The Kansas Real Estate Appraisal Board

2004 Summer Newsletter

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AQB ADOPTS SIXTH EXPOSURE DRAFT ON REVISION THE REAL PROPERTY APPRAISER QUALIFICATION CRITERIA

On February 20, 2004, the AQB formally adopted the Sixth Exposure Draft, with changes to the qualification criteria becoming effective on January 1, 2008. For the full text of the draft, go to http://www.appraisalfoundation.org/html/pdf-images/aqb6exd11-21-03.pdf.

CHANGE HIGHLIGHTS

STATE LICENSE
Pre-license education requirements would increase from 90 hours to 150 hours.

2,000 hours of experience are required to be obtained in no fewer than 12 months.

CERTIFIED RESIDENTIAL
Pre-license education requirements would increase from 120 hours to 200 hours.

Applicants must hold an Associate degree, or higher, from an accredited college, junior college, or university unless the following collegiate subject matter courses from an accredited college, junior college, community college or university have been successfully passed:

English Composition;
Principles of Economics (Micro or Macro);
Finance;
Algebra, Geometry or higher mathematics;
Statistics;
Introduction to Computers - Word Processing/Spreadsheets;
Business or Real Estate Law; and
Two elective courses in accounting, geography, ag-economics, business management, or real estate.

3,000 hours of experience are to be obtained in no fewer than 30 months.

CERTIFIED GENERAL
Pre-license education requirements would increase from 180 hours to 300 hours.

Applicants must hold a Bachelors degree, or higher, from an accredited college, junior college, or university unless the following collegiate subject matter courses from an accredited college, junior college, community college or university have been successfully passed:

English Composition;
Micro Economics;
Macro Economics;
Finance;
Algebra, Geometry or higher mathematics;
Statistics;
Introduction to Computers - Word Processing/Spreadsheets;
Business or Real Estate Law; and
Two elective courses in accounting, geography, ag-economics, business management, or real estate.

DON’T FORGET

The Board maintains an appraiser’s residence, mailing and business address. If any or all of these change, it is the responsibility of the appraiser to report that change to the Board.
DO YOU KNOW MANUFACTURED HOUSING?

BY FRAN ORETO

Sometimes I feel like that old Memorex commercial, "Is It Live?" or "Is It Memorex?!", is it Manufactured? or is it Modular? Well, if you have to ask, then what are you doing appraising it? While they look similar, they are different and require separate avenues of consideration when appraising.

With the inception of the new FNMA form 1004C, I noticed a slow down in the requests for manufactured housing appraisals. But, enough time has gone by that lenders are more comfortable with the form and the concept so, manufactured housing appraisal requests have picked back up.

But, are you comfortable with the form? Have you read the certification? Are you qualified to complete this form, after all Competency is a requirement of USPAP for appraisers. Do you know the differences (in quality) between a Palm Harbor Home and a Liberty Home?

To further complicate the issue, are you familiar enough to complete FHA Manufactured Housing appraisal request, Freddie Mac, or a FannieMae Manufactured Housing appraisal request with their updated guidelines, as well as their forms?

If the answer to any of the above is "no, I am not comfortable", then do not proceed, do not pass "GO". Acquire the expertise that you need to be competent enough to appraise this type of property correctly.

As I appraise in Florida, I can only speak for regulations here, but a law was passed in July 2003 on the "(Retirement of Title" for manufactured homes. So, I called the local government agencies in the counties that our office covers and tried to determine what steps are needed to "Retire the title" as this is now a necessary item for FannieMae. Do you know what your state (or areas that your office covers) requirements are?

Further, with the two counties that our office covers, there are several steps that need to occur for the manufactured home to be considered "Real Property" before you can even take the steps to "Retire the Title". Are you aware of these steps for your area?

We have discovered that the majority of the existing manufactured homes that we appraise lack the "Real Property" stickers even though they are considered to be "Real Property" by the Property Appraiser. There are at time, a reflection on the Warranty Deed (or other recording instrument) the Make, Model, Serial Numbers and Age of the subject, but this in itself does not make a "Real Property"; you must have the stickers in our state. These must be present if the subject is sold. If not, during those last minute shuffling of the closing documents, the pressure is on to obtain these “Real Property” stickers in order to transfer the manufactured home.

What are the procedures or requirements in your county or state? Are you certain of the process enough to disclose in your appraisal assignment if these items are missing?

