

# Real Estate Valuation Magazine Online

Issue No. 98

FALL 2009

FREE

The Independent Voice of Real Estate Appraisers



Our 24th  
Online Issue!

- *The HVCC: FHA Climbs on Board (sort of...)*
- *7 Myths About Loan Modification Programs*
- *Meet "Mr. Bubble" aka "Dr. Doom"*

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# Real Estate Valuation Magazine

## Real Estate Valuation Magazine Online *Fall 2009 -- Our 24th Online Issue!*

Dear REV Subscribers:

*Welcome to the Fall 2009 edition of our magazine. In place of our customary Welcome Message, we are reprinting (once again!) a letter from one of our readers. It says it all!*  
*...The Editor.*

Dear REV Magazine,

I am a licensed appraiser in the Denver Metro area of Colorado. I look forward to each issue of ***Real Estate Valuation Magazine Online***. If this came in the mail it would probably end up in the garbage. At age 63, I still work full time in my own appraisal business. I enjoy it. I enjoy your online magazine and look forward to each issue. **Yours is the only professional magazine that I allow to come to my business email address.**

I enjoy the articles and look through the advertising to see where I could possibly pick up new ideas. I am not a computer "geek" but I do try to keep up with modern technology in my business. I find that if I do not keep up and advance with the current times, I will be left behind and my business will suffer. *Please keep this magazine going!*

I also have a message for your advertisers: I was a journalist for 20 years. The days of the printed media as a form of effective advertising are numbered. Find yourself a reliable online magazine such as this one and use it. This is where the modern business person who wants to get ahead goes for information.

Thanks!  
David J. Adams

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**Fall 2009**

## **On the Cover... Burnham Pavilions**



Daniel Burnham was a visionary who helped create the modern city of Chicago. He was one of the authors of the Plan of Chicago, also known as the Burnham Plan, which reshaped Chicago's central district starting in 1909. To celebrate its hundred year anniversary this year, the Burnham Memorial competition was held and two temporary pavilions -- one by UN Studio and the other by Zaha Hadid -- have been installed at the Millennium Park, hosting multimedia exhibits on the future of Chicago. The pavilions will be opened to the public until Oct 31st, 2009.

Zaha Hadid Architects's pavilion merges new formal concepts with the memory of Burnham's bold, historic urban planning. Superimpositions of spatial structures with hidden traces of Burnham's Plan are overlaid and

inscribed within the structure to create a dynamic form. Zaha Hadid, the first woman to win the Pritzker Prize for Architecture in its 26 year history, has defined a radically new approach to architecture by creating buildings, such as the Rosenthal Center for Contemporary Art in Cincinnati, with multiple perspective points and fragmented geometry to evoke the chaos of modern life.

Hadid writes: "The Burnham Plan Centennial is all about celebrating the bold plans and big dreams of Daniel Burnham's visionary Plan of Chicago. It's about reinvention and improvement on an urban scale and about welcoming the future with innovative ideas and technologies. Our design continues Chicago's renowned tradition of cutting edge architecture and engineering, at the scale of a temporary pavilion, whilst referencing the organizational systems of Burnham's Plan. The structure is aligned with a diagonal in Burnham's early 20th Century Plan of Chicago. We then overlaid fabric using contemporary 21st Century techniques to generate the fluid, organic form -- while the structure is always articulated through the tensioned fabric as a reminder of Burnham's original ideas."



Constructed from recyclable materials, the outer and inner shells of Hadid's pavilion are made of tensioned fabric stretched tightly over the curved aluminum framework. "Fabric is both a traditional and a high-tech material whose form is directly related to the forces applied to it - creating beautiful geometries that are never arbitrary. I find this very exciting."

# Real Estate Valuation Magazine

## Editorial

### ***THE FUTURE OF APPRAISING***

*by Henry S. Harrison*

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As of October 1, 2009, it is going to be very hard for a licensed appraiser to earn a living as an appraiser, as they will no longer be able to do FHA appraisals. There are now about 20,000 licensed appraisers according to the ASC. Many of them are going to find it hard to become certified. One big stumbling block is the requirement for a college degree or meeting the educational requirements needed to obtain an exemption from this requirement.

The good news is that now that all the grandfather provisions have been extinguished for new appraisers, there are not going to be many new licensed appraisers within the next few years to add to the competition. Some of the existing 20,000 licensed appraisers who have a college education will take the additional courses, pass the required exam, and obtain a job where they can get enough work to meet the certification experience requirements. I predict that most of the others will give up and look for other employment in other fields.

According to the Appraisal Sub Committee's website ([www.asc.gov](http://www.asc.gov)), there are currently 56,941 Certified Residential Appraisers and 37,988 Certified General Appraisers in the U.S.. This indicates that there are 94,929 appraisers who will be able to do FHA appraisals. (These estimates are not 100% accurate as there is duplication caused by appraisers who are certified in more than one state and the fact that some states only report to the ASC annually).

However you look at it, there are a lot of appraisers! If in 2010 there will be 10 million appraisals made, (a very high estimate), it would work out to an average of two per week per appraiser. Sooner or later the number of residential appraisers is going to go down substantially.

When appraisal licensing and certification started about 20 years ago, many pundits predicted that the initial number of licensed and certified appraisers, which was about 80,000 at the time, would slowly decrease to about 50,000. Today the number is well over 100,000. I think it is reasonable to predict that this number will fall below 100,000 in the near future and continue to contract for many years to come.

I believe the majority of Certified General Appraisers earn the majority of their income from doing residential appraisals, rather than commercial assignments. You have every right to disagree with me — but I think I am right. (If you disagree, please write to [editor@revmag.com](mailto:editor@revmag.com) and we will print the best letters in our next issue.)

Back in the 1970s, before mandated state licensing, when I received my MAI designation, I was astonished to discover that my gross income doubled the first year although I didn't do any additional work. The quality of the assignments I was offered was much better and the fees I was able to charge were much higher. One local banker told me with relief that he could finally offer me many assignments

that were not open to me as an appraiser with a lesser designation.

There are two different types of General Appraisers. One group received their General Certification before the requirements were raised to their current level. Most are qualified to make good residential appraisals, even when the assignment involves more complex residential and mixed-use investment properties. Many can do an acceptable appraisal of some other types of property too. However, there are many properties, often the best appraisal assignments, which they really are not qualified to do.

There are a substantial number of appraisals purchased by customers who want help in making decisions for themselves and their clients concerning complex properties. These assignments are most often given to appraisers who have the MAI and SREA designations. It is these appraisers who buy and study the types of books that I have reviewed in this issue (The Valuation of Office Properties: A Contemporary Perspective; The Appraisal of Nursing Homes; and Shopping Center Appraisal and Analysis). They choose continuing education based not on the c.e. hours awarded, but rather for the subjects that are covered, which they believe will increase their skills. My guess is that less than 10,000 appraisers fit into this elite category.

I feel sorry for the many licensed appraisers who are going to leave our profession, but I won't miss them. They have contributed substantially to the low esteem that lenders, Realtors and the general public now hold for appraisers. It is going to take a long time to undo the harm they have done to our profession.

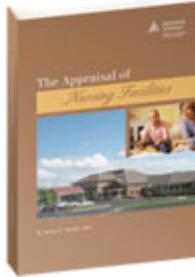


# Real Estate Valuation Magazine

## Book Review

### ***Hot Books in the Appraisal Field!***

*Three Book Reviews By Henry S. Harrison*



***The Appraisal of Nursing Facilities***

James K. Tellatin, MAI

Appraisal Institute, Chicago IL (2009)

Soft cover, 334 pages

\$48 non-members, \$40 members

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[www.appraisalinstitute.org/store/](http://www.appraisalinstitute.org/store/)

This book will be the definitive reference on this subject for many years to come. Jim Amarin, MAI, SRA and the 2009 President of the Appraisal Institute, accurately describes the book in his introduction: "(This book) explores long-term care facilities from both a physical and economic perspective..."

This is the key to appraising skilled nursing home facilities. The appraisal is usually not just an appraisal of the real estate (fee simple, leased fee or leasehold). It also includes tangible personal property (furniture, fixtures, and equipment) and intangible personal property (including the assembled work force, licenses, certifications, approvals [specifically certificate of need (CON)], patient records, goodwill, and management.

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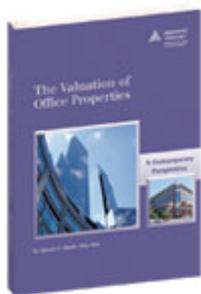
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Before you even consider appraising a skilled nursing home, you must read **Chapter 18: Reconciliation of Value and Allocation of Going-Concern Value**, where the author explains how to deal with Entrepreneurial or Proprietary Profit Capitalization and Lease Income verses Operational Earnings.

If you think you might like to learn more about this subject, I recommend that you take the Appraisal Institute Seminar entitled: The Appraisal of Nursing Home Facilities.



***The Valuation of Office Properties***

by Barrett A. Slade, PhD, MAI

Appraisal Institute, Chicago IL (2009)

Soft cover, 163 pages

\$40 non-members, \$32 members

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Sooner or later almost every Certified Appraiser will be offered an assignment to appraise an office building. The Competency Section of the USPAP says that an appraiser must have the necessary knowledge and experience to appraise a property or obtain the necessary help to make a credible appraisal. This new text offers good way to increase your knowledge about office buildings.

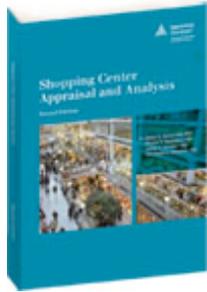
The book starts with an interesting history of office buildings. I did not realize, for example, that few were built in the 1930s and early 1940s because of the Depression and then WW II, or that the elevator, which is crucial to most office buildings was invented and already in wide use by the late 1800s.

The following is a list in the book of ten common types of office buildings: Low-rise, single tenant; Mid-rise, single tenant (4 to 16 stories); Highrise (16 or more stories); Office with street-level retail space; Medical or dental office; Office condominiums; Bank branch; Veterinary hospital or clinic; and Office with mixed retail and residential space. The author points out that this list is not complete. I personally would have added a separate classification for skyscrapers.

The book follows the traditional sections of an appraisal (Site Analysis, Improvement Analysis, etc.). The Income Capitalization Approach chapter crams a lot information into 44 pages, including some relevant case studies. Much of this material is also useful for other income producing properties. There is an interesting grid showing the items of comparison which may need adjustment.

