



TO: All Interested Parties

FROM: Mark A. Lewis, Chair
Appraiser Qualifications Board

RE: Discussion Draft
Practical Applications of Real Estate Appraisal (PAREA)

DATE: March 28, 2019

Background

The Appraiser Qualifications Board (AQB) has been examining the need for an alternative to the traditional supervisor/trainee model for gaining appraisal experience. Persons wishing to enter the appraisal profession have consistently reported difficulties finding qualified certified appraisers willing to supervise them. The underlying reasons certified appraisers are unwilling are numerous and well documented; however, no matter the reason, the lack of an adequate supply of supervisory appraisers presents a significant challenge to entry into the appraisal profession.

The difficulty of finding a supervisor is most pronounced in the residential sector of the profession. The AQB establishes minimum requirements for education, experience, and examination applicable to all jurisdictions within the United States and these requirements, by design, are intended to ensure minimally qualified individuals are permitted to obtain credentials. However, unlike the requirements for education and examination, which can be overcome through study and applying oneself, the experience requirement cannot be completed without the cooperation of an existing certified appraiser who is willing to supervise. Thus, there is the need to examine an alternative to the existing experience model. It must be clearly understood: the existing supervisor/trainee model is still considered an excellent model and will remain an option; however, as discussed above, an alternative is needed.

It is important to note that while the AQB is interested in being as informed as possible regarding both the supply of, and demand for, appraisers and appraisal services, the AQB is primarily concerned with establishing an orderly process whereby a *minimally qualified* person wishing to enter the profession can reasonably advance and obtain a credential. Because this process is currently hindered due to the lack of an adequate supply of willing

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supervisory appraisers, it becomes a matter of public trust to find an alternative that will produce a *qualified* appraiser. Also, as explained by the AQB previously, all qualifications are established to ensure that someone obtaining a credential is *minimally qualified* to practice. These minimum qualifications do not equate to, and differ from competency. Competency is a result of experience and training over time, and is a function of the *Uniform Standards of Professional Appraisal Practice* (USPAP). Even longstanding appraisers with an incredible depth and breadth of experience are not necessarily competent to perform every assignment.

The pages that follow in this document provide additional detail regarding the *Practical Applications of Real Estate Appraisal* (PAREA) concept, as well as key questions for which the AQB is seeking feedback.

All interested parties are encouraged to comment in writing to the AQB before June 1, 2019. The AQB will also accept verbal comments at its public meeting in Denver, Colorado on Friday, May 3, 2019. Respondents should be assured that each member of the AQB will thoroughly read and consider all comments.

Written comments on this discussion draft can be submitted by mail and email.

Mail: Appraiser Qualifications Board
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005

Email: AQBcomments@appraisalfoundation.org

IMPORTANT NOTE: All written comments will be posted for public viewing, exactly as submitted, on the website of The Appraisal Foundation. Names may be redacted upon request.

The Appraisal Foundation reserves the right not to post written comments that contain offensive or inappropriate statements.

If you have any questions regarding this document, please contact Magdalene Vasquez, Qualifications Program Manager at The Appraisal Foundation, via e-mail at magdalene@appraisalfoundation.org or by calling (202) 624-3074.

At its May 3 public meeting in Denver, the AQB intends to provide a brief demonstration showing how virtual reality may be used in PAREA training. You may register to either attend the meeting in person, or watch it via live stream by visiting: https://www.appraisalfoundation.org/TAFCore/Events/Event_Display.aspx?EventKey=AQB201905

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Practical Applications of Real Estate Appraisal (PAREA)

Issued: March 28, 2019
Comment Deadline: June 1, 2019

When commenting on various aspects of this document, it is very helpful to fully explain the reasons for concern or support, provide examples or illustrations, and suggest any alternatives or additional issues that the AQB should consider pertaining to this concept.

For ease in identifying the various issues being addressed, this Discussion Draft is presented in sections.

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Section 1: PAREA Basics

What is PAREA?

The AQB believes PAREA may alleviate the challenges in obtaining appraisal experience as described at the outset of this document. PAREA training would be developed for both the Licensed Residential and Certified Residential real property appraiser classifications.¹ Following are some fundamental principles to understand prior to addressing the key questions found in the remaining sections of this document.

