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**The Decline of Appraisers**

By Isaac Peck, Editor

Every year, for the past eight years, the number of active real estate appraisers has declined. The Appraisal Institute estimates that the number of appraisal professionals is currently shrinking at three percent a year and warns that sharper decreases may be on the horizon as appraisers begin retiring en masse.  
  
And the problem is not simply that too many appraisers are retiring.  Very few appraisers are entering the profession also. In Illinois, the drop in real estate appraiser trainee applications went from 1,231 in 2005 to only 55 in 2015. That’s an over 95 percent decline. This drastic reduction in new entrants is being seen in states across the country. Many appraisers welcome the shortage, which has already driven fees up in many areas. But many in the appraisal industry believe the celebration may be short sighted.  Many appraisers and those in mortgage lending worry that a decline in the number of appraisers and a reduction of appraisal services threaten the integrity lending, undermine the stability of the real estate market and put the economy at risk of future bubbles. It also does not bode well for the appraisal profession. Many fear that lending interests are just itching to find a reason to replace appraisers where and when possible with big data and automated systems, should turn times become untenable. For appraisers, there is a lot at stake. At national conferences, company meetings, even around the family dinner table the debate rages: what to do about the declining number of real estate appraisers in the United States?

**De Minimus** **Threatened**Automated Valuation Models (AVMs) are becoming more sophisticated with huge stores of appraisal data being compiled and used to “estimate value” with an accuracy like never before. Lenders and risk managers are increasingly turning to (and demanding) more statistical and regression-based support for valuations. Perhaps most ominous of all, vocal stakeholders in the mortgage industry are calling to have the federal de minimus raised from $250,000 to $500,000- the threshold below which an appraisal is not required for a federally-related transaction. Just last year, the Federal Financial Institutions Examination Council, which includes the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve System and the Consumer Financial Protection Bureau, indicated that the de minimus threshold of $250,000 is presently under review as part of a larger effort to identify “outdated, unnecessary, or unduly burdensome regulations.”    
  
The efforts to raise the de minimus are led by the American Banker’s Association (ABA) and a coalition of smaller regional banks which are more likely to experience a shortage of appraisers in rural markets. The ABA argues that appraisals are unnecessary costs that make it hard for small banks to compete. The Appraisal Institute, the American Society of Appraisers, the National Association of Independent Fee Appraisers, and many other organizations have vocally opposed the proposition, arguing that “increasing the appraisal threshold levels could have a negative impact on safe and sound real estate lending practices.”  While it’s unlikely the de minimus will be raised in the immediate future, the fact that some lenders are calling for an end to appraisals is an indication of the challenges facing the appraisal profession.

**Education Requirements**

The Appraisal Foundation, a non-profit agency empowered by the federal government to regulate appraisers, implemented a Bachelor’s degree requirement to become a Certified appraiser which took effect in January 2015. This means that an appraiser can not become Certified without a college degree. Because most AMC work, as well as FHA appraisals, now require Certification this move chokes off opportunities for both long-time appraisers without a degree, as well as those contemplating joining the ranks. Many just starting out in their careers have families and obligations and find going back to school untenable- especially without a good chance for financial reward. Add to that the onerous 2,000 hour experience requirement for trainees- a one or two year period when newbies earn next to nothing, and the 150 hours of additional appraisal education required for licensing, and the odds seem stacked against replacing retiring and fleeing appraisers with fresh blood.     
  
**Limitations on Trainees**   
A number of states also have adopted very strict limitations on how trainees can work under a mentor appraiser. Many have provisions that require “direct supervision” and being “physically present for the inspection of each appraised property.”  This all but removes the financial incentive for taking on a trainee, according to many.  Lenders also are requiring that the supervisor must always inspect both the subject and the comparable properties personally, and not rely on the work of the trainee alone. These state laws and lender requirements are a serious obstacle and disincentive for appraisers to take on trainees, as it prevents appraisers from fully benefiting from the economies of scale that trainees once provided the profession.

**Fees and Supply/Demand**The biggest and most obvious reason for appraisers leaving the profession, and why there are so few new recruits applying to become appraisers, are the low fees. Most notably, the decline in fees since passage of the Home Valuation Code of Conduct (HVCC) in 2009, which ushered in the era of AMC prominence. Many appraisers lost direct contact with their clients and thus the ability to compete. As a result, most saw their fees cut by up to half by the AMC middleman.

