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Shades of competency in the appraisal field

December 09, 2009 - Appraisal & Consulting

Appraiser competency has been in the news recently. Sellers, buyers, and agents accuse appraisers of not having it. AMCs are taking fire for reportedly sending unqualified home appraisers to the detriment of transactions.

NAR conducted a survey earlier this year where 71% of Realtors noted increases in use of appraisers not from local areas. They reported increased appraisal turnaround times and lost sales due to appraisal issues. The appraisal industry reports many appraisers' experience short turnaround items, are sent to "out of market" areas, endure heavy handed reviewing, pressure on comparable selection and market interpretation, and decreases in appraisal quality.

Encarta defines competency as the ability to do something well, measured against a standard, especially ability acquired through experience or training.

USPAP does not define competency. But it does define competent behavior. USPAP's Competency Rule says: An appraiser must: (1) be competent to perform the assignment; (2) acquire necessary competency to perform the assignment or (3) decline/withdraw from the assignment.

An example: During a quiet week, a mortgage-related assignment comes from an AMC on property in an unfamiliar, quirky market a long distance from home. Turnaround is short and the fee ... competitive. When the moderately seasoned appraiser, a survivor of the re-fi boom, reaches the property, she is faced with a) unusual property characteristics; b) unfamiliar market; c) limited market data, etc.

Let's explore further: USPAP notes competency includes factors such as: familiarity with specific property types, markets, geographic areas. If such factors are "necessary to develop credible assignment results, the appraiser is responsible to competently address that factor." Further, where locational/geographic competency is necessary, an appraiser unfamiliar with "relevant market characteristics" must develop understanding necessary to produce "credible assignment results" for that property type and market.

For this appraiser, another few hours viewing sales and talking to local market sources is not an option; neither is a return trip. The appraiser sits in the car and ponders. Tight turnaround, short fee, odd property and market, little data. The appraiser takes a "conservative" position. The "low" appraisal then is blamed for making the "deal" founder.

Another appraiser. Same property, same assignment. This practitioner lacks the good intentions of the first. He pulls together the first few comps that can be made to "fit," hits the number and moves on to wreak further havoc. This appraiser isn't overly interested in the niceties. The deal works, until future foreclosure. In these cases, the results are different, but damage has resulted. The appraisal process' integrity is tarnished.

A third appraiser sees this as an "unacceptable assignment condition" and communicates with the client. The risk is that the AMC, wanting turnaround, results, is unreceptive. The fear is that this appraiser's frankness affects future engagement possibilities.

Are there solutions? First, appraisers can take "out of area" assignments but must be prepared to do the work competently. Appraisers must take their professional responsibilities regarding competency seriously. Next, bad actors and those jobbing the system need to be weeded out. Further, AMCs need to begin to refine current rough cut appraiser selection processes resulting from HVCC's hasty creation. AMCs are imperfect vehicles but may be the best choices now for some, but not all. Moreover, HVCC needs overhauling. Finally, for residential appraisal to improve, market participants must give appraisers and what they do fresh respect.

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