

# TRAINING THE NEXT GENERATION OF APPRAISERS

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*An Industry Solution to the Declining Number of Appraisers Entering the Profession and Practical Recommendations for Change*



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# Training The Next Generation of Appraisers

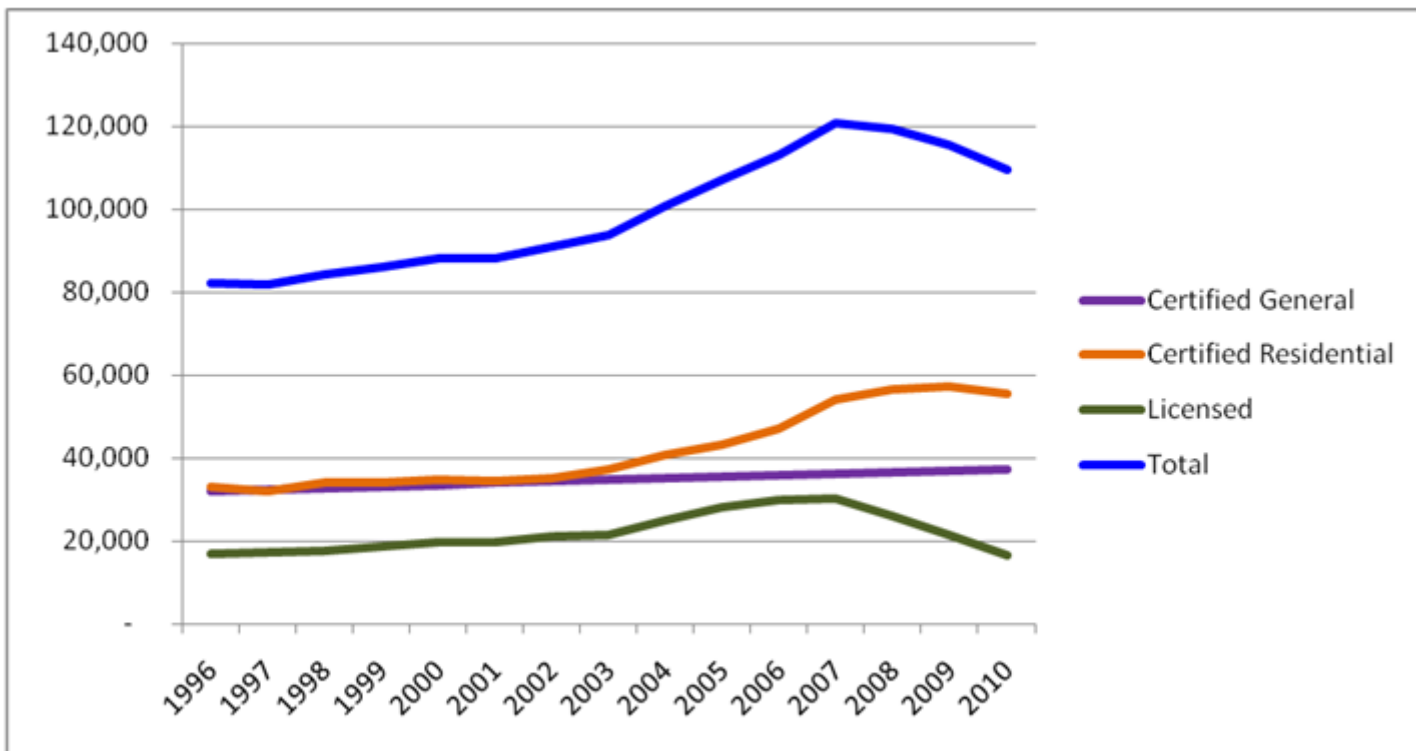
- Is there a problem?
  - Perception vs. Reality – Is there really a decline?
  - Aging population of appraisers
  - Changes in economics due to the HVCC
  - Changing requirements for appraisers – 1004MC, Declining Markets
  - Increasing regulatory focus on appraisals – Dodd/Frank, Interagency Appraisal Guidelines
- If so, what do we do as an industry?
  - Focused on the residential appraiser
- Let's write a white paper!
  - Tony Pistilli, US Bank
  - Alan Hummel, Forsythe Appraisal
  - Tim Forsythe, Forsythe Appraisal
  - John Forsythe, Forsythe Appraisal
  - Tim O'Brien, Rels Valuation
  - Deb Nikodym, Rels Valuation
  - Dan Hackman, Rels Valuation