Appraisers argue that if AMCs and lenders paid more, more college grads would consider the profession and fewer current appraisers would exit. The concern is that the decline in the number of appraisers could one day become a shortage and that in the next real estate boom there will be a shortage of appraisers and not enough time to train the next generation adequately. Such a scenario might create long delays in loan closings and become gum up the wheels of commerce. This, some say, will trigger lending institutions to replace appraisers with a combination of big data and lesser trained inspectors to get the job done quickly.

**Solutions**The National Appraisal Congress (NAC), an organization made up of some of the largest national AMCs and appraisal firms, has recently begun advocating for reform to the experience and education requirements for trainees. The NAC sees reform of the “direct supervision” requirements in state laws, as well as lender requirements, as critical objectives that will allow the appraisal industry to meet the coming demand for appraisal work.   
  
An NAC White Paper, *Removing Barriers to Entry in Valuation*, argues that given that the average age of an appraiser is 55, there is a “very real potential that over the next 10 years there is likely to be a large segment of the currently practicing residential appraiser population that will retire or become semi-retired, thus further decreasing the supply of appraisers.”  
  
The Mortgage Banker’s Association projects an increase in 12.7 million owner households from 2014 to 2024, averaging 1.3 million households per year. The inference is that the formation of these new owner household will require appraisals. The NAC believes that “even without further attrition, the current population of residential appraisers will be inadequate to fulfill that growing mortgage demand.”  
  
The NAC’s solution is a revision of state and lender client requirements.  Instead of having to be directly supervised and accompanied on all inspections by their supervisor, the NAC proposes that an appraiser trainee be required to perform at least 30 inspections in no less than 90 days with their supervisor and, once adequately trained, be allowed to perform appraisal inspections on their own.   
  
This, the NAC argues, is a critical component of making the process of training a new appraiser more economical for both the supervisor and the trainee. The trainee may be able to negotiate a higher fee split or greater compensation because of the increased contribution and the supervisor able to delegate more and profitably employ trainees.    
  
The NAC draws similarities between appraisers and Certified Public Accountants (CPA), arguing that CPAs are currently able to utilize their trainees to a much greater extent than appraisers. The NAC believes that much like accountancy, the appraisal industry must “maintain a gold standard for qualifying and testing new appraisers, while also creating a structure that prevents the process from becoming cost prohibitive, redundant and a barrier to entry that prevents the admission of newly qualified appraisers.”  
  
**The Appraisal Foundation- Final Say**In an interview with Working RE, John Brenan, Director at The Appraisal Foundation, says that TAF’s Appraiser Qualification’s Board is not looking to roll back the College degree requirement. “At the AARO Conference in 2015, we didn’t hear any testimony saying we’ve gone too far. Members of the panel were actually saying that we should not remove the requirement. It has raised the level of the candidates to where it should be.  I don’t think the AQB will get rid of that requirement, but it is looking at alternatives. If you’re a licensed appraiser with a track record of professional experience, but you don’t have a college degree, is there a way to be a Certified Residential? The AQB is considering that,” says Brenan.  “FHA/HUD not accepting appraisals by licensed appraisers is also an issue. The AQB is very proactive about this and looking at what it can do to ensure people who want to be in the business can be in the business.”

Brenan also says the AQB is looking into the experience requirement. “TAF and the AQB are considering if the 2,000 and 2,500 hour experience requirements are the right numbers. What is 2,500 hours of experience today compared to when these numbers were first done? Technology means appraisals are being performed in less time. We are also exploring what are other ways people can get that experience to get into the profession and become certified because we recognize the supervisor/trainee mentoring model is experiencing difficulties,” says Brenan.    
  
According to Brenan, the AQB is looking toward the further development of practicum courses, which would be additional courses that would satisfy up to 50 percent of a trainee’s required experience. The problem, Brenan says, is that no practicum courses exist today as it hasn’t been economical to develop and offer such courses up till now. In response, the AQB plans to develop a course that could be offered by other education providers.

