January 2017
Volume 13 Issue 1

Monthly Newsletter of the Georgia Real Estate Commission

GREC RENews

This Issue

2017Calendar

Class Dates
To Be Announced

Link to the Georgia Real Estate License Laws, Rules, and Regulations

Link to GREC Disciplinary Actions View Current Suspensions and Revocations

Link to Proposed Rule Changes

Georgia Real Estate Infobase
Click Here

Being Aware of the Financial Environment

It is important for real estate licensees to keep current with the changing financial markets in order to offer sound advice to their clients. Being aware of new legislation, as well as possible new and creative sources of funding, such as crowdfunding or purchase renovation loans, enables the licensee to provide his or her client with information that can assist them in making important financial decisions.

One key indicator of the financial market is the federal funds rate. This is the rate at which banks and other depositary institutions lend money to each other. In general, residential mortgage rates will move up and down, following this indicator. In December, the federal funds rate was increase to 0.75%, the first increase in the past 12 months. Although mortgage rates are still at historically low levels, additional increases in the federal funds rate could result in higher mortgage rates, which can affect your buyer's decision on purchase price or when to buy.

All licensees should be careful when providing any financial advice to clients. Often the question is beyond the expertise of the licensee, so good resource recommendations are essential in offering professional service. Although the client's mortgage broker should be able to answer most questions about the loan process, it is a good idea for both the buyer and the licensee to be familiar with the common terms and procedures involved in the financing process. …*continued on page 2*

What is the Fed?

The Federal Reserve often referred to as "the Fed" is the central bank of the United States. Congress created the Fed in 1913 to help promote a safe and sound monetary and financial system for our nation.
https://www.federalreserve.gov/abouttthefed/default.htm

Mortgage Shopping Worksheet
https://www.federalreserve.gov/pubs/mortgage/worksheet.pdf

Ask CFPB
http://www.consumerfinance.gov/askcfpb/

The Consumer Financial Protection Bureau is a government agency built to protect consumers. Our free resources help you have the information you need to make informed financial decisions. We offer clear, impartial answers to hundreds of financial questions. Find the information you need to make more informed choices about your money.

December 2016 Meeting - Commission Actions Taken	
Cases Sent to the Attorney General for Review and Disposition by Consent Order or by Hearing	1
Cease & Desist Orders Issued	None
Citations Issued	6
Letter of Findings Issued	2
Consent Orders Entered Into	2
Final Orders of Revocation of Licensure	2
Cases Closed for Insufficient Evidence or No Apparent Violation	16
Licensing Cases - Applicant has a Criminal Conviction - License Issued	20
Licensing Cases - Applicant has a Criminal Conviction - License Denied	5
Total	54

Click here to review a legend of the disciplinary actions the Commission may impose.

Financial Environment… *continued from page 1.*

Licensees can assist clients and customers by providing sources of information, so they can make informed decisions regarding real estate investments and loans. The Consumer Financial Protection Bureau (CFPB) at www.consumerfinance.gov is a valuable resource that can answer questions for licensees, buyers and sellers.

Referring a customer to useful web sites and resources is not giving advice, but it could help the customer make a more informed decision regarding real estate investments and loans and may also move the transaction along more quickly. The Consumer Financial Protection Bureau (CFPB) at www.consumerfinance.gov is a valuable resource that can answer questions for licensees, buyers and sellers. It may be helpful to review the Consumer Tools and Educational Resources at http://www.consumerfinance.gov/askcfpb/. Additionally, the Federal Reserve provides a useful Mortgage Shopping Worksheet on their website.

Did You Know?

- There is no fee required to **re-activate** your license.
- If all required education courses have not been posted to your license account by your renewal deadline, it is recommended that you renew to Inactive status, to avoid a late fee. After the courses have been posted, you may activate your license by submitting a "Change Application".
- All approved Schools in Georgia are required to certify and post course completion information electronically via the GREC website. GREC does not actually process that information.
- Completion of a course is not posted immediately. If you just completed a course online or in class, it does not post automatically. Most Schools will not be able to post credits until the next business day or even later, according to their School policy. The licensee must plan and allow time for processing of education credits to avoid missing a deadline for renewal of a license. But there is no fee to re-activate your license.
- A real estate licensee cannot practice real estate if his/her license is inactive.
- A licensee can verify the credits and specific courses posted to his/her license by using the GREC website. http://www.grec.state.ga.us/renewinfo.html

Focus on Terminology: "YE" "Year End"

What does "year or year end" actually mean? It depends on the context and application as to what it could reference. Year End does not always refer to the end of the calendar year.

Leasing: In fact the term "year" can have many interpretations: For example "year" could refer to the lease year as being the 12 months running from the anniversary date of the lease, or perhaps the calendar year is used for calculations of escalations or other items. Annual Gross sales could even be based upon a different defined period of time than the calendar or anniversary lease year. It is important to understand the terms of the lease and consider them in context of the document itself.

Accounting: "Year" could refer to the Fiscal year. For example the GREC fiscal years runs from July 1 to June 30 each year. Many corporate annual reports have a specific fiscal year that is not the calendar year.

