

Does USPAP have to be boring? Not according to this teacher.

Fraud, Ethics, and the Appraiser: *Making Uniform Standards of Professional Appraisal Practice Come Alive in the Classroom*

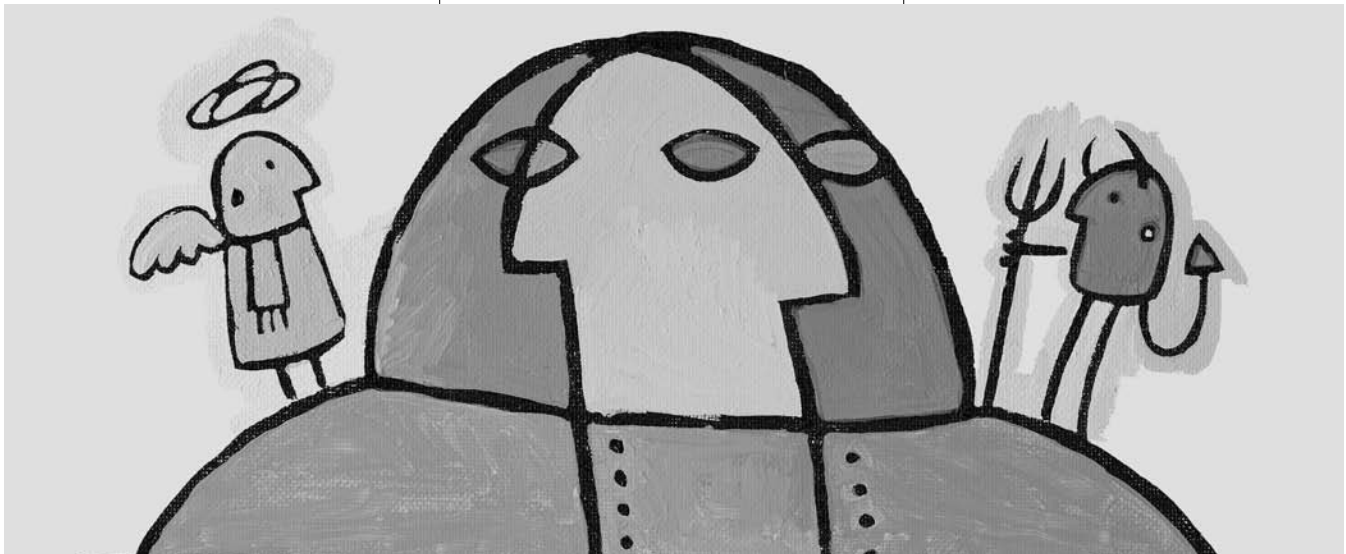
BY SAM MARTIN

The Uniform Standards of Professional Appraisal Practice (USPAP) is the code of ethics for the appraisal profession and was created by The Appraisal Foundation (TAF) for the purpose of and elevating the appraisal profession in the eyes of the public. To this end, all appraisers must pass the 15-hour national certified USPAP course along with other requirements. As

important as USPAP is to appraisal practice, one might assume a 200+ page code of ethics (which reads like rules and regulations) might be a tad stultifying.¹ A student manual accompanies the USPAP that is quite helpful, but it also adds 300+ pages to the reading material.² All this material must be covered in a 15-hour class.

Instructors for the 15-hour USPAP

course must be certified by TAF if the course is going to count toward licensing. While the instructor program is quite thorough, it tests the prospective USPAP instructor's knowledge of USPAP and not the instructor's abilities as an instructor. Sadly, some USPAP instructors have a reputation for reading material out of the textbooks. This practice is a bad idea in any class; it is an



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unmitigated disaster in USPAP.

While required for licensing, a thorough knowledge of USPAP is critical for one's appraisal practice, to attain professionalism and to reduce liability. There are a variety of instructional techniques to alleviate classroom boredom and increase the efficiency (and fun!) of learning USPAP. I have been an appraisal instructor for 16 years and found the following classroom techniques effective:

1 Set up a Blackboard™ shell for the class.³ This allows for asynchronous communication in the form of a discussion board. I post a discussion question, and give extra credit for responses to that question as well as responses to other students' responses. I also post a grading rubric (see page 16) so students are not left in the dark about how points are assigned. Blackboard™ also allows links to important websites (e.g., www.appraisalfoundation.org), posts of important documents (e.g., the course syllabus; grading rubric), and a synchronous chatroom. A drawback: not all institutions have a budget to accommodate Blackboard.™ If that's the case, similar functionality should be possible in your website. Tu and Curry report that discussion questions in an online format evoke higher level processes and aid memory retention.⁴ I would argue that similar in-class methods have a similar effect.