Most of what is in the Cost Approach chapter applies to many other types of buildings and is similar to what is covered in *The Appraisal of Real Estate*, 13th Edition. The short Glossary is helpful as it focuses on specialized words related to office buildings. For example, demising partition: - A physical barrier that designated a tenant space or establishes a leasable area and separates it from the remaining space....."

What I liked best about the book was the author's writing style, who in spite of being a PhD as well as an MAI, writes in a clear and easy to understand manner. There is a lot of valuable information about appraising office buildings packed into this short 163-page text.



***Shopping Center Appraisal and Analysis, 2nd Ed.***

J. Vernor, MAI, PhD; M. Amundson, MAI;

J. Johnson, MAI; J. Rabiński, PhD

Appraisal Institute, Chicago IL (2009)

Soft cover, 249 pages

\$44 non-members, \$36 members

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[www.appraisalinstitute.org/store/](http://www.appraisalinstitute.org/store/)

This is the second edition of a book that was first published in 1993. I recommend this book to any General Appraiser who appraises retail property, as it contains substantial information that applies to any type of retail space.

The book begins by pointing out that the traditional classification of shopping centers into one of five categories (convenience, neighborhood, community, regional and super-regional) is just a beginning. Appraisers also have to consider the shopping center's size, anchor tenant(s), types of product, site size, distance and travel time from its service area, and the consumer base. All of this is necessary just to describe the property and to define the appraisal problem to be solved.

Many shopping centers are bought and sold as investments. Because of the recent significant changes both in the real estate market and in the buying habits of consumers beginning in 2008, these investments must be analyzed as both historical and prospective investments.

Chapter 3 is entitled: "*Three Studies and Three Geographic Areas in Retail Analysis.*" It sets the stage for the 8 chapters that follow. The term "Market Analysis" is used repeatedly throughout these chapters and this is what the book is all about. It is not until Chapter 9 that the "how to" aspects of this kind of work is covered, with a review of the results of the various market analyses presented.

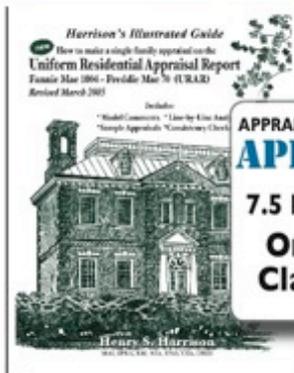
After you read this book, you will know a lot about the ins and outs of shopping centers. A good place to learn more about that subject is in *The*

*Appraisal of Real Estate, 13th Edition* also published by the Appraisal Institute.



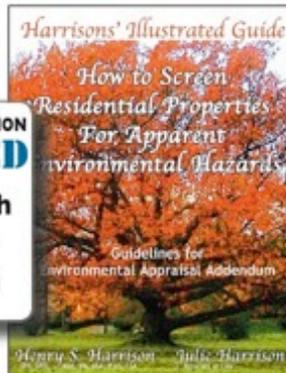
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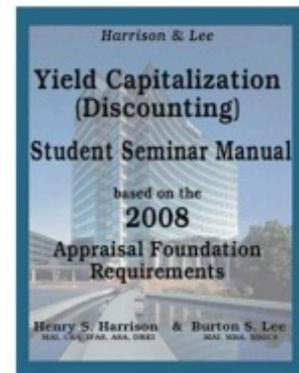


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# Real Estate Valuation Magazine

## HVCC Redux

### ***How to Repair the Damage: Fixing the Home Valuation Code of Conduct (HVCC)***

*by Gary Denny, IFA, Certified Residential Appraiser*

**Background:** *The Home Valuation Code of Conduct (HVCC) established standards for solicitation, selection, compensation, conflicts of interest and appraiser independence. It went into effect on May 1, 2009, for any mortgage that will be sold to Fannie Mae or Freddie Mac; Federal Housing Administration (FHA), VA loans and Federal Home Loan Bank (FHLB) mortgages are not covered in the agreement.*

It is undeniable that the Home Valuation Code of Conduct (HVCC) has created a crisis of monumental proportions in the housing industry. It is apparent the HVCC was written primarily to protect the interests of Fannie Mae and Freddie Mac, and that the creators of this document did not anticipate the economic effects this legislation would have on the real estate sector. The results have been disastrous for the appraisal and the mortgage brokerage professions. The consequences to the real estate sales industry and the general public have been unfortunate and regrettable as well.

The catastrophic affects created by the HVCC threaten the very survival of the Appraisal industry. Although the HVCC does not require lenders to utilize the services of Appraisal Management Companies (AMC), the result of the regulation has been to herd lenders down this path. Existing appraisal companies are no longer able to compete in the marketplace as their clients have been effectively handed to these middlemen. AMC's generally take a substantial portion of the appraisal fee, sometimes as much as 50%, directly off the top of the appraiser's regular payment. As a result, appraisal companies, which have been the backbone and life blood of the appraisal industry, are being forced out of business at an alarming rate. Additionally, many individual appraisers are facing serious financial hardship as a result of the HVCC. Consequently, scores of the industry's best appraisers are simply leaving the business in search of more favorable employment opportunities.

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The effects on the Mortgage Brokerage industry have been equally destructive. The critical service mortgage brokerages offer the public is their ability to shop different lenders to find the most favorable financial arrangement for their customers. The need for their expertise in this field is essential as local banks don't always provide the services the consumer needs. Their ability to locate and employ the best qualified local appraisers has always been another positive element of their services. These specialties were the very services which allowed brokerages to exist and compete with other lending sources. The HVCC has revoked the Mortgage Broker's ability to order appraisals from the local appraisal companies they rely on and trust. As a result, the HVCC essentially nullifies many of the most desirable services these institutions offer the public, making them less able to compete. The end result has been many mortgage companies going out of business, lack of mortgage portability, and reduced lending choices for consumers.

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The HVCC has also derailed numerous real estate sales and mortgage refinancing transactions. Unfortunately, this is happening at a time when the economy needs a boost and real estate inventory desperately needs to be moved. For Realtors and consumers, the regulation has resulted in delayed settlements as AMC's are adding to the time required to complete an appraisal. Sales and refinancing transactions are also being jeopardized as mortgage companies no longer have a say in the selection of appraisers. Because many of the best qualified appraisers will not work for AMCs, and because many of these intermediaries have little or no knowledge of local markets, less qualified appraisers are being assigned to real estate sales and refinancing transactions. All of these influences negatively affect the public's ability to purchase or refinance homes.

The solution to the problem is simple....**require the licensing of loan officers!** Currently Realtors and appraisers, two of the major players in the housing industry, are required to be licensed. Licensing sets a minimum standard of professionalism in these industries which has helped eliminate problems once found in these sectors. Since the major contributor to the current national financial crisis has been questionable mortgage lending practices, many of which can be traced directly to the loan officer level, the need for licensing at this level is apparent. *The need to hold loan officers responsible for the conduct of their business transactions is imperative.*

## **HVCC FACTS**

from *Appraisal Today* published by Ann O'Rourke  
[www.appraisaltoday.com](http://www.appraisaltoday.com)

**HVCC ONLY APPLIES TO LOANS THAT ARE SOLD TO FREDDIE AND FANNIE.**

**HVCC DOES NOT REQUIRE THAT ALL LENDERS USE AMCs.** They do need to have their appraisal ordering function independent from loan origination.

**HVCC IS A PRIVATE AGREEMENT AND IS NOT A LAW OR REGULATION.**

**BORROWERS CANNOT PAY FOR THE APPRAISAL. NO CODs ARE PERMITTED.**

**MORTGAGE BROKERS CAN STILL ORDER APPRAISALS FOR NON-FREDDIE/  
FANNIE LOANS**

**For a complete description of the various issues regarding HVCC compliance,  
download the Appraisal Institute's PDF entitled HVCC Myths.**

[http://www.appraisalinstitute.org/newsadvocacy/downloads/HVCC\\_myths.pdf](http://www.appraisalinstitute.org/newsadvocacy/downloads/HVCC_myths.pdf)

Licensing of any and all Loan Officers, along with required continuing education courses in ethics and consequences for abuses of the appraisal process and other ethical violations is truly the obvious solution to the current situation. Along with licensing is the need to establish a regulatory agency for reporting any ethical abuses, or simply place state licensing boards in charge of this responsibility. Further, require appraisers to report all abuses of the appraisal process and implement consequences for failure to report incidents of abuse. This set of solutions should rectify the problems created by the HVCC, while retaining the positive aspects of the document.

Finally, the portion of the HVCC which prohibits Mortgage Companies from ordering their own appraisals needs to be eliminated. After several months of operating under the HVCC, it is evident the horrendous affects this regulation is having on the real estate sector of the economy. Although the HVCC has brought to light many reforms needed in the mortgage lending and appraisal professions, restricting Mortgage Companies from ordering appraisals directly from reputable appraisers is only creating turmoil and hardship in the real estate sector and for consumers.

There may well be other reforms needed in the mortgage industry. Instituting the reforms noted above will go a long way to correct existing problems at the point of the mortgage process at which they occur. Loan officer licensing is truly the intuitive answer to correcting several of the worst problems in the mortgage lending arena, and would repair the problems created by the HVCC. Although many of the reforms that protect the appraisal process found in the HVCC should be applied to all lending and real estate transactions across the board on a national basis, restricting a Mortgage Broker's ability to order appraisals is clearly not the solution, and is not in the best interest of the general public or the real estate industry.

*Gary Denny has been involved in real estate and appraising for the past 20 years. He is a Certified Residential Appraiser in Washington, DC, Maryland and Virginia. He founded Woodbridge Appraisal Service in January 2004. He has served for the past two years as President of NAIFA's Northern Virginia Chapter, and was named Appraiser of the Year in 2008. In addition to his certification as an appraiser, Gary holds a B.S. with Honors in Business Administration from George Mason University in Fairfax, VA where he was a Finance major. Reach him by phone at 703-978-3444 or by email at: [garydenny@verizon.net](mailto:garydenny@verizon.net)*



# Real Estate Valuation Magazine

## HVCC Redux

### ***FHA ANNOUNCES CREDIT POLICY CHANGES, ADDING CHIEF RISK OFFICER***

*Policy Changes Will Reduce Risk*

This page is located on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at <http://www.hud.gov/news/release.cfm?CONTENT=pr09-177.cfm>.

