

Automate your MC data research with Total Solution© 1004MC - Software Review

By Douglas G. Smith

Editor's note: Before writing this article, Doug Smith researched the available MC form software. He decided that David Braun's software was the best. This review also includes comments on the two appraisal "camps" on market conditions analysis and other topics. The MC form does not require historical listing data analysis, but Smith reviewed this as it is an option.

"The purpose of this addendum is to provide the lender/client with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. This is a required addendum for all appraisal reports with an effective date on or after April 1, 2009." Fannie Mae 1004MC/Freddie Mac 71 March 2009

Although announced to the appraisal/lender world in November 2008, appraisers are only now scrambling to take steps to fully understand the new 1004 Market Conditions Addendum and devise a strategy to complete the form. Most agree completion of the Addendum will add to the work of preparing reports. Some lenders, in anticipation of the deadline, have asked that appraisers submit the completed form prior to the April 1, 2009 date.

While some lenders have stepped forward assuring appraisers they will be compensated for preparing the new Addendum; others have taken the stance that the Addendum only formalizes data that should already been gathered and analyzed and no increased fee should be expected.

That the information on the Market Condition Addendum is segregated into three distinct time periods refutes the contention that appraisers already gather the data required by the form in a similar fashion.

Whether an appraiser gathers and analyzes data on an annual basis or month-by-month, the current separation

into one six month period and two three month periods requires re-working of any past methods of reporting trends.

It is clearly evident that preparation of the new MC Addendum will take more time. For appraisers, the challenge is two-fold.

First the appraiser must meet the competency standards of the scope of work necessary to complete the form and secondly the appraiser must consider the preparation time and productivity issues of meeting these requirements.

To address both of these challenges, David Braun MAI,SRA from Automated Valuation Technologies, Inc has developed Total Solutions©, a software program to assist appraisers with the process of preparing the 1004MC form. Total Solution© is both an elegant and practical time-savings means to competently fulfill the entire range of requirements of the new 1004MC Form.

Priced at \$149.00, it is available at www.scoopgear.com and is available in two versions, one running on Excel 2007 and another geared for Excel 2003.

Educational Support

The appraisal community has risen to the occasion with scheduled classes and seminars. Bloggers and appraisal chat forums are active with on-going commentary on the introduction of the new Addendum. Noted appraisal information publicist Henry S. Harrison is marketing a 117 page booklet, How to Fill Out a Market Conditions Addendum. Lenders and appraisal management companies are issuing guidelines and instructions to supplement the information distributed by Fannie Mae. One Appraisal Management Company, StreetLinks National Appraisal Services, requires appraisers review Company guidelines before a fee increase is authorized.

There are two basic documents, both issued by Fannie Mae, that require the appraiser's attention in anticipation of

the April 1, 2009 deadline.

Both are available on the Fannie Mae Website. The first is Announcement 08-30 dated November 14, 2008. The second is Appraisal and Property Report Policies and Forms, Frequently Asked Questions (FAQ's) also dated November 2008 and updated March 2009. In the middle of March, Fannie Mae released a 26 minute instructional video that expands on the information formerly released about the 1004MC.

Appraisal Community Divided

From debates on public forums and discussion held at recent seminars, it has become apparent that the appraisal profession is sorting down into two camps.

Both have considered and evaluated the information distributed by Fannie Mae and from this information have come to differing conclusions.

The main group has concluded that ordinary and customary information gathering is required with a focus on existing capability of local data sources mostly derived from Multiple Listing Services. This group holds that Fannie Mae's intent does not require the appraiser prepare extensive spread sheets, graphs or charts. Fannie Mae has strengthened the case for these appraisers. Recently, when the form itself was revised, instructions included less emphasis on past listings if these listings were not readily available in the data provided to appraisers.

The second group of appraisers, the "quants", typically comfortable with differing levels of quantitative analyses, emphasizes the obligation to prepare supported conclusions. These appraisers advocate the use of spreadsheets, charts and graphs to support their conclusions, not only for the specifics of the form itself, but to assist in handling the larger question of neighborhood trends required of the parent form whether it is the 1005, 2005 1025 or another. For those appraisers who make the claim that data is not available, the "quants" are quick to remind that these appraisers

must face the consequences if their reports are later reviewed and the data is found to be readily available.

