

Spring 2015

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TRAINEE COURSE



SPRINGTIME SAFETY



HIGHEST & BEST USE



2015: New Year, New Rules

Winter months might mean slower business for appraisers, not so for the Real Estate Appraiser Commission. In just a few short months 2015 has already proven to be a year full of important changes. It all began January 12th, when the commission met to formally approve new rules and changes mandated by the Appraisal Qualifications Board.

Each spring
Nashville hosts an
International
Cherry Blossom
Festival

The rule-making hearing was packed with appraisers from across the state, members of several appraisal organizations, and representatives from the Appraisal Subcommittee in Washington, DC. Commissioners voted in the new college education requirements, the inclusion of background checks, and several other rules affecting new applicants. The hottest topic up for debate was certainly the proposed change to education requirements, and whether or not Tennessee would join a growing number of states in phasing out the in-class requirements for qualifying and continuing education.



The commission members at work. From left to right: Timothy Walton, Fred Mackara, Nancy Point, Gary Standifer, and Randall Thomas.

Online education, also known as distance education, is accepted by all states in some capacity. Tennessee's current requirement is that half (fourteen hours) of the continuing education necessary for renewal must be taken in the classroom, but appraisers have the option to take the remaining half (fourteen hours) online. Qualifying education, on the other hand, is used primarily for pre-licensing by initial applicants and trainees. Tennessee remains one of a handful of states (including New York, Nevada, and Massachusetts) that requires all courses approved for qualifying education to be taken in the classroom setting. The proposed rule change would have made it possible to take these courses via distance education.

2015 AQB Changes: A Recap



For trainees and appraisers looking to upgrade to a new credential, the AQB has issued these requirements which went into effect January 1st, 2015:

- Bachelor's degree required for Certified Residential and Certified General. 30 hrs of credit or Associate's Degree for State Licensed.
- Initial trainees must submit to a background check.
- Trainee/Supervisor course required (see page 3).
- Experience and qualifying education amounts have been increased...

State Licensed: 150 hours QE and 2,000 hours experience.

Certified Residential: 200 hours QE and 2,500 hours experience.

Certified General: 300 hours QE and 3,000 hours experience.

The hearing also served as a public forum, with many appraisers coming forward to express concern about a possible change. Most worried about the perception of lower standards for the profession, with many emphasizing the importance of classroom interaction not just for problem solving, but professional networking. Dan Bradley and Emily Onuffer of McKissock, one of the state's largest education providers, gave a presentation dealing with some of the misconceptions they'd seen surrounding distance education. They demonstrated how online courses are vetted for content and delivery and provided a cost-benefit analysis for an average appraiser. After a vigorous question and answer session with the commission members, chairman Mark Johnstone put motion to an amendment for keeping the current requirements. In a 7-1 vote, the existing rules were kept in place.

For more information, including video and minutes from the meeting, visit our website.



New Trainee/ Supervisor Course: What You Need To Know

One of the AQB criteria changes for 2015 is a requirement that new trainees and their sponsors must take a course specifically designed for the supervisory process. After careful review the commission has set forth the standards for a 7-hour trainee/supervisor course. The first of these classes was approved in February, and several more are currently in development.

The course is only required for new applicants and their supervisors, but all existing trainees and supervisors are strongly encouraged to take the course. It counts towards CE. You'll learn about the expectations and responsibilities for each role in this important relationship, along with qualification and credential requirements specific to Tennessee. Check with your course provider of choice to see if they are planning to implement this new class.

Q: I'm currently a sponsor... am I required to take this course?

A: Only if you add a new trainee. You'll each include a certificate with their application.

Q: I already have my trainee license... am I required to take this course?

A: Only if you change your sponsor, or decide to add another one.