# Training The Next Generation of Appraisers

- Fact gathering and identification of issues
  - Licensing requirements for appraisers has been increasing
    - 2 year degree or require coursework
    - Increased appraisal related educational requirements
    - 2,000/2,500 experience hours requirement
  - Lenders, investors and government sponsored entities restricted the use of appraiser trainees
  - Change in the economic model for appraisers
    - HVCC – 80% of appraisals now coming through AMC's
    - Incentive to train has been diminished
    - Reduced fees due to AMC involvement

# Training The Next Generation of Appraisers

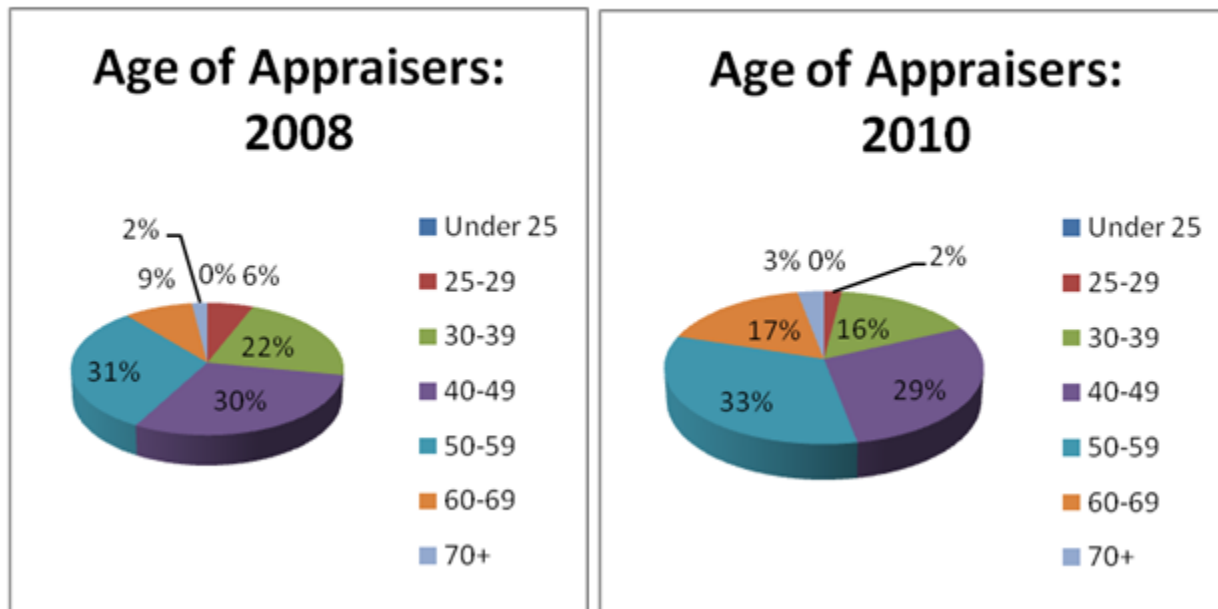
The total number of active appraiser credentials as of 2010 (provided by the ASC) are seen below:



