On October 18, the Federal Reserve Board released interim final regulations governing the appraiser independence requirements mandated by the Dodd-Frank financial services reform bill. The regulations, which were required to be promulgated no more than 90 days after Dodd-Frank was enacted, take effect on April 1, 2011, to allow stakeholders time to comply with the new requirements. The promulgation of these regulations also means the sunset of the Home Valuation Code of Conduct, as well as the HOEPA appraiser independence rules which are incorporated into the new regulations.

Below is an analysis of the interim final regulations. The Federal Reserve has also solicited comments as they work toward implementing final regulations in this area, and NAIFA and ASA intend to file comments as part of that process.

What kinds of transactions are covered by the new regulations?

Any consumer credit transaction secured by the consumer's principle dwelling. That means not only mortgage transactions, but home equity lines of credit (HELOCs), must comply with the new regulations.

Who must comply with the new regulations?

Generally, almost anyone involved with the transaction or anyone who provides "settlement services" as defined by the Real Estate Settlement Procedures Act (RESPA). This means, for example, that entities providing title insurance are also governed by the new regulations.

Why do the new regulations use the terms "valuation" and "valuation management Services?"

The Truth in Lending Act, the law into which the new regulations are inserted, is a consumer protection law. The Fed felt it appropriate to apply the new regulations equally to appraisals and other valuation products, such as broker price opinions (BPOs), in order to protect consumers.

Accordingly, the rule's prohibitions against conflicts-of-interest and its other consumer protections apply equally to appraisers and those providing evaluation products such as BPOs and AVMs. The supporting commentary issued along with the regulations makes it clear that an individual who provides a non-appraisal valuation product is not the same as a state licensed or certified appraiser—a key distinction as some transactions require an appraisal as a matter of federal law.

What kinds of activities are prohibited under the new regulations?

The regulations prohibit any activity designed to influence the independent judgment of an individual who performs a valuation. The terms used to capture these activities (coercion, extortion, inducement, bribery, intimidation, or collusion) are given the
same meaning as they have in state law where the activity occurs. The regulations also provide specific examples of prohibited conduct, such as:

- Attempting to garner a minimum or maximum value from a person preparing a valuation;
- Withholding or threatening to withhold timely payment for valuation services rendered because the value reported does not come in at a certain amount;
- Implying that future assignments depend on the value reported in a valuation;
- Not extending future assignments because a reported value does not meet or exceed a predetermined threshold; and
- Conditioning compensation on the closing of the transaction based on the value reported.

The regulations also prohibit persons who perform valuations from materially mischaracterizing the value of the consumer’s principle dwelling. A material misrepresentation is one which is likely to significantly affect the value assigned to the dwelling, but excludes bona fide errors in the valuation report. Also prohibited are falsifications of and material alterations to a valuation report. Only the person who prepares the valuation may alter it; the standard for whether an alteration is material is the same as that used for mischaracterizations.

What kinds of communications between appraisers and those procuring their services are permitted under the new regulations?

The regulations provide a non-exhaustive list of permissible actions, including:

- Asking the person performing the valuation to consider additional information, such as comparables, to make or support the valuation;
- Requesting further detail or explanation for the value conclusion;
- Asking that errors be corrected in the valuation report;
- Obtaining multiple valuations in order to select the most reliable valuation (not, as discussed in the commentary, just the highest or lowest value); and
- Withholding compensation but only for breach of contract or substandard performance.

How do the prohibitions on conflicts of interest work under the new regulations?

Generally, no one performing a valuation or providing valuation management services can have a direct or indirect financial or other, in the property or transaction for which the valuation is being performed. There are, however, several safe harbors in the regulations:

- A conflict does not exist simply because a person is an employee or affiliate of the creditor, or they or their affiliate provides settlement services in addition to performing valuation or valuation management services. This allows creditors to continue using in-house valuation departments, and permits entities to offer multiple services (valuation management and title insurance, for example). The conflict must be established through the totality of the facts and circumstances surrounding the transaction.

