

IllinoisAppraiser

Paperless in Illinois

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Secretary Bryan A. Schneider of the Illinois Department of Financial and Professional Regulation (IDFPR) is pleased to announce that paperless licensing and renewals have now been implemented for the professions licensed and regulated by the Divisions of Real Estate and Professional Regulation. The transition away from paper-based renewals and licenses means that regulated professionals will now be able to renew their license quickly and easily online, and be provided proof of licensure through email and IDFPR's License Lookup application. The move to paperless technology is part of the Department's ongoing efforts to modernize the state's regulatory agency and will save the state nearly \$3 million in postage, paper and printing costs over the next five years.

"By enacting a paperless renewal process and shifting to an electronic verification of licensure, we increase efficiency, reduce costs, and provide an overall better experience for our licensed professionals," said Bryan A. Schneider, IDFPR Secretary.

"Whereas paper-based renewals intermittently experienced delays during peak renewal periods, the online license renewal streamlines that process by eliminating the need to, essentially, push paper. Additionally, by providing electronic verification of a license through our website, we are able to provide the most up-to-date information available."

Effective immediately, submission of renewals for professionals should be completed online via IDFPR's website (www.idfpr.com). Once a renewal is successfully processed, licensees will receive an email that may be used as proof of licensure. Proof of licensure may also be found via IDFPR's License Lookup. In the near future, licensees will be provided access to a digital, printable copy of their license.

In lieu of the paper postcard reminder, IDFPR has also implemented an electronic license reminder notification process for all professions that are not legally required to receive paper notifications. Licensees that had relied upon the renewal postcard PIN notification for renewing their licenses or for employee E-Batch renewal, may access that information via the license renewal webpage located at IDFPR's website. Licensees will be prompted to provide additional information for security authentication.

Licensees are strongly encouraged to visit IDFPR's online address change webpage to provide a current email address and ensure contact information is up-to-date and accurate.



There Go My Brackets



Forget college hoops and all of the upsets. This is about the upsets that occur when residential appraisers fail to bracket.

Say that your subject property has a contract for \$102,900. Ideally your three sales should surround the contract price like a cozy, warm blanket.

Comp #1 might end up, *after adjustments*, at \$100,000. Comp #2 might reach \$102,500 and Comp #3 might conclude at \$104,000.

Yay!

All you need is a pretty bow and you can deliver a lovely report to your client.

But...it really doesn't work that way on most days. Does it?

Especially when rates climb or credit tightens. All of the squirrely deals get sent over. Incomplete start-it-yourself rehabs, one-bedroom cottages, oversized lots, and preposterous cornfield castles.

Still, clients want...no...*demand* that you bracket the value with the comps.

Suddenly your \$102,900 contract swims in the middle of a crazy range from \$58,800 to \$163,750.

Is it a USPAP violation to fail to bracket or end up with a tight bracket?

USPAP is silent on bracketing. For that matter, so is Illinois law.

Here's what **Fannie Mae** says;

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

Not a word about bracketing.

While comforting for an underwriter to see the collateral fall snugly into place, bracketing is still a *guideline*.

This hasn't stopped AMCs and lenders from complaining to the Board about missed brackets or huge ranges.

There just isn't a law against having a sloppy bracket, nor should there be.

Something else from Fannie Mae;

*It should be noted that the indicated value in the Sales Comparison Approach **must be** within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.*

Here, Fannie is referring to appraisers who conclude a value outside of the adjusted range of the comparables.

Back to our \$102,900 contract.

If your sales adjust out to \$58,800 all the way to \$163,750 and you conclude a value at \$165,000; there's a problem.

Stay within your range to avoid problems.

To Eval or Not to Eval

Tentative Schedule of Formal Hearings

IDFPR v Muzaffar
June 15

IDFPR v Pheneger
June 29

IDFPR v Neuschaefer
June 30

IDFPR v Kozenko
July 28

IDFPR v Bisanz
September 20

Recently, a document entitled, **The Interagency Advisory on Use of Evaluations in Real Estate-Related Financial Transactions** was released.

Many in the lending and appraisal professions see this as a federal permission slip for evaluations to be completed by Illinois Certified Appraisers.

The document reiterates what we already know about evaluations:

Under the appraisal regulations, the following transaction types do not require an appraisal, but do require an evaluation:

- Transactions in which the “transaction value” (*generally the loan amount*) is \$250,000 or less;
- Certain renewals, refinances, or other transactions involving existing extensions of credit; and
- Real estate-secured business loans with a transaction value of \$1,000,000 or less and when the sale of, or rental income derived from, real estate is not the primary source of repayment for the loan.

These items have been unchanged for years.

