

NORTH CAROLINA APPRAISAL BOARD

APPRAISER REPORT

Volume 10

Summer 2000

Number 3

DesChamps and Horton Reappointed

Governor James B. Hunt, Jr. has reappointed Bruce W. DesChamps and Jack O. Horton to the Appraisal Board for three-year terms ending June 30, 2003.



Bruce W. DesChamps

Mr. DesChamps was originally appointed by Governor Hunt in June 1998. He is an appraiser in the Wilmington area and has worked in the appraisal/real estate field since 1958.



Jack O. Horton

Mr. Horton was originally appointed by Governor Hunt in November 1997. He operates an appraisal and real estate company as well as an appraisal and real estate school in Elizabeth City. He began appraising in 1987. □

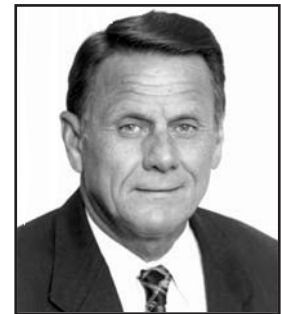
BOARD ELECTS OFFICERS



*J. Vance Thompson
Chairman*

J. Vance Thompson of Elkin has been elected Chairman of the Appraisal Board for 2000-2001. Mr. Thompson was appointed to the Appraisal Board by Governor James B. Hunt, Jr. in March

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*Henry E. Faircloth
Vice-Chairman*

Henry E. Faircloth of Salemburg has been elected Vice-Chairman of the Appraisal Board for 2000-2001. Mr. Faircloth has served continuously on the Board since he was first appointed on July

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FLIPPING - DON'T GET CAUGHT IN THE TRAP

Flipping schemes have been with us for many years. Originally they started out as speculators who purchased distressed properties, made some cosmetic repairs, then quickly resold them to unsuspecting purchasers. In the past few years, however, a new and more insidious type of flipping scheme has emerged. In the current scenario, the speculator buys a property at or slightly below its listing price, and then immediately resells it (often in the same day) to a buyer who is not quite as innocent as it would seem.

What's so bad about a flip?

The buyers may have no idea that they are getting conned. They think they have a home worth \$100,000, when it is only worth \$60,000. When they try to refi-

nance to a lower interest rate or want to sell their home, they discover what it is truly worth. Many times it may lead to foreclosure or bankruptcy,

Many times the buyer is fully aware of the flip and participates in the scheme. This may be due to desperation; the buyer may be a poor credit risk and cannot find a conventional loan. In some instances, the buyer may actually be a "straw buyer" who receives some of the loan proceeds, then walks away from the deal. The lending institution has a loan that is not backed by collateral, and if it forecloses on the property, stands to lose a great deal of money. Ultimately, the consumer pays

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APPRAISERREPORT

Published as a service to appraisers to promote a better understanding of the Law, Rules and Regulations, and proficiency in ethical appraisal practice. The articles published herein shall not be reprinted or reproduced in any other publication, without specific reference being made to their original publication in the **North Carolina Appraisal Board Appraisereport**.

NORTH CAROLINA APPRAISAL BOARD

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Raleigh, North Carolina 27619-0500

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3900 Barrett Drive, Suite 101
Raleigh, North Carolina 27609
Phone: 919/420-7920
Fax: 919/420-7925

Website:
www.ncab.state.nc.us

Email Address:
ncab@ncab.org

James B. Hunt, Jr., Governor

APPRAISAL BOARD MEMBERS

J. Vance Thompson	Chairman	Elkin
Henry E. Faircloth	Vice-Chairman	Salemburg
Charles G. Bass		Raleigh
Bart Bryson		Hendersonville
Bruce W. DesChamps		Wilmington
Jack O. Horton		Elizabeth City
E. Ossie Smith		Oxford

STAFF

Mel Black, <i>Executive Director</i>
Roberta A. Ouellette, <i>Legal Counsel</i>
John K. Weaver, <i>Deputy Director</i>
Matthew W. Green, <i>Investigator</i>
Lynn P. Crawford, <i>Appraiser Secretary</i>
Kim N. Giannattasio, <i>Administrative Assistant</i>

APPRAISER COUNT (As of August 28, 2000)

Trainees	986
Licensed Residential	226
Certified Residential	1538
Certified General	827
Total Number	3577

APPRAISER EXAMINATION RESULTS

May, June, July 2000

Examination	Total	Passed	Failed
Trainees	115	83	32
Licensed Residential	13	13	0
Certified Residential	42	34	8
Certified General	6	6	0

Examinations are administered by a national testing service. For information, please contact the North Carolina Appraisal Board in writing at Post Office Box 20500, Raleigh, North Carolina 27619-0500.

Chairman's Comments on the Upcoming Rule Making Hearing



J. Vance Thompson

As announced elsewhere in this edition of the *Appraisereport*, the Board will be holding a public hearing on October 17, 2000 in Raleigh to receive comment on a proposed rule. The Board entered into the rulemaking process as a result of a request by an appraiser in North Carolina who petitioned the Board to promulgate a new rule.

The proposed rule is made up of three sections and would require the Board's staff to change from investigating complaints on appraisals to reviewing the appraisals. Simply put, the proposal would require the Board's investigators to prepare a formal written review as called for by Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP) for every appraisal related to every complaint that the Board receives.