- However, the regulations mandate firewall provisions for in-house valuation departments and providers of multiple settlement services. Compliance with these firewalls is required as part of a rebuttal of a claimed interest in the transaction. The firewalls are slightly different for large and small lending institutions, but prohibit the person performing the valuation from having any of their compensation tied directly to the transaction’s outcome.

When are creditors prohibited from extending credit?

If a creditor knows a valuation materially misstates or misrepresents the value of the consumer’s principle dwelling, at or before consummation, they must not extend credit or close the loan. If the creditor can demonstrate that they have acted with reasonable diligence to support the findings of the valuation, however, they can proceed with the extension of credit. A material misstatement or misrepresentation is one which would alter the decision of the creditor on whether or not to extend credit.

How are “customary and reasonable" fees determined?

The regulations provide two ways in which a creditor or appraisal management company can demonstrate that they have compensated fee appraisers in a customary and reasonable manner:

- By paying fees reasonably related to recent rates paid for comparable appraisal services performed in the geographic area, but excluding fees paid to appraisers by AMCs. This is based on a number of factors, including:
  - Property type;
  - Scope of work;
  - Turnaround time;
  - Appraiser qualifications;
  - Appraiser experience and professional record; and
  - Appraiser work quality.

The commentary to the regulations emphasizes that the quality of the valuation should be the utmost concern of lenders, not merely price or turnaround times. The commentary also states that recent rates are those paid within the last year for comparable services, and that the geographic area is the area, regardless of size, in which the stated fee would be generally accepted for the services requested. (Page 124 of the full document discusses the geographic area issue in greater detail).

- By relying on objective third-party data and information relating to appraisal fees, such as the Veterans Administration appraiser fee schedule, that are based on recent rates in the relevant geographic market. If this includes fee schedules, studies, or surveys, they cannot include fee data for appraisals ordered by appraisal management companies.

The fee section also clarifies that appraisal firms who retain appraisers as employees are exempted from these requirements. Appraisal management companies are also defined in this section, but do not receive exemption based on size—a difference from the rest of the appraisal modernization provisions found in Dodd-Frank.

On what grounds must a person report appraiser misconduct to a state appraiser licensing board?
If a person involved in the transaction reasonably believes that an appraiser has failed to comply with USPAP or other ethical or professional requirements under state or federal law, they must refer the matter if the failure is material in nature (that is, it significantly affects the value assigned to the dwelling). The complaint on which the report is based cannot be general in nature. It must allege violations of specific provisions of USPAP or other federal or state laws and take place in a reasonable period of time (the exact time period is one of the issues for which the Fed seeks further comment). In order to avoid frivolous complaints by homebuyers disappointed by the opinion of value, homebuyers are excluded from the mandatory reporting requirements.

**APPRAISAL FOUNDATION APPOINTS NEW NATIONAL BOARD**

Washington, DC – The Appraisal Foundation announced the appointment of members to the Appraisal Practices Board (APB) which commenced work on July 1, 2010.

- Jay Fishman (Vice-Chair), Pennsylvania, 30-mo. term
- Guy Griscom, Texas, 30-mo. term
- Alan Hummel, Minnesota, 18-mo term
- Mark Linné, Colorado, 18-mo term
- Alok Mahajan, California, 18-mo term
- Gary Taylor (Chairman), Florida, 30-mo term
- Jim Vernor, Georgia, 18-mo term

In 2009, the Foundation Board of Trustees established a Task Force to study the issue of how to best address a void in the marketplace related to guidance on appraisal methods and techniques that would be available to all appraisers practicing in the US. This guidance will cover all valuation disciplines, with a focus on emerging issues.

The purpose of the APB is to issue voluntary timely guidance to appraisers on emerging valuation issues that are occurring in the marketplace. This guidance will be of assistance to appraisers, appraiser regulators, and educators. The new Board will enlist the help of market surveys to identify issues that need to be addressed and will empanel small groups of volunteer Subject Matter Experts to draft the guidance for review and appraisal by the Board.