2 Break the classroom into groups and assign the discussion examples in the USPAP Student Manual (or make up your own examples). This can be an invaluable technique, but it can be time-consuming and problematic in larger classes. The more groups you

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create, the more case studies you assign; therefore, more reports have to be performed (with a group spokesperson reading the discussion example aloud for each group). The time factor weighs heavily, and this is only a 15-hour course to begin with. However, if only one or two discussion examples are assigned, only a few students contribute, which may cause the others to feel isolated and left out of the discussion.

3 What better technique in a USPAP class than setting up a mock trial? I am usually the accused appraiser; students take the roles of judge, jury, and attorneys. The accused does not normally fare well. This is a fun way for students to immerse themselves into USPAP and current affairs. News articles

about mortgage and appraisal fraud make the case (and the entire course) contemporary and "real." Here's one example of a mock trial I have run in my classes.

"Sam" is a residential appraiser being investigated for stealing another appraiser's identity and signing the appraiser's name to fraudulent, inflated appraisal reports. The victimized appraiser takes the stand, and testifies about the havoc that has been created in his/her professional life: being placed on exclusion lists (clients will no longer use their services); loss of 80-90% of their income; having false income reported to the IRS (that Sam actually collected, pretending to be the victim); and continuing investigations by the FBI and state licensing agency until the innocent appraiser can prove he/she is not the culprit (a process that typically takes 2-3 years). For dramatic effect, I might have the prosecutor call the appraiser's phone number (as listed on an appraisal). This is purportedly the number of the innocent appraiser. MY cell phone rings in my pocket, clearly proving I was having the innocent appraiser's messages forwarded to me! (Tragically, this idea emerged from the real-life travails of one of my former students.) After all is said and done, "Sam" is held for questioning, and sometimes "Drawing and Quartering" is suggested, only partly in jest.⁵

4 An icebreaker helps introduce the students to the importance of USPAP in everyday life. Such an introduction stresses the import of USPAP and tells the student where the instructor is coming from. Following is an example of one of the many stories I use. (The story is true, with names changed to protect confidentiality.)

Several years ago, I received a call from one of my clients who worked for a lender. She said she had an “emergency” appraisal order. Having never heard of such a thing, I asked the obvious question: “What’s the big rush?” Images of an ER (“Get the paddles! Clear!”) leaped into my mind. The story unfolded thusly:

Roughly six months before the call was made, a homeowner (“Mrs. Smith”) refinanced her house in the suburbs of Chicago. Shortly thereafter, Mrs. Smith became ill, lost her job, and never made a payment on her mortgage. The foreclosure sale was about one week away. Mrs. Smith’s daughter now wanted to help her mom refinance the home. Her daughter would be added to the title and would become a co-borrower.

I met the daughter at the house that very afternoon, where I was shown the appraisal from six months prior. The old appraisal indicated the value was \$185,000, with comparable sales two miles

away, in a completely different subdivision. The comps were 30 years younger than the subject. And, across the street from the subject property: a facility of the Metropolitan Sanitary District, with a chain-link fence, garages, trucks—the works. And of course, none of this was mentioned in the appraisal. As a matter of fact, the appraiser deliberately pointed the camera away from this facility, showing only residential properties in the appraisal report. This was a deliberate misrepresentation of the truth and an injustice to the client (a bank), other parties relying on the appraisal (e.g., FNMA) and the homeowner.

SAMPLE RUBRIC

A rubric is an authoritative rule or direction; an explanation of what I use to grade responses. For example, here is a sample rubric I use to grade discussion questions:

A total of 5 points is available for each mandatory discussion question. It's a good idea to log in to the course three separate days per week to keep up with the discussion.