Source: Fall Issue 2003 AGENDA

GOVERNOR MAKES APPOINTMENTS TO BOARD

Governor Kathleen Sebelius announced the appointment of Gregg Lesh, Wichita, to the Kansas Real Estate Appraisal Board on December 9, 2003. Reappointed to the Board for a second term was Ralph Leno, Gardner.

Gregg Lesh

Mr. Lesh has been employed with INTRUST Bank as a Vice President Community Bank Manager for Haysville and Valley Center for the last 10 years. He began his banking career over 25 years ago. Mr. Lesh attended Pratt Community College and Washburn University. Gregg and his wife Jean have lived in Wichita for the last 17 years and have two children attending college. His term will expire on June 30, 2006.

Ralph Leno

Mr. Leno is a graduate of KSU with a Bachelors’ degree in BS/Economics. He started in banking 1983 and he has been the President/CEO of Gardner National Bank, Gardner, Kansas, since 1992. He is currently the President of the Gardner Chamber of Commerce and Chairman of CERI. Ralph and his wife Robbi live in Overland Park with their four children. His term will expire on June 30, 2006.

PRESSURES TO “HIT A CERTAIN VALUE”

BY DIANA T. JACOB, MSA

In mid-September nearly 75% of licensed appraisers interviewed as a part of the National Appraisal Survey, had felt pressure from a mortgage broker “to hit a certain value.” The survey was conducted by the October Research Corp., a research and publishing company, and was released earlier in September. Another 59% in that survey reported similar pressure from loan officers working for lending institutions or mortgage companies.
Three appraisers have been named in a 8.5 million dollar land fraud scheme where the appraisers supported deceptive land and home loan packages through overvaluing between $10,000 - $86,000 in appraisals connected with primarily first time and lower income victims. That same journal also reported a Connecticut court ruling where an appraiser issued a Satisfactory Completion Certificate saying the property had been inspected and the construction had indeed been completed when it had not. The initial report assigned a value of 1.1 million dollars to the property "subject to completion per plan and specifications." The mortgage company who was joined with the appraisal company in a negligent suit was trying to appeal the case stating it was the appraiser's responsibility, arguing that the appraisal company was responsible for almost half a million dollars in damages.

"The evidence demonstrates that the amount they paid was due to numerous other outstanding loans and was not related to the negligent appraisal and completion certificate." The court was quoted as saying, "In other words, the total loss the plaintiff claims was outside the duty owed by the defendants and was not proximately caused by the defendant's conduct." The Connecticut Court of Appeals denied the claim saying that the appraisal company could only be held liable for the difference between the debt owed by the debtor and the fair market value of the property at the time of foreclosure. It was also reported in September that in the State of Mississippi, a county supervisor settled an 8 million dollar fraud lawsuit that involved two individuals of defrauding an elderly widow, by misrepresenting the value of nearly 80 acres of land where the appraisal of $4,700 an acre was inaccurate and valued at less than what was paid in an attempt to show the property owner the "great deal" they were getting. The land was purchased for $2,000 an acre from the elderly woman and then re-sold to a subdivision development for $800,000.

A mortgage broker and investor were sentenced to one year and three months in prison because of inflated appraisals supporting a conspired loan between the two individual who were able to obtain loans from banks on exaggerated amounts.

Source: Fall Issue 2003 AGENDA

APPRAISAL STANDARDS BOARD PUBLIC MEETING SUMMARY

On January 23, the Appraisal Standards Board (ASB) held its first public meeting of 2004, in Tampa, Florida. On that same day, the Board also met with The Appraisal Foundation's Industry Advisory Council (IAC). ASB work sessions were conducted on January 21 and 22.

The public meeting and work sessions addressed matters included in the published 2004 work plan. Items related to the following topics will be presented to the public in an exposure draft for comment within the next several weeks:

STANDARD 3 AND THE APPRAISAL REVIEW DEFINITION

The Board has been asked to clarify under what circumstances the review of another appraiser's work must comply with STANDARD 3. Accordingly, edits to the definition of Appraisal Review and to STANDARD 3 will be exposed.

"PURPOSE," TYPE AND DEFINITION OF VALUE, AND CITATION OF VALUE DEFINITION

The Board has been asked to address the use of the word “purpose” throughout the USPAP document. At times, it means “type and definition of value” and at other times, it has other meanings. The Board will propose edits for consistency and clarity regarding use of the word “purpose” as well as the requirement for citing the source of the value definition.

REPORTING REQUIREMENTS REGARDING EXPOSURE TIME

The Board has been asked to address the requirement, located in Statement on Appraisal Standards No. 6, to report the opinion of Exposure Time associated with a value conclusion. The Board will expose the possibility of deleting this requirement.