All address changes must be submitted to the Board office in writing. An address change form can be downloaded from the Board’s website at [http://www.kansas.gov/kreab](http://www.kansas.gov/kreab) and click on Licensing. Changes submitted without the form must include the appraiser’s name, license # and the type of address to be changed, i.e. residence, mailing, or business.

**AQB ISSUES FIRST EXPOSURE DRAFT OF PROPOSED REVISIONS TO THE FUTURE REAL PROPERTY APPRAISER QUALIFICATION CRITERIA**

On October 19, 2010, the Appraiser Qualifications Board (AQB) issued a First Exposure Draft of Proposed Revisions to the Future Real Property Appraiser Qualification Criteria. Some of the changes proposed will affect the college level education requirement for all license/certification levels, the 7-hour USPAP Update requirement, and general continuing education requirements. The comment period deadline on this draft is November 26, 2010. The full text of the draft can be seen at: [https://appraisalfoundation.sharefile.com/d/s1212a4070174c229](https://appraisalfoundation.sharefile.com/d/s1212a4070174c229).

If you would like a copy of the Board’s response to this draft, contact the Board office at cheryl.magathan@kreab.ks.gov and a copy will be forwarded to you.

**AN IMPORTANT REMINDER**

**RENEWAL FEES WILL INCREASE THIS YEAR BY $25 TAKING THE TOTAL REQUIRED FEE FROM $250 TO $275 ($300 WITH THE $25 NATIONAL REGISTRY FEE).**

**RENEWAL APPLICATIONS WILL MAIL THE FIRST WEEK OF MARCH TO EACH APPRAISER’S MAILING ADDRESS. IT IS THE RESPONSIBILITY OF EACH APPRAISER TO ENSURE THAT THEIR CURRENT MAILING ADDRESS IS ON RECORD WITH THE BOARD.**

**APPRaisal of Manufactured Housing**

RESEARCHED AND WRITTEN FOR THE ALABAMA REAL ESTATE APPRAISERS BOARD

It has come to the attention of the Board through numerous inquiries from our licensees that there is some confusion surrounding a number of issues related to the appraisal of manufactured housing properties in Alabama. The majority of inquiries relate to distinctions between real estate and personal property, proper appraisal methodology, use of “land/home” packages as comparable sales, and general USPAP compliance issues. Based on comments from licensees as well as manufactured housing dealers and lenders, it is apparent that many appraisers are either hesitant or unwilling to accept appraisal assignments involving manufactured housing.
From an appraiser’s viewpoint, the idea that manufactured housing permanently located on a parcel of land can be valued in similar fashion to a site built structure is a relatively new concept. Many appraisers have indicated they decline assignments to appraise manufactured housing because they lack the knowledge and experience to perform the assignment competently. Other impediments cited by licensees include conflicting governmental regulations, overly restrictive underwriting guidelines, and the inability to obtain legitimate comparable sales data. In our discussion with other state appraisal regulatory agencies, we have found that these issues are not unique to Alabama.

The term “Manufactured Home” is not to be confused with other types of factory built housing such as Modular Homes, Panelized Homes, and Pre-Cut Homes. Today, all manufactured homes are built under the federal building code administered by the U.S. Department of Housing and Urban Development (HUD). Generally speaking, a manufactured home is one that is structurally complete before leaving the factory, and is transported in one or more sections on an attached undercarriage. Manufactured homes are built on steel frames ("I" beams) with a tongue and are mounted on axles and wheels for transport.

On June 15, 1976, the Federal Mobile Home Safety and Construction Standards Act was enacted by Congress to ensure that minimum standards of construction established by the federal government were applied across the industry. Prior to this time, mobile homes were built using a variety of standards established by individual manufacturers and state building codes with little consistency as to quality of construction or safety considerations. All mobile or manufactured home units constructed after June 15, 1976 must have the red metal HUD label certifying that it has been inspected in accordance with the requirements of HUD and constructed in conformance with the Federal Mobile Home Safety and Construction Standards Act. On October 8, 1980 public law 96-399 was enacted by the U.S. Congress officially changing the name from “mobile home” to “manufactured home.”