CREEPING BACK INTO SPRING

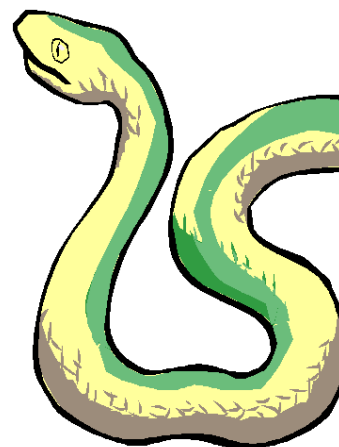
TALES FROM THE CRAWLSPACE

Written by Nikole Avers, TREAC Executive Director

Not everyone knows this, but I am a real estate appraiser and have been for many years. I began appraising back in Iowa and continued my practice when I moved to Tennessee. I am a certified residential appraiser and truly love houses. The architecture of residences has always appealed to me and many mornings I will happily watch home improvement programs as I putter around my own house. I've never minded getting dirty and fixing things myself. Perhaps I can be a bit bold when it comes to houses, but I am a jump in with both feet kind of woman... I learned this is a little dumb when it comes to crawl spaces. Have you ever just been in a hurry and maybe gotten yourself in a predicament because of it?

Imagine it is early spring and the snow is just beginning to melt. The grass is just begging to green up in places and spring is a breath away. You have overbooked your day of inspections and you have to see three houses today. The ground is damp and you pull up in front of a ranch style house with a crawlspace just big enough for one lean person to get into to see that nothing is going "wonky" (yes, that is a technical term) under this house that has been vacant at least six months. It's a HUD foreclosure and it has just received a contract for purchase, subject to FHA financing and the appraised value. That also means the house has to meet the FHA requirements for security of the loan.

Now, I have a huge flashlight for just such occasions... so where do I put my trusty flashlight? On the ground, of course! It isn't going to fit with me as I wiggle through the door. So imagine it... I am wiggling into a dark, wet, musty-smelling crawlspace head first. I didn't even look in before going because what am I going to see, besides about six inches of dirt and cobwebs? I get about three feet inside when I begin to grope back for the flashlight down by my knees. Suddenly I feel something moving by my head. Something else moves. A lot of somethings. I want to scream at this point because I realize I am being covered in snakes. These are cold snakes waking up from hibernation.



Maybe I screamed... I probably did. I remember getting pulled out of the door by my feet. Garter snakes are harmless— thank goodness! Lesson: don't go into dark places without checking them out first. Your flashlight and your common sense are your first lines of defense. Clearly, I left without both that morning. Also, despite my close encounter, not a single snake even attempted to harm me. Snakes generally want to be left alone. I think I was the one that was the most freaked out.



SNAKES

March is the beginning of a very busy season for snakes as they emerge from hibernation and begin to breed. Unlike most other times of the year they'll be traveling great distances and active during the daytime. By far the most common snakes you'll encounter are completely harmless— black racers, rat snakes, king snakes. But in all cases avoidance is the best policy. In Tennessee it's actually illegal to harm, kill, remove, or possess our native snakes. Attempting to prod or move a snake in one direction or another will often backfire as the snake perceives an attack. Best to allow the snake to move on its own terms, even if that means taking a few extra minutes or an alternate route.

Tennessee is home to over thirty species of snakes, but only four of them have venom harmful to us. All are pit vipers, which means one of their distinguishing features is a heat-sensing notch or "pit" between the eye and nostril. Each has a triangular head, although some harmless snakes will mimic this feature. Most tellingly, all share a vertical slit eye instead of the usual round "O" shape. From a distance: if the snake appears long and thin, chances are it's harmless. All of our venomous snakes appear thick and heavy looking.

Each year there are between seven and eight thousand venomous bites in the U.S., with a mortality rate around 1 in 500. Often these deaths are related to a particular chemical allergy or a preexisting medical condition. If you're bit, it's important to remain calm. You'll want to seek medical attention but fortunately in most cases observation is all that's required. Limit movement in the affected area and keep the bite below heart level. As tempting as it may be to reach for an aspirin or a bottle of whiskey, you shouldn't do anything to increase blood flow. You don't want to restrict it either, so avoid tourniquets and remove watches, jewelry, socks, anything that would keep the venom concentrated.