An evaluation is not *required* to be completed by a state-licensed or state-certified appraiser or to comply with USPAP.

Here in Illinois, where we are a *mandatory* state...every valuation product completed and transmitted by a certified appraiser **must be** USPAP compliant.

In order to be a USPAP compliant doc-

ument, the document *must* be labeled one of two things:

- Appraisal Report
- Restricted Appraisal Report

If you want to understand the difference between an evaluation and an appraisal; read **AO-13**.

Spoiler Alert (page 108): “An evaluation, when performed by an individual acting as an appraiser, is an appraisal.”

Contents of an Evaluation Report

The Guidelines provide information regarding the minimum content that should be contained in an evaluation. Unlike an appraisal report that must be written in conformity with the requirements of USPAP, there is *no standard format for documenting the information and analysis performed to reach a market value conclusion in an evaluation*.

Regardless of the approach or methodology used to estimate the market value of real property, an evaluation should contain sufficient information to allow a reader to understand the analysis that was performed to support the value conclusion and the institution’s decision to engage in the transaction.

Some appraisers in Illinois are wondering how they can get on the evaluation bandwagon.

When you read what the contents of what a minimally acceptable evaluation, they seem very similar to an appraisal.

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To Eval or Not to Eval

(Continued from page 3)

- Identify the location of the property.
- Provide a description of the property and its current and projected use.
- Provide an estimate of the property's market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation (*that is, the date that the analysis was completed*), with any limiting conditions.
- Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed.
- Describe the analysis that was performed and the supporting information that was used in valuing the property.

- Describe the supplemental information that was considered when using an analytical method or technological tool.

- Indicate all source(s) of information used in the analysis, as applicable, to value the property, including:

- External data sources (such as market sales databases and public tax and land records);

- Property-specific data (*such as previous sales data for the subject property*);

ty, tax assessment data, and comparable sales information);

- Evidence of a property inspection;
- Photos of the property;
- Description of the neighborhood; or
- Local market conditions.
- Include information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature (*electronic or other legally permissible signature*) of the preparer.

Still, in Illinois, there seems to be the perception that an evaluation would be a vastly cheaper alternative to an appraisal performed on the same property.

Is an evaluator allowed to be misleading?

Perhaps. It doesn't say, does it?

Here it is, twenty-plus years later and there is still no true bright line between an appraisal and an evaluation.

The agencies would argue that one is an *estimate of value* and the other is an *opinion of value*.

Wouldn't an estimate be someone's opinion?

Isn't someone's opinion really an estimate?

(Continued on page 5)



To Eval or Not to Eval

(Continued from page 4)

Some lenders have stated that an evaluation represents a *cheaper* valuation alternative.

Cheaper?



Residential and commercial appraisers are complaining more than ever about suppressed fees for standard appraisal assignments.

Why is the answer to do a lesser product for even less money?

That makes no business sense at all.

When you look at the bullet points for what is required, at a minimum, for an evaluation, there isn't a lot of "less" going on.

The Appraisal Institute's old Guide Note 13 offered an outline for an US-PAP-compliant evaluation.

In the middle of the sample document they called it a **Restricted Use Appraisal Report**. It was supplemented with additional information.

By definition...that's an appraisal. That's **not** an evaluation.

Appraisers have *always* been able to compete with evaluations.

Always.

If a lender wants to ignore the exposure time in an appraisal report; they are free to not read it.

I don't understand how omitting exposure time (*as an example*), for someone who doesn't want to see it, merits a discount off of the fee charged for the remainder of the report.

The homework is the same whether exposure time is in a report or it isn't.

Tennessee permits licensed appraisers to perform evaluations.

In 2010 the Tennessee Attorney General offered an opinion on the practice in a four page document (*Opinion 10-25*).

In that document evaluations must contain the language that, *the evaluation shall be labeled on its face "this is not an appraisal."*

In order for there to be a similar exemption in Illinois, there would need to be a detailed separation between what an appraisal is as opposed to an evaluation.

What safeguards exist for lending institutions who are on the receiving end of a bad appraisal in Illinois?

Easy.

They turn in the report to us at the Division of Real Estate.

What happens if they receive a bad evaluation?

I have no idea. All I know is, they can't turn it in to us.

Is that worth the risk?

Form Reports Q&A



by Lee Lansford—Board Chair

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Fannie Mae form Appraisal Report (March 2005 version) for Private Appraisal

Question: *I am an appraiser licensed in Illinois. Is it acceptable for me to use a Fannie Mae appraisal report form (March 2005 version) in an appraisal for a private client?*

As examples, I want to use the Form 1025 (2-4 Unit Residential), 1004 (SFR) and 1073 (Condo) in appraisals that I do for the general public—that is, non-lender assignments such as for divorce, pre-listing for sellers, tax appeal and others. May I use such forms for these appraisal types?