When appraising a manufactured home property, it is imperative that the appraiser make every effort to identify the ultimate user of the appraisal because there are a myriad of Supplemental Standards imposed by conventional lenders, Fannie Mae, and HUD. Appraisers must comply with these supplemental standards in addition to the applicable standards set out in USPAP. HUD’s appraisal standards are very comprehensive and can be viewed and downloaded from their internet web site (www.fanniemae.com). Fannie Mae’s criteria for manufactured housing appraisal can be obtained from Fannie Mae approved lenders.

In manufactured housing appraisal, the most critical factor to be determined is whether the manufactured home is to be appraised as personal property or real property. Real estate (or real property) as defined in the 2001 edition of USPAP is “an identified parcel or tract of land, including improvements, if any.” The Courts have generally held that an article in the nature of personal property which has been so annexed to the reality that it is regarded as a part of the land becomes real property. Manufactured housing, which by nature is personal property, must therefore be permanently affixed to the land in order to be appraised as real estate (or real property). Manufactured homes not permanently affixed to the land must be appraised as personal property.

In the absence of well defined guidelines that identify the criteria necessary to meet the standard of “permanently affixed,” the Board takes the position that the minimum requirements which must be met include: removal of the tongue, axles, and wheels; tie-downs must be installed; appraiser must be of the opinion the intent is for manufactured home to be permanently attached to the land; homeowner must surrender title to the appropriate revenue commission and take whatever steps are necessary to have the manufactured home assessed as real estate.

If the appraiser determines that the manufactured home is permanently affixed to the land, the appraisal can be developed and reported on the Form URAR 1004 in compliance with Standards 1 and 2 of USPAP and any Supplemental Standards that may be imposed by the client. If the appraisal assignment involves a manufactured home that has yet to be sited but is to be permanently affixed as real property, the appraisal should be developed in conformance with USPAP Standard 1-4(h) for proposed construction. The Cost Approach should be developed using data from generally accepted cost data sources such as Marshall & Swift that provide cost data not only for the manufactured housing unit, but also the permanent foundation costs and site improvement costs.

When appraising a manufactured home as a component of the real estate, the Sales Comparison Analysis can only be developed using open market, arms-length transactions of similarly sited manufactured home properties. Land/home packages are not appropriate for use in the Sales Comparison Approach since the property, as a whole, has not been exposed to the market for a reasonable period of time. In its simplest term, a land/home package is the sum total of the dealer-financed purchase price of a new or used manufactured home off the dealer’s lot and the price paid for the land. When appraisers either willingly or unwillingly attempt to pass off a land/home package as a comparable sale, the information source has typically been found to be a HUD-1 closing statement provided by the dealer. Custom-build contracts are the site-built home counterparts to manufactured home land/home packages and are not acceptable for use as comparable sales in appraisal of site-built homes.

If there are no manufactured housing sales within close proximity to the subject, Fannie Mae and HUD allow for an expanded search radius. Although Fannie Mae and HUD do not specify how far the search radius can be expanded, proper appraisal practices dictate that the sales be located in a competitive market area. Unfortunately, many conventional lenders have unrealistic or overly restrictive proximity guidelines for comparable sales data. As a last resort when no market sales or similarly sited manufactured home properties are available, Fannie Mae and HUD allow the use of site-built homes as comparable sales. If forced to use site-built properties as comparables, the appraiser must explain and support the reason for their use and make appropriate and justifiable adjustments for size, site, construction quality, utility, etc.

As a word of warning, the Board cautions all appraisers that, before using sales of site-built properties as comparables, a diligent search of all potential sources of comparable sales data for manufactured housing properties must be made and documented in the report and work file. The search must not be limited to traditional data sources such as MLS, but should include other resources including but not limited to tax assesse-
sor/collector offices, probate records, real estate agencies, appraisers, and developers.