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## ***News Release***

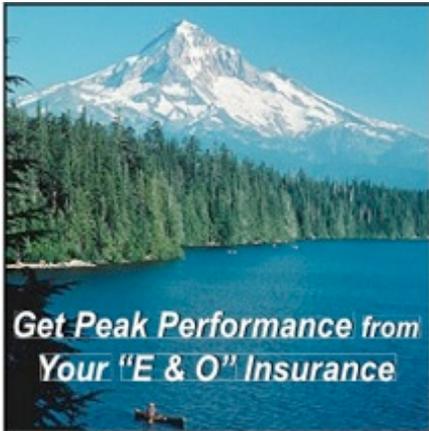
**Friday, Sept. 18, 2009**

**HUD No. 09-177**

**Melanie Roussell**

**(202) 708-0685 • [www.hud.gov/news/](http://www.hud.gov/news/)**

WASHINGTON, DC - Federal Housing Administration (FHA) Commissioner David H. Stevens today announced plans to implement a set of credit policy changes that will enhance the agency's risk management functions. Stevens also announced his intention to hire a Chief Risk Officer for the first time in the FHA's 75-year history.



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Both actions come as the agency's annual independent actuarial study is being completed. The study will be sent to Congress in November and is expected to show the capital reserve ratio dropping below the congressionally-mandated threshold of two percent. The changes announced today will strengthen the FHA's reserves and better manage risk.

"To be clear, the fund's reserves are sufficient to cover our future losses, so the FHA will not require taxpayer assistance or new Congressional action," said Commissioner Stevens. "That said, given the size and scope of the FHA and its importance to today's market, these risk management and credit policy changes are important steps in strengthening the FHA fund, by ensuring that lenders have proper and sufficient protections."

"By keeping affordable loans flowing, particularly to the growing ranks of first-time homebuyers, the FHA has been critical to our nation's economic and housing market recovery," said U.S. Department of Housing and Urban Development Secretary Shaun Donovan. "As we begin to move from recession to recovery, these changes will not only ensure FHA's financial strength but they will also help to further strengthen our nation's economy."

FHA's congressionally mandated capital reserve ratio, which is determined by the independent actuarial study, measures excess reserves above and beyond projected losses over the next 30 years. FHA continues to hold more than \$30 billion in its total reserves today, or more than 4.4% of its insurance in force. Additionally, FHA's full faith and credit insurance means that there is no risk to homeowners or bondholders, even in the event that the capital reserve ratio drops below the two percent threshold mandated by Congress. With the FHA's higher average credit scores and tighter credit policies announced today, the FHA fund is expected to produce revenue for the U.S. Treasury.

The FHA's risk management functions are currently dispersed across a number of offices. The Chief Risk Officer will oversee the coordination of FHA's efforts to concentrate risk management in a single division devoted solely to managing and mitigating risk to the FHA's insurance fund - across all FHA programs.



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### **Regulatory Victory: FHA Removes Cap on Appraiser Fees, Allows Disclosure to Consumers**

Marking a significant victory for the professional appraisal community, and based on an initiative by the Appraisal Institute, the Federal Housing Administration (FHA) announced this week that it was reversing a policy that inadvertently capped fees for real estate appraisers. FHA's new policy correctly separates the services (and fees) charged by appraisers from those charged by appraisal management companies (AMCs), allowing each to float at reasonable and customary levels. The previous policy inappropriately restricted the combine fees to just the customary and reasonable fee for the appraisal in the market area where the appraisal is performed.

Specifically, under Mortgagee Letter 09-28, FHA lenders must ensure that:

- FHA Appraisers are not prohibited by the lender, AMC or other third party, from recording the fee the appraiser was paid for the performance of the appraisal in the appraisal report.
- FHA Roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised.
- The fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal.
- Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing.
- AMC and other third party fees must not exceed what is customary and reasonable for such services provided in the market area of the property being appraised.

In addition to adding a Chief Risk Officer, the FHA is proposing specific credit policy changes that are largely focused on ensuring responsible lending and risk management for FHA-approved lenders. These changes build on lessons learned in the credit crisis and seek to align the FHA with the Administration's goal of regulatory reform. As the FHA's stable of lenders grows, these lenders must have "skin in the game." These credit changes will do that by ensuring they have long-term interest in the performance of the loans they originate.

### **Changes Being Pursued by Mortgagee Letter, Effective January 1 Require Submission of Audited Financial Statements by Supervised Mortgagees**

Requires supervised mortgagees to submit audited annual financial statements to FHA. This new requirement is a prudent safeguard that permits FHA to ensure that those entities with which it does business are adequately capitalized to meet potential needs. FHA is aware that the majority of supervised and non-supervised mortgagees are already required to prepare audited financial statements for various regulatory bodies, Government Sponsored Enterprises (GSEs), and investors. Given these existing requirements, FHA's new policy will help to reduce risk at limited new costs for approved mortgagees.

### **Modify Procedures for Streamline Refinance Transactions**

Revises current procedures for streamline refinance transactions to establish new requirements for seasoning, payment history, income verification, and demonstration of net tangible benefit to

the borrower; provide for collection of credit score information when available; and to cap maximum LTV at 125 percent. An appraisal will be required in all cases where a borrower wants to add closing costs to the transaction. These revisions bring documentation standards for streamline refinance transactions in line with other FHA loan origination guidelines, ensures the borrower's capacity to repay the new mortgage, and prohibits the dangerous practice of loan churning, where borrowers raise cash through successive cash-out refinancings that put them further in debt.

### **Require Appraiser Independence In Loan Origination**

Provides new guidelines on ordering appraisals for FHA-insured mortgages and reaffirms existing policy on FHA requirements regarding appraiser independence and geographic competence. Mortgage brokers and commission based lender staff are prohibited from ordering appraisals. FHA does not require the use of Appraisal Management Companies or other third party providers, but does require that lenders take responsibility to assure appraiser independence. While FHA's existing policies regarding appraiser independence are consistent with the Home Valuation Code of Conduct (HVCC), FHA will adopt language from the Code to ensure full alignment of FHA and GSE standards.

### **Modify Appraisal Validity Period**

FHA's appraisal validity period will be reduced to four months for all properties including existing, proposed and new construction. Previous validity periods were six months for existing properties and up to twelve months for proposed and under construction properties. This provides for more accurate home values used for underwriting FHA-insured mortgages during volatile housing market conditions.

### **Appraisal Portability**

Provides new guidelines that allow a second appraisal to be ordered under a limited set of circumstances when a borrower switches from one lender to another and restates the requirement that the first lender must transfer the appraisal to the second lender at the request of the borrower. This will prevent delays in closing that often occur when a loan is transferred to a new lender.

### **Changes Being Pursued by Rule Making Process**

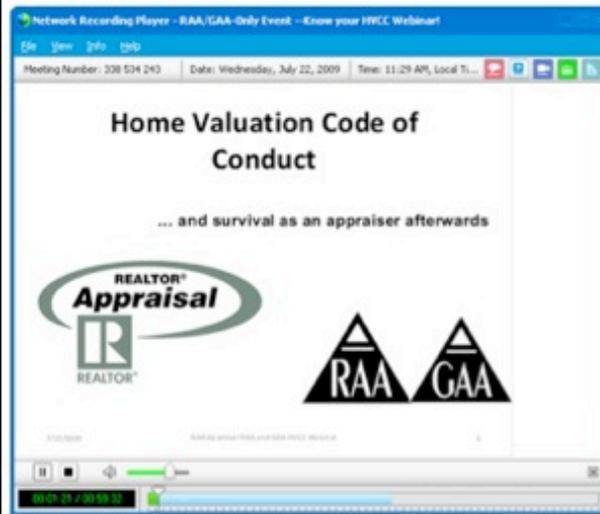
## **Webinar: HVCC . . .and survival as an appraiser afterwards**

Frank Gregoire's wonderfully thorough "**Home Valuation Code of Conduct . . .and survival as an appraiser afterwards**" webinar presentation addresses not only what the HVCC is and its effects on business, but also what your opportunities are in overcoming any business obstacles.

For more information about Frank Gregoire [click here!](#)

Here is the recording of the session for your future reference:

<http://tinyurl.com/hvccwebinar>



### **Modify Mortgagee Approval and Participation in FHA Loan Origination**

Lenders seeking approval to originate, underwrite, or service an FHA loan must meet the eligibility criteria for a supervised or non-supervised mortgagee. Mortgagees with this approval status must assume liability for all the loans they originate and/or underwrite. Loan Correspondents (mortgage brokers) will continue to be able to originate FHA-insured loans through their relationships with approved mortgagees; however they will no longer receive independent FHA approval for origination eligibility. These policy changes will require the FHA approved mortgagee to assume responsibility and liability for the FHA insured loan underwritten and closed by the approved mortgagee. These changes align FHA with the GSEs and will potentially increase the number of loan correspondents (mortgage brokers) who are eligible to originate FHA-insured loans while providing for more effective oversight of loan correspondents through the FHA approved mortgagees.

### **Increase Net-Worth Requirements for Mortgagees**

The FHA plans to propose to increase the net worth requirement for approved mortgagees to meet industry standards. The requirement is currently at \$250,000 and has not been increased since 1993. HUD is proposing an initial increase of approximately \$1,000,000 that would be in

place within one year of the enactment of this rule. To maintain consistency with industry standards, HUD may propose that the net worth requirements be increased further in future years to a level comparable to those required by GSEs and other market institutions. These changes will help to ensure that FHA lenders are sufficiently capitalized to meet potential needs, thereby permitting HUD to mitigate losses and decrease risks to the FHA insurance fund.

All mortgagee letters will be available at noon today on HUD's website. The proposed rule provisions will be subject to a notice and comment period, after which the final rule will take effect.