SPIDERS & INSECTS

Tennessee has two poisonous spiders, both are somewhat infamous: the black widow and the brown recluse. The recluse gets its name from the lengths it will go to find a dark, undisturbed home but black widows are often found in human proximity. The truth is both avoid us whenever possible and bites are very rare. Most occur when they've been poked, squished, or otherwise injured. Even then these are often "dry" bites... meaning they contain no venom. Venom is a precious resource to these spiders and essential for capturing prey, even in defense they conserve it whenever possible.

Once these spiders get established in a home it can be difficult to remove them. Be wary of homes with lots of junk or woodpiles, and always pay attention when in attics, basements, and crawlspaces.

Bites are initially painless, you may not even realize it's happened. Hours could pass, you may be at another property, you may be home in bed, but eventually redness and soreness will reveal the site of the wound. In some cases bites can result in tissue damage, nausea or allergic reaction so depending on your symptoms you may need to contact a health care provider once it's clear you've been envenomed.

In spring the world starts buzzing with all manner of insects. Bees, wasps, and hornets pose the most risk to humans. Make sure someone at your office knows about any allergies before you head out into the field. Including an epinephrine injector in your first aid kit could mean the difference between life and death. Wasps are predators and play by slightly different rules, attracted to human food and garbage. Upon encountering a vulnerable insect or a nest, your first instinct may be to destroy it... but that's much riskier than simple avoidance. Swarms occurs because each of these insects release special chemicals to signal when they're under attack. Besides, a bee hive is essential to spring's pollination process.



This spring be mindful as you do your inspections, wear a good pair of boots, and remember you aren't the one out there with an important job to do.



HIGHEST AND BEST USE: More Than Just A Check Box

By Rachel Massey & Woody Fincham



As review appraisers, one of the issues that we see all the time is the failure to analyze highest and best use for a market value opinion related to mortgage lending appraisals. This makes sense to a large degree, because many appraisers believe that providing the "yes" answer relieves them of further analysis and communication. We wanted to address this topic and offer some insight as to why one may want to rethink their approach to this common issue. In that light, we thought that we would look at a key part of the valuation process, but one that often gets overlooked in residential reporting: Highest and Best Use. With the majority of reports being written on pre-formatted reports

from Fannie Mae, many appraisers skip over this section as nothing but a box to check.



As appraisers, we are by nature opinionated. We have a tendency to believe our way is the only way, or the best way, and although we may expect perfection, none of us come into the world knowing how to appraise. Appraisal learning is life-long, and perfection is not possible, although we strive for it by continuing to have an open mind to gaining new insights. The Uniform Standards of Professional Appraisal Practice (USPAP) even addresses that perfection is impossible to attain, and competence does not require perfection. The Standard Rule 1-1 (a) comment also addresses how the principle-of-change it continues to affect the way that appraisers perform their work. These items are under the development standard with which we all abide, and are the set up the point we are making - which is that none of us are

perfect, and hopefully we all simply try and improve our skillset, each and every day.

The Valuation Process is an eight-step procedure that starts with the identification of the problem to solve; flows on to the determination of the appraiser's scope of work; data collection and property description; followed by data analysis. Data analysis includes the market analysis as well as the Highest and Best Use Analysis - considering the land as vacant; what the ideal improvement would be, and the property as currently improved. Next, is the land value opinion; application of the approaches to value; reconciliation of the valuation approaches as well as a final opinion of value followed by the reporting of that defined value.

Clearly, the data analysis section requires a highest and best use analysis related to a market value opinion. This is also succinctly addressed in *The Appraisal of Real Estate, 14th Edition* on pages 42-43 for further reading. The 1004 form, which is the most common report form for residential mortgage assignments, specifically asks the question "is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?" followed by a check box for yes or no, and if no to describe.

As Standard 1-3 (b) in USPAP exhorts us to develop an opinion of highest and best use of the real estate when a market value opinion is developed (page U-19 2014-2015 USPAP), and Standard 2-2(a)(x) states specifically "when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion" (page U-24 2014-15 USPAP), checking the box without any further discussion is not adequate. Perhaps it is the lack of description in the box next to "yes" that throws appraisers off, but USPAP is clear that when it is developed, a summary for the opinion is required.

