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What's in Your Workfile?

by Phil Spool, ASA

Editor's Note: What's in your workfile is extremely important, as author Phil Spool explains.

Your workfile is just as important as your appraisal report. Just ask any lender, appraisal management company, client, or worse, your state's investigator. The workfile is the backbone of your report. It supports everything in your appraisal report.

Your workfile for an appraisal of a single family residence or a condominium unit should contain a minimum of four areas: (1) correspondence between you, your client and others, (2) information pertaining to the subject property, (3) backup data for each of the comparable sales, and (4) supportive data for the adjustments that are made. Additional areas would include supportive data for the cost and income approaches if they are included. Just as important for your workfile is a complete, printed, signed copy of the appraisal report you sent to your client.

Correspondence

Whether you are appraising a property for a lender/AMC or non-lender, an appraisal request should be sent to you, either by email, fax or regular mail. Any written correspondence between you, your client and other entities regarding the appraisal assignment should be kept in your workfile. Your correspondence may be considered your work product, attorney/client-privileged information or non-privileged information. These are legal concepts and must be discussed with your client and an attorney for clarification, especially if your client is not an attorney. Your appraisal may

be for litigation or it may not. In either case, you never know when you might become party to a lawsuit, either as an expert witness, fact witness or the person being sued. What matters most is that any correspondence with your client and his/her attorney may or may not be considered "privileged," meaning confidential and protected from opposing counsel. Therefore, it is highly recommend that any written correspondence be kept to the specifics of your assignment and not anything that may be used against you in a court of law, even if your assignment or the intended use is not meant for litigation.

Let's say that you email your client and make statements about the property you are appraising or you indicate a preliminary value in a draft email and then change your mind. There is a possibility that the email would be considered "non-privileged" and therefore can be used against you. The bottom line is to be aware of what you send your client. Think before you hit send. Verbal communication between you and your client is different; we're only discussing written correspondence. This is in no way providing legal advice; it is suggested you consult with an attorney for further clarification.

If your client is an attorney, you may think that your correspondence is privileged or confidential between the attorney and you, but don't be surprised if your appraisal, along with your workfile, is subpoenaed by the opposing counsel in a lawsuit that you are involved in, either as an expert witness or defendant. Therefore, when emailing your client or others, keep your correspondence strictly business related or at least think about the fact that someone else might have the right to read and rely on your statements.

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Subject Property Information

Information pertaining to the subject property, research you perform or information received should be included in the workfile. This is relatively easy to understand because the information is anything you utilize to generate the appraisal, such as public records, legal description, a contract for sale of the property (if it is a purchase), Multiple Listing Service information for current or past listings, brochures, floor plans, surveys and building set of plans, especially if it is new, relatively new or a proposed property. Don't be concerned that the data will take up too much space in your file. Anything you generate, receive and find pertinent to your report must be in your workfile. If you receive a full set of plans on an existing or proposed property, would you need a copy of the full plans? Most likely not, just the pages you relied on.

Backup Data

Backup data for each of the comparable sales and information you use and rely on should be in your workfile. Relied upon information includes any software program printouts of the sale (such as Core Logic or First American Real Estate Solutions), the deed for the comparable sales, MLS (including photos provided in the MLS of the interior of the property), brochures of the floor plan and any other relevant data. You should print out the MLS photos because more than likely you were not able to see the interior or rear of the comparable sales and you will need support for your statements whether the interior is renovated or if the property has a swimming pool, covered patio or any other structure you cannot observe when looking at that comparable sale.

The deed is important to determine if it is a warranty deed, quit claim or other type and for the legal description—to see if other properties are included in the sale, as well as other information, particularly who prepared the deed. This

provides another source for verifying the sale. Another reason to look up the deed is if it is very recent and is indicated as a closed sale on MLS but not yet in the public records or in the software program where you retrieve your sales. Go to public records to research for a deed and enter the owner of record and the month when the sale should have occurred. There is a good possibility that the deed was recorded but not yet entered into the public records.