# Training The Next Generation of Appraisers

In two years the number of appraisers over 50 years old grew by 11%

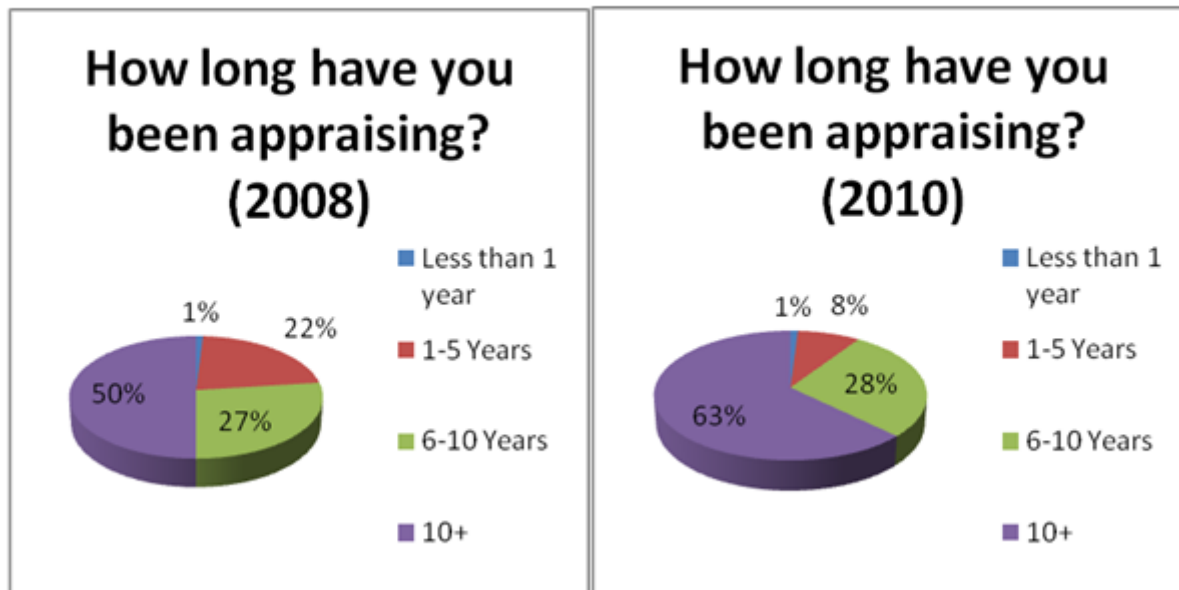
## Age of Appraisers



# Training The Next Generation of Appraisers

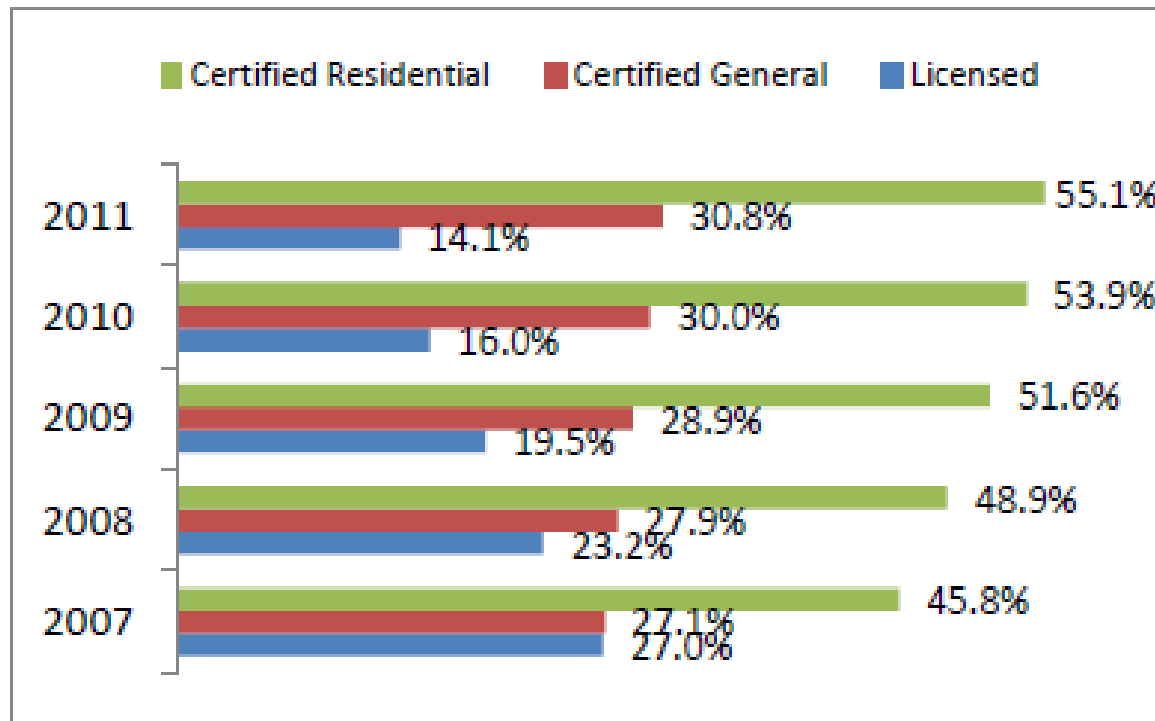
- Experience of appraisers is going up, but... *we are just getting older!*
  - New appraisers entering the profession remains at 1%
  - Appraisers with 1-5 years of experience declined from 22% to 8%

## Experience of Appraisers



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General and Residential appraisers continue to increase  
(Certified Residential increased at a slightly higher rate).



