do a quick search to find an existing folder when you're inside an email. Make sure to use good naming conventions so you can easily find the folders later. You can find these folders on the left-hand side of your inbox. Once you are no longer actively using / moving emails to a folder, you can 'hide' the folder in the label list by clicking the dropdown upon hovering your mouse above the folder name.

For all the rest of the messages that you want to store but aren't important enough to categorize, most email programs have a checkbox just below the search bar. Click that with the 'select-all' option and the select 'Archive.' Isn't that refreshing? Now don't worry - you've archived your emails - they are just a few clicks/searches away. You can really narrow your search with the dropdown within the search bar.

### On-going Procedures and Good Habits

That's the basic overview on how to reach Inbox Zero (and this applies to any email service, although the exact steps will be different). Now to reach **Email Zen**, consider the following techniques:

#### **For Your Sanity**

1. Check your inbox *once per hour* or less if possible.
2. Turn off all phone, device and computer email *notifications*.
3. Keep your email closed - open only when needed.
4. Religiously unsubscribe from email lists that you never read or that provide *no value*

#### **For Recipient's Sanity**

1. Properly label subject lines.

2. Keep your message short and concise.
3. Use proper paragraphs and avoid run on sentences (you know who you are).
4. Never use ALL CAPS. This is shouting. Don't shout.

### **Final Thoughts**

Email is just a tool - but if you let it - it can be a tool for procrastination and prevent the real work from getting done. I can personally say that I'm guilty of not following all of the steps all the time, but the methods above certainly helps me decrease stress and free up loads of time. Opening up your email and not seeing a barrage of unread and half-read emails from the last few weeks is a huge relief.

**Editor:** Chase Pursley, a commercial appraiser, is the founder of Appraisal Flow, an easy-to-use office management, progress tracking and trends reporting tool for appraisers that's entirely web-based (access anywhere). For more information visit [www.appraisalflow.com](http://www.appraisalflow.com)

## **Interviewing Tips and Techniques for Appraisers**

*Douglas G. Smith, SRA*

*"Successful people ask better questions, and as a result, they get better answers."*

-Tony Robbins

One area of the UAD highlights the importance of interviewing in the appraisal process. The UAD introduces a more specific means to identify the actual condition of the property when reporting the state of the kitchen(s) and Bathroom(s) in the improvement section. The appraiser must indicate "Yes" or "No" if there has been any material work done to these areas in the prior 15 years. Then the appraiser must identify the level of work completed and timeframes. The appraiser must select from one of three levels of work completed: not updated; updated; remodeled. Then the appraiser applies the time frames: less than one year ago; one to five years ago; six to ten years ago; eleven to fifteen years ago; timeframe unknown. While appraisers may very well be in the habit of confirming sales and ferreting out the details of a sales contract, most appraisers have not spent very much time with the property owner or other knowledgeable person to gather information that is now required regarding the actual condition of the property. On the other hand, some appraisers make it a practice to gather this information with some furnishing a form or check list for the most knowledgeable person to fill out during the inspection process. Those appraisers who exclusively complete commercial work are in the habit of interviewing and gathering information. As with any human endeavor, there are differing levels of competence with some appraisers simply better at deriving information from market participants. Some commercial appraisers are more skilled at coaxing that elusive NOI from market participants and a few residential appraisers are more adept at achieving highly accurate and credible information about residential sales and the condition of the property. What sets successful appraisers apart in the interviewing process is mostly about attitude towards the interview process and having a consistent plan to achieve optimum results from the interview process.

### **An interviewing attitude**

The idea that real estate appraisers fall into a common personality type is a myth. Appraisers come to appraising from a wide assortment of backgrounds and thus when it comes to an attribute such as communicating skills; the distribution of these skills likely follows the bell curve. The basic skill level, however, is not fully the determinant of success. What sets one appraiser apart from another is not necessarily the level of communicating skills, but, as any self-help book will note is the attitude behind that skill. Those successful in utilizing their communicating skills to derive information are successful because they expect to be successful. Successful appraisers treat information as an asset that has real value in a firm. They go forward with the interview process with a firm conviction that the

information is there for the taking and they marshal whatever skills they own to achieve positive results. However, some appraisers simply are reluctant to get out in front and undertake direct interviewing for various reasons, whether due to some innate shyness or some other unexpressed fear. Eleanor Roosevelt made this observation: *"I believe that anyone can conquer fear by doing the things he fears to do, provided he keeps doing them until he gets a record of successful experience behind him."* Good habits, then, go a long way to conquer any reluctance an appraiser may have about interviewing.

