IRR Residential®

Local Knowledge ... Nationwide

Best Practices

by

Thomas M. Munizzo, IFA, DAR, CAR

Chief Appraiser and Compliance Officer

2008 No Cal AI Conference

San Francisco

IRR Residential®

Best Practices - Overview

IRR Residential®
Local Knowledge ... Nationwide

- Challenges
  - Impacting the lending industry
  - Impacting valuations and the appraiser
  - Impacting the appraisal profession Best Practices
- Best Practice – Do’s & Don’ts
  - Alternative Valuation Products & AVMs
- Most Common Errors and Omissions

Best Practices – Industry Challenges

IRR Residential®

Local Knowledge ... Nationwide

- Housing prices peaked in 2006 and turned downward
- Mortgage delinquencies started to rise, especially on subprime mortgages
- Decline in house prices and rise in mortgage delinquencies increased concern about default risk of MBSs and the CDOs based on them
- Credit rating agencies began downgrading the securities and monoline insurers, reinforcing investor concerns
- Investors couldn’t tell good securities from bad securities because they were too complicated
- As a result, prices of the securities fell further and some markets dried up (lemons problem)

Best Practices – Appraiser & Valuation Challenges

IRR Residential®

Local Knowledge ... Nationwide

- First “extended” down residential real estate market in over 25 years
- Understanding how to read Market Change
- Understanding how to Forecast
- Understanding impact of Décor/Appeal and condition in a soft market
- Oversupplied inventory, new construction and effect of substitution on marketplace
- Foreclosures, short sales and lack of arms length transactions
- Concessions
- Extended Days on Market
- Lack of “good” comps, homes just aren’t selling

Best Practices – Appraisal Profession Challenges

IRR Residential®
Local Knowledge ... Nationwide

	Licenses	Individual Appraisers
2001	**87,500**	**75,000**
2008	**121,300**	**105,000**

- **An increase of almost 34,000 licenses, which represents about 30,000 individuals**
- There was no corresponding increase in the membership of the professional societies
- *What type of training did these appraisers receive?*
- *Who did the training?*

Best Practices – Don'ts

IRR Residential®

Local Knowledge ... Nationwide

- Failed to manage to the needs of the client
  - Resulted in a reduction of existing business
  - Resulted with the client going elsewhere
  - Was unable to be flexible with price & product
  - Not switching or incorporating more diverse products into the existing business model
  - By the time originations started to end it was to late to incorporate another business model.

Best Practices – Don'ts

- Did not merge or sell when they had the chance
- Spent $$ on search.coms which resulted in little return
- Failure to downsize or upsize the company staff in relationship to the commercial and residential work flow. Many surveyed indicated they hung onto staff to long.
- Employed or contracted with Old Mules rather than employees which have the drive and ambition to succeed
- Owners failed to pass on and delegate responsibilities of the office, instead trying to do everything which resulted in poor company performance
- Not enough marketing
    - Effort
    - Diversified or target focused

Best Practices – Do's

IRR Residential®
Local Knowledge ... Nationwide

- Let the mortgage brokers and bankers know that you understand what they are looking for.
  - Become an associate member
  - Sponsor an event
  - Volunteer
- Network with a commercial firm who does not have a residential business unit
  - Creates a referral network for both sides and can help reduce overhead through joint marketing
- Reach out to your clients "Position yourself as a consultant for life with your clients."
  - What can we do for you? Promote strong ethics.
  - Have monthly meetings and bring them information
    - Breakfast and lunch invitations worked the best
    - Educational seminars

Best Practices – Do's

IRR Residential®
Local Knowledge ... Nationwide

- Redirect your marketing efforts, "Define a target market area and create a list of targeted accounts".
  - Reassign a staff person to a full time marketing position
  - Focus on quality control and compliance - especially to the banks
  - Promote nothing but the highest quality reports go to your clients
  - PR to the point, "If you want to know the real value, then you need to use us and this is why".
    - Put together some mini presentations on
      - Value trends in the area
      - FHA, Relocation, QC Review
      - Newsletter

Best Practices – Do's

IRR Residential®
Local Knowledge ... Nationwide

- Make sure to get your staff FHA approved.
- Many appraisal shops are requiring their IC's to get their own E&O policies to help reduce costs and the risk of added liability as a supervisory appraiser.
- Work on the fundamental concepts of value taking advantage of the current marketing trends to promote through the smaller local newspapers and online forums.
- If you are a managing director go back in the field. This is the perfect time to get back in touch with the market and the profession.
- A shift in attitude will begin to take place from the originators and processors who's compensation are being based upon the quality of the loan and not the quantity of the loan