# Training The Next Generation of Appraisers

- Appraisers are getting older
  - Average age is approximately 54 years old
  - Over 60 year old population has increased by 17%
  - New appraisers entering the profession has declined by 14%
- It will become even more difficult to become an appraiser
  - 2015 AQB requirements
    - 4 year degree
    - Background checks
- Economic model for appraisers is broken
  - Difficult to find mentor/supervisory appraisers
    - Restrictions on trainees by states, federal agencies, financial institutions
  - Appraisal fee reductions
  - Increased regulatory requirements
    - Appraisers are doing half as much work for less money



# Training The Next Generation of Appraisers

- The 2,000/2,500 hour dilemma!
  - How does a trainee achieve the experience hours?
- 3 Needs to address
  - Appraisers need to gain the experience
    - 2,000 difficult to achieve
      - Unintended consequences
      - State law restrictions
  - Lenders need to have limited liability
    - Change policies to allow trainees
  - Supervisors need to have an economic incentive
    - Double the work for half the pay
    - Training your competition

# Training The Next Generation of Appraisers

- So....what is the solution?

## ***The START Program*** ***Standards to Assure Responsible Training***

- The goal of the appraiser trainee START program is twofold:
  - *First*, that an appraisal produced in compliance with the standards of this program will have the same level of integrity and credibility as if the appraisal had been completed solely by the supervising appraiser.
  - *Secondly*, and every bit as important, is to provide a system that allows for trainees to be utilized within the appraisal process in a manner that is financially feasible for both the trainee and the employing entity.

# Training The Next Generation of Appraisers

- The program is designed to fit the needs of all three constituents in the appraisal process; the Trainee, the Supervisor/Mentor and the Client.

## **The Trainee:**

- Will be allowed to progress throughout the training period to increasingly higher levels of performing an assignment with independence.
- Will have the opportunity for economic incentive to come into the profession.

## **The Supervisor/Mentor:**

- Will have technical competency.
- Will have skills to train and mentor.
- Will have an economic incentive to take on a trainee.

## **The Client:**

- Will be assured the assignment is completed competently/credibly.
- Will not have any economic disincentive to allow use of a trainee.

# Training The Next Generation of Appraisers

At a minimum, The Trainee and Supervising Appraiser will have met any regulatory requirements applicable to the jurisdiction in which the appraisals will be performed

- Trainee and supervisor must complete any educational requirements required by the state
- Trainee must possess the appropriate license level
- Trainees must be able to achieve credit for their experience
  - State laws may have to be changed?

# Training The Next Generation of Appraisers

## Lender Responsibilities

- The lending institution must “approve” the trainee and supervisor
  - Limited participation for program compliance and continuity
- Application process
  - Determination that all initial program requirements have been met
- Quality assurance program
  - Post funding review for specific program requirements
  - Feedback to trainee and supervisor

# Training The Next Generation of Appraisers

## Trainee / Supervisor Responsibilities

- Supervisor and Trainee agree that the START standards will be used as the basis for skills development, including points at which the trainee will be tested for competency.
  - Training manual “chapters” will focus on field experiences that complement and enhance the previous classroom education.
  - Manual will use a “building blocks” approach, in which student will have to master selected areas before moving on to the next.
  - Process will be flexible enough to allow trainee to move through at a pace that is reasonable for their aptitude and availability of assignments.
  - As trainee passes periodic testing to ensure mastery of skills, they are allowed to perform that portion of the assignment with oversight/review, but will not necessarily require direct supervision (in the presence of supervisor).
  - Supervisor and trainee agree to be audited, at any time throughout the program, for compliance with program standards.
- **The supervising appraiser will still be signing as taking full responsibility for all aspects of the assignment.**

# Training The Next Generation of Appraisers

- Supervisor must accompany and instruct trainee during no less than 40 interior property appraisal assignments.
  - In order for appraiser to be “certified” as trained in a particular property type (SFR detached, Condominium or Attached, Manufactured and 2-4 unit) a minimum of 10 interior property appraisal assignments of that property type must have been completed with the supervisory appraiser.
  - Clients will agree to accept reports completed by trainees enrolled in the START program and agree that the trainee would be able to perform all areas of the assignment “on their own” (but under supervision) that they have been deemed competent by the supervisor as evidenced by field training and testing.
    - Competency Rule of USPAP

# Training The Next Generation of Appraisers

Under the program, the Supervisor agrees to:

- Consider the professional development of the Trainee to be their responsibility.
- Inspect a variety of property types, conditions, locales, value ranges, etc., for as long as it takes for the Trainee to be considered competent in the data gathering and observation process of the appraisal assignment;
  - Continue to inspect properties with the Trainee throughout the first 40 property inspections.
  - Continue to do so as necessary based upon the complexity of the assignment.
  - Show the Trainee how to appropriately and accurately measure and sketch the improvements, which are the subject of the assignment.
  - Show the Trainee how to professionally interact with the property owners in the gathering and giving of information.



