

Practice Exam #2 - What Every Agent Should Know About Appraisers and the “New” Appraisal Process



You measured it how?

Show Me!

Did you bring your
checkbook?

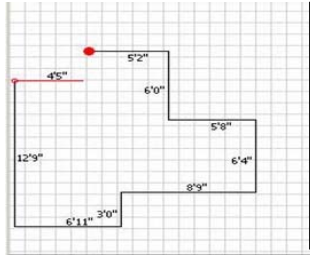
A Texas court recently upheld the principle that “size matters” during a case in which the square footage of a sold home wasn’t what it advertised. The buyers sued and won. The house turned out to be 253 square feet smaller than the listing agent advertised and posted in MLS. The jury awarded the purchasers damages and held the real estate professionals liable for misrepresentation and fraud. The court of appeals in Austin upheld the decision, even though the couple had moved in the home 30 days prior to settlement. The square footage information came from public tax records. The court said the real estate professionals had a duty to get the information right and the “buyers shouldn’t have to pull out a tape measure.”

***Pleasant v. Bradford,
No. 03-07-00167-CV,
2008 WL 2544814
(Tex. App. June 26,
2008).***



- ▶ *The number one claim against agents (and appraisers) in most Errors & Omission’s Policies is the misrepresentation of residential square footage.*

QUIZ #2: Agents and the New Appraisal Process



In this new era of real estate, today's agent must know more about appraisers and the appraisal process, and know how to turn low appraisals into closed sales. Take this short quiz to find out how well you *measure up* on the *new* appraisal process.

1. What is the first line most people look at in an appraisal report?

- A. The addresses of the comparables and the pictures
- B. The legal names listed in the report to verify the information is correct
- C. The final value
- D. The appraiser's signature and credentials

2. At some point in every loan transaction:

- A. You find out if the appraisal is a "go" or a "no"
- B. The appraiser decides if the transaction is fair and should proceed
- C. The appraiser and underwriter set the final purchase price
- D. Buyers and sellers meet to discuss the appraised value

3. After the buyer's agent gets notified the appraisal is "at or above" the sales price:

- A. They thoroughly examine the report to verify its accuracy
- B. They briefly scan the report to check which comparables were used
- C. That's generally the end of the appraisal discussion
- D. Buyers meet with the lender to review the appraisal

4. Whenever there is an appraisal that comes in *below* the contract price:

- A. The appraiser must complete a new appraisal using different comparables
- B. The outcome depends on the agents, buyers and sellers, and the lender
- C. All parties to the contract must meet and renegotiate
- D. The contract is automatically voided

5. Regardless of who provides it or where it comes from, once any details are reported in the “closed” or “sold” information within MLS:

- A. It is instantly viewed as fact
- B. It is used by agents, appraisers, insurance underwriters, assessors, and by many others in a wide variety of functions
- C. It is considered part of “the most trusted source of real estate information in the world”
- D. All of the above

6. Being a professional real estate practitioner requires all the following, *Except*:

- A. Forming opinions
- B. Estimating property values
- C. Explaining to sellers that your value opinion is exactly what their house will sell for
- D. The knowledge to research and analyze large amounts of information

7. When most people ask about an appraisal they only want to know one answer:

- A. The total square footage
- B. The final value
- C. The number of bedrooms and baths
- D. How many comparables were used in the report

8. Sometimes after you lose a listing, and then find out it is listed for a much higher price than you recommended:

- A. It confirms that value is based on an opinion
- B. It’s satisfying to watch the listing expire and then have the price reduced to the value you originally suggested, or lower
- C. It helps you to better understand the values in that neighborhood
- D. It makes you rethink your CMA process and calculations

9. The MLS is one of the most powerful databases in the world, and is:

- A. Created one sales at a time, by each listing *agent*
- B. Regulated by each local MLS association and the national MLS standards committee
- C. Available to any paid subscriber
- D. Used exclusively by Realtor® members

10. When three brokers (or appraisers) look at the same house:

- A. They will all calculate the same square footage
- B. They will all have the same opinion of value
- C. They will all view the design and market appeal the same
- D. They will each develop their own personal opinion of value

11. Agents and appraisers _____ the market, they do not _____ the market.

- A. Report – Create
- B. Study – Report
- C. Use – Create
- D. Estimate – Analyze

12. USPAP defines an appraisal as:

- A. An act or process of developing an opinion of value
- B. An opinion of value for a specific range of dates
- C. The professional valuation of personal and/or business property based on current listings
- D. An unbiased value based on anticipated property returns and sales closed within one year