**U.S. Department of Housing and Urban Development**

451 7th Street, S.W., Washington, DC 20410

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# Real Estate Valuation Magazine

## Appraisal Practice

### *What We Do Matters*

*by Atom Levi, MAI, SRA, ASA*

This article looks honestly at the appraisal professional: where we are, how we got here, and where we are likely headed. I believe that many appraisers have forgotten that as an appraiser their role is to be a disinterested third party. We need to have integrity in what we do. Many appraisers have acted as if what they do does not matter. *I believe strongly that what we do matters!* USPAP is silent on the matter of profitability when performing an appraisal. USPAP requires the appraisal be performed in a competent manner. If what has been offered as compensation to perform an appraisal is inadequate to allow someone to perform in a competent manner, then the assignment should not be accepted. USPAP states one of its primary goals is public trust. **What we do matters.**

We all recognize that appraisal is not an exact science. I have concluded, after nearly 40 years as an appraiser, that appraising is a process of approximation. It is a process to help transform market information and one's intuition about the activities of buyers and sellers into an opinion of value. As appraisers, we must apply the appraisal process rationally (measuring those influences that can be measured), honestly (not favoring anyone) and without bias (performing diligent research and reporting our observations as they are found). **What we do matters.**

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There will always be disagreements regarding an appraiser's conclusions when they fail to

match someone else's idea of value or someone else's needs. That's life. Disagreement comes with the license. No matter what the intended use of the appraisal (sale, purchase, divorce, estate, condemnation, etc.) the appraisal process must be performed appropriately and with integrity. Remember: an appraisal helps bring closure to an economic activity and provides the rational basis for that transaction. *What we do matters.*

### **BACKGROUND**

The United States housing market is not a free market place, as we like to think. Without government funding or backing for loans, the number of transactions would be greatly reduced. Without governmental involvement there would be a much smaller need for appraisals. Our national housing market has very large dollops of "socialism" based on the concept that supporting social good is (at least in part) one job of government. Consider the following:

In 1934 (at the time of the Great Depression) the Federal Housing Administration (FHA) was established by Congress to advance homeownership opportunities for all Americans; assist homebuyers by providing mortgage insurance to lenders to cover most losses that may occur when a borrower defaults; and thus encouraging lenders to make loans to borrowers who might not qualify for conventional mortgages.

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In 1938 (also during the Great Depression) the FHA Administrator chartered the Federal National Mortgage Association (FNMA), commonly known as Fannie Mae, as a federal agency. The impetus for creation of FNMA was twofold: the national commitment to housing and the

inability or unwillingness of private lenders to ensure a reliable supply of mortgage credit throughout the country. FNMA's primary purpose was to purchase, hold, or sell FHA-insured mortgage loans that had been originated by private lenders. After World War II, FNMA's authority was expanded to include VA-guaranteed home mortgages. Congress chartered it in 1968 as a private shareholder-owned company and as a government-sponsored enterprise (GSE). Its mission is to provide liquidity, stability and affordability to the U.S. housing and mortgage market and expand opportunities for homeownership.

In 1968, the Government National Mortgage Association (GNMA), commonly known as Ginnie Mae, was created by Congress as a government-owned corporation (not a government-sponsored enterprise entity) within the Department of Housing and Urban Development (HUD). GNMA sells mortgage-backed securities (MBS) to raise capital. Ginnie Mae securities are the only MBS to carry the full faith and credit guarantee of the United States government. GNMA guarantees investors the timely payment of principal and interest on MBS backed by federally insured or guaranteed loans — mainly loans insured by the (FHA) or guaranteed by the Veteran's Administration (VA). Other guarantors or issuers of loans eligible as collateral for Ginnie Mae MBS include the Department of Agriculture's Rural Housing Service (RHS) and the Department of Housing and Urban Development's Office of Public and Indian Housing (PIH).

In 1970, the Federal Home Loan Mortgage Corporation (FHLMC) aka Freddie Mac was created by Congress as a government-sponsored enterprise (GSE) in The Emergency Home Finance Act of 1970. It was authorized to create a secondary market for conventional mortgages.

On September 6, 2008, the Director of the Federal Housing Finance Agency (FHFA) was appointed as conservator of Fannie Mae and Freddie Mac – after they went broke following the housing crash of 2005-2007. The U.S. Department of the Treasury has agreed to provide up to \$200 billion in capital to FNMA as needed to ensure the company continues to provide liquidity to the housing and mortgage markets.

Consider that 97% to over 100% financing (because of concessions) is available from the FHA. The government (both state and federal) encourages house ownership (usually with tax credits). House ownership is thought to generate a more stable society and just as importantly, taxes. For the record, I am for governmental assistance towards house ownership. I believe it is an OK way to spend tax dollars. But we must be aware of the potential for problems and decide as a society that we are indeed willing to fund this activity.

*Together, these various governmental and quasi-governmental entities provide nearly 100% of the financing available for today's housing markets.*

### **WHY APPRAISERS, WHY APPRAISALS?**

The American Institute of Real Estate Appraisers, the predecessor to today's Appraisal

Institute, began in 1932 (at the time of the Great Depression) with the goal of creating a group of specially trained individuals — other than real estate brokers — who could act as disinterested third parties in the valuation of real estate. [There were trust issues even then.] As appraisers, we must remember that in a broad sense, because of the financing structure for house purchases in the US, we work for our government and for millions of people in our country. *What we do matters.*

House appraisers are viewed by most participants in the housing market as contributing little to the process of a house purchase. Many in the process do not want an appraisal at all. Is an appraisal necessary for a house loan? Why? Regulatory lending laws mandate an appraisal. It is not a service that is sought out by the participants, eager to learn that they may not have made such a good deal. It is rather a process that is thrust upon them. The appraisal requirement is generally viewed as a speed bump in the loan process. This is why BPO's (broker's price opinions) and AVM's (automated valuation models) have come into favor. In the past many banks, especially the bigger banks, had in-house appraisal departments. This was where many appraisers, both residential and commercial, gained their training. Then, banks outsourced the appraisal process because they did not view appraising as a profit center and they wanted it outside, just like they wanted loan brokers originating loans outside the bank. These are the uncomfortable realities.

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Real estate brokers have said that for purchases, the agreed upon contract price should be used as "market value". After all, it was negotiated between the seller and buyer wasn't it? Why bother with an appraisal? The answer is that pesky little thing known as fraud. The FBI has repeatedly stated that all real estate mortgage fraud they have investigated starts with an appraisal. *What we do matters.*

With reduced house financing activity has come reduced demand for appraisers. The supply and demand curve for single-family appraisers is presently out of balance and very heavily weighted towards supply. The same is true for commercial appraisers, but to a lesser degree. This is a fact. It is a fact that is, so far, correcting only slowly. How was this imbalance created? It was created by the following confluence of events and thinking: (1) licensing of appraisers in 1991 (after the savings and loan crisis); (2) the recent housing bubble and its now infamous aftermath; (3) the perception that appraising, single-family appraising in particular, was an easy way to make money without too much effort or education; (4) the low standards set when licensing began; (5) the perception that appraising was a new industry because it had never before been licensed; and (6) banks outsourcing the majority of the loan origination process to mortgage brokers.

Residential appraisers who were/are accommodating the real estate brokers and mortgage brokers and were/are doing sloppy work fit the perception that appraising is about easy money and that the ethics and professional responsibility they agreed to, that came as part of their license, (mainly via USPAP), really are just something they needed to know to pass a test. Not honoring client privilege by telling the broker the value conclusion — no problem! Determining value as the sale price when it is not justified —no problem. Not reporting issues with the property — no problem. After all, appraisers are here to help make the deal, aren't they? Isn't the appraiser's role to be a facilitator? Large numbers of "form fillers" — accommodating appraisers who fail to recognize their responsibilities — don't get it: **what we do matters.**



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Appraisers are complaining that their 5, 10, 15 or nearly 20 year career has hit a brick wall and they no longer receive calls from their favorite mortgage brokers because of the HVCC. Licensing took place nearly 20 years ago. These appraisers know no other way of doing business nor are they qualified for anything other than being the handmaidens of real estate brokers and mortgage brokers. These "appraisers" view appraising as an avocation, not a profession or even a vocation. It is something to do until the next moneymaking scheme comes along. They do not invest in data sources for the area in which the subject is located nor historically have they had the higher education that is required by current licensing. They sell themselves and the appraisal process cheap, most often being the lowest bidder for an AMC (appraisal management company). They are in a race to the bottom with each other regarding fees. They fail to recognize that **what we do matters.**

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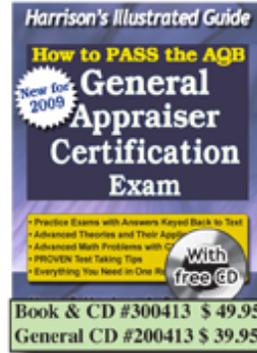
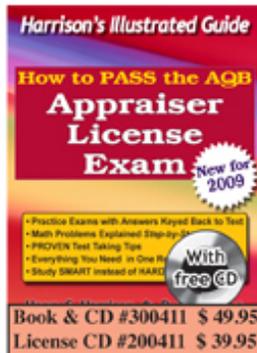
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### THE HVCC: BROKEN PROMISES

HVCC (the Home Valuation Code of Conduct), implementation of which began on May 1, 2009, is not a law. A lot of people seem to think it is. However, it is an agreement (read contract) with

FNMA and FHLMC (through the FHFA) to insulate single-family appraisers from “undue influence” during the process of rendering an opinion of value. If this is its true purpose, why does it sunset in two years? Why, if *what we do matters*?

In one way HVCC can be viewed as an admission that universal licensing and enforcement of appraisal standards has failed. I personally think this is partially true, but the HVCC plays a bigger role: I believe it to be a Trojan horse. As a residential appraiser you need to get your mind around this fact: the HVCC is not about appraisers. In fact, the so-called Independent Valuation Protection Institute required in the HVCC is not, as of September 2009, operational. The HVCC is about banks and mortgage brokers. That is, it is about banks eradicating the role of the mortgage broker. The HVCC is the delivery mechanism for this result. Why? Because of the new lending landscape (fewer loans) and the fact that the banks now want the commissions for arranging loans to remain in-house as a profit center. Appraisers are merely collateral damage in this process of change, because these same lenders do not believe *what we do matters*.

Both real estate brokers and mortgage brokers are complaining that appraisers are killing their transactions because the sale price is not being reported as value. Both are complaining that the cost of an appraisal has increased. Both say they no longer have input into the appraisal process or "influence over the appraiser" (that is, they cannot withhold payment or threaten no more assignments, or trash talk the appraiser if the sale price is not reported as value). Mortgage brokers are complaining that they no longer can call up their favorite appraiser and “get comparables” to find out what the value is before they order the appraisal (a direct violation of USPAP, but accommodating appraisers have done it for years). They say the purpose of these requests is to "save the borrowers time and money" and if the value isn't there they would not order the appraisal. In practice, they kept hitting the speed dial, shopping around until they found an accommodating appraiser who would "make the deal". Real estate and mortgage brokers are claiming that they are turning in “unqualified” appraisers now to the state licensing boards. I, for one, would like to know why they were not doing this before. Oh yeah, I remember now: they were getting the value they wanted!

Although important, the previous items are all secondary issues. If I am correct, and the banks want to be the dominant source of single-family mortgage lending, then this change most likely will include the appraisal component. I still believe *what we do matters*.