The proposed text of the rule is as follows (please note that this rule was NOT drafted by the Board):

- (a) When investigating any complaint involving the quality of assignment results provided by a licensed or certified appraiser, the staff of the Board shall comply with Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP).
- (b) Any investigation conducted under this rule shall consist initially of reviewing the respondent's assignment results for consistency and overall conformity with applicable

USPAP standards. The investigator shall have the discretion to expand the review to include a full investigation of any portion of the assignment result that appears not to conform to applicable standards. If the investigator must develop an opinion as to whether the deficiencies cited, either individually or in the aggregate, have materially affected the respondent's conclusions regarding value.

- (c) A staff investigator making an investigation under this rule shall prepare a written report which shall set forth all relevant factors required by USPAP and shall summarize all of the investigator's reasons, conclusions and opinions. The report shall differentiate between the investigator's allegations of factual error in the respondent's assignment results and the investigator's own subjective opinions. The report shall identify the Board as the client and the respondent as the intended user, and a copy of the report shall be provided to the respondent at the same time that it is submitted to the Board's attorney. If the investigator revises or amends the report, any revisions or amendments shall also be provided to the respondent at the same time they are submitted to the Board's attorney.

The Board is studying the fiscal ramifications of such a change and to looking at how such a requirement might impact the Board's resources and effect the Board's overall operations. This rule has the potential to require the Board to hire additional investigators and will impact appraiser's annual renewal fees. The Board and staff would very much like your opinion on this proposed rule. Please submit your written comments to Mel Black at the Board office. If you plan to attend the hearing, please call or fax the Board staff so we can prepare for the appropriate number of people.

Approved Continuing Education Courses

(As of August 21, 2000)

Listed below are the courses approved for appraiser continuing education credit as of date shown above. Course sponsors are listed alphabetically with their approved courses. Shown parenthetically beside each course title are sets of numbers [for example: (15/10)]. The first number indicates the number of actual classroom hours and the second number indicates the number of approved continuing education credit hours. You must contact the course sponsor at the address or telephone number provided to obtain information regarding course schedules and locations.

ALAMANCE CC

P.O. Box 8000
Graham, NC 27253 (336)578-2002

Appraising Sm Res Income Prop (10/10)
New Exstg Res Cds Affing RE Appr (10/10)
Cnstrctn Methods I: Print Rdnng (5/5)
Cnstrctn Methods II: Fndtns & Msnry (5/5)
Ethical Principles of Appraisal I (4/4)
Real Estate Finance (4/4)
Intro to Commercial Real Estate (4/4)

ALBEMARLE APPR & RE ACADEMY

605 E. Main St.
Elizabeth City, NC 27909 (919)335-5030

How to Read an Appraisal (4/4)
USPAP (10/10)

ALLSTATE HOME INSPECTION TRAINING INSTITUTE

Rt. 1, Box 130
Randolph Center, VT 05061 (800)245-9932

FHA Test Preparation (8/8)
Introduction to Home Inspection (8/8)

AM SOC FARM MANAGRS & RURAL APPR

950 S. Cherry St., Ste. 508
Denver, CO 80222 (303)758-3513

Uniform Agriculture App Report (15/15)
Adv Appraisal Review A-35 (49/30)
Advanced Resource Appraisal A-34 (30/30)
Highest & Best Use A-29 (15/15)
A-12 Part I ASFMRA Code of Ethics (7/7)
Appraising Rural Res Prop (16/14.5)
Rural Business Valuation Sem (16/16)
Conservation Easement (16/16)
Fractional Interests (16/16)
Timber & Timberland Value (12/12)
Appraising Rural Res Prop (8/8)
A-12 (II) Nat USPAP (15/15)
Fed Lnd Exchg & Acqstn: App (18.5/18.5)
Appraising Natural Resources (8/8)

AM SOC OF APPR (THE)

535 Herndon Parkway, Suite 150
Herndon, VA 22070 (703)478-2228

SE100: National USPAP (15/14)

AMERICAN SCH OF RE APPR

P.O. Box 275
Cherryville, NC 28021 (704)435-1111

Today's Analysis of Res Appr (10/10)
USPAP (15/15)
Current Issues & Prob Solving (14/14)

APPRAISAL FOUNDATION/ASB

1029 Vermont Ave. NW, Suite 900
Washington, DC 20005 (202)347-7722

USPAP Update (7/7)

APPRAISAL INST (THE)

875 N. Michigan Ave., Suite 2400
Chicago, IL 60611 (312)335-4100

410 National USPAP (16/16)
420 SPPB (7/7)
320 General Applications (39/30)
500 Adv Res Form & Narrative Wrt (40/30)
520 High & Best Use & Mkt Analysis (40/30)
530 Adv Sales Comp & Cost Approach (40/30)
600 Inc Val of Small Mixed-Use Prop (15/15)
610 Cost Val of Small Mixed-Use Prop (15/15)

430C Sndrds of Prof Prctc - Part C (15/15)
620 Sales Comp Val Sm Mixed-Use Prop (15/15)
705 Ltgn Appr: Splclzd Topics (16/16)
710 Condemnation Appr: Basic Prin & Apps (15/15)
720 Condemnation Appr: Adv Topics & Apps (15/15)
Appraisal of Non-Conforming Uses (7/7)
Partial Interest Valuation-Divided (7/7)
Appraising Manufactured Housing (7/7)
Gen Demo Appr Rpt Writing Sem (14/14)
Res Demo Appr Rpt Writing Sem (14/14)
Reits & Role of the RE Pro (7/7)
Rgrssn Anlys for Appr: Concepts & Apps (7/7)
Case Studies in Com Hghst & Bst use (7/7)
Case Studies in Res Hghst & Bst use (7/7)
Partial Interest Valuation - Undivided (7/7)
The FHA and the Appraisal Process (7/7)
FHA Appr Insp From Ground Up (7/7)
Real Estate Disclosure (7/7)
Serving the Client (5/5)