# Training The Next Generation of Appraisers

Show the Trainee the differences in types of construction and materials used in different styles, age, and quality types of homes;

- In addition to exposing the Trainee to different properties through the interior inspection process, also encourage the Trainee to become familiar with construction terms by reading, taking a class or walking with them through the local hardware store looking at various components of a property (windows, doors, paint, siding, roofing materials, flooring materials, etc), until they can understand the differences in quality, characteristics of construction (vaulted ceilings, superior mill work, multi-gabled roof lines, etc) *and how this impacts value*.
- Help the Trainee understand and evaluate the condition of a property based upon the quality of the materials used in construction, and the maintenance it has or may not have received.

# Training The Next Generation of Appraisers

Explain the importance of a proper neighborhood description;

- Help the Trainee understand the necessity of adequately and accurately describing the market area;
- Help them understand how to confirm zoning and analyze the affects of a particular zoning classification on highest and best use;
- Help them understand and accurately estimate the effective age of a property;
- Help them recognize, accurately identify, and understand the effects of functional, physical and external obsolescence.

# Training The Next Generation of Appraisers

Teach the Trainee how to develop, document, and defend the Cost Approach;

- How to extract, support and apply any necessary functional or external obsolescence that may exist.
- Help them understand how to calculate and properly apply physical depreciation.
- Show a Trainee how to support land value and instruct them in the understanding and application of cost manuals.

# Training The Next Generation of Appraisers

Teach a Trainee how to support and defend adjustments;

- Show them how the adjustments are derived from the market and how this process is a continual process of research within the office for each element considered.
- Help the Trainee understand the application of the adjustment, or perhaps the lack of an adjustment.

# Training The Next Generation of Appraisers

- Help the Trainee analyze the data after adjustments have been made, and appropriately weight and consider all the information available, including perhaps, sales, listings or offers which were considered but not included in the report.
- Help the trainee write pertinent, necessary, and understandable narrative to provide the reader and users of the report with a clear understanding of the processes, analysis and data gathering that took place;
  - Help the Trainee develop a final reconciliation that is clear, meaningful and supported.

# Training The Next Generation of Appraisers

## Phase 1

### SKILLS TO ACCOMPLISH:

- Subject property inspection routine
  - Professional interaction and interviewing of property owner
  - Take subject photos
  - Accurately measure property and calculate square footage
  - Sketch subject exterior to scale
  - Sketch subject interior
  - Begin to recognize and identify all forms of obsolescence that may exist
  - Begin to recognize and identify property characteristics that contribute to or detract from property value.
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- Once the above is accomplished, a trainee will be able to complete inspections on non-complex properties without the supervisor's physical inspection.

# Training The Next Generation of Appraisers

## Phase 2

Complete reports together on a variety of forms. Trainee to sit with supervisory appraiser for line-by-line review of the complete file

### SKILLS TO ACCOMPLISH:

- Preliminary comparable selection
- Line-by-line reading of the file before turning in to client
- Develop familiarity with MLS and the 1004MC.
- Develop report writing routine
- Prepare cost approach
- Final comparable selection
- Sales comparison adjustments
- Valuation analysis / Explanation of reasoning
- Final reconciliation
- Personal quality review before submitting report to the client to insure accuracy.

# Training The Next Generation of Appraisers

The Supervising appraiser agrees to the "Ten R's" when taking on a trainee appraiser:

## 1. Responsibility

The supervising appraiser takes on full responsibility for a trainee appraiser's valuation reports by signing and certifying that the report is in compliance with the Uniform Standards of Professional Appraisal Practice.

## 2. Reliability

The information that is presented in a report must be accurate and dependable in order to provide a **valid** that they are correctly and properly collecting pertinent and factual data for analysis.

## 3. Research

It is the supervisor's responsibility to ensure that the trainee knows the various sources to gather data and that the data collected is reliable. The trainee should be exposed to any sources of research which would be considered by one's peers in the market place. This would include cost manuals, multiple listing services, public records and internet study.