When the manufactured home being appraised is not (existing) or will not be (proposed) permanently affixed to the site, the manufactured home unit must be appraised as personal property in accordance with USPAP Standards 7 and 8 and any Supplemental Standards imposed by the client. For personal property loans insured through HUD, the appraiser must be a qualified user of the National Appraisal System (NAS), and the appraisal must be based on the current edition of the National edition of the N.A.D.A. Manufactured Housing Appraisal Guide.

When a separate land appraisal is required for conventional lenders, the standard Land Appraisal Form should be used and the appraisal developed and reported in accordance with USPAP Standards 1 and 2. For HUD manufactured home lot appraisals, the appraisal must be developed and reported in accordance with HUD Handbook 4150.2, CHG-1, Section 8-4 and in accordance with USPAP Standards 1 and 2.

Appraisers should be aware that the manufactured housing industry communicates the measurements of manufactured housing units as shipping measurements, which include the tongue, overhangs, bay windows, etc. This measurement is not to be used in developing the GLA square footage for appraisal purposes. The appraiser should consider only the heated living area in determining the GLA size of the manufactured home. Dimensions published in dealer brochures are typically the shipping measurements. When appraising new manufactured homes with proposed siting, the appraiser should refer to the manufacturer’s plans and specifications to determine the true heated living area of the unit. In the absence of plans and specifications, the appraiser should inspect/measure the actual unit or an identical unit on the dealer’s lot.

With particular reference to USPAP Standards 1-4(e) and 1-5(a), the appraiser should exercise caution when appraising manufactured housing for purposes of financing dealer-packaged land/home transactions. Sales contracts between dealers and purchasers often times reflect sales prices that exceed the true consideration being paid for the housing units themselves. The contract price may reflect the costs of dealer incentives or concessions as well as incidental component costs, all of which can be difficult to extract or identify. Examples include personal property (i.e. furnishings), site prep/unit set-up, and site improvements including septic systems and water/electric hookups. Usually, these incidental costs are added to the actual price of the manufactured housing unit to arrive at the contract price, and in many cases the land value is included as well. This contract price is the figure typically reflected on the HUD-1 Closing Statement with little or no disclosure of what is actually included in the contract price.

The ultimate responsibility rests with the appraiser to make sure that he or she is competent to perform the appraisal when accepting an appraisal assignment involving manufactured housing. The information presented in this article is not to be considered an all-inclusive source of information for the appraisal of manufactured housing. However, it does establish the basic guidelines and methodology deemed appropriate by the Board for appraising manufactured housing in Alabama.

The Appraisal Practices Board (APB) has issued the following Solicitation for Subject Matter Experts (SMEs) to assist in the research and development of voluntary guidance on Residential Appraising in Declining Real Estate Markets. The SME panel chosen to address this topic will accomplish its goal by, at a minimum, gathering, citing, and researching all existing literature and publications.

For more information on the background and qualifications required to be considered for the Subject Matter Expert panel, please see the SME application at: https://appraisalfoundation.sharefile.com/d/s7298621e0e7403ab. Completed applications must be submitted by January 10, 2011.
ASC TO RAISE NATIONAL REGISTRY FEE

As most appraisers are aware, $25 of the renewal fee which you pay annually is remitted to the Appraisal Subcommittee as a National Registry Fee. Under the authority in the Dodd-Frank Wall Street Reform and Consumer Protection Act, the ASC approved a modification of the annual Registry fee to $40.

To provide a reasonable transition period for implementation by the individual states, the fee increase will be effective on January 1, 2012. For current licensed/certified appraisers, you will see this increase on your May 31, 2012 renewal. For new appraisers, licensed/certified on or after January 1, 2012, the increase will be included in their licensing fee. Current licensed/certified appraisers who apply for an upgrade after January 1, 2012, will pay the additional $15 fee.