### **KEEPING TABS ON YOU IN THE FUTURE**

The Secure and Fair Enforcement Mortgage Licensing Act (S.A.F.E. Act) requires that all states implement a system to license and register mortgage loan originators. It was signed into law on July 30, 2008 by President Bush and must be implemented in all states by July 30, 2010. Along with the HVCC, this act is aimed directly at eliminating or greatly reducing the role of the mortgage loan broker in residential real estate transactions. There will be a few loan

brokers left, but the numbers will be dramatically reduced.

HVCC is scheduled to end on April 30, 2011. Per Fannie Mae's announcement number 09-11 dated May 1, 2009 and Freddie Mac's announcement number 2009-18 dated July 10, 2009, mortgage loan applications dated on or after January 1, 2010, in order to be in compliance with FHFA requirements, must include the "loan origination identifiers and appraiser data elements". In other words, the loan broker's license number and the appraiser's license or certification number must be on all loan applications. This way there will be a simple system in place, whenever HCVV ceases, that will allow Fannie and Freddie to easily track offenders, by the subsequent foreclosures that occur, and bar inadequate appraisers and brokers from doing business with either organization. No doubt the compiled lists of offenders will be shared with FHA and other agencies and organizations.

### **BANKS COMING FULL CIRCLE**

The gross fee for an appraisal had not increased since the 1990's. What industry can survive when it cannot keep up with inflation? Excess competition is what has kept the gross fee for a residential appraisal from rising. Now it is what keeps the AMCs from paying a fair fee to the appraiser. What was the first thing to happen when the HVCC went into effect on May 1, 2009? Answer: the fee for an appraisal increased. The second was that real estate brokers and mortgage brokers started complaining about the increase. Banks own the large AMCs, usually in cross-ownership situations. The banks realized that the gross fee (not that split off to the appraiser) for an appraisal needed to increase in order for the appraisal component of the loan process to be a profit center. This has been accomplished.

In the future, it is my belief, when the banks are successful in bringing the majority of home loan origination back in-house, the AMCs they own will have a greatly reduced role. I believe the AMCs, if they do not disappear, will shift and become, for the most part, in-house appraisal departments for the banks once again. After all, once mortgage brokers are extinct, what purpose does an AMC serve? There is a good chance the banks, having conditioned the public to a higher, and dare I say it, more appropriate appraisal fee, will employ more in-house appraisers. The banks are viewing appraisal fees as a profitable income stream once again. They may even try to have the threshold or de minimus lowered from its current level. After all, it was the Mortgage Brokers Association that lobbied heavily to have the de minimus raised from \$50,000 to the current \$250,000 limit.

### **WHAT WILL THE FUTURE LOOK LIKE?**

I believe it will be somewhat different from the current conditions. In the future (my guess is somewhere during the next 5 years) there will be vastly fewer practicing appraisers. However, I am unsure if the supply and demand curve will be in balance. If there is a shortage of

appraisers, the banks may have the rules changed so the shortage is either irrelevant or short lived. Perhaps then they might realize that ***what we do matters***.

The current qualifying educational and experiential requirements (increased beginning on January 1, 2008) for an appraisal license are acting as a barrier to entry for future competition. This will help ensure that the numbers will not balloon in the rapid manner they did in the early years of appraiser licensing. Also, getting the required 2,000 + hours of supervised work as a trainee is becoming ever more difficult. Current USPAP requirements restrict a supervisor to only three trainees. No longer can a supervisor have an unlimited number of trainees. In addition, a licensed appraiser, the least qualified license level, cannot act as a supervisor and train others. And why, as a supervisor, in the current and foreseeable economic environment, would I want to train my competition anyway? There are no reasonable incentives in the system for appraisers to take on trainees. If you call yourself an appraiser then you must understand that your professionalism and ethical practice can have enormous positive effects on society and the economy. This is hard to realize when you are doing one appraisal at a time. The real question is why would anyone want to join an economic activity where the liability is so high, work requirements so detailed and demanding, cost of doing business ever increasing, more entities have their hand in your wallet (AMCs, Appraisal Port, etc.) and the remuneration is so low?

### **THE BOTTOM LINE**

Despite my insistence throughout this article that appraising is a necessary and useful profession, in reality I feel that not until the effort involved in producing a competent appraisal is compensated in a fair and realistic manner will *what we do really matter*.

I hope that appraisers will help move our industry forward with this goal in mind, and fight the forces that are trying to eradicate our future.

*Mr. Levi began his appraisal career in 1971. He holds AA degree with an emphasis in real estate and a BA degree with an emphasis in business. He earned the RM (now the SRA) designation in 1978 and the MAI designation in 1983 from the Appraisal Institute. In 1980, he also earned the ASA designation, with a specialty in urban properties, from the American Society of Appraisers. He has been licensed as a real estate broker since 1976. He was an early adaptor of computers in the appraisal practice and published extensively regarding their use. He designed and licensed (to MCS) the first forms for commercial appraisal software. In 1997, he sold to a Fortune 500 company an AVM he had designed. He is a California Certified General appraiser. He still practices and serves as the president of A.L Appraisal Co. in Sacramento, CA. He can be reached at: [atom@alappraisal.com](mailto:atom@alappraisal.com)*



# Appraisal Practice

## *Energy Auditing: How to Increase Your Professional Value*

by Jeffrey A. Patterson



### **What is an Energy Audit?**

There are two parts to most energy auditing programs: One is a preliminary audit and the other is called a field audit.

**Preliminary Audits:** A preliminary audit is one that does not require a field inspection. Information is obtained and, based on the description of the building, the number of residents, and the energy costs of the property, the property can be rated with respect to its energy efficiency. Sometimes this is done for developers on proposed construction.

**A Field Audit:** A Field Audit is when an energy auditor utilizes equipment to complete a full inspection of the property, and makes a more detailed report and suggestions for improvements regarding the efficiency of the property. On new construction this is typically done after the building is framed and insulated. A report tells the builder the results of testing, as well as where “holes” were found. Then another inspection is done once the property is completed to make sure what was expected to be done was actually completed and that all proper standards have been met.

On existing housing, this is done on an "as is" basis for the property.

**As you look at the energy auditor business, what skills do you need to have?**

Some skills are not much different from what you are already doing in the appraisal and building inspection field. This publication is not to be a replacement for text books and classroom study. Having taken the class, I can tell you there are similarities in the appraisal industry, and not any more difficult than learning the functions of a dollar or capitalization and yield ratios.

- Measuring a house: (but cubic feet not building floor area)
- Inspecting a house (accessing attics and crawl spaces)
  - (warning you may get dirty)
- Understanding housing components (ducts, and functional layout)
- Cost efficiency of improvements.(cost vs savings vs time)
- Understanding the components of cost (i.e. labor, material & profit)
- Getting cost estimates and measuring them against results
- Math and more math. (ASHREA HERS ratings, Indoor Air Quality, Resistance to Heat Transfer, BTU's Therms, and etc.)
- Understanding construction materials and their uses.
  - Types of Framing (post&beam, balloon, etc.)
  - Construction material options
  - Design and Layout options
- Insulation types and their uses where appropriate:
  - Blanket: batts and rolls, concrete block insulation, foam board or ridge foam, insulating concrete foam, loose fill insulation, reflective insulation, rigid fibrous or fiber insulation, spray foam and structural insulated panels
- Filling out forms (understanding forms and the questions being asked)
- Learning software programs
- Dealing with federal and state requirements
  - Tax deductions and rebates
  - Federal requirements
  - Local code requirements
- Qualifying a property and rating a property

As an appraiser or building inspector, you already have a basic understanding of houses. You have an understanding of the industry and the terminology. Don't sell this experience short.

## ***Appraiser's Guide to Energy Auditing/Rating*** *by Jeffrey A. Patterson*

Has the implementation of the HVCC started to reduce your income yet? Wondering what you're going to do? Well, there is a unique market opening up in the energy auditing business that allows appraisers to expand their services, continue to do what they've been doing and make even more money. Jeff Patterson brings those ideas to you, showing how to connect with other appraisers doing the same thing. Find out the cost, the potential income and the do's and don'ts of utilizing your existing talents in this growing and exciting new GREEN industry. Take a step INTO THE FUTURE.

Note: Once payment has been received, the Guide will be emailed to you in PDF format.

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# Real Estate Valuation Magazine

## Financial Update

### *They Called Him "Mr. Bubble"*

*excerpted from the Yale Alumni Bulletin*

*September/October 2009 by David Leonhardt '94, an economics columnist for the New York Times.*



In 2000, only weeks after the stock market peaked, Dr. Robert J. Shiller, Arthur M. Okun Professor of Economics at Yale University, published his dire predictions of a forthcoming crash in "Irrational Exuberance" — named after the quip by then-Fed Chairman Alan Greenspan about the markets going wild. Shiller said the dot-coms would go bust. Internet entrepreneurs scoffed. In 2005, he predicted that the housing boom would cause a recession. Mortgage lenders laughed. They called him "**Mr. Bubble**" or "**Dr. Doom**."



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## Background

Sometime in the mid-1980s, Robert Shiller and John Campbell (Yale '84 PhD) created The Chart. It wasn't especially complicated. It showed average stock prices, relative to corporate earnings, going all the way back to the late nineteenth century. Wall Street analysts produce charts along these lines all the time. The measure is called the price/earnings ratio, and it is the single most common analytical yardstick of the stock market.

The yardstick that Shiller and Campbell created, however, came with a twist -- a twist that transformed their little chart into The Chart. Today, The Chart stands as one of the signature pieces of economic research of the past generation. It is rigorous enough to have appeared in the Journal of Portfolio Management and simple enough to be understood by those of us who

are behind on our Portfolio Management reading.

***If Alan Greenspan had taken The Chart seriously during the late 1990s, Greenspan's reputation might be in better shape today. So might the United States economy...***

Anyone who heeded the central lesson of Shiller and Campbell's analysis -- as well as the lesson of a subsequent chart, created by Shiller, on the housing market -- could have avoided some of the worst pain of both financial crises. If Alan Greenspan had taken The Chart seriously during the late 1990s, Greenspan's reputation might be in better shape today. So might the United States economy. Nouriel Roubini, the doomsday-prophesizing finance professor at New York University who has lately become a media darling, credits The Chart for much of his clairvoyance.

When Wall Street analysts talk about the price-earnings ratio -- the P/E ratio -- they generally base their analysis on a very short-term measure of corporate earnings. They typically look at earnings over the past year or at forecasts of earnings over the coming year. They then divide the price of a company's stock by this measure of earnings, to judge whether the stock is fairly valued. The same can be done for the market as a whole: the Standard & Poor 500 index, for instance, divided by the average earnings of the companies in the index.