Best Practices – Do's

IRR Residential®
Local Knowledge ... Nationwide

- Market to Non Lenders
  - CPA's, Attorneys, Realtors, Homebuilders etc
    - Litigation valuations
      - Divorce
      - Foreclosure & REO
      - Repurchase Demands
        - » Fraud
        - » Misrepresentation

Best Practices – Do's

IRR Residential® Local Knowledge ... Nationwide

- Valuation Diversities
  - Redirect to foreclosure & real estate owned (REO)
    - Create a complimentary product to replace the BPO and which sells what the real value is in its current state
    - Network and market through the appropriate channels
    - Make sure you attend and take some foreclosure and REO appraisal classes. Whatever it takes, remember the following:
      - » AS IS value + cost of repairs DOES NOT EQUAL the AS REPAIRED value. There is usually a contributory value of those repairs that the market recognizes.

Best Practices – Alternative Valuation products

IRR Residential®

Local Knowledge ... Nationwide

- Partner with product providers which can supplement your valuation services
- Risk Mitigation Products – for pre & post funding to help predict delinquency through identifying assets of risk
  - Type of Risk are: Property, Borrower, Identity, Income, Broker, Market, Appraisal, Repurchase, Income, Demographics, Joblessness, Change in mortgage rates, etc.
    - LoanSafe 2.0 – Lender focused
    - PRISM – Predictive Risk Index Scoring Modeling – Portfolio analysis
    - AVM's
    - QC Vigilance – Validate and assure the quality including the comparables
    - GAAR – Generally Accepted Appraisal Rules for both compliance & risk. This is a tool to be used by quality control reviewers.
    - Collateral Review Services – Comparable weight & Appraisal Audit

Best Practices - AVM

- Example - Fiserv CASA – leverages a large property records database and multiple market-specific analytical approaches to provide additional information on property values
  - Utilizes Fiserv Case-ShillerÂ® Home Price Indexes
  - Includes data for hundreds of economic variables, including interest rates, demographic trends and labor market conditions.
  - Measures changes in state, metro area, county, and zip code markets.
  - The indexes use repeat sales pricing technique to evaluate the housing markets.
  - Uses data on single-family home re-sales, instead of appraised values, to spot the trends in constant-quality home prices.

- Omissions
  - Adjustment of active listings for LP:SP ratio
  - Remaining economic life
  - Negative time adjustments in a declining market or commentary on why none provided
  - Not providing a second verification source
  - Type of financing and concessions left blank without any explanation
  - Review of photos for deferred maintenance that is noticeable and inclusion of that information in your appraisal report

Best Practices-Most Common Errors & Omissions (FHA)

IRR Residential®

Local Knowledge ... Nationwide

- Pictures of the subject for FHA which do not include all sides of the property and any additional exterior improvements which contribute to the overall value. IE: Deck, porch, garage etc
- FHA no longer requires the use of the VC or HBS forms
- Inadequately verifying the comparable sale for FHA
- Failure to include HUD as an intended user and the intended use for support of the underwriting decision for a FHA insured loan
- Failure to adequately condition the appraisal report subject to the correction of the repairs for FHA. Remember, if the repair fails – Safe, Sound, Sanitary and Secure - the repair MUST BE CALLED for.

IRR Residential®
Local Knowledge ... Nationwide

- Unsupported floor adjustments on high rise condo's when eyeball paired sales clearly shows that no adjustment is warranted.
- Incorrect depreciation: remember eff age+rel=TLE and eff age/TLE=%depreciation.
- Additional appraiser's certifications which try to limit liabilities
- Providing a cost to cure for cosmetic or curable repairs
- Site adjustments are made inconsistently IE: $3, $7, $15 PSF
- Inconsistent line item adjustments without any explanation (subjective)
- Unsupported appraised values! A good rule of thumb is to have the value supported by at least one sale prior to adjustments and two sales after adjustments. Look for modes in the adjusted value range. Something should point to the final value indication

Best Practices - Conclusion

Local Knowledge ... Nationwide

Thank You!

Thomas M. Munizzo, IFA, CAR, DAR
Chief Appraiser and Compliance Officer
IRR-Residential
(708) 467-0545 – Chicago
(913) 261-1880 – Kansas
(312) 865-5183 – Cell
www.irr-residential.com

Best Practices – Alternative Valuation products

IRR Residential®

Local Knowledge ... Nationwide

- Realquest, History Pro with AVM access to VP4, PB6, HPA and Pass
- Bluebook
  - Appraiser Base - **Cost Approach, Property Replacement Costs & Market Values.** Designed for the Appraisal Industry.
  - The B.E.S.T. 7.5 residential cost estimating software
  - Able to incorporate into your appraisal reports!
  - Insure Base - Insurable Interest Report (replacement cost)