Answer: *No.*

Your Appraisal Board has issued an opinion on this matter and it can be found in the **January-February 2014** issue of this publication.

The Board previously stated, and continues to assert, that communication of an appraisal using a Fannie Mae (March 2005) report form (in whole or part), where the Intended Use is other than for mortgage or mortgage related purposes (the latter being the 'other' check-box on the 'assignment type' line on page 1 of a Fannie Mae form) is not acceptable under any circumstance and no matter the language which the ap-

praiser may insert in the 'form' in an effort to resolve the conflicts.

Examples (*but not an exhaustive list*) of what constitutes unacceptable Intended Uses:

- Divorce
- Settlement of an estate
- Bankruptcy
- Any matter involving litigation or potential litigation
- Assessment appeal
- Pre-listing for a prospective seller (*or opinion of value for a prospective buyer*)
- A taking by a governmental body (*or the remainder created by a taking*) estimation of loss
- Gift of inheritance taxes

Periodically and too frequently in appraisal reports submitted as a part of a Trainee's appraisal experience for use in license upgrade, the Board comes into possession of appraisal reports that are directly contrary to the Board's guidance. The outcome of such a situation is never a positive for the licensee.

Appraisers have options. There are a multitude of generic appraisal reports forms for your use.

For your own good and, most importantly, for the good of the public which you serve, make use of these options.



AMC Fair Housing Mythology



You've seen the AMC's orders.

"Appraiser is to obscure, blur or remove individuals from photos."

Why?

Fair housing laws say so, that's why.

Do they?

I had my first settlement conference with an AMC recently.

Appraisers have been participating in settlement conferences with Appraisal Board members and Department attorneys for years.

Because there is no Board for AMCs, the opportunity falls to me.

At issue was the ubiquitous *"client requirement"* involving digital masking of people from images.

While lenders and AMCs wave the Fair Housing penalty flag in order to assure compliance; there is NO such law.

Never has been.

Mostly, this issue involves images of people inside their own homes. But it dovetails into exterior views and pictures that include personal artifacts.

When did interior images become a requirement?

They've always been *helpful* in order to support comments on interior condition.

Flaking paint, cracked walls, broken windows, water in the basement, etc. Back in the 1980s when I, like so many of you, shot rolls of film, nobody asked us to cut people out of an image.

For one thing, it was film. There was no way to doctor the emulsion. If someone was in the shot...they were in the shot for good.

When digital photography emerged as a reasonable alternative to film, that's when the possibility of editing came about.

That was about twenty years ago.

Back then, some lenders only wanted a bathroom and kitchen shot.

Why?

I don't know.

Around 2000 is when digital imagery really exploded in appraisal. As the saying goes, *"pixels are cheap"*.

It was then that lenders began requesting images of most interior rooms.

Why?

I don't know.

Some lenders want everything photographed. AMCs pass on this faux *"requirement"* without giving it another thought.

Then they write instructions that people should never appear in photographs or else.

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IllinoisAppraiser

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AMC Fair Housing Mythology



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Let's unpack that.

First, I agree that people shouldn't be in appraisal images if possible. I still have images from hundreds of appraisals that I completed over the years.

I save them for illustration purposes. I have no idea what the addresses or dates are...but I still have the images.

I was hard pressed to find many images that depicted people. There were a few accidental shots and some congested urban street views, but little else.

For the most part, people aren't interested in being in the picture. After all, this isn't a publicity still. These are documentary style images intended for informational purposes.

Still, no matter what time you get to a property somebody may be going to bed, getting up, arriving home from work, going to work, heading to or from a nap (*kids*).

Then there are the elderly or the bed-ridden who cannot, for any number of reasons, leave the room you need to

shoot.

It's just not happening.

What about street scenes?

People are everywhere at all times of the day. We're not shooting a movie. We can't clear the streets just because some underwriter five states away

wants a clean image with nothing to influence them.

Nobody needed ten interior shots of a house in the 1980s or early 1990s.

Why do lenders need them now?

They don't. They just want them.

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Look familiar?

It's baked into every Fannie form appraisers use.

What this means is that the only people capable of making race a factor in a loan file is the lender; not the appraiser.

Appraisers should make every effort to avoid recording an image of a person if, for no other reason than they're probably blocking something you should see.

Lenders need to re-examine the reason for all of these pointless and invasive interior shots.

They add nothing meaningful to the file. Nobody is laying out mortgages for Beanie Baby collections and bad drapes. So why are appraisers wasting megapixels on decorating images?