REPORTING REQUIREMENTS REGARDING RECONCILIATION

Based on comments from the public, the Board will expose edits to provide more emphasis on reconciliation in the Comment sections of the reporting Standards Rules.

IMPACT ON VALUE

The Board was asked to clarify the intent of the requirement to disclose the impact on value of extraordinary assumptions and hypothetical conditions. The Board will propose edits to this requirement as well as its relocation for clarity.

APPRAISING LAND AS THOUGH VACANT

The Board will expose the possibility of removing the Comment to Standards Rule 1-3(b) and deleting Standards rule 6-2(k).

STATEMENT ON APPRAISAL STANDARDS NO. 7

In response to written and oral comments on the Scope of Work Concept Papers, the Board will propose edits to language in SMT-7 addressing levels of reliability.
ADVISORY OPINION 6 (AO-6) - “THE APPRAISAL REVIEW FUNCTION”

The Board will propose the potential retirement of AO-6. More current and more expansive advice has been published on appraisal reviews since this Advisory Opinion was adopted.

ADVISORY OPINION 21 (AO-21) - “WHEN DOES USPAP APPLY IN VALUATION SERVICES?”

The Board will propose revisions to AO-21 that have been made for clarity and for consistency with other guidance provided by the Board. The intent is to increase understandability of the concepts involved.

CERTIFICATION FOR MULTI-DISCIPLINE REPORTS

The Board has been asked to address the certification requirements for reports that contain the conclusions of appraisers from different disciplines regarding different asset types (real property, personal property, and intangible property). The Board will propose suggested edits to the Standards Rules to address this issue.

OTHER PROJECTS

The ASB is also working on other projects that will extend beyond 2004. They include:

SCOPe OF WORK

In 2003 the ASB released for public comment two concept papers titled The Role of Departure and Scope of Work. The Board also held a public hearing in June 2003. After receipt of numerous comments, written and oral, the Board intends to draft a Scope of Work Rule for release as an exposure draft in Summer 2004.

UPDATE ON STANDARDS 9 AND 10.

The Appraisal Standards Board’s operating procedures require the review of each STANDARD on a regular basis, with revisions as necessary. STANDARDS 9 and 10 have not been given a comprehensive review in several years. The Board published a concept paper last year addressing possible areas for focus of the review. The Board has assembled a Business Valuation Work Group to assist in this project. The exposure material on any revisions to STANDARDS 9 and 10 will be on a different schedule from other USPAP exposure material. This will be a multi-year project.

PUBLICATION ON APPRAISAL REVIEW ASSIGNMENTS

The ASB is partnering with secondary mortgage participant Fannie Mae to produce a publication on completing Fannie Mae’s recently revised appraisal review form 2000. This joint publication will focus on developing and reporting an appraisal review assignment in conformance with USPAP and Fannie Mae guidelines. Publication of this text is expected to take place in 2004.

REMAINING 2004 ASB PUBLIC MEETING DATES AND LOCATIONS

April 6 San Diego, CA
June 15 Kansas City, MO
October 8 Washington, DC (tentative)

For more information on Exposure Drafts, future public hearings, etc., visit the Foundation’s website at www.appraisalfoundation.org.

USPAP Q & A

Q I have been told that since email is not secure, delivering reports to my clients by email violates the confidentiality requirements of USPAP. Does emailing a report violate USPAP?

A No. It is the opinion of the Appraisal Standards Board that sending reports via email does not violate the confidentiality requirements in USPAP.

In all assignments the appraiser and the client should agree to a delivery method, and should understand any security risks associated with the delivery method. Whether a report is sent by government mail service, private mail service, email, courier or some other mechanism, there is always some risk that the security of the original document may be compromised.

Q A new state law requires all real estate appraisers in my area to regularly submit a log to the state appraiser board reporting the address of properties appraised along with the value opinion. Does this violate the confidentiality requirements in USPAP?

A No. This does not violate USPAP.

The Confidentiality section of the ETHICS RULE states, in part:

An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than the client and persons specifically authorized by the client; state enforcement agencies and such third parties as may be authorized by due process of law; (bold added for emphasis)

Disclosure of assignment results to the state board, or to any other entity required by law, is specifically permitted.

Q As a condition of engagement, a financial institution requires that I disclose any prior appraisals I
have completed on the subject property. If I disclose that I have previously appraised the subject property, am I violating USPAP?

A No. Except as noted below, USPAP does not specifically prohibit the disclosure of the fact that a prior appraisal has been performed.