To even start to address Highest and Best Use, the appraiser needs to have at least visited the zoning ordinance to not only understand what is an allowable use, but also what the minimum site size requirements are; what width is required; what the setbacks are, etc. Often we see zoning mislabeled, and more often than not, no information about what even the minimum site size is for the use. Without this basic information, it is not possible to start analyzing the highest and best use.

Discussing this issue with some appraisers online it was apparent that many do not believe any additional summation is required in the form other than checking the yes box, with the argument that as zoning is reported as either legal or not, meets the legally permissible criteria. That a house is built (or proposed) tests the physically possible criteria, and that reporting of functional depreciation in the cost approach or sales comparison

approach addresses overall conformity and therefore financial feasibility, and that finally the remaining economic life provides for highest and best use as currently improved. While this may seem like a reasonable argument, we do not believe it is sufficient for a number of reasons, including it being nothing but an executive summary of real work and does not rise to the level of summation.

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Since the majority of appraisal work related to mortgage lending completed on form reports is for an improved property, much of the time the conclusion is that the highest and best use of the real property is that which is already in place. How difficult is it to flesh out a short paragraph related to this analysis? Given what we are seeing on a routine basis, it is apparently a monumentally difficult task given that it is rare for us to see anything beyond the "yes" check box.



What we are suggesting is that appraisers take a few extra minutes to summarize the highest and best use analysis. It can be done in as little as a sentence, but usually no more than a paragraph. One of the biggest reasons that we suggest it is that it will force you to slow down and look at your data. There have been instances where one of the authors has found out that some appraisals under review were in an illegal or a legal non-conforming use. During the review, it was discovered that the appraiser did not stop and do the analysis or did not really understand that they should look at it or report it. This puts a lender in a sticky position as they may have to shelf the loan and will not be able to sell it on the secondary or worse, have to buy it back.

In such instances, it may require several pages to support the highest and best use. Once it becomes something more complex, due diligence is paramount. The biggest reason appraisers should care about this is that it puts the appraiser in a more defensible position if something awry happens down the road with the loan. By attempting to address this directly up front you are less likely to be discredited for skipping or going too quickly through a section of the report.

One of the authors has done litigation review work where this specific issue was used by the attorneys as part of their strategy to discredit the appraisal report. In litigation, attorneys will often go to the fundamentals to challenge the appraiser's work. To a judge or a jury it is easy to make the connection that if the report is short on a fundamental concept then it is easy to assume it is also short on the section most scrutinize the heaviest, the sales comparison approach. We have both seen reports that have great sales comparison approaches, but little else in the way of a well-written report. Those are the reports that can hurt you in situations where you must defend your work.

So there you have it folks. A seemingly simple thing that really is not so simple. If anything, we hope this offers you something to think about when you are writing your reports and developing the analysis.



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Visit their appraisal blog, 3approaches.wordpress.com for more information.



Director Avers being sworn in as the president of the Association of Appraiser Regulatory Officials (AARO) in Washington, DC. Her first order of business? Bringing the AARO conference to Nashville this May!

NEW FORMS

In addition to AQB changes, applications now include newly mandated material from the state level as well. If your office keeps any of our applications on file, you will need to replace them with the newest versions. Most have been made fillable from your computer! Familiarize yourself with the changes on our Forms and Downloads page...

tn.gov/regboards/treac/forms.shtml

APPRAISAL PRACTICES BOARD MEETING

The APB was created by the Appraisal Foundation to identify and issue opinions on Recognized Valuation Methods and Techniques. They offer voluntary guidance for appraisers and users of appraisal services. On May 1st they will hold a free, public meeting at the Hilton Hotel in downtown Nashville.

CALL FOR SUBMISSIONS

We believe this newsletter is an important resource for all our licensees, but to fulfill that mission we need your help! We want to represent every experience level and every part of the state... tell us about the issues you are seeing. Do you have a particular question you want answered? A topic of expertise you'd like to tackle? Or maybe just an informative article you've read elsewhere? Please let us know what you would like to see in this space. Submit your articles and photos! Contact our editor, cody.kemmer@tn.gov

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