



Kansas Real Estate Appraisal Board 2016 Spring Newsletter

April, 2016

No. 2

A SHORTAGE OF APPRAISERS?

Posted by: David Bunton, March 28, 2016

There has been considerable discussion and debate about the current number of real estate appraisers in the United States. Is there currently a shortage in some areas? Will there be enough appraisers in 3-5 years? Let's take a look at some of the facts influencing the subject.

STRICTLY BY THE NUMBERS

It is common to hear that the number of appraisers has declined by 20% since 2008. While that is true, what is not generally stated is the fact that the number of appraisers increased 20% from 2005-2008, a result of the "real estate bubble." Therefore, that period was an anomaly and not reflective of the past two decades. The chart shown on page 3, developed by the staff of the Appraisal Subcommittee, illustrates the rise and fall of appraiser credentials (nationally) as well as the correlation between appraiser credentials and mortgage originations.

In addition, the number of state certified appraisers has actually *increased* over the past eleven years.

	<u>2004</u>	<u>2015</u>
Certified General	33,725	39,257
Certified Residential	40,726	50,472
Licensed	<u>25,095</u>	<u>8,622</u>
TOTAL	99,546	98,351

Let me first point out that the migration from the Licensed Residential to Certified Residential classification was largely a result of the 2008 Federal Housing Authority (FHA) decision to stop utilizing Licensed Residential Appraisers. Having said that, the number of state certified appraiser credentials has actually increased 20% from 74,451 in 2004 to 89,729 as of December 31, 2015.

While the total number of appraisers hasn't changed much in the past twelve years, there are other factors impacting the perceived availability of appraisers. In large part, these factors apply almost exclusively to the residential mortgage lending sector of the profession.

THE ECONOMIC FACTOR

Even with the "customary and reasonable fees" provision contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) enacted in 2010, there is little debate that residential appraisal fees have stagnated in recent years. Whether it is due to the advent of Appraisal Management Companies (AMCs) or because some users of appraisal services view appraisals as a "commodity," there has been an impact on the number of appraisers

who want to perform appraisals for residential mortgage lending. Many have opted out of residential appraising altogether or have diversified their practice to include such specialties as right of way, insurance, assessment appeal, and litigation support. While the number of residential appraisers remains strong, there may be a shortage of appraisers *willing* to accept assignments below a certain fee threshold.

In addition, the working conditions for many assignments in this sector are viewed as untenable. Many of the pricing and turnaround time models used by AMCs were developed for urban and suburban markets. In rural areas many appraisers refuse to take on assignments due to: (1) the level of compensation; and (2) a short turnaround time requirement when the property is a considerable distance away.

Many clients and users of appraisal services have also asked for more in residential mortgage appraisal assignments. Performing an enhanced scope of work and providing more detail in a report should create an expectation of *greater* fees, not lower. Lower fees, quick turnaround time expectations, and increased client requirements result in an unsavory cocktail for many appraisers; from a strictly economic point of view, it is simply not worth their time.

THE DISPERSION FACTOR

While we can easily identify the number of appraisers in each state through the Appraisal Subcommittee's National Registry, how those appraisers are dispersed in their respective states is much more difficult to assess. There is little doubt that there are counties and towns around the United States that are underserved by appraisers. But how prevalent of a problem is it? To date, we have

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only received anecdotal evidence to process. The Appraisal Foundation's (Foundation) Appraiser Qualifications Board (AQB) is looking into the possibility of conducting a national appraiser dispersion study so that we can obtain empirical evidence.

THE USER EDUCATION ISSUE

Another significant change that has occurred since 2004 is the fact that many lenders today do not want Licensed Residential appraisers or Trainee appraisers involved in the performance of residential appraisals. This decision occurred in large part because of the abundance of caution that lenders exercised following the economic crisis of 2008. It was surprising for us to learn that many lenders believe that Dodd-Frank prohibits them from using these individuals, which is simply not the case. Lenders allowing the use of trainees in performing residential appraisals would provide a great avenue for trainees to gain the experience they need for their state credential. The Foundation is working with the professional associations representing lenders to raise the awareness level that the use of trainees is permissible and should be encouraged.

A LOOK AHEAD

The Foundation has some concerns about the number of appraisers 3-5 years from now and wants to ensure there are no unnecessary barriers to entry for qualified individuals seeking to enter the appraisal profession. It is for this reason the AQB is looking into alternative ways that individuals may meet certain requirements of the qualification criteria.

