

Illinois Appraiser

Sales Ratio

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There was a time when appraisers popped three sales onto a grid, made adjustments, concluded an opinion of value then moved on to the next assignment.

Today, appraisers routinely include five or six closed sales, plus a couple of listings or more.

There was something to be said for the old *Goldilocks* approach.

Three sales, if you chose wisely, *bracketed* your subject neatly.

Even if you had six closed sales, you could still *bracket* pretty cleanly.

But listings. What to do with them?

Some appraisers will actually toss them on to a grid and make no adjustments to the list price...no matter what.

This would be fine if we were in an over-heated market with plenty of full-price offers.

But we're not and we haven't been in many years.

At the complaint level the Board typically sees *token* adjustments to reflect the spread between what an active listing's offer price is and what its actual sale price *might* be.

What, exactly, is the appraiser adjusting for?

Time? Market conditions?

Let's examine an actual listing history:

Listing Date	Off Market	Price
12/27/2006	6/27/2007	\$619,000
6/28/2007	12/28/2007	\$599,000
12/29/2007	6/2/2008	\$599,000
6/2/2008	7/23/2008	\$529,000
3/26/2013	5/31/2013	\$429,000

The table shows an actual listing history for a Chicago *rowhouse* near a university medical center.

At the end of 2006, the market was starting to show signs of cracking. The property was initially listed for \$619,000 and languished on the market for 524 days until June 2008 when there was a \$20,000 reduction to \$599,000.

A lousy 3.23% drop.

An abbreviated listing period of 46 days lowered the price to \$529,000. A \$70,000 plunge (11.69%).

Still no takers.

Finally, its pulled from the market for over 4 1/2 years (1,708 days) then offered at \$429,000 for a couple of weeks and finally sold for \$410,000 on May 31, 2013.

What should an appraiser learn from this?

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Sales Ratio



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Unless the appraiser is *uniquely* familiar with the transaction history, there's no way to know, within a reasonable time, what went down with *this* property from December 2006 through May 2013.

Brokers can be too eager to list the property at any price. Sellers can be stubborn. Reality fails to set in for the broker and/or the seller. The property may have become lost in all of the noise of the real estate collapse.

If an appraiser used this listing from January 2007 through May of 2008, they might have applied some *arbitrary* 5% adjustment and conclude that it should eventually sell for \$570,000 to \$590,000.

But that's not what happened.

It *never* sold with *that* broker.

A different broker, almost 5 years later, successfully listed it for the sale.

Maybe the *last* broker offered it far below what it should've been sold at.

Maybe.

Whatever the motivations were on this *specific* transaction isn't the point.

Appraisers should be looking at the *overall* local market in order to develop a reasonable and supportable list price to sales price ratio.

You'll never learn anything by staring at one deal...or three.

If you were to look at the overall market for this property's location back in 2007 you'd see that nothing *comparable* in this neighborhood sold for over \$420,000.

To *guess* a sales price of \$570,000 to \$590,000 would've had no basis in fact.

Remember, it must be *comparable*. It can't be any pile of bricks in the area from a 20-room mansion down to a studio condo unit.

Even in 2007 there was absolutely no support for the arbitrary 5% adjustment that *some* appraisers seem to apply to every listing they use.

A reasonable approach would be to either *exclude* this listing as an outlier or to make the nearly \$200,000 adjustment and explain the rationale.

Listings are not just filler for lenders. They tell a story but the appraiser is the one who tells it.

Estimating a reasonable listing price to sales price ratio is not for tea leaves and Ouija boards. It requires broad research and analysis.



Log Crabbin'

Trainee
Residential
General

IllinoisAppraiser

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Trainees and those upgrading to Certified General from a Certified Residential credential *hate* the Experience Log.

They *hate* that it only holds three assignments per page. They *hate* all the little check boxes. They *hate* that their supervisor has to sign every page.

Trainees who are issued their *first* credential beginning this month have yet *another* Log (**First500**) to complete before they can dig into the next one.

Hate, hate, hate.

Where did all of this Log business come from?

The **AQB 2015 Criteria** states the following:

An appraisal experience log shall be maintained jointly by the Supervisory Appraiser and the Trainee Appraiser. It is the responsibility of both the Supervisory Appraiser and Trainee Appraiser to ensure the experience log is accurate, current and complies with the requirements of the Trainee Appraiser's credentialing jurisdiction.

Let's parse these two sentences to gain a keener understanding of what we're tasked to do.

An appraisal experience log shall be maintained jointly by the Supervisory Appraiser and the Trainee Appraiser.