The driving force behind the aspect of interviewing in an appraisal practice is USPAP. From start to finish, appraisers must integrate personal interviews into the appraisal process. Under the subject of Problem Identification in the Scope of Work Rule, It states: *"Communication with the client is required to establish most of the information necessary for problem identification."* Interviewing then, is the firm foundation on which an appraisal practice is built. In terms of knowledge, skills, and attitude, a positive attitude towards interviewing is the greatest contributor to success.

### **All hat and no cows**

In Montana, many Montanans without a ranch dress the part and detractors point out that these individuals, while wearing an expensive Stetson, are: "all hat and no cows." The appraisal of conservation easements is a thorny issue in Montana. The IRS is said to accept a certain level of discounts on land appraisals that constitute, in effect, the tax deduction that is derived from putting a property into a conservation easement. The greater the discount, the more likely the IRS will haul the land owner into tax court to dispute that level of the discount arguing that the proven loss of value is not as steep as presented by the appraiser. There is one appraiser in Montana whose reports are often the subject of disputed values. The IRS hires its own appraiser to establish the level of discount or loss in value. This well-known appraiser with a long history of appraising conservation easements consistently wins in tax court because he has the sales data to support the discount. The opposing appraiser, without the detailed sales histories of many conservation easements loses because he is "all hat and no cows" The hapless losing appraiser comes to court with good credentials but simply does not have the sales to dispute the case.

How does this appraiser come by the sales that provide unassailable evidence? The basic reason is that this appraiser recognizes the importance of relationships and personal contacts within the community of large land holders. Montana is a non-disclosure state. The consequence of that is that sales information is hard to come by. Sales of large land holdings take place on multi-levels. Ranches sell to each other and some ranches change ownership in family transfers. Most large land holdings take place outside of Multiple Listing Services. Many real estate brokers who deal with large land holdings are not members of Multiple Listing Services. There is a small number of tax accountants and attorneys who deal with larger land holdings and conservation easements. All these market participants form a finite number and the successful conservation easement appraiser carefully maintains these relationships to ensure a constant source of credible information. The lesson learned is that the foundation of a successful interviewing program is carefully establishing a network of contacts and maintaining a relationship with market participants.

### **Networking for success**

Over time, appraisers recognize that the elite real estate brokers in their community that produce the most residential sales may make up only about 5% of the total. Those brokers who handle the majority of commercial sales may be only a handful. In every community, there may be only one or two brokers who wind up handling the bulk of REO sales. These volume producers are typically not a large group and in most cases it is very possible for the appraiser to have active and regular contact with these individuals. Continuous contact with this group is critical to the interview process because it short cuts the contact process and eliminates the long introduction process that is often necessary to undertake a thorough interview. Every appraiser needs a title company contact. The title company occupies a unique position in the mortgage process with these companies having access to information not easily obtained through public sources. Appraisers should know their way around the Clerk and Records Office and the Planning and Zoning Office as well as the Treasurer's Office. Maintaining contacts with contractors, home inspectors and construction specialists such as roofers and plumbers can pay dividends when faced with questions

that deal with these areas. Information is more easily derived in the interview process when it comes from a person already known.

