

# Appraisal Engagement Letters & Collection of Bad Accounts

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## The Collections Arc: From Business Model Through Collection

- Determine your collection tolerance -  
*Your Business Model*
- Pre-qualify your clients
- Engagement letters
- Prompt invoicing
- Collections process

## Determine Your Business Model and Your Tolerance Risk

- Collections is as much about the types of assignments and clients you want to take, as it is about the amount of time you may want to invest in making the collection.
- The range of collection problem you can structure for your business probably ranges from near zero to much more.
- But a growth model for your business will include exposure to some collections and bad debt write-offs.

## Pre-qualify Your Clients

- The type of assignment can invite collection problems/solutions
- Avoid clients that are likely to be a collection risk
- Carefully manage client expectations
  - Hitting a predetermined value
  - Who will work on the job
  - What is reporting format
- Determine who is the billable client

## Engagement Letters:

- Anticipate possible misunderstandings
- Key phrases in the letter
- Standard attachment, or Conditions

## Different Payment Plans:

- COD
- 50% deposit - *in advance*
- 100% - *in advance*
- Fee - *upon completion*
- Fee - *30 days after completion*
- Fee - *on close of escrow*

## Payment Plan:

*Use a different payment plan for different assignments.*

- Lender
- Divorce - *get it all in advance*
- Litigation
- Public agency - *very slow in paying*
- Corporation
- Arbitration - where you are:
  - Neutral appraiser
  - Sole appraiser

***Beware when dealing with someone who is an agent for the person paying for the appraisal:***

- Attorneys
- Real estate agent
- Lender
- Who is “directing” the appraiser’s work?

## Dealing with Change Orders:

- Tell the client *right away* if there is a change in the fee
- If it's an hourly job, and the fee is getting too big, let the client know
- Put it in *writing*, even if it's just an email
- Set out a system of progress payments

## Invoices

Send out invoices *promptly*.

- Make sure the invoice gets to the right person
- Anticipate information the client will need to pay the invoice

## Following Up

Follow up if not paid *promptly*.

- Follow-up time should vary based upon client and anticipated issues
- Tips on getting client's attention

## The Psychology of Collections

- Appeal to their honor
- Threaten them
- Be soft and understanding
- Enlist a person with influence over the debtor
- Mechanic's lien

## Collection: before going to court

- The nasty letter
- Call everyone you can think of
- Be sure to add interest

## Collecting In Court

- Binding arbitration
  - What does it cost?
  - How does it work?
  - AAA
  - JAMS
  - Other alternatives
- Mediation

## Small Claims Court:

- Limit is \$5,000 in a claim.
  - File as many claims for up to \$2,500 each
  - Can only file 2 claims per year that ask for more than \$2,500
- Other constraints: no lawyers allowed

## Small Claims Court:

- How to prove your case? To help tell your side, bring evidence such as:
  - Witnesses
  - Photos
  - Bills
  - Contracts
  - Your appraisal report

*For more info, visit:*

<http://www.courtinfo.ca.gov/selfhelp/smallclaims>

## Sources of Info

- [www.deadbeatlistings.com](http://www.deadbeatlistings.com)
- [www.appraisersforum.com](http://www.appraisersforum.com) - under the heading "The Good, The Bad, and the Ugly"
- Appraisers in your community

## *In conclusion...*

- You can control your business practices, but you can't control your client - 80% of the solution to bad debt is *in your control*
- Some types of appraisal work have more collection risk - doing this type of work is a business decision
- Unless you're suing for **BIG** bucks, and your client is good for it, *stay out of court.*
- If you have a bad account, don't procrastinate: do **SOMETHING.**

Thank You

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