DISCIPLINARY ACTIONS

DARIN D. ADAMSON (R), SMITHVILLE, MO
VIOLATIONS: 58-4118

A Summary Proceeding Order of Revocation was issued effective September 16, 2010, for failure to meet the terms of the above shown Adamson’s February 17, 2010 Consent Order.

EDWARD G. CURRIER (G), COLBY
VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7), AND (8)

A Consent Order was entered into on September 16, 2010, with the following terms and conditions: That Currier take and pass the examination of Qualifying Education Module (QEM) #3, USPAP, on or prior to June 30, 2011; that Currier take and pass the examination of QEM #7, Residential Report Writing and Case Studies, on or prior to June 30, 2011; and that he take a minimum 3-hour course covering supervision of trainees on or prior to June 30, 2011.

C. SCOTT SPARKS (G), KINGMAN
VIOLATIONS: K.S.A. 58-4141, 58-4118(a)(6), (7), AND (8)

A Consent Order was entered into on September 16, 2010, with the following terms and conditions: That Sparks take and pass the examination of Qualifying Education Module (QEM) #3, USPAP; on or prior to June 30, 2011; that Sparks take and pass the examination of QEM #11, General Appraiser Sales Comparison Approach, on or prior to June 30, 2011; that Sparks take a minimum 3-hour course covering supervision of trainees on or prior to June 30, 2011.

SALVATORE G. LEVOTA (R), GRAIN VALLEY, MO
VIOLATIONS: K.S.A. 58-4141, 58-4118(a)(6), (7), AND (8)

A Consent Order was entered into on October 22, 2010 to avoid litigating the issue of whether the misdemeanor crime of endangering a child is a crime of moral turpitude under K.S.A. 58-4118(a)(4)(B). The Consent Order suspended Totman’s license for a period of six (6) months, said suspension to be stayed subject to the following terms and conditions: That Totman not be convicted of any crimes (other than routine traffic/parking offenses) for that period; that if during that period Totman is charged with any crimes (other than routine traffic/parking offenses), he will notify the Board in writing within 48 hours; and that in performing any appraisal work, if Totman is required to inspect a property and minors are present, Totman shall have another adult present at all times.

BRAD A. TOTMAN (L), WEBB CITY, MO
VIOLATIONS: K.S.A. 58-4113; 58-4118(a)(4)(B)

A Consent Order was entered into on October 22, 2010 to avoid litigating the issue of whether the misdemeanor crime of endangering a child is a crime of moral turpitude under K.S.A. 58-4118(a)(4)(B). The Consent Order suspended Totman’s license for a period of six (6) months, said suspension to be stayed subject to the following terms and conditions: That Totman not be convicted of any crimes (other than routine traffic/parking offenses) for that period; that if during that period Totman is charged with any crimes (other than routine traffic/parking offenses), he will notify the Board in writing within 48 hours; and that in performing any appraisal work, if Totman is required to inspect a property and minors are present, Totman shall have another adult present at all times.

KANSAS APPRAISERS

As of November 17, 2010

CERTIFIED GENERAL ........................................................................ 471
CERTIFIED RESIDENTIAL ............................................................. 466
STATE LICENSED ......................................................................... 180
PROVISIONAL (TRAINEE) ............................................................. 25
TOTAL: ..................................................................................... 1142

ALERT SENT TO ALL FHA ROSTER APPRAISERS

In an alert sent to all FHA Roster Appraisers in February, FHA reiterated the importance for Roster Appraisers to monitor the FHA Roster Appraiser web page periodically, at http://www.hud.gov/appraisers/

• For appraisal policy updates
• Find answers via FAQs and FHA’s Knowledge Base
• Update contact information
At license/certification renewal time
Check roster status; and
To access Mortgagee Letters and handbooks.

Before accepting and performing an appraisal for purposes of FHA-insured financing, all FHA Roster Appraisers must ensure that their name is in good standing on the Appraiser Roster. An appraisal performed by an FHA Roster Appraiser who is not in good standing on the Roster is not acceptable and will be rejected. It is the appraiser’s responsibility, as well as that of the lender, to make this determination.