### **How "The Chart" Works**

Shiller and John Campbell, a former Shiller student and longtime Harvard professor who now runs Arrowstreet Capital, had come to believe that such measures were fatally flawed. Earnings over any given 12 months can fluctuate wildly, depending on whether the economy is booming or busting. *Forecasts* of earnings are even more problematic, given Wall Street's unimpressive forecasting record. No P/E ratio based on only 12 months of earnings will tell you much about the long-term prospects of American companies, which is precisely what stock prices are meant to capture.

Imagine that, in December 2007, Company X's stock was selling at a record \$60 per share. Its earnings for the previous year had been better than ever before, at \$4 per share. So its price-to-earnings ratio was 15. That's a comfortably low number on the price-to-earnings scale -- showing, apparently, that Company X's record stock price was reasonable. The price, said its CEO, simply demonstrated that investors appreciated Company X's increased profitability. But 2007 was a boom year. What if Company X's big profits were only temporary? *Then its good price-to-earnings ratio was illusory, and its stock might be seriously overvalued.*

Shiller and Campbell account for the booms and busts by using earnings figures for the previous ten years. Company X's average earnings for the past decade had been \$1 per share. By the ten-year calculation, its price-to-earnings ratio was alarmingly high at 60, unless there were a concrete reason to think the recent high earnings would continue. They were right —

and the market crash, followed by the housing crash are proof of their theories.

***What does Robert Shiller predict now?***

Read (much) more at: [http://www.yalealumnimagazine.com/issues/2009\\_09/shiller032.html](http://www.yalealumnimagazine.com/issues/2009_09/shiller032.html)

For a fascinating discussion by Robert Shiller on NPR's Charlie Rose, click here: [Dr. Shiller Meets Charlie Rose](#) (without link, go to Google and search for interview on YouTube.)



## Financial Update

### *The Top Seven Myths About Loan Modifications* *by Raffy M. Boulgourjian, Esq.*

This article is for you or anyone you may know or advise who is looking for a way out of their loan nightmare. As a real estate attorney for more than 10 years, the recent economic downturn has brought dozens fearful and distressed homeowners to my office. In all my consultations, I have heard many beliefs about what can be accomplished in applying for a loan modification. The media, which buzzes daily with “promising” news, only aids in the confusion experienced by homeowners. It’s no wonder then that the homeowners who sought my assistance came to me in complete bewilderment. To help you navigate between truth and fiction, I have compiled the following – the seven most commonly seen misconceptions.

#### **1. You must be behind on your payments to qualify for a loan modification.**

This belief is patently false. However, the reason why this belief exists is because it was once true. Before the U.S. government got involved, most banks could not be convinced that you were suffering a financial hardship (and thus warranting their attention as a default risk) unless you were one, two or three payments behind. This is no longer true. On March 3, 2009, the U.S. government passed the Making Home Affordable plan to help fill some of the gaps in the process. One of those gaps was to assist homeowners who were experiencing financial hardship but were hanging onto their credit with everything they had, while keeping their payments current. In fact, under the government plan you must be current to qualify.

I would never advise anyone with good credit to deliberately damage it by falling behind on their payments simply in the hope that it will increase their chances of obtaining a loan modification. Obviously, if you can’t make the payment, then you don’t have a choice; however, I don’t recommend destroying your credit over it. Remember, your credit is the one thing that is going to help move you forward through your current financial squeeze. Maintaining your credit or minimizing the damage is paramount. There is no guarantee that your lender is going to offer you a loan modification.

#### **2. If you qualify under the government criteria, then your lender must modify your loan.**

The U.S. Making Home Affordable plan is just that -- a plan. The plan is not a law that obliges lenders to modify all qualifying persons’ loans. The government plan provides the lender with a financial incentive to offer loan modifications to persons who qualify under the plan’s criteria. If you are current on your payments, occupy the property as your primary residence, obtained your loan before January 1, 2009 and meet some other basic criteria, then you are a candidate

for the program. If the lender approves your loan modification, then the lender receives a cashback of close to \$2,250 (depending on circumstances) for having approved your loan. It is neither obligated to do so, nor is it obligated to take the government assistance money.

**3. My loan must be a FannieMae or FreddieMac loan to qualify for a loan modification.**

In the early days of the government plan, both lenders and homeowners alike strove to digest its terms, causing much confusion. One of the most common misconceptions was that your loan must have originally been processed or backed by one of the above-mentioned loan giants in order to qualify under the loan modification plan. This is not true. The government's plan has two programs; one offering assistance with loan modifications, and the other with refinances.

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Your loan need not be a FannieMae- or FreddieMac-backed loan in order to qualify for a loan modification. However, if you plan to apply for a refinance under the government plan, then the above requirement applies. The government plan for refinances was designed to assist those homeowners who were close to qualifying for a refinance but fell short by about 25 percent. If you owe more on your house than it is worth (i.e. the property is “upside down” or “underwater”), then no one will refinance your loan because your home does not offer sufficient collateral to cover the refinanced amount. However, in this case, you may qualify under the government’s refinance plan. Its plan does require that the loan you are attempting to refinance have originally been a FannieMae- or FreddieMac-backed loan. How do you find out if your loan was a FannieMae or FreddieMac loan? For an immediate answer, visit their websites (fanniemae.com and freddiemac.com), and simply enter your street address.

**4. A loan modification will reduce the principal owed on the loan.**

In a loan modification situation, this scenario is so rare that expecting it would simply be foolish. Please do not expect the first mortgage holder on your home to forgive the principal on your loan. If someone is promising you that it can be done, be careful. Is it unheard of? No. Is it extremely unlikely? YES. Of the dozens of first mortgage loans that we have successfully modified, none have forgiven any portion of the principal. Again, it's not impossible. Lenders are far more inclined to forgive principal on your second mortgage, and then only in a short sale situation (where you are selling your home, not simply attempting to modify your loan). Lenders can and will do many adjustments to the principal to reduce your monthly payment. One of the most common things that lenders do to the principal in a loan modification is to defer payment of a large portion of the principal to the maturity date of the loan (i.e., a balloon payment) with no interest accruing on that principal (you could call this free money). Another principal modification that many lenders offer is to extend the term of the loan (e.g., convert a 30-year loan into a 40-year loan starting today) to keep the monthly payment amount within a tolerable range.

#### **5. Under a loan modification, the lender will only consider the income of the debtor.**

I have had countless numbers of people ask if the bank would only consider the income of the individual named on the loan. The straight answer is "No." In reviewing your application for a loan modification, the bank will consider the total income of the household. If your spouse works, then their income is considered. It doesn't matter if you are the only one on the loan and the only one on title to the property. The bank will ask for the total income of all adults contributing to the household's income. If there are adult children who work and contribute, their income will be considered too. Understand that your lender will review your tax returns and determine the total income of the household by your (most likely) jointly filed tax return.

#### **6. Foreclosure can be averted at the last minute by applying for a loan modification or a bankruptcy.**

The common advice of "Never leave anything to the last minute" could not be truer than in a foreclosure situation. Many states' laws require that a lender give you several months' notice before a foreclosure goes forward. Use this time wisely. Consult with an attorney. Find out what your options are. A lender will typically cancel, pause or postpone an upcoming foreclosure sale if you have applied for some form of assistance (loan modification, short sale, deed in lieu of foreclosure, forbearance agreement). However, your application will take several days to be inputted into the system and assigned to a negotiator. Most banks will not promise to stall a sale until your file is assigned to a negotiator. Don't put yourself in the uncomfortable situation of waiting for good or bad news on the foreclosure sale. Send in your paperwork at least two weeks (if not more) before a scheduled foreclosure date.

#### **7. The banks are obligated to help you.**

No lender is obligated to modify your loan. No lender is going to cut you slack simply because you asked for it. Did the U.S. taxpayer just foot the bill to save our banking system from collapse? Yes. Was this collapse caused primarily by banks offering bad home loans? Yes. Does the plan obligate the banks to cut homeowners some slack? No. When a lender decides to

modify your loan, they do so because they feel it is in their best interest to do so. Keeping this truth in mind is key when preparing an application for a loan modification. The bank does not want to go through the expense of foreclosing (a typical foreclosure may cost your bank six months of time and over \$10,000 in hard expenses). The bank does not want to become the new owner of yet one more foreclosed property. Having said that, the bank cannot stand aside and watch a bad loan get worse if there is any chance of saving it. If a borrower has some income, at least enough to keep the bank from losing money, then it will be interested in negotiation. By the same vein, banks want assurance that the new monthly payment is an amount that is not going to overburden the borrower (and hence cause them to be back at "square one" with a delinquent borrower in a few months' time). This delicate balance is what will make the difference between your loan modification being approved or denied. Keep in mind that for all of the above reasons, you simply will not qualify if you have no income. But if you can show that you can afford some amount, then you should at least try to apply. Put your best foot forward financially. This is not the time to exaggerate your financial hardship. Be honest and offer what you can. If you simply have nothing to offer, then your next best option is to sell the property short or simply give it back to the bank. Both options have advantages that a loan modification cannot offer (such as forgiveness of principal). Be vigilant, seek assistance from reputable professionals and explain your financial situation sincerely and frankly.



*Raffy Boulgourjian is a Los Angeles based real estate attorney. For over 10 years, Mr. Boulgourjian has been litigation counsel to realty firms, homeowners, brokers, landlords, tenants and mortgage lenders. Mr. Boulgourjian holds a Bachelor's Degree in Finance from the University of Southern California and a Doctorate in Law from Southwestern University. Over the past two years, Mr. Boulgourjian has assisted dozens of homeowners in dealing with their lenders. The author may be reached at [rboulgourjian@gmail.com](mailto:rboulgourjian@gmail.com).*



# Real Estate Valuation Magazine

## Fannie Mae

### *Who Runs Fannie Mae?*

*Access to Fannie Mae: The Execs / The Board*

*Fannie Mae's New CEO*



**Michael J. Williams is newly appointed  
President and Chief Executive Officer  
of Fannie Mae**

Michael J. Williams is Fannie Mae's President and Chief Executive Officer. He is also a member of the company's Board of Directors. Prior to his appointment as CEO, Mr. Williams was Fannie Mae's Executive Vice President and Chief Operating Officer responsible for the functions of Technology, Enterprise Operations, Human Resources, Community and Charitable Giving, Compliance and Ethics, Corporate Facilities and Security, and Corporate Procurement. During this time, Mr. Williams also oversaw the bolstering and restructuring of the company's foreclosure prevention and loss mitigation operations. He also led the company's efforts to carry out the Obama Administration's Making Home Affordable loan refinance and modification initiatives. In addition, Mr. Williams executed the company's transition to conservatorship in September, 2008.