13. Residential property values are typically based on:

- A. The principle of substitution
- B. Local tax assessment
- C. The science of real estate
- D. The principle of anticipation

14. Property valuation is:

- A. An art
- B. A science
- C. Based on a number that is definable, extractable, and absolute
- D. Available in most public records

15. Making a determination of value requires:

- A. The ability to investigate and evaluate large amounts of information and a fundamental knowledge of local real estate
- B. Knowing how to calculate the formula for the *effective age* of the land
- C. The ability to calculate the estimated gross income and depreciated value of the subject property
- D. A broker's or an appraisal license

16. The determination of any appraisal adjustment value is best created by the use of:

- A. Paired Sales Analysis
- B. The "Comp Adjustment" book
- C. Appraisers experience
- D. Kelly Blue Book of Construction Costs

17. The *circumstances* of comparable sales often play a key role in the valuation process and are one of the reasons why local knowledge is imperative:

- A. True
- B. False

18. At some point _____ can become a deterrent rather than a benefit to value:

- A. Age
- B. Square footage
- C. Location
- D. Condition

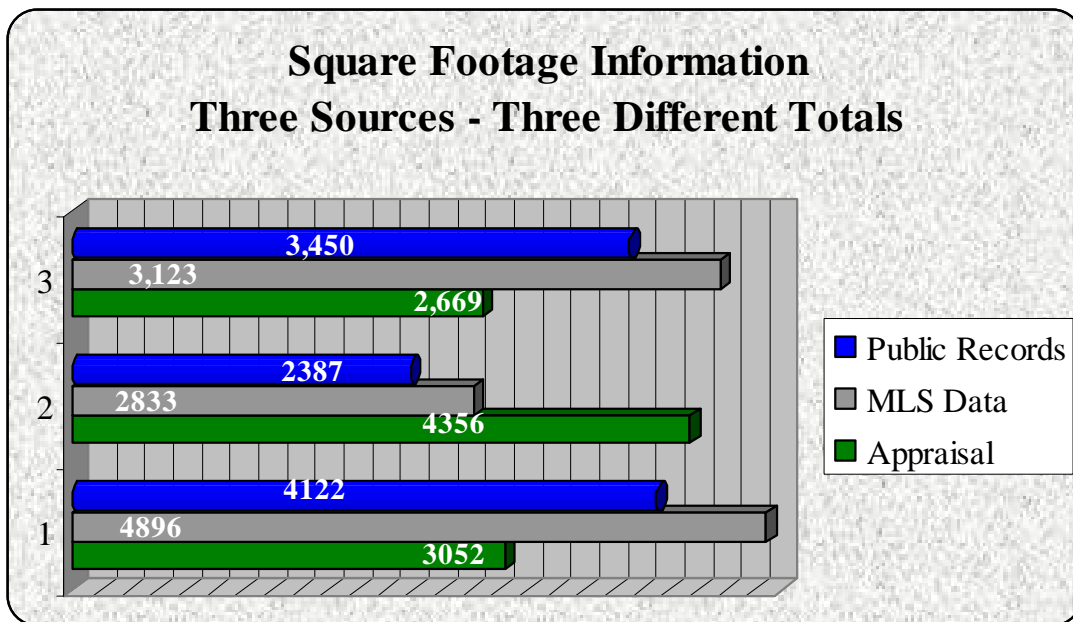


19. An appraisal is a series of steps that leads to:

- A. An exact, absolute determination of value
- B. A value conclusion
- C. A narrow value range
- D. An absolute guaranteed value, generally valid for three months

20. What is NAR's new "ultimate information resource" set to be released in 2010, which will provide access to tax and assessment data; property data; neighborhood, demographic and psychographic information; maps, trends and reports; and zoning, permits, environmental, neighborhoods, and school districts - and be exclusive to members of NAR?

- A. The ABR - Automated Broker's Resource
- B. The RPR - Realtor's Property Resource
- C. The RPID - Realtor's Property Information Database
- D. The UPR - Ultimate Property Resource



In the graph above, the top number reflects the square footage reported in public records. The middle number shows the square footage number as shown in "closed" MLS records. The bottom square footage number displays the square footage created by the appraiser for the sale of that property. This pattern was repeated over and over again, in state after state. The percentages of errors were often significant and would definitely impact any comparison made using that specific square footage data. Just use a value of \$100.00 per square foot. Would changing the square footage total in your CMA change the listing price?



Exam Answer Key

1. C
2. A
3. C
4. B
5. D
6. C
7. B
8. B
9. A
10. D
11. A
12. A
13. A
14. A
15. A
16. A
17. A
18. B
19. B
20. B