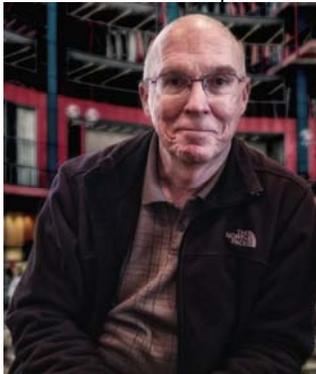
AMCs are on notice to cease **demanding** and **insisting** that appraisers do digital staging.

That is clearly in violation of Illinois law.



Appraisal image taken on somebody's property near a pond.

Experience Log & the Matrix



by Joel Ward – Board Member

Trainee
Residential
General

As I taught the Supervisor-Trainee course last year, one of the most frequent area of questions concerned how to properly complete the experience log, and how the Board viewed experience hours.

This article is intended to address these concerns.

First of all, the statute requires a total of 2,500 hours of appraisal experience for a **Certified Residential Appraiser** and 3,000 hours for a **Certified General Appraiser**.

“Appraisal experience” means time spent in developing and reporting a real property appraisal. It is not intended to include “drive time” to and from the subject property, nor the time spend driving to inspect comparable sales. Otherwise, time spent discussing the assignment with the client, inspecting the property, market data research, assessor and tax record research, analysis, report writing and time spend in reviewing the report with the trainee’s supervisor are all to be included. In each case, the Board is interested in knowing how many hours the trainee actually spent in appraisal development and reporting for that specific assignment.

So, what’s the best way for a trainee to know how much time he or she has spent in a particular assignment?

The answer is obvious: For each assignment, the trainee simply needs to keep track of their time.

A good suggestion to help accomplish

this is to create a “time sheet” for each assignment for trainees to use in logging their time in that assignment. One of the major benefits of this documentation is that, should the Board ever question the amount of time a trainee has claimed for a specific assignment, the time log will provide support for the trainee’s claim. It will also provide support for a claim of hours in excess of the “matrix.”

More on that later.

It is also very important to complete the IDFPR Appraisal Log as soon as the assignment is completed. Not only will this result in a more accurate reporting of the time the trainee has in this assignment, but also a more accurate reporting of the tasks that the appraiser and the supervisor performed in that assignment. The supervisor should then sign off on the log for that assignment at that time. One of the most painful experiences I’ve had as a supervisor was spending an entire weekend auditing the log of one of my trainees that I had not required to keep a contemporaneous log.

To sum up: The “best practice” for trainees is for them to keep track of their time in appraisal development and reporting for each assignment, and then to report that time and the other details on the IDFPR Appraisal Experience Log immediately after completing the assignment, and then to have the supervisor sign off on that assignment.

So, what about the *Matrix*?

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Experience Log & the Matrix

Trainee
Residential
General

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First of all, the matrix is NOT intended to provide the number of experience hours for which a trainee *deserves* credit.

No one intends for there to be a difference between the number of hours which a trainee can legitimately claim and the number of hours that a trainee actually spends in a particular assignment: Those two numbers should be the same.

For example, the matrix shows ten experience hours for a residential URAR where only one appraiser is doing the work. We all know, that when a trainee is just starting out, it's going to take them more than ten hours to complete their first assignment. It will probably take them a day to just figure out the sketching software.

On the other hand, not many of us experienced appraisers could survive if it took us ten hours to complete each assignment. So, nearing the end of the trainee's experience period, many of the assignments will actually take less than ten hours, and should be reported in this way on the log. We also understand that complicated assignments may take much more time than the hours contained in the matrix. For example, one of my trainees recently spent a full day deriving a GRM for a 2-4 family property appraisal assignment.

The experience hours shown in the matrix do function, however, as the maximum number of hours that a trainee can claim for a particular type of assignment, without providing ad-

ditional documentation to support a claim for more hours.

There is a form upon which that additional documentation should be provided: **LOG 7575 Experience Log Excess Hours Request.**

To sum up, if the actual number of hours the trainee has in the assignment is equal to or less than the hours shown on the matrix, then no further documentation is required.

If it is greater, then simply complete and submit **LOG 7575**. The best documentation, of course, would be the time log for that assignment; but if this isn't available, support for the time claimed still needs to be provided, in the form of a description of what required the excess time.

What won't work is something like this: *"This assignment took more time."*

It is not unusual for more than one appraiser to work on commercial appraisal projects. This is taken into consideration in the matrix, where the number of hours is reduced as more people are involved in the project. Note that a supervisor who simply reviews the work product does not count as one of the appraisers contributing to the project. It is especially important in these multi-appraiser projects that the trainee keep track of his or her time and contribution to the appraisal. It is also important, again, that the trainee complete the Appraisal Experience Log and the supervisor review and sign it at the completion of every appraisal assignment.