Previously, Mr. Williams served as Executive Vice President - Regulatory Agreements and Restatement, where he was responsible for fulfilling all Fannie Mae obligations under the company's agreements with its former regulator -- the Office of Federal Housing Enterprise Oversight -- and for managing the overall effort to restate its financial statements. Before that, Mr. Williams was president of Fannie Mae eBusiness, responsible for developing and implementing e-commerce strategy while delivering a broad set of new solutions for customers. Previously, he served in several areas in the company, where he focused on the development

of technology tools including Desktop Originator®, Desktop Underwriter®, fanniemae.com, eFannieMae.com, MORNET®, and MORNETPlus®.

Prior to joining Fannie Mae in 1991, Mr. Williams was Senior Manager, Strategic Systems Practice for KPMG Peat Marwick's information technology consulting group, where he was responsible for the definition, design, and development of executive information and decision support systems. Prior to that, he was with the DuPont Company.

Mr. Williams has a master of business administration in finance and a bachelor of science from Drexel University.

## ***Fannie Mae's senior executives as of 7/9/09***

Michael J. Williams  
President and  
Chief Executive Officer

Karen R. Pallotta  
Executive Vice President  
Single-Family Mortgage Business

David M. Johnson  
Executive Vice President and  
Chief Financial Officer

Kenneth J. Bacon  
Executive Vice President  
Housing and Community Development

David C. Hisey  
Executive Vice President and  
Deputy Chief Financial Officer

Kenneth J. Phelan  
Executive Vice President and  
Chief Risk Officer

Michael A. Shaw  
Executive Vice President and  
Chief Credit Officer

Timothy J. Mayopoulos  
Executive Vice President  
General Counsel and Corporate  
Secretary

David Benson  
Executive Vice President  
Capital Markets

Edward G. Watson  
Executive Vice President  
Operations and Technology

Linda K. Knight  
Executive Vice President  
Securities

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- Essential Resources for FHA

**&**

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- FHA FAQs regarding new online Handbooks

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## *Fannie Mae's Board of Directors as of 7/9/09*

Michael J. Williams

President and  
Chief Executive Officer  
Fannie Mae  
Potomac, MD  
Board member since 2009

Dennis R. Beresford

Ernst & Young Executive Professor  
of Accounting,  
The J.M. Tull School of Accounting  
University of Georgia  
An educational institution  
Athens, GA

Mr. Beresford initially became a director in May 2006, before we were put into conservatorship, and FHFA appointed him to Fannie Mae's Board in December 2008

William Thomas Forrester

Former Chief Financial Officer,  
The Progressive Corporation  
An auto and property-casualty insurance company  
Sarasota, FL  
Board member since 2008

Brenda J. Gaines

Former President and  
Chief Executive Officer,  
Diners Club North America  
A subsidiary of Citigroup  
Chicago, IL  
Ms. Gaines initially became a director in September 2006, before we were put into  
conservatorship, and FHFA appointed her to Fannie Mae's Board in December 2008

Charlynn Goins

Former Chairman of the Board of Directors,  
New York City Health and Hospitals Corporation  
A municipal hospital and health care system  
New York, NY  
Board member since 2008

Philip A. Laskawy, Chair

Non-Executive Chairman of the Board, Fannie Mae  
Former Chairman and  
Chief Executive Officer,  
Ernst & Young  
A professional services firm  
Greenwich, CT  
Mr. Laskawy initially became a director and Chairman of Fannie Mae's Board in September  
2008

Egbert L. J. Perry

Chairman and Chief Executive Officer,  
Integral Group LLC  
A real estate advisory, investment management, and development company  
Atlanta, GA  
Board member since 2008

David H. Sidwell

Former Chief Financial Officer and Executive Vice President,  
Morgan Stanley  
A global financial services firm

New York, NY  
Board member since 2008

Frederick B. "Bart" Harvey III

Former Chairman of the Board of Trustees of Enterprise Community Partners

A national nonprofit

Columbia, MD

Mr. Harvey initially became a director in August 2008, before we were put into conservatorship, and FHFA appointed him to Fannie Mae's Board in December 2008



**Jigsaw**® Complete, Collaborative  
Business Information

**Fannie Mae (Federal National Mortgage Association)  
Company Information**

<b>Company Name</b>	Fannie Mae (Federal National Mortgage Association)
<b>Headquarter</b>	3900 Wisconsin Ave NW <a href="#">Washington, DC, 20016-2806</a> <a href="http://www.fanniemae.com">www.fanniemae.com</a>
<b>Country</b>	USA
<b>Phone Number</b>	1.202.752.7000
<b>Industry</b>	<a href="#">Financial Services</a>
<b>Employees</b>	6,600
<b>Revenue</b>	\$43.36 Billion
<b>Ownership</b>	Publicly Traded

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# Real Estate Valuation Magazine

## Ask Henry Harrison



### **AskHenryHarrison.com**

askhenryharrison@revmag.com

fax: (203) 562-5481

*Henry S. Harrison is the leading appraisal author in America with over 30 books in print. He has taught seminars all over the United States and has been active in the appraisal field for over 45 years. For the past 25 years, he has also been the publisher of Real Estate Valuation Magazine. Viewers can now read and submit questions for free by e-mail, fax, or directly through Henry's new website:*

***www.askhenryharrison.com***

*We reserve the right to edit the letters as needed when we use them for publication. We respect "name withheld" requests.*

### **Reviewing Another Appraisal**

#### **Dear Mr. Harrison:**

I have a situation. I was contacted directly by a homeowner who has a 50% interest in a town home (she owes 50% and her roommate owns 50%). The roommate wants to sell the property and my client wants to potentially buy her out. My client requested an appraisal to define current market value. I produced the appraisal and gave it to my client. Now a few weeks later her

roommate has produced a desktop type of appraisal that she had done by another appraiser's value and my value are quite different. I have been asked by my client and her attorney to produce a review of the other appraiser's report and her attorney cites it should be in compliance with USPAP Standard 3. I have attached a redacted version of the other appraisal in question for your review due to its unfamiliar format.

My questions are as follows:

1. Am I able to perform a review on this appraisal?
2. Is his appraisal considered "consulting" and does that change my ability to perform a review on his work?
3. Is there any conflict of interest issue?
4. What form would I use if so?
5. I do see some issues with his findings that I am capable of explaining; however I am at a loss for how to properly proceed at this point.

Your help will be very much appreciated. Thank you in advance for your time.

Sincerely,  
*Michael J. Pritchert*  
[mpritchert@gmail.com](mailto:mpritchert@gmail.com)

**Dear Michael,**

When you make an appraisal for a client, unless you have previously agreed to perform other functions such as reviewing another appraisal, your required services to the client are over. You can be required to testify in court if someone subpoenas you. I took a look at the appraisal you sent me. It is nonstandard, and probably noncompliant. In my opinion, you would be making a mistake if you agreed to review it. I say "pass".

**H2**

# Claudia Says...

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**Claudia Gaglione**  
LIA National Claims Counsel



## Introducing *Claudia Says!*

Liability Insurance Administrators is proud to announce our new online Errors & Omissions (E & O) legal resource – *Claudia Says!* Hosted by Claudia Gaglione, LIA's renowned National Claims Counsel, *Claudia Says!* is the appraiser's source for practical legal advice concerning loss prevention issues. Claudia utilizes her extensive experience to give you trusted advice for your most pertinent E & O concerns.

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## Desktop Valuations

Dear H2,

I would like to get your take on the use of Desktop Valuations. Wells Fargo/RELS have stepped up their use of this product and we are being asked to do these reports through an AMC. The statement of limiting conditions appears to have the appraiser covered. However, I am concerned that this is a "cheap" way for the lender to get an appraisal. Any thoughts would be appreciated.

Gary Anderson  
[andersonapp@roadrunner.com](mailto:andersonapp@roadrunner.com)

**Dear Gary,**

Each time an appraiser agrees to do this type of work, they reduce the credibility of all appraisers who are trying to be professionals. There is nothing in the USPAP that requires that a property be inspected.

The USPAP does require that every appraisal be credible. Personally, I don't see how an appraisal can be credible when the property is not inspected and the appraiser depends solely upon data (usually unverified) where you have no idea of the special conditions that were part of the comparable sale price.

In my opinion, if appraisers continue to facilitate this type of valuation, it will just be a matter of time before the residential appraisers put themselves out of business.

**H2**

### **Gross Living Area Below Ground Level**

**Dear H2,**

I have a question about GLA. The house in question is an A-Frame design, and is built on the side of a hill. It consists of three levels. The first and second levels are rectangular in shape and the third level is the A-frame portion of the house containing the sleeping loft. The bottom level is where I have a question about the GLA. The front of the bottom level is completely exposed and above grade. The front portion of each side wall is above grade, with the grade of the land rising toward the rear of the house. Most of the rear wall is below grade, however, with approximately three feet of the rear wall above grade level. This level of the house contains two bedrooms, bath, den, and is of the same quality as the upper level of the house, which contains the kitchen, living room, one bedroom, and a bath. Should the bottom level be considered in the GLA ?

*Todd Darnell*  
[DARNELLT@aol.com](mailto:DARNELLT@aol.com)

**Dear Todd,**

The Fannie Mae Guidelines for using the GLA say that only those part of the house that are "100% above ground" should be include in the GLA. Therefore, the lower level of this house would not be included. However, the guidelines also point out that they are only guidelines and that if the appraiser feels an exception should be made, it is permitted as long as the appraisal makes it clear what that exception is and why the appraiser feels it is necessary to make the exception.

**H2**

### **Repeat Appraisals**

**Dear Mr Harrison:**

I am writing to you to see if you can help me with this situation that I'm in the middle of. I completed an appraisal in January 2009 and in May of 2009 the lender sent me a new assignment for the same property because the underwriter could not accept an appraisal over 90 days old. I completed the new assignment on May 22nd 2009.

Today I received a new assignment for the same property again, because the same underwriter will not accept an appraisal under 6 months time after the first one!

Can I keep doing appraisals on the same property without having problems with my FHA license?

Also, another client sent me an assignment yesterday for a property I did in April 2009 because the FHA case number was cancelled. Can I do another appraisal so soon after the original one?

In all cases, by the way, the latest appraised value has been lower -- but how long can I continue this?

I thank you in advance for your time and am awaiting your response!