Supportive Data

Supportive data for the adjustments that are made include sales concessions, market conditions (time) and other line—item adjustments. We all realize how difficult it is to do a paired sales analysis to support your adjustment in the sales comparison approach. If you do a paired sales analysis that you apply to most of your appraisal reports for a particular line item (i.e. site size, gross living area, swimming pool, etc.), then just reference in your workfile where your support is located, such as your office or other location. I have a three-ring binder labeled "Paired Sales Analysis" that I keep in my office. Anytime I am able to support an adjustment by a paired sales analysis, it goes into that three-ring binder. I do the same for land sales. Keep in mind that under USPAP's *Record Keeping* section of the *Ethics Rule*, the workfile must include "all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with USPAP, or references to the location(s) of such other documentation."

Cost and Income Approach

For the Cost Approach, support for site value and replacement cost new are necessary. If in your report you have boiler plate statements that the site (land) value is based on sales and/or the utilization of the abstraction (extraction) method, you better have that support in your workfile or a reference as to the location of the support. The

same holds true for the replacement cost new. I highly suggest you make a copy of the reference material you use, such as Marshall & Swift, and a copy of the pages that you relied on, including regional and local cost multipliers, and that those copies are in your workfile. Chances are you will not be keeping the old information on hand so it is better to spend a little time now to make those copies for the workfile.

For the Income Approach, typically your support for the capitalization rate will be within your report if you are doing a Self Contained appraisal report. If your report is a Summary or Restricted Use appraisal report, take the time to make reference within your workfile where your support is located, or better yet, place the support in your workfile.

Organizing Your Workfile

My suggestion for proper order is (1) correspondence between you, your client and others, (2) information pertaining to the subject property, (3) backup data for each of the comparables sales, (4) supportive data for the adjustments that are made, and (5) anything else pertinent to your appraisal. In addition to the above, remember to include a complete, printed, signed copy of the appraisal report you sent to your client.

Keep in mind that there is always a possibility that you might have to refer to your workfile in the future. If you have another appraisal assignment in the same neighborhood or in the same condominium building, you might have pertinent information that can be beneficial to your current appraisal assignment. What about a sale that you verified and want to use again? You can save time by using the information you already generated rather than re-verifying it, unless you believe you might get additional information. In this case, the question is whether to take the information in your existing workfile and transfer it to the current assignment you are working on. The answer most

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likely is "no." It is recommended that you do one of two things: (1) Copy the information and place the copy in your current file and place the original back into your original workfile, or (2) Reference in your current workfile the information you are relying on (and be specific) that it is located in file "xyz." I recommend that you make the copy so that both workfiles have the information. You may want to reference on the copy the file number where you have the original information, as you might get several assignments that require additional copies.

Exclude from Workfile

If you did some number crunching and decide it is not what you want in your report, you should not keep that in your workfile. The same holds true for a draft report that you did not sign and which resulted in a different conclusion than your final product. If you sent a draft report to your client (and hopefully to no one else), then you should maintain a

copy of that draft report in your workfile. If you have additional sales or listings that you did not use but reference in your report or that you believe provide additional support to your conclusion of value, leave them in the workfile. Once you are subpoenaed for your workfile, then you cannot remove anything from the workfile. Also, you can include sales that you did not use for the appraisal and make notes as to why they were not included in the report.

In conclusion, you need to keep a complete workfile that will support your appraisal report and have it in a proper order in case you need to refer to it sometime in the future. Finally, the workfile is most important when least expected, such as when that certified letter arrives requesting a review of your workfile for litigation or when the state investigator comes knocking. Remember, you should maintain possession of your workfile for a minimum of five years and then two years after the final conclusion of any litigation. If your supervisory appraiser is

holding onto the workfile, make sure you know its location and if you happen to change supervisory appraisers, get copies of your workfiles because you never know if your former supervisory appraiser will still be in business, has moved or will be not cooperative in providing the files. **WRE**



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