ASHEVILLE-BUNCOMBE TECH CC

340 Victoria Rd.
Asheville, NC 28801 (828)254-1921

USPAP (10/10)
PDH RE - Basic Surveying (5/5)
Res Bldg Code Changes in NC (5/5)
The UDO: Rgltng RE Use & Dev (4/4)
USPAP 2000 (15/15)

CAROLINA MOUNTAIN LAND CONSERVANCY

P.O. Box 2822
Hendersonville, NC 28793 (828)697-5777

Conservation Easements (6.25/6.25)

CENTRAL PIEDMONT COMMUNITY COLLEGE

P.O. Box 35009
Charlotte, NC 28235 (704)330-6493

Challenging the Appraisal (4/4)
Maximizing Value (4/4)

COLLEGE OF THE ALBEMARLE

P.O. Box 2327
Elizabeth City, NC 27906-2327 (252)335-0821

The Tough Ones: Complex Residential Prop (14/14)
The Uniform Standards Today (14/14)

COMMERCIAL INVESTMENT RE INST

430 N Michigan Ave 8th Floor
Chicago, IL 60611-4092 (312)321-4473

CI101 Fin Analysis Comm Inves (30/30)
CI102 Market Analysis Com I (30/30)
CI103 Lease Analysis Comm Inv (30/30)
CI104 Invest Analysis Comm In (30/30)

DAN MOHR RE SCHOOLS

1400 Battleground Ave., Suite 150
Greensboro, NC 27408 (336)274-9994

Extraction of Data from Market Res (7/7)
HP 12C Course (7/7)
Intro to Residential Construction (30/30)
Residential Construction Seminar (14/14)
Res Appr & Conv Undrwrtg Guide (7/7)
Using Streamlined Appr Rpt Forms (7/7)
The Narrative Appraisal Report (7/7)
Depreciation Workshop (7/7)
Envrnmntl Hazards-Res Prop (7/7)
Rules & Regs FHA/HUD Rqrmt (14/14)

DARRELL K. HIGNITE

300-B West Arlington Blvd.
Greenville, NC 27834 (252)756-7288

2055 & 2065 Appraisal Reports (4/4)
Marketing Appraisals in 2000+ (5/5)
USPAP (5/5)

EDGECOMBE CC

225 Tarboro St.
Rocky Mount, NC 27801 (252)446-0436

Narrative Appr Report Writing (14/14)
Standards of Professional Practice (15/15)
Prin & Tech Val 2-4 Units Res Prop (14/14)
Single Fam Res App (14/14)
RE Finance for Appraisers (14/14)
Rural Valuation Seminar (14/14)
Appr Mfg, Mod & Mobile (A) (7/7)
Appr Mfg, Mod & Mobile (B) (7/7)
Mfg, Mod & Mobile (4/4)

ERICK LITTLE & CO.

P.O. Box 4267
Cary, NC 27519 (919)460-8823

New FHA Reqmnts, Fannie Mae & VA (14/14)
Appraising Mobile, Mfg, Modul (7/7)

Special Appr-Eminent Domain (7/7)
Uniform Standards for 1999 (7/7)

FREDDIE F. STELL APPR SCHOOL

2121 Guess Road
Durham, NC 27705 (919)416-1117

Res/Invstmnt/Com/Indstrl Forms (10.5/10.5)
The Site Inspection (7.5/7.5)
Fannie Mae Underwriting Guidelines (7/7)
FMNA Gdlns Rural/Com Lndng/USPAP (7/7)

HALL INSTITUTE

PO Box 52214
Raleigh, NC 27612-0214 (919)481-2080

Researching and Buying Raw Land (4/4)

HISTORIC PRESERVATION CONSULTING

40 Clarendon Avenue
Avondale Estates, GA 30002 (404)297-1850

Marketing & Appraising Historic Property (14/14)

IAAO

130 East Randolph Street, Suite 850
Chicago, IL 60601 (312)819-6100

101 Fund of Real Prop Appr (30/30)
102 Inc Approach to Valuation (30/30)
600 Prin & Tech of Cadastral Mapping (30/15)
400 Assessment Administration (30/30)
500 Assessment of Personal Prop (30/30)
311 Res Modeling Concepts (30/30)
312 Comm/Ind Modeling Concepts (30/30)
252 Val Prop Aff Environmental Con (15/15)
Appraisal of Land (30/30)
App of Res Modeling Concepts (30/30)
Fundamentals of Mass Appraisal (30/30)
Applications of Mass Appr Fund (30/30)
Dev Capitalization Rates (7/7)
Preparation for Litigation (7/7)

INSTITUTE OF GOVERNMENT

223 Knapp Building, CB#3330
Chapel Hill, NC 27599-3330 (919)966-4372

Standards of Practice & Pro E (18.5/18.5)

INT RIGHT OF WAY ASSOC

13650 S. Gramercy Place
Gardena, CA 90249 (213)538-0233

Approved Continuing Education Courses

Continued from page 3

Ethics & Right of Way Profession (8/8)
Easement Valuation (8/8)

JACK A UNDERDOWN INC

920 N. Bridge Street
Elkin, NC 28621 (336)835-2256

Mastering the HP-12C (10/10)