The AQB's examination of this issue commenced with a Concept Paper issued last July, followed by a public hearing in Washington, DC last October. In February, the AQB issued a Discussion Draft paper, soliciting input on such topics as:

- ✚ Development of an alternative track for upgrading from Licensed Residential to Certified Residential
- ✚ Development of an enhanced practicum curriculum to assist in meeting the experience requirement
- ✚ Allowing and documenting alternative experience from similar real estate related fields
- ✚ Should the "Trainee" nomenclature be changed?
- ✚ Is the three year residency requirement for supervisory appraisers necessary?

The AQB held another public meeting on this issue on Friday, April 8, in Phoenix, Arizona. Following the meeting in Arizona, the AQB intends to propose potential revisions to the appraiser qualifications by issuing the first in what will likely be a series of exposure drafts soliciting public comment. The quality of the AQB's work, as well as all boards of the Foundation, is a direct result of the level of public comment that we receive. I encourage you to get involved so that together we can continue to improve the valuation profession.

About David Bunton

Mr. Bunton has served as the senior staff member of The Appraisal Foundation since May of 1990. As President, he is the Chief Executive Officer of the Foundation. Prior to joining The Appraisal Foundation, he served as the Vice President of Government Affairs and Communications for the Federal Asset Disposition Association. He also previously served as a legislative assistant in the United

States Senate for eight years and was a Congressional Chief of Staff in the House of Representatives for four years. Mr. Bunton holds a BA degree in Government and Politics from the University of Maryland. Mr. Bunton recently received a certificate in the Leadership Series for Non-Profit CEOs from the Harvard Kennedy School of Executive Education.



Concerns regarding declining numbers of appraisers in Kansas and areas of our state that are underserved by the appraisal profession was addressed recently by the KREAB. A short survey regarding declining numbers, possible causes for that decline, and suggestions for correcting same were sent (via e-mail) to Kansas appraisers in September, 2015.

In January, 2016, the Board mapped the state by county population and the number of appraisers (broken down by type) for each.

A copy of the summary of responses to the survey and/or a copy of the map may be requested by sending an e-mail to cheryl.magathan@ks.gov.

ADDRESS CHANGES

K.S.A. 58-4114 requires that each appraiser report any change of business and/or residence address immediately upon the change. Failure to notify us of your address change can result in missing your renewal notice, notice of education audit, etc.

Failure to report a change of e-mail address can mean that you miss e-mail blasts that address statute, regulation, or procedural changes that directly affect your license. The Board's address change form is located at

http://www.kansas.gov/kreab/pdf/licensing/Address_Change.pdf.