*Jay*

[Jaytheappraiser@aol.com](mailto:Jaytheappraiser@aol.com)

**Dear Jay,**

Currently there is nothing in the USPAP to prevent you from appraising a property as many time as you want, except for the Confidentially rules — which don't seem to apply in your situation. The new 2010-11 USPAP, which goes into effect January 1st, 2010, contains some additional requirements about repeat appraisals including additional disclosure requirements. Right now the USPAP requires a new appraisal every time the effective date of the appraisal changes and whenever the lender/client changes. There are no limitations on how many times you can appraise the same property.

One of the best assignments I had when I was an active appraiser was from a New York Trust Company who hired me to appraise a mansion here in New Haven that was in Trust and was used by a member of the family who was on the Yale faculty. I did a full narrative appraisal every year for over 10 years and they never questioned my fee.

**H2**

**Dear H2,**

Thank you very much for your help; I hope I run into a client who needs an appraisal of a mansion every year too.

*Jay*



# Real Estate Valuation Magazine

## The Environmentalist

### **Hot Topic:** 5 Easy Ways to Go Green and Save Green this Fall

by Kate L. Harrison, Esq.

*It's official – green is the new black. With so many companies, newspapers and tv shows offering new ways to be eco-friendly, it is easy to feel overwhelmed. However, by making a few simple green changes in your life, you can not only go green, but save green too. Here are five easy ways to green your home that will leave you a little extra cash for the up-coming holiday season.*

#### **1. Keep your cool**

Almost half of the energy used in a house goes to heating and cooling. In cold weather, every degree you go below 68 cuts 3-5% off your heating bill. Consider buying a programmable thermostat that will allow you to cool the place off while you are away at work, and in the middle of the night, while you are snug in your bed.

#### **2. Watch your water**

Adding an aerators to your faucets (which adds air to your water so it feels like more is coming out than really is) can reduce water consumption by 50%. To take it an extra step, install a low-flow or dual-action toilet. For the do-it-yourself (DIY) version, fill a 1 litre soda bottle with water and put it in the back of your toilet, or manually adjust the float valve to reduce the amount of water held in the tank.

#### **3. Face the fridge**

According to the EPA, replacing an old fridge can save you up to \$150 a year. Appliances account for about 20% of a home's total energy bill, and the fridge is one of the biggest energy suckers. If your fridge is more than 10 years old, consider replacing it with an energy-efficient version. Energy Star appliances use up to 50% less energy to run. If you sell your old fridge on Craigslist, you can recoup a lot of the cost right away.

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#### 4. Light the way

Compact Fluorescent Light bulbs (CFLs) use one third the energy of incandescent bulbs and last up to 10 times as long. As bulbs burn out, replace them with CFLs. The savings here adds up quickly. For example, for every 100-watt bulb you replace with a 32-watt CFL, you can save \$30 in electricity costs each year.

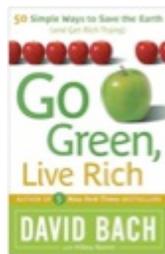
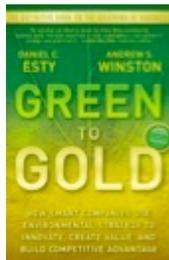
#### 5. Clean green

In addition to being toxic for you and the environment, commercial cleaning products are expensive. The good news is that there are dozens of simple solutions that are safe, effective, and economical that you can make at home. A few examples include:

- **Glass cleaner** = 1 cup white vinegar, 1 cup water.
- **Oven Cleaner** = baking soda, salt and hot water (make a paste)
- **Cleaning Scrub** = 1 cup Borax, 2 cups salt, 2 cups baking soda, 8 drops essential oil (for fragrance).

For more green cleaning ideas, see **The Joy of Green Cleaning website:** <http://www.thejoyofgreencleaning.com>

Suggested reading: [Green to Gold](#); [Go Green Live Rich](#).



# Real Estate Valuation Magazine



## The Environmentalist

### **Small Wonder:** *Could You Live in 144 Square Feet?*

*For Yale student Elizabeth Turnbull this custom house is just big enough.*

*Just how much space does one person really need?*

**According to Elizabeth Turnbull, the answer is "about 144 square feet."**



***Kate L. Harrison***

***kaharrison2@mac.com***

*Kate L. Harrison received her J.D. with an Environmental Certificate from Pace Law School in NY State and recently passed the CT Bar. She is currently completing her joint Master's Degree at Yale University's Graduate School of Forestry and Environmental Studies. She is Henry Harrison's third child and youngest daughter.*

*Her first book:*

***The Green Bride Guide***

[www.thegreenbrideguide.com](http://www.thegreenbrideguide.com)

*was published in Dec. 2008.*



Last spring, after being accepted to the Yale School of Forestry & Environmental Studies, Turnbull did some math. She figured that over the course of her two-year master's program in Urban Ecology and Environmental Design, her rent and utilities would add up to around

\$14,000. A little more calculating led the energetic 26-year-old to conclude she could design, build, and live in her own tiny green house — it's portable and currently parked on the property of "another Forestry School friend" she says — for roughly the same cost. The design of her home was based on her 6-foot-tall frame.

"It was really fun to tailor the house based on my own ergonomics and my needs," she says. The 8.5-foot-by-18.5-foot house includes a sleeping-loft, kitchenette, and combined living area and study. (She uses a basement bathroom in the main house, and a shower there as well, though Turnbull might one day be able to add a composting toilet and sunshower.)

Turnbull has a background in environmental studies and in building. She worked for O'Neil Fine Builders in Beverly, Massachusetts before returning to school, so this project made sense to her. "I wanted to see how green I could be, how lightly I could tread on the earth," she says. After consulting with others who'd built houses similar to hers — there's a whole movement of tiny-house aficionados across the country — Turnbull began construction last summer. Once word got out about the project, help flooded in. Her high school alma mater, the Governor's Academy in Byfield, allowed her to use its grounds as the building site. Local vendors and building professionals donated materials, and friends, family, and dozens of strangers helped out at building parties Turnbull organized by hanging up flyers. Others offered help after reading about her project in stories that appeared in The Daily News of Newburyport. "My goal was to use only environmentally considerate materials," says Turnbull, "products that were recycled, reclaimed, and natural." The house is heated with clean-burning propane, and three solar panels right outside provide electricity. Turnbull plans to add a rainwater catchment system this summer, and does her cooking on an efficient yacht stove.

**FHA Requires "Cost to Cure".  
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The house has soy-based insulation, donated by the Green Cocoon in Salisbury that emits no chlorofluorocarbons or carcinogens. Low-VOC-emitting paint was used throughout the house, and the floors, a gift from Wood Flooring Design in Salisbury are made from sustainably harvested wood. The ceiling was donated by SecondWind Sails in Gloucester, a company that repairs, resells, or finds creative reuses for old sails (shower curtains and bags are more typical reuses than ceilings). The windows and door were castoffs from other building projects. "The world is full of things that people want to get rid of or already have," says Turnbull. "Before you buy materials, look around."



After graduation, Turnbull wants to help inspire others to explore low-budget, low impact structures. "People can feel paralyzed by all of their 'stuff' — myself included, before this project," she says. "It's fun and gratifying to design around not what you think you should have, but what you actually need."

Subscribe to the small house blog here: <http://tinyhouseblog.com/feed/>



# Real Estate Valuation Magazine

## *Rants & Raves*

### 1004MC Complaint

**Dear Mr. Harrison,**

I find the 1004MC a maddening affair. If the intended goal of the form is to reveal price trends in a defined market during the past year, then there must be an adequate amount of data. Statisticians claim data is generally not adequately revealing with less than 30 items from which to make a meaningful analysis. Given the dearth of sales activity brought on by the poor economy over the past year, it is often tantamount to pulling teeth to come up with even the minimum required 3 comparable sales for an appraisal. One cannot produce meaningful results through an analysis of a literal handful of sales. If one accurately defines the market for a particular property, there will likely be far too little data from which to identify trends. The more one broadens the defined market, the more data, but doing so necessarily includes properties that are not competing with nor comparable to the subject property. Without adequate data, the 1004MC form becomes just one more useless and time-consuming pain in the backside for appraisers. It also occurs to me that if an appraiser is intent upon producing a fraudulent or misleading appraisal report, it is no trick to construct the data for the 1004MC to support whatever value estimate he or she chooses to make. The net result is that the 1004MC is merely punitive to appraisers.

*Terry Shannon*

[tjshannon2@comcast.net](mailto:tjshannon2@comcast.net)

**Dear Terry,**

I agree that the number of sales usually available from a neighborhood sample is not adequate to render an opinion only on statistical analysis. However, I don't agree that 30 is the magical number. I like 18 better. Why not accept the 1004MC for what Fannie Mae claims it is for. Just give them what ever data you find (don't fudge the area just to get more data) and render you opinion on what you find. Explain in your comments on how you came to the conclusions you made and if you could not render an opinion just say there was not sufficient data to render an opinion. An appraiser can make a fraudulent appraisal with or without the 1004MC. **H2**



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### Numbers Lie...

**Dear REV:**

I am old school. Face to face with people who had faith in our relationship. Now AMCs have become a way of life. Poor pay and coercive expectations on turn times. All your work gets checked by a computer, most of the people scanning the reports have no idea. Leave a box unchecked, even if it has not been checked in ten years, now some computer programmer says it has to have an answer. The new 1004 requests yes or no answers to cut down on the dialogue. Forget that, yes or no requires an explanation. For that matter, everything requires a book. Where is USPAP in all this? Every bank we deal with has a three page set of requirements. The 1004MC form wants to know trends in a neighborhood. 90% of the neighborhoods or within a mile of subject have not had enough sales in the past year to verify any trend or market direction! Insufficient Data has become almost a standard answer. I do not know where all this is going, but it has never paid to lend money to people who cannot pay. Free money drove the market and tight money is killing it. Well, as the saying goes: "Numbers lie and liars number." And greed never takes a holiday.

*Joe Johnson*

[jjohns58@verizon.net](mailto:jjohns58@verizon.net)

### Where Will New Trainees Come From?

**Dear REV:**

With the new FHA requirements and the AMC situation, where are the new appraisers going to come from? The AMCs all state "no trainees" on their work orders. If you can't train, you can't work, and you will never be able to do FHA appraisals. Seems to me there will be a shortage of qualified residential appraisers in just a few years. A lot of the older guys have already quit in disgust, and more are retiring every day.

*Mark Stephenson*

[UNCMRK21@COX.NET](mailto:UNCMRK21@COX.NET)



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*Ruth Lambert, Editor*

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