Disclosing the fact that you have previously appraised the property is permitted except in the case when an appraiser has agreed to keep the mere occurrence of a prior assignment confidential.

There are some cases in which the appraiser is asked by the client not to reveal that he or she has appraised that particular property. In such cases, the fact that the appraiser previously appraised the property is confidential information.

If the occurrence of a prior appraisal is confidential, and disclosure of prior appraisals is a condition of a potential new assignment, the appraiser must turn down the new assignment because the appraiser could not make the requested disclosure.

Q Standards Rule 1-3 begins by allowing departure, but then the word “must” precedes the two requirements. This situation also occurs in other Standards Rules (e.g., SR 7-3). In such cases, may I depart, or does the word “must” make these requirements binding?

A Yes, departure is allowed, subject to satisfying the conditions in the DEPARTURE RULE. All the Standards Rules that involve specific requirements and allow departure also include the word “must” before the list of requirements. This means that, unless departure is invoked, you must satisfy the requirement if it is applicable to the assignment.

When considering invoking the DEPARTURE RULE, the appraiser has a burden of proof to be sure the assignment results will still be credible for their intended use. The appraiser must also be prepared to support the decision to exclude any information or procedure that would appear relevant [see the Comment to Standards Rule 1-2(f)].

Q A potential client has asked me to complete a form indicating what my appraisal fees would be for different assignments. The form asks me to indicate my appraisal fees according to appraised value, e.g., to list the fee for assignments with appraised values between $100,000 and $299,000, $300,000 to $499,000, etc. Is it a violation of USPAP to quote fees in this manner?

A Yes, this is a violation of USPAP. Completing and submitting such a form to a potential client establishes a compensation arrangement for assignments that is contingent on the amount of the value opinion. This is prohibited by the Management section of the ETHICS RULE, which states, in part:

- It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an assignment, that is contingent on any of the following:
  - the reporting of a predetermined result (e.g., opinion of value);
  - a direction in assignment results that favors the cause of the client;
  - the amount of a value opinion;
  - the attainment of a stipulated result; or
  - the occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.

(bold added for emphasis)
OVERLAND PARK

VIOLATIONS: K.S.A. 58-4141, 4118(a)(6), 4118(a)(7) and 4118(a)(8).
ACTIONS: A Consent Agreement and Order was entered into on January 6, 2004, with the following terms and conditions: That Witt take and pass the examination of a minimum 15-hour residential report writing course on or prior to June 30, 2004, and that Witt cease to supervise trainees on the appraisal of residential properties until the education has been completed.

JOHN RUSSELL DILLON (G-209) COMPLAINT #351 LOUISBURG

VIOLATIONS: K.S.A. 58-4141, 4118(a)(6), 4118(a)(7) and 4118(a)(8).
ACTIONS: A Consent Agreement and Order was entered into on January 6, 2004, with the following terms and conditions: That Dillon take and pass the examination of a minimum 15-hour residential report writing course on or prior to June 30, 2004, and that Dillon cease to supervise trainees on the appraisal of residential properties until the education has been completed.

PAUL C. HILGER (L-1690) COMPLAINT #333 INMAN

VIOLATIONS: K.S.A. 58-4141, 4118(a)(6), 4118(a)(7) and 4118(a)(8).
ACTIONS: A Consent Agreement and Order was entered into on March 11, 2004, with the following terms and conditions: That Hilger take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2005; that Hilger take a minimum 7-hour sales comparison approach for residential properties on or prior to June 30, 2005; and that Hilger pay $200 to cover the cost of the review associated with this complaint within 30 days from the date of the Agreement.

LICENSED/CERTIFIED APPRAISERS AS OF MARCH 17, 2004

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NONRESIDENT APPRAISERS

APPRAISAL BOARD MEMBERS

CHAIRMAN
Steven R. Adams, Wichita

VICE-CHAIRMAN
Ronald D. Aul, Lawrence

MEMBERS
G.N. (Jerry) Capps, Wichita
Donna Hutcheson, Lakin
Ralph Leno, Gardner
Gregory Lesh, Wichita
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EXECUTIVE DIRECTOR
Sally Pritchett

PUBLIC SERVICE EXECUTIVE
Cheryl Magathan

Kansas Real Estate Appraisal Board
1100 S.W. Wanamaker Rd., Ste. 104
Topeka, KS 66604
(785) 271-3373 (phone)
(785) 271-3370 (fax)
sally.pritchett@kreab.state.ks.us
cheryl.magathan@kreab.state.ks.us

www.accesskansas.org/kreab