David Braun with his Total Solution © Software has carefully weighed the opinion of both groups and offers a solution that focuses on the outcome of the analysis rather than the process.

His premise is simple, "If there is means to simplify and competently complete the scope of work to prepare the Market Condition Addendum, why not utilize this capability?"

Let's look at a simple example. The new Market Condition Addendum sorts down the prior twelve month period into three segments. If only MLS data is used, the appraiser must make no less than three queries, one for the current three months period, the second for the next past three month period and finally a search of data for those results found in the prior seven to twelve month period.

Braun's software only requires one search and this search is recommended to include a search of a longer period, at least two years, to fully include data for determining trends. The software completes the sorting and calculates the results. Appraisers using the software report results from start to finish under 30 minutes.

Prior Listings

One of the sticking points of adapting to the new Addendum is the handling of the analysis of prior listings. In the recently published Fannie Mae audio presentation, the presenter, Mark Ratterman, MAI, SRA states emphatically that prior listings must include all listings at the time within each time period.

In Henry S. Harrison's recent publication on how to fill out the form, prior listings are handled in an unexpected way that may very well be misleading if not clearly explained. Appraisers are cautioned to carefully consider the methodology outlined in this publication. The Henry Harrison Guide uses only current active listings, sorted back into the prior periods. If only current listings are utilized in the analysis, logically, these can show no trend at all,

only the playing out of a typical listing history. Older listings are likely to be too few and in some cases might, for instance, show higher prices that account for these listings remaining on the market unsold.

On the other hand, the software developed by David Braun, develops the required information by looking at the total range of information found in the typical Multiple Listing Service database, properties that have sold, properties with cancelled or expired listings and also those that are remain active listings. In this way a more representative number of prior listings can be derived contributing to demonstrating a trend.

Needs Assessment

For appraisers considering incorporating a software program to assist with the completion of the MC addendum, there are two major issues.

The first deals with the data used by the appraiser. Credibility of the output depends on the quality of the database.

Secondly, there is the basic USPAP issue of competency. Appraisers will benefit from a review of Advisory Opinion 18 that addresses the USPAP issues of using a computer modeling program. Although directed to valuation models, the guidance found in AO-18 applies to the use of any software modeling program.

The appraiser may not fully understand the intricacies of the program, but must be able to describe the overall process and verify that the program's output is consistent in producing results that accurately reflect prevailing trends in the marketplace. Appraisers may benefit from taking a refresher course on using Excel spreadsheets.

The database most appraisers use to derive market trends is a local Multiple Listing Service (MLS) Since there are no standards in the format or components for these services, there is wide variance of one multiple listing program over another. No one vendor has become dominant and become the market leader in setting a consistent standard. The biggest challenge of implementing the Market Condition

Addendum, is not so much the form itself, but deriving the required information from the local MLS.

Therefore appraisers must carefully consider how the local MLS can meet their needs in fulfilling the requirements of the new form. Total Solution® requires six fields and two optional fields. The first step is to confirm that the local MLS provides output for each of these fields.

The six mandatory fields are: Date of Sale, Sales Price, List Price when sold; Off Market Date or Listing Date, Days on Market and MLS Number. Note: appraisers have a choice of including either the Listing Date or the Off Market Date.

The two optional fields are Real Estate Owned (Foreclosure) and Square Footage. Another optional field for concessions is also available. The MLS should be able to return a search that includes, properties sold, properties listed, properties that were listed, but are now cancelled or expired. Lastly, the MLS must have a coherent way to array the data, allowing it to be exported in a spreadsheet format.

The Total Solution program is very flexible. The program will accept a "full dump" of all fields from a data search. However, since only less than a dozen fields are required to run the program, most appraisers will take advantage of the particular MLS's ability to create a specific spread sheet format for exporting into an Excel spreadsheet. Understanding the specifics of the local MLS program is, then, the most critical step in achieving credible results.

Set up and Installation

Purchase of the software is easily accomplished over the Internet with delivery as an e-mail attachment. A 15-page start-up guide is provided. The guide outlines the steps to install the software. The details of setting up subfolders and operating hints such as enabling the Excel macro feature are explained in the set-up guide.