### **The four stages of interviewing**

Interviewing is simply the process of writing a story. Every story has an introduction, then the body and finally the conclusion. Spontaneous interviews seldom contribute to thoroughness. Therefore, it is better to recognize that there are four stages in the interview process. These are: preparation, arrangements, the interview and reconstruction. There are various types of interviews with most being an informal, conversational interview. Increasingly appraisers, due to the increased demands of deriving UAD information, are relying on a general interview guide approach where a written response sheet is used to conduct the interview. This is a common approach of commercial appraisers who produce a standardized sale data sheet. The Appraisal Institute recently presented a course on the UAD. One of the more valuable features in the course is a two page form on which to collect information for both the property condition and quality items entitled "UAD Subject Property Condition and Quality-Field Notes." The manual used in the course sets out a comprehensive four-step process for creating consistent and supportable quality and condition ratings. This is newly developed information unique to this course and essential to going forward with the UAD project. The deeper appraisers dig into the requirements of the UAD initiative, the more obvious it becomes that appraisers are going to have to pay a lot more attention to their work file compilation procedures. The introduction of this form is an important step in this direction.

### **Preparation**

The key to preparing for an interview is research. All interviews proceed from the known to the unknown. Residential appraisers would do well to take a leaf from the book by commercial appraisers. Before undertaking the interview with the market participant, commercial appraisers prepare a worksheet that mimics the final Rental Information write-up for the income approach or sales Information sheet for the sales comparison approach. Residential appraisers faced with supplying more detail for the UAD must consider working with a check list or form similar to that distributed in the Appraisal Institute UAD class mentioned above. The commercial appraiser generally proceeds in the interview process by securing the APOD (Annual Property Operating Data) from the listing agent in advance. For residential appraisers, the listing documents from the local Multiple Listing Service backed up by the public records of the improvements from the tax authority is the base starting point for any residential property interview. The research will often reveal an inconsistency or raise an important question. When faced with data that requires elaboration or clarification, prepare these questions in advance in writing. Prepare to ask these questions as they might arise, based on what the interviewee says or something new that might come up during the interview process. Prepare to take notes, leaving space for elaboration during the interview process.

Know the person from whom you will receive information. In a residential property interview, take the time to learn the homeowner's name and clarify pronunciation if necessary early on in the interview process. On the commercial side, a market participant may be separated by a staff member or assistant. Identify the person most likely to have the information and be prepared to go through the steps it will take to speak to that person directly. Knowing more information about that person in advance often contributes to threading through the contact process.

### **Arrangements**

The key element in the interview process is to make arrangements in advance for the interview. For the commercial appraisers, interviews arranged in advance often yield better information. In the age of cell phones, no longer can an appraiser expect that the market participant is at place where important information can be retrieved. Call in advance to arrange for the interview. With the detailed information required for past remodeling required in the UAD, it makes sense to signal the need for that information in advance. Homeowners are typically willing to discuss the details or what has been accomplished. Letting them know in advance and that the remodeling is best described chronologically will assist in the interview process. If interviewing a succession of persons, as is the case in most commercial appraisals, it makes sense to interview the principal person last.

### **The interview**

In hotel management, managers undertake training employees under the principle of “sight management.” Employees are trained in ways that can be monitored by observation. Desk personnel, for instance, are taught when a guest comes to the desk to first smile, then make a friendly greeting and when the check-in process is complete make a closing remark to signal that the transaction is over. All these steps may be observed. The three step procedure for checking in a guest at a hotel is a good framework to keep in mind when conducting a real estate property interview with the first step consisting of a smile or exhibiting a friendly demeanor, the most important. After all, collecting information about the remodeling history of a home is not the same as taking down the sad recollections for an obituary. Every interview requires a closing remark that signals the interview is over. Here, the business card may be offered to leave the door open for any further information that the interviewee might consider important.

Appraisers are well aware that the first line of defense for avoiding complaints and lawsuits is to produce a fully credible and convincing report. People reasonably assume that for those providing a service (e.g. doctors, lawyers, accountants and appraisers) poor quality, or bad luck, leads to litigation. However, few appraisers consider important proactive steps available to lessen the likelihood of a borrower or property owner taking complaint action in the form of a complaint sent in to a state appraisal agency or filing a lawsuit. These suggestions come from an unlikely source; research in the medical profession seeking answers as to why doctors are sued. The reason doctors get sued, according to the research, is not because of poor quality alone, and neither is it misfortune, it is much more subjective than either of those things – trust and confidence. Patients do not sue doctors they like, or, as Aristotle put it, ‘between friends, there is no need for justice’. There is a strong suggestion from research that manners count and personal communication skills weigh heavily in complaint and lawsuit risk factors.