JOHNSTON CC

P.O. Box 2350
Smithfield, NC 27577 (919)934-3051

The Uniform Standards Today (14/14)
USPAP 99 (14/14)
Dev & Reporting the FHA Appr (14/14)
Appraisal 2000 (14/14)
USPAP 2000 (14/14)

LENOIR CC

P.O. Box 188
Kinston, NC 28502-9946 (252)527-6223

Challenging the Appraisal (4/4)
Pricing Sm Inc Properties (4/4)
Pricing Complex Properties (4/4)
Maximizing Value (4/4)
Prin/Tech Val 2-4 Unit Res (14/14)
Appr Mfg, Mod, & Mobile (A) (7/7)
Appr Mfg, Mod, & Mobile (B) (7/7)
Manufactured, Modular & Mobile (4/4)

M CURTIS WEST

P.O. Box 947
Zebulon, NC 27597 (919)217-8040

Inc Cap Approach - Pst, Pres, Fut (10.5/10.5)
Property Tax Values & Appeals (6/6)

MCKISSOCK DATA SYSTEMS

P.O. Box 1673
Warren, PA 16365 (814)723-6979

Factory-Built Housing (14/14)
Intro to Narrative Appr Report Wrt (7/7)
USPAP (14/14)

MINGLE SCHOOL OF RE

P.O. Box 35511
Charlotte, NC 28235 (704)372-2984

Commercial RE Development (10/10)
Commercial RE Property Management (10/10)
Basic House Construction (4/4)
Environmental Impact on Res RE (4/4)
NC Appr Act, Board Rules & USPAP #2 (15/15)
NC Appr Act, Board Rules & USPAP #3 (4/4)

MOULTRIE B WATTS

P.O. Box 447
Cary, NC 27512 (919)851-2100

FHA 2000 (14/14)

NAIFA

7501 Murdoch Ave.
St. Louis, MO 63119 (314)781-6688

Marshall & Swift Valuation Guides (15/15)
Financial Analysis Inc Property (15/15)
Pro Standards of Practice (15/15)
Marshall & Swift Res Cost M (8/8)
11.8 Calc Gross Living Area Using (7/7)

NAMA/LINCOLN GRAD CTR

P.O. Box 12528
San Antonio, TX 78212 (800)531-5333

Envir Site Assessment (15/15)
Standards of Prof Appr Practice (15/15)
Principles of Appraisal Review (15/15)
Manufactured Housing Appraisal (15/15)
RE Eviron Screening (7/7)

Res Environmental Screening (7/7)
USPAP Update (7/7)
Residential Appraisal Review (7/7)
Prin of Property Inspection (20/20)
HUD Appraisal Standards Update (7/7)

NC RE EDUCATION FOUNDATION (NCAR)

2901 Seawell Road
Greensboro, NC 27406 (800)443-9956

Legal Issues in Real Estate (7/7)
Residential Construction (7/7)
Residential RE as an Investment (7/7)
Tax Planning for the RE Agent (7/7)

NCDOT (ATTN: B CRIST)

629-B Peters Creek Pkwy.
Winston-Salem, NC 27103 (336)761-2310

Appr Foundation USPAP Update (3.5/3.5)
Appr Guide & Legal Principle (10/10)
Appr Review for Fed Aid Hwy Part A (14/14)
Appr Review for Fed Aid Hwy Part B (14/14)
Highest & Best Use (3.5/3.5)
Matched Pairs & Mrkt Extra (3.5/3.5)
NCDOT Seminar I - '99 (7/7)
NCDOT Seminar II - '99 (7/7)
Reviewing Appraiser's Seminar (14/14)
Six Appraisal Reporting Options (3.5/3.5)
Dist App for Manu Hous/Cons (7/7)
Most Common Errors App Ma (7/7)

RALEIGH REGIONAL ASSOCIATION OF REALTORS

111 Realtors Way
Cary, NC 27513 (919)654-5400

Appr Process & Val of Res Prop (4/4)
Calculating Sq Ft in Res Prop (3.5/3.5)
Residential Construction (4/4)

RANDOLPH CC

P.O. Box 1009
Asheboro, NC 27204 (336)629-1471

Timber Appraisal Overview

SCHOOL OF REAL ESTATE APPRAISING

62 N. Chapel St. #204
Newark, DE 19711 (302)368-2855

Guide to Relocation Appr (7/7)

SOUTHEASTERN CC

P.O. Box 151
Whiteville, NC 28472 (910)642-7141

Applied Sales Comp Approach (10/10)
Mathematics of Finance (14/14)
Rural Valuation Seminar (10.5/10.5)

STACEY P. ANFINDSEN

1145-E Executive Circle
Cary, NC 27511 (919)460-7993

Appr Process and Val of Res Prop (4/4)

SURRY CC

P.O. Box 304
Dobson, NC 27017 (910)386-8121

Appr/Math Using HP12-C (15/15)
USPAP 2000 (15/15)

WAKE TECH CC

9101 Fayetteville Road
Raleigh, NC 27603-5696 (919)772-0551

Appr Mfg, Modular, & Mobile Part A (7/7)
Appr Mfg, Modular, & Mobile Part B (7/7)
Challenging the Appraisal (4/4)
Manufactured, Modular, & M (4/4)

Maximizing Value (4/4)
Pricing Complex Properties (4/4)
Pricing Small Income Properties (4/4)

WILLIAMS APPRAISERS ED CENTER

PO Box 33786
Raleigh, NC 27636 (919)424-1900

Applied Income Capitalization (14/14)
Income Cap Techniques (8/8)

YVONNE C. SHARP & ASSOCIATES

66 River Oak Court
Temple, GA 30179 (770)562-1999

The Inspection (14/14)

J. Vance Thompson

Continued from page 1

1998 for the balance of Mr. Gilmer M. Dockery's term and reappointed in 1998 for a term set to expire on June 30, 2001.