PAREA is an alternative experience model that, in the AQB's opinion, has the potential to provide *at least* an equivalent method to the existing supervisor/trainee model. In addition to the inadequate numbers of willing supervisors discussed above, the existing supervisor/trainee model also has an inherent weakness: the experience training is limited to the supervisor's knowledge and practice. Poor quality experience training may be just as bad, or possibly worse, than no experience training at all.

Even the most competent supervisor committed to providing outstanding training is limited in the type of training that can be offered, based on the constraints of his or her appraisal practice. A supervisor with a practice focusing on appraising urban properties in a large metropolitan market may never have the opportunity to train someone on how to appraise a rural ranch property on acreage. Conversely, a supervisor whose practice is comprised primarily of appraising rural properties might not be able to offer training on how to appraise a tract home, condominium or cooperative unit. In addition, regardless of the type of practice, all supervisors might have limited opportunities to train on properties that possess a variety of physical, functional, or external characteristics.

The PAREA concept discussed herein has the potential to provide a more consistent and broad-based experience model that takes advantage of technology, recognizing that learning styles and environments have changed over the years.

How Will PAREA Work?

It is important to understand that PAREA is not qualifying education. Rather, PAREA is designed to offer practical *experience* in a simulated or controlled environment, incorporating the concepts learned in a trainee's qualifying education. Multiple types of training techniques could be utilized, including, but not limited to:

- **Computer Based Learning:** Participants utilize a software application to answer questions, collect data, perform analyses, etc. Examples might include case study exercises, or applications teaching participants how to collect information from the MLS.
- **Video Tutorial:** Participants may watch video on how to perform a task, and are then expected to perform the task themselves. Examples might include showing how an

¹ The PAREA concept may eventually expand to include an alternative experience path for trainees wishing to appraise *non-residential* properties; however, the current PAREA concept under development is limited to 1-4 unit residential properties only.

appraiser communicates with a client to determine things such as the intended use, intended user, scope of work, etc.; or, how appraisers view and photograph comps.

- **Virtual Simulation:** Participants may experience simulations, with an ability to view multiple scenes in a virtual environment. An example might include a virtual walkthrough of a house.
- **Virtual Reality Training:** Participants may utilize virtual reality systems, where the participant is immersed into various scenarios. An example might include training on how to properly measure a house.

How will PAREA be Delivered?

The AQB will adopt the final content requirements, training methods, and supervisor requirements for PAREA. Due to the expected significant financial investment required to create this type of training program, The Appraisal Foundation intends to develop a “model” PAREA program, which would be made available via licensing agreements to entities wishing to offer PAREA training.

For entities that desire to develop their own “equivalent” PAREA training program, minimum specifications will be made available and such programs will be reviewed for equivalency by the AQB.

The AQB is not asking any *specific* questions related to the content included in this section of the document (Section 1); however, you are welcome to include any feedback you may feel is appropriate.

In the following sections of this document, the Board seeks your responses to specific questions and greatly appreciates your feedback. You may also offer comments on any additional issues not presented in this document that you believe the Board should consider.

Section 2: Maximum Allowable Experience

What is the maximum amount of experience a trainee should be able to obtain by completing PAREA training?

This question has garnered great attention and consideration. Some feel that a trainee completing PAREA training should still be required to obtain some portion of “traditional” training to satisfy the experience requirements. Some believe PAREA training should be limited to 50% or 75% of the experience required for a credential, requiring the remainder be obtained under the current supervisor/trainee model.

Others believe that requiring trainees to obtain *any* amount of experience under the current model simply does not resolve the problem; that even with some experience under their belts, trainees would still encounter difficulty in finding a qualified supervisor that would provide quality training for the remaining required hours. However, there are those who believe that this trainee might be more marketable and not experience such difficulties finding a supervisor.

Some believe that because of the technological advances PAREA may offer, trainees would be *better* suited if they could obtain 100% of the required experience through PAREA training. Those in this camp are quicker to embrace the role technology can potentially play, and cite shortcomings in the more traditional experience model, such as those discussed previously in this document.