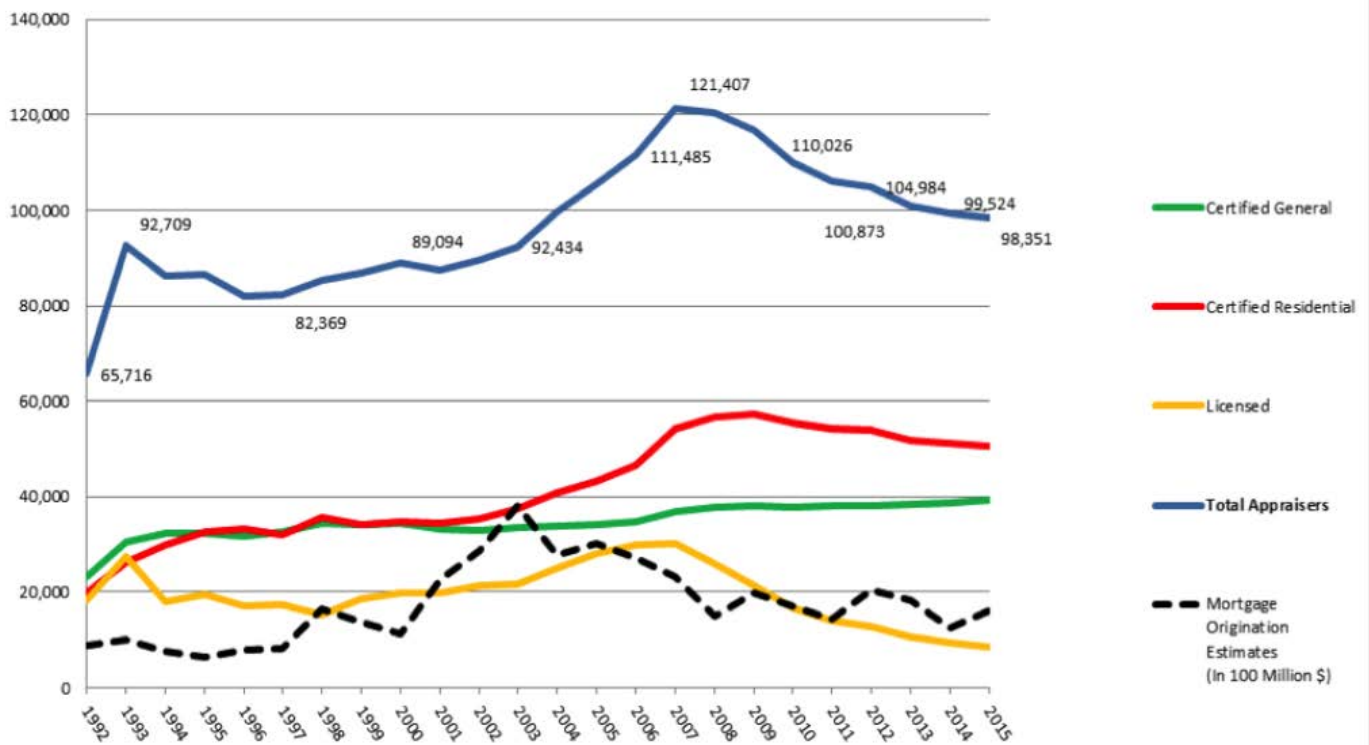
IMPORTANT REMINDER

Renewals are due in the Board office on or prior to May 31, 2016. Renewals received after that date, showing a postmark of June 1 or later will be subject to a \$50 late fee.

On April 12, 2016, The Appraisal Foundation announced that the Appraisal Standards Board (ASB) has issued the First Exposure Draft of proposed changes for the 2018-19 edition of the Uniform Standards of Professional Appraisal Practice.

Link: <https://appraisalfoundation.sharefile.com/d-se27ab233484d3b8>

Mortgage and Appraiser Trends



“DRIVE-BY” APPRAISALS

Robin T. Hannigan, Chair, KREAB

Standards Rule (SR) 1-2 states that in developing a real property appraisal, an appraiser must (b) identify the intended use of the appraiser’s opinions and conclusion; and (h) determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE. The Scope of Work is determined by the appraiser, not the client. If the subject property is a large or unique property with only one data source (the county assessor) the Scope of Work as a drive-by appraisal is lacking. The appraiser is obligated to either expand their Scope of Work to include an on-site inspection or decline the appraisal.

Standards Rule (SR) 2-2(a) and (b) also require that the appraiser (ii) must state the intended use of the appraisal and (vii) describe the Scope of Work used to develop the appraisal. If a drive-by does not provide enough data to develop a credible report, the Scope of work must be expanded to include an on-site inspection. In doing a drive-by appraisal, the appraiser cannot enter the property; to do so without the permission of the owner is trespassing.

If an appraiser is able to develop a credible appraisal by doing a drive-by, SR 1-5(f) requires that the appraiser identify any extraordinary assumptions necessary in the assignment. This would include the extraordinary assumption that the interior of the subject which was not inspected,

is in similar condition as the exterior or as reported by another source.

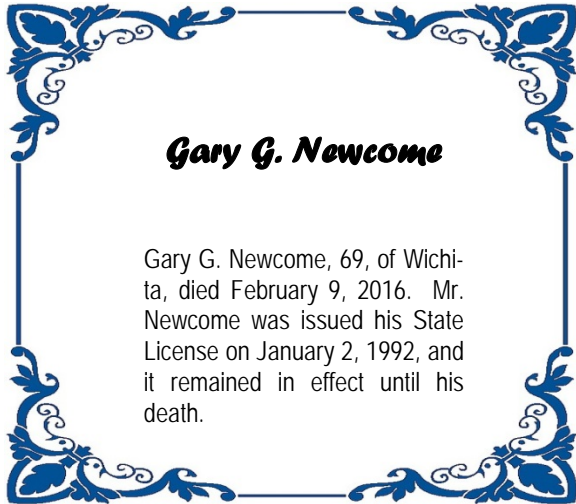


CAN A RESTRICTED APPRAISAL REPORT BE USED IN MATTERS INVOLVING THE COURTS OR LEGAL ISSUES?

QUESTION: I am one of three court-appointed appraisers charged with valuing a property (vacant ag land) and determining a partition. All the court wants is the value of the total parcel and the description of the 1/3 to be partitioned. What type of report are we required to provide to be US-PAP compliant?