Whatever year is referenced, the common usage of the term "year" usually refers to the calendar year from January through December. But in real estate documents, it is critical to define and understand the meaning in context just as other terms can be defined for a specific transaction.

Webster's Dictionary defines year as "12 months that constitute a measure of age or duration; a period of time (as the usually 9-month period in which a school is in session) other than a calendar year; a period of time equal to one year of the Gregorian calendar but beginning at a different time." *Source: Webster's New Collegiate Dictionary

In real estate contracts and negotiations, the terms year and year end must be clearly defined and understood by all the parties.

SUBMIT

Comments & Suggestions

To sign up to receive the GREC RENewsletter Click Here

Online Courses from GREC

$10 each 3 Hour CE Course

Total of 9 Hours CE Available

(Also Approved as Instructor CE, not approved as License Law CE)

"Avoiding Trust Account Trouble"

"Practicing Real Estate & Staying Out of Trouble"

"Being a Broker and Staying Out of Trouble"

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The Appraisers Page

Georgia Real Estate Appraisers Board — January 2017

Useful Links:

[GREAB Web Site]

[Appraisal Act]

[GREAB Disciplinary Sanctions]

Appraiser Shortage

By: D. Scott Murphy, SRA

There is no question that the number of licensed real estate appraisers is declining and the average age of an appraiser is increasing. It has actually been over 10 years since the number of appraisers in Georgia has increased year over year. This decline is having dramatic impacts on the real estate business.

This year marks the 25th year of appraiser licensing. Prior to 1991, there was no formal regulation of appraisers. Appraisal trade organizations offered structure, but membership was not mandatory. In order to enter the appraisal profession before mandatory licensing, you needed to find a seasoned appraiser who would train you and allow you to gain experience. There were no specific requirements and no levels of licensing or certification. Many appraisers sought designations from the 3-4 national appraisal organizations. This allowed them to distinguish themselves from their peers. Appraisal fees were not controlled or regulated in any way and rose in response to traditional economic influences. Seasoned appraisers were incentivized to train new appraisers, giving new appraisers progressively more difficult assignments and providing competitive fee splits. The appraiser profession had a healthy equilibrium.

Prior to 1991, the overall number of appraisers was not tracked, but the membership in appraisal organizations rose steadily. The number of real estate appraisers continued to rise through the refinance boom years of 2003/2004, then fluctuated through 2007 and has since been in decline. A similar fluctuation occurred in 2007 with the number of realtors, but that number has since returned to normal levels.

The number of appraisers, however, has continued to decline and stands at historic lows today. There are many reasons for this phenomenon. One thing we need to look at is not only the total number of active appraisers but also the total number of practicing appraisers – those actually completing the appraisal reports. There is a significantly smaller percentage of the total appraiser pool available to complete bank appraisals due to the advent of appraisal management companies (AMC's). While technically AMC's have been in existence for 30 years, the number of AMC's skyrocketed in 2008/2009 after federal regulation required lenders to separate the origination section of their business from the risk management section. HVCC and Dodd Frank identified AMC's as a safe harbor for lenders. Every AMC needs to employ dozens of highly qualified certified appraisers for management and review purposes, therefore taking a large number of appraisers out of the potential pool of appraisers.

The most catastrophic reason for the decline in the number of appraisers, though, happened in 2009 when Fannie Mae changed their policy on appraiser supervision. Until that point, there was an economical incentive for a seasoned appraiser to train a new appraiser. With an adequate amount of one-on-one time the trainer could begin to allow the new appraiser to inspect the subject property on his or her own. It is important to note that the supervising appraiser had always and would still continue to sign each report, taking 100% responsibility for its accuracy; however, Fannie Mae, citing increased appraiser fraud, made it mandatory in 2009 that the supervising appraiser had personally inspect every property the new appraiser appraised until the new appraiser becomes licensed or certified.

To put this in perspective for a real estate agent, this is like your broker having to go on every listing presentation with every new agent for two to five years. This action by Fannie Mae immediately removed the economic incentive for supervisors. Newly registered appraisers found it impossible to find a certified appraiser to serve as their mentor, and the number of new appraisers entering the profession dropped to almost zero.

The answer to fixing the appraiser shortage problem is quite simple – change the supervisory policy. This is a lender-imposed rule. State and federal appraiser regulations do not require the supervising appraiser to inspect the subject property, with the exception of a few limitations based on value and complexity. Until this supervisory requirement by Fannie Mae (all GSE's and institutional lenders) is revised, the appraiser shortage will not be cured.

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Many industry insiders are calling for the Appraisal Qualifications Board to revise the requirements for becoming an appraiser. The board is considering reducing the college degree requirements and the hours of experience required. The thought is that this will allow more new people to enter the profession and become certified faster and this will fix the shortage. The problem we have is more complicated than that and this “quick fix” will not increase the number of new appraisers. First of all, the “quick fix” is not as quick as most would like. If the new qualifications are accepted and put into law, they will not take effect until at least January 2018 or even January 2019. It will still take 2-3 years from that point for any significant impact on the number of certified appraisers to be seen.