Mr. Thompson, a State-Certified Residential appraiser and licensed Real Estate Broker, is President of Thompson's Appraisal Service, Inc., in Elkin and has over 35 years of appraisal experience. He has been a staff appraiser, as well as a review appraiser, for financial institutions and was county Tax Supervisor and Appraiser for Surry County. A member of the National Association of Independent Fee Appraisers, Mr. Thompson has served that organization as State Director and President of the Surry Piedmont Chapter.

Mr. Thompson is Past President of his local Chamber of Commerce. He also serves on the Hugh Chatham Memorial Hospital Foundation Board, and is a member of BB&T's Local Advisory Board.

Mr. Thompson and his wife, Betty, have two children, Dexter L. Thompson and Jill T. Young.

Henry E. Faircloth

Continued from page 1

1, 1991 and is currently serving a term set to expire June 30, 2002. Mr. Faircloth led the Board as Chairman in the Board's first year as an autonomous agency in 1995-1996 and served as Chairman again in 1998-1999.

The Board's only public member, Mr. Faircloth has been a building contractor for nearly thirty years. He has been very active in both civic and community affairs over the years in Sampson County, serving on various boards, committees and advisory councils.

Mr. Faircloth and his wife, Faye, have one son and one grandson.

FLIPPING

Continued from page 1

for the loss in higher fees and interest rates. Flipping is not a victimless crime.

How can a flip be accomplished?

The new flipping scheme is generally accomplished by several individuals working together. Mortgage brokers "pad" financial documents to make the buyer more attractive to lenders. For example, wage and asset statements may be changed to reflect a better financial situation, or the loan documents may indicate that a large down payment had been made when in fact none was paid. Many times this scheme also involves a co-conspirator who works for a lender. Sometimes the "buyer" is wholly fictitious, or the victim of identity fraud. Obviously, the appraiser is a crucial part of the scheme.

Sometimes appraisers are duped by the client and have no idea that a flip is about to occur. Others have some idea of what is going on, but since the mortgage broker promises to provide them with many future assignments, they close their eyes to the scheme. Unfortunately, some appraisers know full well that a flip is involved, and they participate in the conspiracy.

How can an appraiser recognize a flip?

There are several red flags, any one of which could indicate the presence of a flip. One common factor is that the client hires an appraiser from outside the geographic area of the subject property, hoping that the appraiser has few local contacts and will not become so familiar with the area as to become aware of the true value of the property. Generally the appraiser is enticed to take the assignment by the promise of a lot more work from the client. A drive by appraisal is usually ordered. The client provides sales data (usually other flipped properties) comparable sales, and discourages you from looking for any others. The client may also tell the appraiser not to mention the listing or sales price in the appraisal.

How can an appraiser avoid being caught in a flipped transaction?

Believe it or not, some appraisal orders will actually state that the assignment is part of a flip. Appraisers should be very wary of accepting an assignment under that condition. Thoroughly research the

sales and listing history of the subject property through public records, listing service data and personal contacts with real estate agents. If there is a "For Sale" sign on the property, call that agent. Verify through public records the name of the current owner of the property. Do not rely on sales provided by a client to use as comparables, as those may be flipped properties, and not true indications of the market. The appraiser must make his or her own thorough search of the market area for appropriate comparable sales.

What can happen to an appraiser caught in a flip?

There is great concern at both the state and federal levels with flip loans. HUD is so concerned that in May 2000 it implemented the Fraud Protection Plan, which includes denying FHA insurance to FHA homes that have been flipped and deploying special teams to pursue unscrupulous appraisers. Appraisers have been removed from FHA rosters for their involvement with flipping. Federal grand juries in several states have issued indictments against appraisers who knowingly participate in flipping schemes that defrauded federal financial institutions. The penalty for an appraiser convicted of participating in a flip scheme that involves a federal financial institution can be up to **5 years in federal prison and a \$250,000 fine**. In addition, the State Bureau of Investigation is also aware of the problems of flipping. There are state penalties as well for anyone who participates in a flipping scheme, regardless of whether federal funds were involved.

USPAP has several requirements that directly relate to flipping, such as SR 1-5, which requires appraisers to research the sales and listing history of a property. SR 1-4 requires an appraiser to collect, verify and analyze information applicable to the appraisal problem, which includes knowing the conditions of the sale, financing and motivation of the buyer. The Competency Rule requires appraisers to become familiar with the geographic area and market of the subject property in order to understand the nuances of the local market and supply and demand factors relating to the property and location. **Appraisers who do not comply with these and other provisions of USPAP face disciplinary action by the Appraisal Board, up to and including license revocation.**

ALTERED AND FORGED APPRAISALS

The Appraisal Board has recently been receiving complaints that appraisals have been altered after leaving the appraiser's office. In some instances, whole appraisal reports have been forged. For example, in one appraisal the prices of the comparable sales had each been increased by \$50,000, with a resulting \$50,000 increase in the appraised value. It is possible that mortgage brokers or underwriters may have done the alterations after they received the appraisals. In others, it appears that the homeowner or client has altered or forged documents.