This means that the Log isn't something a trainee cobbles together the night before submitting everything to the Department.

Yet, this is precisely what *some* still do.

Trainees ask if they can photocopy

their supervisor's signature across multiple pages so that they don't have to sign so many pages in person.

The answer is, had the trainee been maintaining the Log on a regular basis it wouldn't need to be a *marathon autograph session*.

It also begs the question, how can the supervisor recall what the trainee did three years ago?

The Experience Log is an on-going thing. A living document.

It needs to be maintained on regular basis. Once per week or a couple of times per month. Not something you toss together at the last moment.

Routine maintenance also avoids the other problem of...

My supervisor quit, retired, moved away...passed away.

You cannot force a supervisor who quits, retires, moves away...or dies into signing your Log after the fact.

Face it. Sometimes trainees tick off their supervisors.

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Log Crabbin'

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It's difficult to get someone to sign off on your work when they're not speaking to you anymore.

It is the responsibility of both the Supervisory Appraiser and Trainee Appraiser to ensure the experience log is accurate, current and complies with the requirements of the Trainee Appraiser's credentialing jurisdiction.



Pitfalls—

Those looking to become Certified Residential appraisers need *no less* than 50% of their experience to contain a signed certification in their samples.

If they need 2,500 hours in total then 1,250 hours require signed certifications.

If they submit 4,000 hours...for some inexplicable reason, then they need 2,000 hours with signed certifications; not just 1,250.

This seems to be a problem with those trying to upgrade to Certified General as well.

They need 1,500 out of 3,000 hours to have signed certifications.

We're being flooded with total experi-

ence overages only to find that the applicants are still way short on signed certification work.

Non-Traditional Client—

By far most problems pile up when applicants *reheat* old reports by affixing a new client, namely, **IDFPR**.

Section 1455.200 Acceptable Appraisal Experience Credit

A traditional client is not necessary for an appraisal to qualify for appraisal experience. Experience gained for work without a traditional client cannot exceed 50% of the total experience requirement.

Making **IDFPR** your *Intended User* does *not* mean taking *old reports*, if you only *significantly contributed* for the original client, and making a new report for experience credit.

Applicants are having their Logs **denied** over providing a false log to the Department.

If you've already populated your Log with dozens of *significant contribution* reports; don't be tempted to *resubmit* those same assignments as *signed certification samples*.

It *will* be uncovered.

The Experience Log is not something to be phoned in, rushed, glossed over, faked, or cobbled together overnight.

Take your time and do it right.

Trainee
Residential
General

What's In a Name?

Formal Hearings Tentative Schedule

IDFPR v Starkman
January 28, 2014

IDFPR v Hamilton
February 11, 2014



Appraisers can be so paranoid about going off the *politically-correct* ranch that they end up in a *trick-bag* of their own design.

An appraiser wrote back to the Department as an explanation to a complaint that while she *knew* that the subject property was located in **Ukrainian Village** (a Chicago neighborhood), she wasn't going to mention that in fear of violating Fair Housing laws.

What?

But...that's what the neighborhood is actually called. Officially. Since 1983.

What does Fannie Mae say about neighborhood monikers?

"The appraiser should enter a neighborhood name. It may be a name recognized by the municipality in which the property is sited, such as a subdivision name. If there is not a neighborhood name recognized by the municipality, enter the common name by which residents refer to the location."

Sadly, the appraiser failed to correctly identify the neighborhood out of ignorance.

There are plenty of places throughout Illinois with names that might seem inappropriate but are what they are.

Appraisers should always be cognizant of dubious language. However, there are places all over the state with names that shouldn't be sterilized out of fear of not being *politically correct*.

Christian Hill in Alton is so-named for all of the churches that crowd the area overlooking the Mississippi River.

Chinatown is another familiar example.

Bronzeville, in Chicago, has nothing to do with the making of bronze. But few pay attention to the *real* history behind that neighborhood's moniker.

Remember, the URAR has the following baked-in language:

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

Of course not. They can't be.

The Board has never seen a complaint come in where an appraiser wrote crazy, racist statements or adjusted sales along racial, religious or ethnic lines.

Be mindful of inflammatory language, but also have a keen understanding of the history of your subject neighborhood.



You must complete the 2014-2015
7-hour National USPAP Update Course
(or an AQB approved equivalent)
no later than by June 30, 2014.

Don't be late!

Secret Service

Some assessment officials and employees of townships and counties who also hold appraiser credentials would rather keep that fact under wraps.

“During the week I serve as an assessor in my township/county. On the weekends I moonlight as an appraiser. Do I have to disclose that fact in my private practice reports?”