Brenan is quick to note that the AQB’s standards do not require direct supervision. “There is nothing in the AQB criteria that prohibits trainees from inspecting the properties, or even from signing appraisals. A lot of the impediments to hiring trainees are not created by TAF or the AQB. We aren’t an advocacy group. Banks not wanting to use appraisals performed by trainees and states restricting what they can do is an issue the industry will need to resolve on a state and client level,” Brenan says.

Nevertheless, the AQB is evaluating the trainee model. “I don’t think the AQB will throw out the model completely, but there is an effort to incentivize supervisors. And of course there is a concern there as we don’t want to over incentivize. We want people to be a supervisor because they believe that they have a valuable role bringing someone into the business and training them properly,” says Brenan.   
  
**Looking Forward**According to the Appraisal Subcommittee’s national registry, there are more Certified General and Certified Residential appraisers now than there were 10 years ago in 2005 and 2006. Yet the overall number of all active appraisers has decreased because there are many fewer Licensed Residential appraisers.

The result has been relatively positive for active appraisers, as they’ve seen appraisal fees rise modestly as the pool of appraisers has shrunk over the last five years and appraisal work has increased.

No acute shortage of appraisers seems imminent either. Baby boomers are retiring later, and real estate appraisal is a profession that lends itself well to working part-time in one’s retirement, as many appraisers report doing. However, the number of appraisers is expected to continue to decline with no end in sight.  
  
The decisions of the AQB and the success of the NAC and other interested parties in reforming state and lender requirements for trainees will likely play a role in how many new appraisers enter the field in the coming years. Given the time required to bring new professionals into the industry, the recent actions by the NAC and others seems timely.  
  
Because of the appraiser’s central role in real estate lending transactions, the health of the real estate appraisal industry will remain something that appraisers, AMCs, and lenders will continue to watch closely in the years ahead.

**Be Heard:** **AQB Call for Comment**  
The AQB recently issued a call comment on a Discussion Draft regarding changes to the Real Property Appraiser Qualification Criteria (Criteria). The AQB acknowledges that “certain rural and other isolated markets may have already been impacted by appraiser shortages” and that the ability “to gain experience for Trainees and Licensed Residential appraisers is diminishing.”  
  
In response, the AQB has indicated that it is examining changes to the Criteria in the following areas:

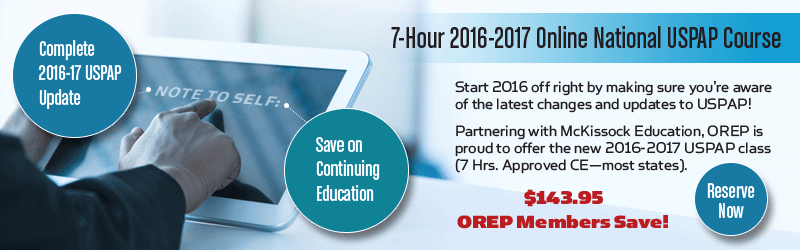
* Alternative Track for Licensed Residential to Certified Residential
* Enhanced Practicum Curriculum
* Documenting Alternative Experience
* “Trainee” Nomenclature
* Three-Year Supervisory Residency Requirement

TAF previously said there was no opposition expressed to the College Degree requirement at the recent Appraiser Qualifications Board’s (AQB) public hearing in Washington, D.C. in October; the inference being that the lack of comment means appraisers are not opposed to the requirement. Now appraisers have a chance to send their thoughts directly to the AQB with assurances that “each member of the AQB will thoroughly read and consider all comments.”

Appraisers are encouraged to submit their comments to the AQB before the March 31, 2016 deadline:  
Email: [aqbcomments@appraisalfoundation.org](mailto:aqbcomments@appraisalfoundation.org) or mail to: Appraiser Qualifications Board

The Appraisal Foundation, 1155 15th Street, NW, Suite 1111, Washington, DC 20005  
  
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**About the Author**   
Isaac Peck is the Editor of Working RE magazine and the Director of Marketing at OREP.org, a leading provider of E&O insurance for appraisers, inspectors and other real estate professionals in 49 states. He received his Master’s Degree in Accounting at San Diego State University. He can be contacted at [Isaac@orep.org](mailto:Isaac@orep.org) or (888) 347-5273.

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