ANSWER: The minimum level of reporting for a real property appraisal is a *Restricted Appraisal Report* [please see Standards Rule 2-2(b)]. **However**, a *Restricted Appraisal Report* can only be used if there are no intended users other than the client. If there are additional users, a *Summary Appraisal Report* [see Standards Rule 2-2(a)] is required.





**DISCUSSION DRAFT – POTENTIAL AREAS OF
CHANGE TO THE *REAL PROPERTY APPRAISAL
QUALIFICATION CRITERIA***

In response to changes in the real property appraiser marketplace, the Appraiser Qualifications Board (AOB) is examining potential areas of change for the *Real Property Appraiser Qualification Criteria (Criteria)*. This examination commenced with a concept paper that was issued in July 2015, followed up by a public hearing in Washington, DC in October 2015. This paper is an extension of the issues brought forward by more than one hundred appraisers, users of appraisal services, educators, regulators, and others.

A major concern expressed was a perceived shortage of real estate appraisers in the near future because of recent declines in the number of licensed appraisers nationwide, and current barriers to entry in the profession. The biggest concern was the 1-4 unit residential mortgage lending sector. Certain rural and other isolated markets may have already been impacted by appraiser shortages. A contributing factor is the fact that many users of residential appraisals now only accept those appraisals performed by Certified Residential appraisers. Accordingly, the ability to gain experience for Trainees and Licensed Residential appraisers is diminishing. Another barrier to entry to the profession concerns the lack of employment opportunities for entry-level appraisers.

The AOB believes it is addressing the needs of appraisers and users of appraisal services by introducing potential areas of change to the *Criteria* contained in this Discussion Draft. The areas of the *Criteria* under examination are:

- ✦ Alternative Track for Licensed Residential to Certified Residential
- ✦ Enhanced Practicum Curriculum
- ✦ Documenting Alternative Experience
- ✦ "Trainee" Nomenclature
- ✦ Three-Year Supervisory Residency Requirement

Of paramount importance to the Board when considering any potential revisions to the *Criteria* is the issue of public trust. This umbrella of public trust, therefore, remains the primary consideration of the AOB in putting forth the concepts contained in this document.

**ALTERNATIVE TRACK FOR LICENSED RESIDENTIAL TO
CERTIFIED RESIDENTIAL**

Effective January 1, 2015, the *Criteria* was revised, and changed the general education requirements for obtaining a Certified Residential credential. As stated in Section III.A (page 15) of the *Criteria* handbook, "*Applicants for the Certified Residential credential must hold a Bachelor's degree or higher, from an accredited college or university.*" Accordingly, any Licensed Residential appraiser seeking to upgrade to the Certified Residential level would be required to possess a Bachelor's degree to comply with the new *Criteria*.

Based on responses to the AOB Concept Paper issued in July 2015, and comments made by panelists at the public hearing in October 2015, considerable concern was expressed regarding a perceived shortage of residential appraisers in certain markets. Both respondents and panelists stated the biggest problem involved the lack of Certified Residential appraisers. Many offering comments on the topic suggested that qualified Licensed Residential appraisers be allowed to use extensive appraisal experience, as an alternative to a Bachelor's Degree.

The AOB is examining the viability of an alternative track to Certified Residential for Licensed Residential appraisers that meet a certain threshold of experience, as well as a history of being in "good standing" within their jurisdictions. Several thoughts have been expressed regarding minimal requirements to be considered for this alternative track process. The Licensed Residential appraisers seeking the upgrade would need to be current and in "good standing" with their jurisdiction. The amount of experience required stated by respondents and panelists ranged from five to ten years.

With the required experience and a positive license history, the applicant seeking upgrade would not be required to possess a Bachelor's degree. However, these applicants would still be required to complete the additional qualifying education requirement of 50 hours, as detailed on page 16, Section III.D of the *Criteria* handbook. Upon completion of this additional qualifying education, the applicant would then be required to pass the Certified Residential examination.

The AOB is examining whether applicants who would meet these alternative track requirements for a Certified

Residential credential, would have demonstrated a level of practice commensurate with public trust. Comments requested included responses to the following questions:

- ✦ Do you believe there is a current or impending shortage of appraisers?
- ✦ Should an experienced Licensed Residential appraiser with a proven track record be allowed to upgrade to Certified Residential without a Bachelor's degree?
- ✦ How many years of experience should be required before a Licensed Residential appraiser without a Bachelor's degree could upgrade to Certified Residential?