What does **USPAP** state about this?

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must



disclose to the client, and in each subsequent report certification:

Any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

Assessment work completed on properties within the same jurisdiction where the assessment official or employees *moonlight* as appraisers must be disclosed to the client.

Assessors and employees who hold an appraisal credential must disclose to the client the type of prior service performed regarding the property and this must be included in the report *certification*.

This disclosure is not limited to services provided as part of appraisal practice. Therefore, *each service* must be disclosed to the client and appear in the certification.

Failure to abide by this portion of the **Ethics** section of **USPAP** could result in a discipline.

That’s not a secret.

The chart illustrates the history of Illinois appraisal complaints in each of the past 5 years. It also shows the number of public disciplines for the same period. Remember, cases tend to overlap years. Cases settled in 2011 may have started out as complaints in 2009 or 2010.

Public disciplines, those eligible for posting on the National Registry have consistently ranged from 16% to 28% of all actions taken. The rest of the infractions have all remained non-public or were closed cases.

Public disciplines also reflect non-appraisal topics such as child support issues, criminal convictions, student loan defaults and Illinois state income tax problems.

It should be comforting to see the nearly 40% drop in complaints in 2013 from the record highs of 2010 and 2011.

Calendar Year	Complaints	Public Disciplines
2009	290	32
2010	344	62
2011	346	79
2012	298	57
2013	211	64

Board Opinion

Pat Quinn, Governor

**Manuel Flores,
Acting Secretary**

**Jay Stewart
Division Director**

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Luisa Rivera, Admin Assistant
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The Board has been asked to provide an opinion regarding whether or not it may be appropriate for an appraiser to use a commonly used appraisal report form when the appraiser's actual scope of work and some certifications conflict with the language integral to the form.

The specific situation is the appraiser's use of Fannie Mae Form 1025 (2-4 unit Residential Income Property) as an exterior-only appraisal (i.e., scope does not include an on-site viewing of the improvements) where the intended use is for pre-foreclosure decision-making and the client is a lender (or, an additional intended user if the client is an AMC).



This situation requires that the appraiser insert language in the appraisal report which has the intent of superseding any and all conflicts between the appraiser's actual service and the words embedded in the report form.

Opinion of the Illinois Real Estate Appraisal Administration & Disciplinary Board

1 As a re-statement of what is already understood, the appraiser is *the* one who is responsible for the development and communication of an appraisal which is in compliance with **USPAP**, Illinois license law and Administrative Rules.

The Preamble to **USPAP** states (*in part*):

It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.

2 The Board does not ordinarily provide specific instruction as to appropriate development and/or communication of an appraisal. As such, specific to the responsibilities cited in **1**, the Board will not make an exception and will not provide specific guidance.

3 As a broad generalization, the fact alone that an appraisal report contains certain *appraiser-made revisions* to a form developed by others, does not necessarily constitute automatic non-compliance with **USPAP**, Illinois license law and Administrative Rules.

However, this does not preclude the possibility that some *appraiser-made revisions* are inappropriate and would result in a **non-compliant** appraisal report.

4 **EXCEPTION:** The Board has previously stated, and continues to assert, that communication of an appraisal using a Fannie Mae 3-2005 report form

Board Opinion

The **Board Opinion** article is the actual text voted on by the Real Estate Appraisal Administration and Disciplinary Board at the January meeting in Chicago.

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(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 appraiser may insert in the form in an effort to resolve the conflicts.

Examples *(but not an exhaustive list)* of what constitutes **NOT ACCEPTABLE** Intended Use:

- Divorce

- Settlement of an estate
- Bankruptcy
- Any matter involving litigation or potential litigation
- Tax 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
- Etc.

Enforcement Actions

KPMG LLP—Unlicensed

KPMG LLP and its employees and partners shall desist from all unlicensed appraisal activity. KPMG LLP shall pay \$15,000 pursuant to applicable law and shall tender to the Department a complete written copy of the policy changes and implementations of procedures regarding the use of licensed Real Estate Appraisers.

Robert L. Kruse—553.001709

Refuse to Renew plus a \$2,000 fine for misrepresenting the completion of CE upon renewal.

Darryl McKinley—556.002600

3 month suspension ending on *March 18, 2014* for an inadequate appraisal report involving the property at 7316 South Emerald, Chicago.

Linda Salas—556.003818

18 month indefinite suspension plus a \$500 fine over an inadequate appraisal involving the property at 5746 South Throop, Chicago.

Jack Heeren—556.003353

Refuse to Renew regarding his failure to cooperate in the investigation of an appraisal performed on 2314 Kildare, Chicago.