There are several steps you can take to try to avoid the problem of altered appraisals. You can sign your name only in a certain color of ink, such as red or blue. If you do so, make a notation on the appraisal report that unless the reader has a signature in that color, the reader has only a copy and the appraiser cannot be responsible for any of the information in the copy. You can also use an embossed seal and make a similar notation. Be sure to keep an exact copy of the appraisal report as sent to the client, including all appropriate certifications as well as the letter of transmittal. Keep your stamp in a secure location, especially when you are away from your desk.

The North Carolina Banking Commission and Consumer Protection Division of the Attorney General's Office are aware of this problem. If you find out that one of your appraisals has been altered, or that someone has signed your name to an appraisal you did not perform, you can contact the Banking Commission at (919) 733-3016. You may also contact the Consumer Protection Division at (919) 716-6000.

**Rule Making - Public Hearing
October 17, 2000
McKimmon Center, Raleigh
Contact Board for
more information**

DISCIPLINARY ACTIONS

Michael Beck (Salisbury) - Following a hearing, the Board authorized the Board's legal counsel to enter into a consent agreement with Mr. Beck that suspends Mr. Beck's certification for 30 days effective July 1, 2000, and requires that he take a course in USPAP and NC Board Rules, a market extraction course and a complex properties course by July 1, 2001. The Board found that Mr. Beck and a trainee under his supervision appraised a home located in Gastonia, NC for \$104,000 with an effective date of October 19, 1998. The property was listed for sale at the time of the appraisal for \$65,900, yet this fact was not mentioned in the appraisal report. In addition, Mr. Beck chose comparable sales from a superior area when there were sales located in the subject subdivision that would have indicated a much lower opinion of value for the subject property. Mr. Beck had previously been disciplined and was on a one-year probationary period in October 1998.

Richard Hester (Durham) - Following a hearing, the Board suspended Mr. Hester's residential certification for six months. The first month will be active and the remainder will be stayed until December 31, 2000. If Mr. Hester completes a Marshall & Swift valuation course and a residential sales comparison approach course by that date, the remainder of the suspension will be inactive. The Board found that Mr. Hester appraised a home located in Louisburg, NC in August 1999, finding an appraised value of \$315,000. At the time of the appraisal, the subject property was a new two and a half story modular home. Mr. Hester did not mention the sale of the subject's site in January 1999 in the report. Respondent's cost approach contained errors. In the Sales Comparison Approach, the first three comparable sales were superior to the subject property, and this fact was not mentioned or adjusted for in the appraisal report. His adjustments for amenities were confusing and were not explained in the appraisal report. There were other sales available that were more comparable to the subject property, and those comparable sales would indicate a lower estimate of value for the subject. Respondent's sales comparison approach contained errors. Respondent was previously disciplined by the Board through a consent order and had taken a USPAP course pursuant to the terms of that order before he performed this appraisal.

Thomas E. Kee, Jr. (Raleigh) - By consent, the Board suspended Mr. Kee's resi-

dential license for one month. The suspension is stayed until December 1, 2000. If Mr. Kee successfully completes a standards (USPAP) course, consisting of at least 14 hours, by that date, the suspension will be inactive. The Board found that Mr. Kee appraised a property located in Raleigh, NC in February 2000, estimating the value to be \$154,000. The property was listed for sale at \$135,000 at the time of the appraisal, a fact that was not mentioned in the appraisal report. The owner listed on the appraisal report was not the owner of the property at the time of the appraisal. Mr. Kee did not state the type of report option utilized in the appraisal report.

Thomas R. T. (Todd) McIntosh (Durham) - Following a hearing, the Board suspended Mr. McIntosh's residential certification for three months. The Board found that Mr. McIntosh paid for a continuing education class by check, and the check was returned to the course sponsor for insufficient funds. Although Mr. McIntosh took the class, he did not cover the check and pay the course sponsor for the course until the morning of the hearing before the Board, despite several attempts from the sponsor to receive payment.

Barbara Meyer (Charlotte) - By consent, the Board issued a reprimand to Ms. Meyer and ordered her to take a course in measuring properties by December 1, 2000. The Board found that Ms. Meyer appraised a property located in Charlotte, North Carolina in August 1997. She measured the house and determined that the main floor contained 3650 square feet, with a 780 square foot basement. The property actually contains 3498 square feet, with a 642 square foot basement. The report does not state the type of appraisal reporting format utilized.

Jerry W. Prevatt (Charlotte) - By consent, the Board issued a reprimand to Mr. Prevatt and ordered him to take a course in measuring properties. There were two cases against Mr. Prevatt. In one case, the Board found that Mr. Prevatt appraised a property located in Charlotte, North Carolina. He measured the house and determined that the main floor contained 3,732 square feet on the main floors and 483 square feet in the basement, when the property actually contains 3498 square feet, with a 642 square foot basement. In the other case, Mr. Prevatt appraised a property also located in Charlotte, North Carolina. He measured the house and determined that the main floor contained 1,291 square feet on the first floor, and

859 square feet on the second floor, with a 1,394 square foot finished basement. The property actually contains 1,212 square feet on the first floor, 383 square feet on the second floor, with 1,085 square feet of finished basement and 126 square feet unfinished.

Benjamin D. McCubbins, III (Charlotte) - Following a hearing, the Board issued a reprimand to Mr. McCubbins. The Board found that Mr. McCubbins sent in a check for the renewal of his certification in June 1999, and that check was returned for insufficient funds. Mr. McCubbins did not pay the full amount due until December 1999.