In a real estate appraisal the inspection of the site and the improvements involves four steps. The first step is the actual viewing of the property. The appraiser sets out in the scope of work the degree to which the property is inspected, whether it is viewed from the street or if the interior of the improvements is viewed. Inspections completed for FHA address specific elements the appraiser must include within the scope of work statement that may exceed the scope of work found in the Certification found as Item #2 of the 1004. The second step is recording the results of the visual inspection to include photographs and notes for the work file that reasonably reflect the results of the visual inspection. The third step is to verify various elements such as site size, the presence of easements. In addition, some information can only be verified by the borrower or property owner. The property owner may also be a source of information relative to concluding an opinion of value. Lastly, the information is coherently reported within the completed appraisal report. The third step, that of verifying information in an interview with the borrower or property owner, is the critical step that in addition to contributing to the substance of the appraisal is the appraiser’s opportunity to win the trust and confidence of the borrower or property owner.

### **The interview process**

Research as to why doctors are sued, suggests the importance of “orienting” comments. For instance, some appraisers prefer to inspect the exterior first. The appraiser arrives at the site, visits with the borrower or property owner, introduces him or herself and outlines the inspection process. The appraiser lets the person know that they will inspect the property from the exterior, measure it and take photographs. This is to be followed by the interior inspection. At this time, the appraiser may suggest that at the conclusion of the inspection, the appraiser will undertake an interview about some of the specifics including any improvements that might have been made recently and as far back as fifteen years. Lastly, the appraiser may ask the person if they have any questions. The important issue is that the borrower or property owner is “put in the know” about the process and that there will be time for questions which helps the person get a sense of what the visit is supposed to accomplish and when they ought to ask questions.

In the actual interview process, research indicates that doctors who had no claims against them were more likely to engage in active listening, saying such things as “Go on, tell me more about that.” Appraisers quickly find that property owners take pride in their property and the improvements they make to their properties. Giving the opportunity to discuss these improvements demonstrates real interest in the property and the appraiser’s effort to understand the issues that affect value.

The subject of humor must be addressed carefully but the research revealed that doctors who laughed or inserted some humor in their interactions were more successful in instilling confidence and trust. For appraisers, a friendly demeanor, remembering to smile may be sufficient. There is a knack to using humor in interactions and this factor may have less of an application in the appraisal interview process.

Lastly, the study concluded there was no difference in the amount or quality of information doctors gave their patients; they didn’t provide more details about medication or the patient’s condition. The difference was entirely in how they talked to their patients.

Appraisers, then, must consider the role of instilling confidence and trust in the appraisal process over and above sheer competency to avoid complaints and complaints that escalate into lawsuits. Spending a bit more time with the borrower or property owner is the place to start. Additionally, considering all aspects of communication is essential with an emphasis on empathy and listening. In appraising, then, as in most interactions, manners count.

### **Reconstruction**

The interview has two basic objectives; to produce an objective and credible report from the information secured in the interview and inspection process and to ensure that this information is coherently contained in the work file. A worthy proverb when compiling work file data is: *“The palest ink is better than the best memory.”* Reviewing the notes taken during the interview process is best done immediately after the interview. There may be abbreviations or words that won’t mean anything days after the interview. There will always be qualitative issues regarding the information derived from an interview. Underline or put stars alongside information that is especially important. In short, fill in whatever gaps exist and clarify anything necessary that will assist in putting together the final product.

The UAD brings new focus on the need to conduct interviews with market participants. Met with the proper attitude that this information is there for the asking and that it has important value is the most critical ingredient of the interview process. Following a careful plan will pay enormous dividends allowing the preparation of a well reasoned and credible appraisal report.

## **Have Something to Contribute?**

Do you have an idea for an article you’d like to contribute to the next newsletter? A news item to cover, topic to suggest, pictures from a Montana event? Send them our way! E-mail content and ideas to Douglas G. Smith, SRA at [hotelman@montana.com](mailto:hotelman@montana.com).

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