# Training The Next Generation of Appraisers

## 4. Reason

The trainee must learn to reason independently, and to formulate reasonable conclusions based upon the analysis of the information gathered. The supervisor needs to directly guide then transition the trainee to an independent reasoning process.

## 5. Respect

Both parties in the training process (supervisor and trainee) require mutual respect to create a positive and meaningful learning environment. Questions about the appraisal process or differences in the presentation of information by the trainee should not be considered as "disrespect" but rather should be encouraged as a constructive thought process in the analysis of valuation and a tool for the supervisor to "re-think" old habits and consider innovative thinking. A supervisor has the unique opportunity to form a lasting relationship with their trainee as a mentor and friend. There should be a professional understanding and trust between the supervisor and trainee regarding the education that is taking place.

# Training The Next Generation of Appraisers

## 6. Routine

The trainee should be taught the basic routine of the appraisal process. There should be a consistency and regular pattern of data gathering, analysis and report writing. This enables predictability for both parties and an expectation of results.

## 7. Report Writing

A supervisor has the responsibility of reviewing and critiquing appraisal reports for accuracy; ease of reading and understanding; purpose; and ensuring that all addenda is both relevant and pertinent. It is the supervisor's responsibility that factual data is reliable and that analysis is both supported and documented. All necessary certification and limiting conditions should be up to date and applicable to the assignment.

# Training The Next Generation of Appraisers

## 8. Reflective

The competency of a supervisor is directly reflective on the appraisal industry as a whole. If the supervisor is lackadaisical in their responsibilities it has the potential to discredit appraisers in general. A good, conscientious supervisor not only helps produce a competent, ethical professional, but also creates a positive image of the appraisal profession.

## 9. Rounded

A well-rounded trainee is one that is rigorously supervised, and has many different experiences. A supervisor should expose a trainee to as many different property types, report formats, value ranges etc, as possible, with the understanding that each time a new or unique assignment is introduced, there is a responsibility to instruct and educate the trainee to ensure competency. Creating a well-rounded appraiser helps ensure reliability and validity to the client depending upon the analysis.

## 10. Reconciliation

The supervisor appraiser has the final responsibility to bring the trainee appraiser to a professional level which will enable them (the trainee) to demonstrate competency independently. A supervisor must be able to recognize the strengths and weaknesses of an apprentice throughout the training process and assist the trainee in self-reconciliation of future education needs and career paths within the appraisal industry.

# Training The Next Generation of Appraisers

## Quality Assurance Program

### Lender's Responsibility

- Assure program guidelines and intent are being followed
- Assure quality of each appraisal
- Identify inconsistencies or errors on individual reports
- Identify areas for improvement
- Insure progress towards competency is being achieved
- Provide appropriate feedback to trainee and supervisor

# Training The Next Generation of Appraisers

## Trainee Observations Review Checklist

Doc ID	<input type="text"/>	Loan #	<input type="text"/>
Effective Date of Work Under Review	<input type="text"/>	Date of Work Under Review	<input type="text"/>
Trainee Appraiser	<input type="text"/>	Supervisory Appraiser	<input type="text"/>
Property Rights	<input type="text"/> <input type="text"/>	Client/In	<input type="text"/> S Bank CRM

Property Address	<input type="text"/>						
City	<input type="text"/>	State	<input type="text"/> Alabama <input type="text"/>	Zip	<input type="text"/>	County	<input type="text"/>
Legal	<input type="text"/>						
Parcel #	<input type="text"/>						

### Neighborhood and Market Observations

Are the reported Neighborhood Characteristics reasonable and consistent with the information and photographs for the subject property?

Is the reported Present Land Use information reasonable and consistent with the information and photographs for the subject property?

Are the reported Neighborhood Boundaries reasonable and consistent with the information, location map, and aerial photographs for the subject's market?

Does the reported Neighborhood Description give a reasonable and accurate sense of the area, land uses, linkage, design/ styles of dwellings, quality of public and private services, maintenance levels, etc?

# Training The Next Generation of Appraisers

## Conclusion

- Program provides a realistic approach to gaining experience hours
- Provides assurances to state regulators and lenders
- Allows for an economic incentive for supervising appraisers / appraisal companies and appraisal management companies to train appraisers
- A replicable program that can be used by financial institutions

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