William Rowland (Garner) - By consent, the Board suspended Mr. Rowland's residential certification for one month. The suspension is stayed until October 1, 2000. If Mr. Rowland successfully completes a narrative report writing course by that date, the suspension will be inactive. Mr. Rowland also agreed that he will no longer supervise any trainees. The Board found that a trainee under Mr. Rowland's supervision appraised an office complex located in Garner, NC. The appraisal report did not state the type of reporting format utilized, although it was intended to be a restricted use report. The property had sold within three years of the appraisal, yet this was not reported on the appraisal report. The report contained insufficient information for the reader to properly understand it. In the sales comparison approach, the sales date of the first comparable sale and the sales prices of the first and second comparable sales were incorrect. Mr. Rowland did not appropriately reconcile the values from the three approaches to value.

Thurman Simpson (Charlotte) - By consent, the Board suspended Mr. Simpson's residential certification for 12 months. The first month of the suspension shall begin on August 1, 2000, and the remainder shall be stayed until July 1, 2001. Respondent agreed that, by July 1, 2001, he will successfully complete the precicensing course known as R-3 and a course in North Carolina Board Rules and USPAP. He also agreed that he will satisfy the bankruptcy court's order regarding payment of damages and attorney's fees in that court case. If he completes the courses and satisfies the court judgment by July 1, 2001, the remainder of the suspension will be inactive. The Board found that in 1998, the Honorable George Hodges,

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DISCIPLINARY ACTIONS *Continued from page 6*

Bankruptcy Judge for the Western District of North Carolina ruled that Mr. Simpson acceded to a request by a lender to arrive at a predetermined value for an appraisal. Respondent appraised the property at \$50,500, while two other appraisers valued the property at \$45,000 and \$48,000. The Bankruptcy Court ordered that the mortgage company and Mr. Simpson pay damages, costs and attorney's fees of \$24,500. Mr. Simpson appealed this decision to the United States District Court for the Western District of North Carolina. Although the District Court stated that although any errors in Mr. Simpson's appraisal could have been due to varying professional opinions rather than an agreement by Mr. Simpson to appraise at a predetermined value, it upheld the decision of the Bankruptcy Court.

Austin Smith, Jr. (Hickory) - By consent, the Board suspended Mr. Smith's general certification for 2 months. The suspension is stayed until December 31, 2000. If by that date he successfully completes a course in standards (USPAP) and a course in Highest and Best Use, the suspension will be inactive. Mr. Smith neither admitted nor denied the allegations contained in the consent order, but agreed to this consent order in order to settle the case. The Board found that Mr. Smith appraised a tract of land located in Burke County, NC. His client was a property owner whose property had been taken under eminent domain proceedings. Although the property was zoned residential, Mr. Smith indicated in the appraisal report that there was a strong possibility that the property would be rezoned industrial, and he valued the subject property as a vacant industrial site. In fact, the only way to utilize the property for industrial purposes would be to extend water to the site, build a new public street and bridge, and maintain a buffer area barring access from the existing road frontage. These improvements would have resulted in substantial cost to the developers, and that fact was not addressed in the appraisal report.

Joseph Smith (Roanoke, VA) - By consent, the Board suspended Mr. Smith's residential license for 3 months. The suspension is stayed until December 31, 2000. If by that date Mr. Smith successfully completes a course in North Carolina Board Rules and USPAP, and a course in appraising manufactured housing that has been approved for continuing education credit by the North Carolina Appraisal Board, the suspension will be inactive. The Board found that Mr. Smith performed an

appraisal of a tract of land, subject to proposed improvements, located in Rockingham County, NC. The property was under contract at the time of the appraisal, yet Respondent failed to mention that fact on the appraisal report. The first two comparable sales were land/home package sales. Mr. Smith stated that his first comparable sale had a 1-acre lot size when it was actually 2 acres. He stated his first comparable sale contained 2010 square feet when it actually contained 2128 square feet. He gave an incorrect address and photograph for his second comparable sale. The report stated that the second comparable sale had a 1-acre lot size when it was actually 2.221 acres. The third comparable sale was a stick built home, yet Mr. Smith stated on the appraisal report that it was a manufactured home and made no adjustment for the difference in quality.

Freddie F. Stell (Durham) - By consent, the Board issued a reprimand to Mr. Stell and ordered him to successfully complete both a standards (USPAP) course, consisting of at least 14 hours, and a course in narrative report writing. In addition, Mr. Stell may not teach any standards (USPAP) classes for real estate appraiser continuing education credit until he successfully completes a national USPAP instructor course as approved by Board counsel. The Board found that Mr. Stell and a trainee performed an appraisal of two tracts of land located in Durham, NC in June 1998. Both tracts contained improvements, such as office buildings and parking lots. Mr. Stell did not properly invoke the Departure Provision of USPAP, nor did he explain and support the exclusion of the sales comparison approach. He did not address the sales history of the subject property, the report did not clearly state which reporting option was utilized in the report, and the report did not contain an appropriate, signed certification.

Thomas Stephenson (Garner) - By consent, the Board suspended Mr. Stephenson's trainee certification for one month. The suspension is stayed until October 1, 2000. If Mr. Stephenson successfully completes a course in standards (USPAP), a course in small income properties and a course in narrative report writing by that date, the suspension will be inactive. The Board found that under the supervision of a state-certified residential appraiser, Mr. Stephenson appraised an office complex located in Garner, NC. The appraisal report did not state the type of reporting format utilized, although it was

intended to be a restricted use report. The property had sold within three years of the appraisal, yet this was not reported on the appraisal report. The report contained insufficient information for the reader to properly understand it. In the sales comparison approach, the sales date of the first comparable sale and the sales prices of the first and second comparable sales were incorrect. Mr. Stephenson did not appropriately reconcile the values from the three approaches to value.