At various times, the AQB has publicly discussed the possibility of allowing 50%, 75%, and 100% of the required experience to be obtained through PAREA.

Also, the AQB does not envision any “partial credit” opportunities for PAREA participants. That is, participants completing PAREA will receive credit for the full amount of experience as determined by the AQB (see above). However, because it may be difficult to establish certain milestones within PAREA training, an individual completing roughly half of the program, for example, would not receive 50% credit.

The Board is seeking your comments on these issues.

Section 3: Required Prerequisites

What “prerequisites” should be required prior to enrolling in PAREA training?

As discussed previously, PAREA is experience, not education. However, the AQB is examining the question of how much formal appraisal education should be completed by a trainee prior to enrolling in PAREA training.

There are various viewpoints on this topic. Some believe a trainee should complete *all* of the required qualifying education prior to enrolling in PAREA training. Others believe that trainees should be allowed to complete the required qualifying education in parallel with PAREA training.

As discussed previously, the AQB is developing PAREA applications for both the Licensed Residential and Certified Residential classifications. For someone seeking a Licensed Residential credential, the AQB is currently considering requiring completion of all of the qualifying education required for the Trainee credential *prior to beginning PAREA training*, which consists of the following:

<i>Basic Appraisal Principles</i>	30 hours
<i>Basic Appraisal Procedures</i>	30 hours
<i>National USPAP Course</i>	<u>15 hours</u>
Total	75 hours

For individuals seeking a Certified Residential credential, the AQB is currently considering requiring completion of all of the qualifying education required for the Licensed Residential credential *prior to beginning PAREA training*, which consists of the following:

<i>Basic Appraisal Principles</i>	30 hours
<i>Basic Appraisal Procedures</i>	30 hours
<i>National USPAP Course</i>	15 hours
<i>Residential Market Analysis and Highest and Best Use</i>	15 hours
<i>Residential Appraiser Site Valuation and Cost Approach</i>	15 hours
<i>Residential Sales Comparison and Income Approaches</i>	30 hours
<i>Residential Report Writing and Case Studies</i>	<u>15 hours</u>
Total	150 hours

The AQB is soliciting your feedback on this issue.

Section 4: Level of Supervision

What level of “supervision” is appropriate for PAREA trainees?

Because the current experience model requires a trainee to work under the direct control and supervision of a qualified supervisory appraiser, the question of supervision naturally extends to the PAREA concept. But what exactly “supervision” means in this context, and who may act as a “supervisor” raises questions the AQB is currently examining.

Consider that technology exists today that could allow a trainee to demonstrate mastery of a topic through exposure to multiple iterations and variations. Therefore, if a trainee could successfully go through a robust series of exercises to prove that he or she has successfully learned how to do something, is a “live” supervisor necessary? As an example, one component of PAREA may require a trainee to learn how to correctly measure a house. So at first, the trainee is exposed to a very basic, rectangular house and after demonstrating multiple times that he or she has learned how to measure that house (and others like it) properly, a different house is presented that has a more complex design. Again, after successfully measuring the more complex house (and others like it) a number of times, another house even more complex is presented. And so on. If the technology performed as stated, how necessary is a supervisor for this task?

The AQB believes that many steps in the training (such as the example above) could incorporate automation to ensure a trainee performed the tasks properly. However, are there some portions of the training that would require interaction and oversight by a qualified supervisor? If so, which portions and why?

The AQB wants to hear your thoughts on this.

Section 5: Minimum Supervisor Qualifications

What should the minimum qualifications be for those “supervising” PAREA trainees?

If “supervision” is appropriate as outlined above, what qualifications would be necessary for such supervision? Should the qualifications of a PAREA supervisor align with what is required for supervisors under the current experience model? Should it be less? Should it be more? Why?

Some believe that if PAREA requires a qualified supervisor for the training, some of the same obstacles experienced in the current training model may surface. What if there is a lack of available individuals willing to act as supervisors for PAREA training? Would there be a similar reluctance by potential PAREA supervisors with a perception of “training my future competition?”

Again, the AQB seeks your feedback on these questions.