ENHANCED PRACTICUM CURRICULUM

One of the concerns presented to the AQB at the October public hearing, as well as in response to the aforementioned Concept Paper, was the need to update Guide Note 4 (GN-4) of the *Criteria* in order to accommodate an enhanced practicum curriculum.

The revised practicum curriculum would, in most cases, involve an accredited college or university program based on a semester system. A proprietary school or professional organization could also offer the curriculum, provided they follow a similar time schedule as a college offering. The AQB's initial vision is that each class would encompass a semester time frame of approximately 45 hours. In order to accommodate the enhanced practicum course work, the existing GN-4 would require revision. The practicum curriculum may be comprised of a series of case studies based on actual or hypothetical properties. Each case study could involve a key aspect of appraisal practice. The goal at course completion would be to gain practical experience in the key aspects of the appraisal process. After successful course completion, the student would be assigned a block of core hours to be applied towards obtaining a credential. The experience obtained could qualify as much as 500 to 750 hours per semester, but not in excess of one-half of the actual experience required for a credential. The practicum curriculum would likely occur over multiple semesters.

Another aspect in analyzing practicum curriculum involves intern programs in which educators network with practicing appraisers as part of the process in gaining the core experience.

The AQB is currently reviewing responses to a questionnaire regarding the enhanced practicum curriculum concept that has been distributed to selected educators and panelists from the October public meeting. Those responses, along with comments obtained in response to the Discussion Draft, will assist the AQB in its examination of this issue.

Comments requested included responses to the following questions:

- ✦ Is an enhanced practicum course like the one described above economically viable?

- ✦ Do you believe there would be a sufficient level of interest by educators and students to support this type of program?
- ✦ What are some of the drawbacks of an enhanced practicum curriculum?
- ✦ What is the appropriate length for an enhanced practicum curriculum?
- ✦ What are the appropriate number of hours of experience credit a student should receive for completing an enhanced practicum course?

ALTERNATIVE EXPERIENCE

There has been a great deal of discussion and support for allowing experience from other types of professions related to appraising. These would include the work of property tax assessors, real estate brokers, market researchers, real estate investment professionals, and others. This related experience could comprise a partial level of the overall appraisal experience requirement. In addition, some have suggested that experience gained in partial appraisal work assignments (comprising less than the entire appraisal process) be allowed. This could include market research, data collection, or involvement in parts of an appraisal assignment. Various responders and panelists offered opinions suggesting that experience from alternative tracks or partial appraisal work assignments could comprise up to 50 to 60% of the appraisal experience total.

Another concern expressed involves the total required number of appraisal experience hours. The opinion is that the required experience hours are too cumbersome and restrict entry to the appraisal profession. Suggestions included revising cumulative experience hours and duration to 1,500 hours over 18 months for the Certified Residential classification, and 2,000 hours over 24 months for the Certified General level.

Multiple participants to the Concept Paper as well as panelists introduced the idea of deferring the appraisal experience requirement, whereby an applicant would complete qualifying education and the examination for a specific credential level and then be granted a credential with the ability to practice on a provisional basis for a designated time period. Experience would then be evaluated and approved after this time period.

Comments requested included responses to the following questions:

- ✦ Should alternative experience be allowed towards a real property appraiser credential?
- ✦ If alternative experience is allowed, which profession(s) should be considered?
- ✦ How could alternative experience be documented?
- ✦ Are the current number of hours of experience and length of time appraising reasonable?

"TRAINEE" NOMENCLATURE

Various individuals have suggested that removing the "trainee" nomenclature, as they believe it can be viewed as a demeaning term. One suggested alternative term was "associate appraiser." In addition, the concept of merging the Trainee License level with the Licensed Residential classification was also advocated.

Comments requested included responses to the following questions:

- ✚ Does the term "Trainee Appraiser" have negative connotations?
- ✚ What other terms could be considered in lieu of "Trainee Appraiser"?
- ✚ Should the Trainee License and Licensed Residential classifications be merged?

THREE YEAR SUPERVISORY RESIDENCY REQUIREMENT

Section I.B of the Supervisory Appraiser Requirements (page 10) of the *Criteria* handbook states, in part: *Supervisory Appraisers shall be state-certified and in "good standing" in the jurisdiction in which the Trainee Appraiser practices for a period of at least three (3) years.*

Concern has been expressed that this "residency" period restricts many otherwise-eligible supervisory appraisers in "good standing" from working in multiple states. The opinion expressed was that a jurisdiction should be allowed to grant an exception to this requirement for an appraiser in "good standing" that practices in multiple states and has demonstrated a proven record of competent and ethical behavior.