J. D. Willoughby (Charlotte) - By consent, the Board issued a reprimand to Mr. Willoughby and ordered him to take a course in measuring properties. There were two cases against Mr. Willoughby. In one case, the Board found that an appraiser under Mr. Willoughby's supervision appraised a property located in Charlotte, North Carolina. The appraiser measured the house and determined that the main floor contained 3,732 square feet on the main floors and 483 square feet in the basement, when the property actually contains 3498 square feet, with a 642 square foot basement. In the other case, an appraiser under Mr. Willoughby's supervision appraised a property also located in Charlotte, North Carolina. He measured the house and determined that the main floor contained 1,291 square feet on the first floor, and 859 square feet on the second floor, with a 1,394 square foot finished basement. The property actually contains 1,212 square feet on the first floor, 383 square feet on the second floor, with 1,085 square feet of finished basement and 126 square feet unfinished. Mr. Willoughby did not inspect either of the two subject properties.

Ronald Zula (Durham) - By consent, the Board issued a reprimand to Mr. Zula and ordered him to successfully complete both a standards (USPAP) course, consisting of at least 14 hours, and a course in narrative report writing. The Board found that Mr. Zula, under the supervision of a state-certified residential appraiser, performed an appraisal of two tracts of land located in Durham, NC in June 1998. Both tracts contained improvements, such as office buildings and parking lots. Mr. Zula did not properly invoke the Departure Provision of USPAP, nor did he explain and support the exclusion of the sales comparison approach. He did not address the sales history of the subject property, the report did not clearly state which reporting option was utilized in the report, and the report did not contain an appropriate, signed certification. □

USPAP Q & A

Question #1:

I was recently engaged to conduct a market value appraisal of a one-to-four unit residential property. The intended use of this appraisal is for mortgage lending purposes associated with the property's purchase. I requested a copy of the purchase contract from the client, but they refused to provide it although they acknowledged that a contract for purchase of the property in fee simple exists. They did, however, provide a sale price verbally. Can I continue this assignment, without the purchase contract, and comply with USPAP?

Answer:

Yes, you can complete the assignment in compliance with USPAP. However, you will need to ensure compliance with Standards Rule 1-5(a) in developing the appraisal, and Standards Rule 2-2(a)(ix), (b)(ix), or (c)(ix), as applicable to the type of appraisal report involved, in reporting the assignment results. Note that all of these Standards Rules are binding requirements.

Standards Rule 1-5(a) states: *In developing a real property appraisal, an appraiser must:*

(a) analyze any current Agreement of Sale, ..., if such information is available to the appraiser in the normal course of business;

The Comment to Standards Rule 1-5 states: *See the Comments to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) for corresponding reporting requirements.*

For example, the corresponding reporting requirements in Standards Rule 2-2(a)(ix), in the Comment, are, in part:

... If such information was unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required. ...

Completing these binding requirements ensures that the existence and unavailability of the purchase contract is appropriately disclosed, and any reader of the appraiser's report will not be misled as to how this situation was handled in the analysis and report.

Question #2:

I completed an appraisal assignment approximately six weeks ago for a property owner. The owner/client informed me that the intended use was simply for him to learn the market value of his home. At the time of the inspection I asked the owner if the subject was currently under contract for sale. The client stated that no such contract currently existed. Therefore in my report I indicated that the subject property is not currently under contract for sale nor has it been sold in the past twelve months. Today I received a phone call from my client informing me that this statement is incorrect as there had been a contract written on the property one week prior to the effective date (my inspection date) of the report. The client acknowledged that this information was not available to me during the development of the appraisal. However he still wants me to include the sale contract in my appraisal report. How do I handle this situation without violating USPAP?

Answer:

Simply including the sale contract in the appraisal report is not sufficient to comply with USPAP.

The Comment to Standards Rule 2-2(a)(ix) and (b)(ix) requires a summary of the analyzed information as required in Standards

Rule 1-5. The Comment to Standards Rule 2-2 (c)(ix) requires the disclosure of the analysis results as required in Standards Rule 1-5. Therefore, responding to the client's request to include the sale contract in the appraisal requires an analysis of the sale contract.

The appraiser could provide the results of the sale contract analysis in one of two ways; an "Update of an Appraisal" or in a new appraisal.

Statement No. 7 addresses updated appraisal assignments under, *Clarification of Nomenclature*:

"The term "Update of an Appraisal" is defined as an extension of an original Complete or Limited Appraisal and report relied on by a client for a prior business decision. The Update of an Appraisal changes the effective date of the value opinion."

An update is an extension of the original report. It addresses any significant or pertinent changes that have occurred since the original appraisal assignment was completed. Since the contract information was not available during the development of the original report, it would be considered to be new information. In completing the Update, the appraiser must analyze the contract to identify the effect, if any, that contract now has on the subject. The appraiser must clearly state that this Update Report is an extension of the original appraisal and can only be relied upon by a reader familiar with the original report. For more information on updating an appraisal, consult Advisory Opinion No. 3, published with the 2000 *Uniform Standards of Professional Appraisal Practice (USPAP)*.

The appraiser's second option is to reappraise the property from a retrospective standpoint and reflect in the appraisal report the result of analyzing the sale contract that is now available. □

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