In addition, the reason it takes so long to get through the trainee process is not degree requirements, courses or even the amount of experience; it is the amount of available work. There are no mortgage-based appraisal assignments that a trainee is allowed to complete. Fannie Mae will not accept appraisals completed by trainee appraisers alone or even by a trainee with a supervisor co-signing the report. Lenders will not allow trainees to sign the report at all. The trainee is allowed to assist with the completion of the report but only the supervising appraiser can sign the report.

So let’s say the trainee finds a supervisor who is willing to significantly reduced his or her productivity and teach the trainee. If very lucky, in 1 to 2 years the trainee will reach the required 2000 hours of experience. The trainee can then test for the licensed level. However, almost all lenders will not approve licensed appraisers due to their limited experience and their inability to complete FHA assignments; only certified appraisers can do FHA appraisals.

With another year or more of appraisal experience, the new appraiser is eligible to test for the certified appraiser level. Once certified, you would think the appraiser is home free - no such luck. Most lenders require three or five years experience as a *certified* appraiser in order to be approved. This again is a lender/Fannie Mae restriction.

So how does an appraiser find the necessary amount of work to complete in order to advance through the three levels? This is the issue; without a certified appraiser who is willing to spend an inordinate amount of time duplicating the fieldwork, it is impossible. It is important to understand that the supervising appraiser takes on an enormous risk in working with a new appraiser. There is a lot of exposure to liability working with someone who has little or no experience. Without significant economic incentive, no one will train the new appraiser, especially since under the current structure that appraiser may become competition. The supervising appraiser needs to be adequately compensated so he or she can take the appropriate amount of time to thoroughly review the new appraiser’s appraisal reports.

For the past 3 to 4 years the real estate industry has seen increasing pressure from the shortage of appraisers, first in the more rural or less populated areas, and now, in virtually every market. It was first apparent in increased turn around time. Typical one-week turn times grew to ten to fifteen days, then 30 days or more. Then fees rose to try to entice appraisers to turn appraisals in less time. In some areas we have seen 30 to 45 day turn times and fees of more than $2500 for a typical single family home.

The problem is that the volume of loans is increasing and the number of available appraisers continues to drop. The industry has ignored the looming issue of appraiser shortage and is in a desperate position, looking for a quick fix.

The only way to fix this issue is to increase the volume of appraisal work available to registered and licensed appraisers. Fannie Mae needs to revisit the supervisory requirement that the supervisor must inspect every property. If that policy were reversed, the number of certified appraised willing to mentor new appraisers would instantly rise. Those new appraisers would be very busy, earn a reasonable wage and be able to advance through the process very quickly. Fannie Mae could issue the policy and make it effective immediately.

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As for the qualification changes proposed by the Appraisal Qualifications Board, I disagree that lessening the requirements will increase the number of appraisers. Furthermore, I have trained dozens of appraisers and feel the requirements on the new appraiser that are currently in place are reasonable. It takes many years in order to obtain the necessary experience to appraise completely on your own. I feel the appraisal industry should look at the real estate sales industry structure. A "broker" type of organization would be very useful. New appraisers should have to work for seasoned appraisers. Those seasoned appraisers should "hold" the license of the junior appraiser until the time that junior appraiser is experienced enough.

As it stands now, a new appraiser only has to work with a seasoned appraiser for a year. The new changes by the qualification board would change that to "1000 hours" – which equates to about 100 appraisals. There will be no calendar time requirement. A new appraiser could zip through those 100 appraisals in just a few months and be out on their own with very little practical experience.

What this all boils down to is that the appraisal industry through federal and state regulations has a system in place which works very well at developing new appraisers. The issue is that Fannie Mae (all GSE's and institutional lenders) has enacted restrictions, which caused this exponentially growing appraiser shortage.

The long-term fix for the appraisal industry is to encourage colleges and universities to teach qualifying appraisal courses. To date I am not aware of any college currently offering the required courses as part of a degree program. We must be graduating appraisers from our colleges and universities. The goal would be for students in their sophomore or junior year to enroll in the appraisal courses as part of a real estate of finance degree. Then with structured internship programs sponsored by industry partners, the student could begin accumulating experience credit, take additional classes the following semester and continue to intern through senior year. This way the student could graduate as licensed or even certified.

I have commitments from appraisal firms to offer internships and mentorships so that students can accumulate the necessary experience credits. I also have commitments from AMC's, lenders, mortgage brokers and other interested industry partners to provide scholarship dollars or other support in order to make this program successful. My firm currently has two college students in a pilot program. Each is working fulltime during the summer and extended breaks, and part-time during the school year. Both will graduate as licensed appraisers.

We cannot do it as a top down approach; lessening requirement and trying to fast track people into the appraisal industry will have devastating long-term effects. Instead, this has to come from the bottom up. We must put programs in place to allow students to graduate from our colleges and universities as licensed appraisers. Changes must come from Fannie Mae to increase the number of appraisals available to registered and licensed appraisers. These two changes will properly restore the shortage of appraisers, while yielding the brightest and most competent appraisers for the industry.

I welcome your comments and feedback. Please send me ideas for future articles.

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