It is important to note that the AQB is not considering removing the requirement for Supervisory Appraisers to have been state-certified for minimum of three (3) years; the question is whether or not the individual must be certified in the *particular* jurisdiction.

Comments requested included responses to the following questions:

- ✚ Is public trust harmed by allowing someone to be a Supervisory Appraiser, if he or she has not been credentialed in that *specific* jurisdiction for at least three (3) years?
- ✚ Is it reasonable for someone who may not have expertise in a certain region to be a competent and effective Supervisory Appraiser? Would any concerns of "geographic competency" be adequately addressed by the Supervisory Appraiser's obligation to comply with the *Uniform Standards of Professional Appraisal Practice* (USPAP)?



USPAP Q & A

Q. My state's appraiser regulatory agency sent out a newsletter that says a due date is an *assignment condition*, and that failing to adhere is a violation of USPAP. Is this true?

A. Assignment due dates are contractual obligations, but are not assignment conditions under USPAP. Turnaround times and similar items are business practice issues, and are outside the scope of USPAP.

Assignment conditions are addressed in the Problem Identification section of the SCOPE OF WORK RULE (Lines 421-425). The Rule states in part:

Assignment conditions include assumptions, extraordinary assumptions, hypothetical conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work. Laws include constitutions, legislative and court-made law, administrative rules, and ordinances. Regulations include rules or order, having legal force, issued by an administrative agency.

However, an appraiser failing to comply with contractual obligations could potentially be subject to civil penalties.

Q. The expression "public trust" is used in USPAP. What is public trust and who or what is the public in the USPAP context?

A. USPAP mentions public trust three times. The PREAMBLE states that the purpose of USPAP is to "...promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers." The PREAMBLE also states "The appraiser's responsibility is to protect the overall public trust and it is the importance of the role of the appraiser that places ethical obligations on those who serve in this capacity." Lastly, the ETHICS RULE reinforces this concept with "An appraiser must promote and preserve the public trust inherent in appraisal practice by observing the highest standards of professional ethics."

While USPAP does not define public trust, it is clear from the context that it refers to the need for the public to be able to have confidence that services provided by an appraiser are performed competently and in a manner that is independent, impartial, and objective.

The public, whose trust the appraiser must promote and preserve, exists on several levels. The most direct is the appraiser's client. In addition to the client, any additional intended users would be part of the appraiser's public. But, even beyond the client and other intended users,

there are other parties who may rely on the work of an appraiser and the appraiser must be careful not to mislead such third parties. Finally, it could be said that the general public is also part of that public. If the general public cannot depend on appraisers to act as independent professionals and provide credible results, the economy could suffer.

Q. I have a lender client that wants a market value appraisal completed. The property consists of two separate legal lots. The highest and best use for each of these lots is as a separate one-unit residential site. However, the client wants them appraised as though they were one legal lot. The intended use is for mortgage lending purposes.

May this assignment be completed treating these two lots as if they were one legal lot with the highest and best use as one legal lot?

A. Yes. However, complying with the lender's request will require use of a hypothetical condition. If the client is a federally regulated financial institution, the client may also need an "as-is" appraisal.

If the appraisal were based on a hypothetical condition (i.e., market value of the subject as if it were a single lot), and if necessary for credible results, the appraiser would have to develop an opinion of highest and best use of the hypothetical parcel. If this leads to the conclusion that the highest and best use would be subdivision into two or more lots, the appraiser must perform the appraisal recognizing that potential use and may need to perform a subdivision analysis to reach a credible opinion of the highest and best use of the hypothetical parcel.



DISCIPLINARY ACTIONS

Lloyd, Phillip J., Holton
Violations: K.S.A. 58-4121, 58-4118(a)(6), (7), & (8)

A Consent Order was entered into on April 19, 2016, with the following terms and conditions: That Lloyd take and pass the exam of Qualifying Education Module #3, USPAP, on or prior to June 30, 2017; that this course may not be used to meet any continuing education requirement in Kansas; and that Lloyd pay \$440 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.

KANSAS APPRAISERS AND AMCS AS OF APRIL 26, 2015

CERTIFIED GENERAL.....	485
CERTIFIED RESIDENTIAL.....	438
STATE LICENSED	106
PROVISIONAL (TRAINEE)	13
TOTAL	1042
APPRAISAL MANAGEMENT CO.	122

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