Basically the appraiser creates a master template that is individualized for the specific MLS and the basic information for the appraiser. The form has

an electronic signature feature that requires adding an electronic signature file. When the set-up and installation is complete, a desk-top icon, when clicked, brings up a copy of the master template. Changes in the master template are easily accomplished by calling up the template in Excel, making the changes and then saving the master template.

Navigating the program is simplified by clicking the bottom tabs of the worksheet. These tabs direct the appraiser to the "Set-Up" Functions, the "Data (Subj Mkt), the 1004MC form and the narrative portions of the program.

A critical step to insure that the program works correctly is to carefully complete the Computer Field Name Set-Up. The program reaches into the spreadsheet imported from MLS and searches for the data in certain fields. Initially, the exact wording of the field names must be entered onto the set up page.

Running the Program

The program has built in features that expedite running the program. After the data is collected and transferred to an Excel spreadsheet, it is not necessary to manually import the information in a spreadsheet into the working template. The program has an import feature. By targeting the location of the data spreadsheet, there is a command button function that when clicked, loads the spreadsheet into the working template. Once the data is loaded, it is only a matter of clicking the "Run Analysis" button. The results can then be imported into the program.

The program has the capability to handle Condo/Coops and has expanded sections on the neighborhood and means of including additional charts. For instance, the Missoula Market is a MSA and the OFHEO quarter index of home values can be charted as a supplement to other charts found in the program.

Special Features

The program allows for adjusting the trend tolerance level. This allows the appraiser to overcome the normal oscillation that typically occurs on a regular basis; or the seasonal ups and downs that typically occur. If the last three months are the darkest months of the winter, fewer sales do not reveal a trend; only the playing out of normal seasonality. The program allows the recognition of these events. Trend tolerances are set for sales and list prices only and all other trends.

The program works within Excel and any worksheet may be unprotected without a password. Adequate information is included in the guide to set the program to run macros. Setting the default format for new Excel files is described. In addition, David Braun is making available several videos that will assist the appraiser with not only the nut-and-bolts of the program, but also the larger questions of gathering data and working with MLS data.

David Braun intends to issue updates of Total Solution©. Built into the program is a way to update the program with a new version that retains the custom notations of the original master template.

Finally and probably worth the price of admission is the Quick List Edit Box. There is a quick list edit feature available when filling the narrative comment sections out on both the "Comments and Explanation" and the "Chart" sheets. This system allows you to save phrases for future use.

Review Tool

Lenders are showing increased interest in reviews. Appraisers are reporting an uptick in review requests. Clients such as private mortgage insurance companies are seeking retrospective appraisal reviews on past appraisals in the face of rising foreclosure rates and resultant claims.

Much of the emphasis on some recent reviews is whether the market conditions in the past were correctly stated. While the emphasis on Total Solution© is aimed at filling out the new MC Addendum, the program will

provide reviewers with a tool to assess the quality of an appraiser's work in defining market conditions in the past.

Conclusion

The main objective of any appraisal report is summarized in Standard 1-1(a): "An appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal."

Arriving at a strategy to complete the scope of work necessary to fulfill the requirements of the new Market Condition Addendum should follow a carefully developed plan. The source of the data must be analyzed and most likely the best way to do this is to use MLS data to fill out the form to identify where MLS data is lacking or not available.

For instance, the form requires the reporting of the median rather than average. If only the average is available, the appraiser must so comment. By working through the form manually, the appraiser can determine the extent and nature of the data available and how much time it takes to collect and organize the data in a meaningful way.

The net result is that by working through the exercise step-by-step the appraiser will have satisfied the competency issue of the Ethics Rule.

The Total Solution© software program expands on the main intent of completing the Market Condition Addendum and provides additional means of rendering a credible and meaningful report that addresses the larger issues of the market conditions. However, due to productivity issues, appraisers will see the benefits of reduced preparation time. In the face of fee increase resistance from vendors, appraisers may place more emphasis on this factor when considering Total Solution©.

About the author

Doug Smith has an appraisal practice in Butte, Montana, and is a certified general appraiser doing both residential and commercial appraising. He can be contacted at hotelman@montana.com.