Section 6: USPAP-Compliant Appraisal Reports

Should PAREA trainees have to complete USPAP-compliant appraisal reports?

Today, applicants for a real property appraiser credential document the *quantity* of their experience on a log listing appraisal assignments that contains the minimum number of hours (and months) necessary for the respective credential.

The *quality* of an applicant's experience is determined by the state appraiser regulatory agency's review of appraisal reports performed by the applicant while working under the direct control and supervision of one or more supervisory appraisers. The respective jurisdiction examines the appraisal reports for USPAP compliance and, assuming all other conditions are met, approves the experience claimed by the applicant.

Some question whether a state's examination of a handful of appraisals truly represents a meaningful evaluation of an applicant's experience. Clearly, it's neither reasonable nor financially feasible for a state to examine each and every appraisal on a log, but are the examinations being performed today adequate?

Still others contend that such examinations are really more a measure of the *supervisory appraiser* than the trainee, since the supervisor ultimately determines whether the appraisals are acceptable. There are documented cases where trainees working under "subpar" supervisory appraisers have had their entire claimed experience rejected by a state appraiser regulatory agency because the appraisals examined did not comply with USPAP (this is one of the reasons the AQB established minimum qualifications for supervisory appraisers). In such cases, the supervisory appraiser can clearly be viewed as the primary basis for denying the trainee's experience. Logic suggests the inverse is then true; that is, the supervisory appraiser is also primarily responsible for a trainee's *acceptable* experience. Therefore, just how much "credit" or "blame" for the eligibility of the experience really rests with the trainee?

These questions tend to support those who believe challenging and robust state licensing and certification examinations should be the true gatekeeper to determine whether an individual is minimally qualified to obtain a credential. Those in this camp likely believe it is not imperative for someone completing PAREA training to complete USPAP-compliant appraisal reports if the credentialing examinations adequately measure the depth and breadth of an applicant's knowledge, skills, and abilities.

Conversely, there are those who firmly believe "the proof is in the pudding": that the only true way to measure an applicant's experience is documenting the applicant's ability to perform a USPAP-compliant appraisal report. Those in this camp maintain that under the current requirements, qualifications are a "three-legged stool" consisting of education, examination, and experience, and a true evaluation of experience is incomplete without full, USPAP-complaint appraisal reports.

The AQB seeks your feedback on this issue. Is completion of USPAP-compliant appraisal reports a required element for PAREA training? Why or why not?

Section 7: Verification of Experience

As currently envisioned, an individual successfully completing PAREA training would be provided a “certificate of completion” (similar to what one might receive when completing an educational offering). The individual would then be able to submit the PAREA completion certificate to a state appraiser regulatory agency, along with documentation of satisfying all of the other qualifications, in an application for a credential. This certificate would be valid for whatever percentage of experience that is ultimately adopted (see Section 2 of this document).

The AQB does not believe it would be necessary for the successful PAREA participant to document such experience on a log, or to provide copies of appraisals completed as part of PAREA training. However, it is possible that some state appraiser regulatory agencies may seek additional “validation” of a PAREA participant’s experience.

For those who believe additional validation may be necessary, a key issue to consider is what that validation may look like. For example, if a successful PAREA participant was asked to provide USPAP-compliant appraisal reports, would there be an expectation that those reports utilize common formats currently in use, such as a Fannie Mae 1004/URAR form? Complications may subsequently arise anytime forms like these are updated or redesigned (as is currently underway). Further, with advent of technology, it’s possible that many appraisals may not be communicated via the use of a “form” at all in the future. If an appraiser simply communicates a “data stream,” there may not readily be a “form” available to document USPAP compliance.

It is also important to keep in mind that no form is deemed “USPAP-compliant.” The Appraisal Standards Board position is that the obligation to comply with USPAP does not rest with a *form*; it is an obligation of the *appraiser*. Therefore, would there be an expectation the trainee would submit more generic, or narrative reports? Would it make sense to require narrative reports if trainees would ultimately be using form reports (or data streams) in their practice?

Should PAREA participants be required to provide state appraiser regulatory agencies any additional verification of training beyond a completion certification? Why or why not?