Discussion Question Participation Tips:

- Participate earlier in the week rather than at the last possible moment.
- Reply to others earlier in the week rather than at the last possible moment.
- Check in and participate in the discussion three separate days per week.

Your participation in the discussion question is assessed using the rubric shown below:

| POINTS | EXCEPTIONAL 1.5 POINTS | AVERAGE 1 POINT | NEEDS IMPROVEMENT 5 POINT | UNACCEPTABLE 0 POINTS |
|---------------------------------------|---|--|---|---|
| Content | Content is complete, accurate and offers new ideas. The discussion is well supported with details that explain the participant's conclusions. Content encourages further discussion on topic. | Content is complete and accurate, but lacking in new ideas, or there may be one areas an opinion is presented without supporting facts or references. Content generally doesn't invite further discussion or investigation. | Ideas were incomplete or had inaccuracies, or there are two or more opinions are presented without supporting facts. | Response was not applicable to the discussion or did not follow "Netiquette." |
| Critical Thinking | Clear evidence of critical thinking (application, analysis, synthesis, and evaluation). Postings are characterized by originality and relevance to the topic. | Some critical thinking evident, but posting may not directly address the issue. | Lacking critical thinking. Postings tend to address peripheral issues. Generally accurate, but with omissions or clear recitation. | Lacking critical thinking. Postings tend to be inaccurate or unclear. |
| Timeliness | — | Answer is on or before the due date. | Participant's answer is late but before the end of the week. | Participant did not participate in the discussion. |
| Involvement and Responsiveness | — | Enters class 3 days per week and responds to other students. Communication encourages further responses, raises questions or politely offers alternative perspectives. | Enters class two or fewer days per week and/or fails to responds to others. Interaction is best described as "good idea..." and of little substance to continue discussion. | Does not enter class during the week and/or fails to respond to others. |

Who was harmed?

- 1) The bank was about to foreclose a drastically overvalued property. This bank was about to lose tens of thousands of dollars.
- 2) A study has shown that neighborhoods lose roughly one percent of value for every foreclosure within one-eighth of a mile.⁶ Add to that the strain placed on government services caused by such foreclosures (e.g., homelessness, unemployment).
- 3) The appraisal profession is sullied by every single action that harms

the public. USPAP was born out of the actions of appraisers in the bank scandals of the 1980s. In many ways, appraisal has not risen above the muck and mire of that decade.

- 4) The homeowner was “upside-down” due to the overvaluation. My appraised value was \$130,000, far below the current mortgage balance. She had no options; she lost the house.

Who did the homeowner blame? The original appraiser, who was clearly negligent (at best) or fraudu-

lent (at worst)? No; I was blamed. I did not “play ball” like the other, “nicer” appraiser.⁷

There are many more techniques available, but the four above have been used successfully over a period of years. The best classroom technique is the one you will actually use. The methods I’ve described involve students and capture their imaginations. Students better understand the significance of appraiser neutrality and professionalism. Homeowners, clients, and entire neighborhoods depend on these elementary truths.

END NOTES

¹ The Appraisal Foundation. (2005). *USPAP: Uniform standards of professional appraisal practice and advisory opinions*. Washington, DC: Author.

² The Appraisal Foundation. (2005). *Student manual: 15-hour course*. Washington, DC: Author.

³ Blackboard™ (<http://www.blackboard.com>) is proprietary software that allows a school to set up a “shell” for each course. A shell contains (among other things) a discussion board, a section where synchronous communications can take place, file exchanges among students and faculty, asynchronous communication (e.g., e-mail), etc.. The cost depends upon the services selected, but Blackboard™ tends to be a tad pricey. From my experience, only colleges and universities (or large corporations) utilize Blackboard™. I post my syllabus, student expectations, etc. on the Blackboard™ shell I erect for each of my classes. Blackboard also has tutorials for newbies, and is so simple, even I can use it!

⁴ Tu, C-H., & Curry, M. (2003). Designs, management tactics, and strategies in asynchronous learning discussions. *The Quarterly Review of Distance Education*, 4 (3), 303–315.

⁵ I can pull a multitude of similar cases right out of the recent *Chicago Tribune* series by David Jackson, “The New Street Hustle.” This series began on December 14, 2005, with periodic updates, and is a treasure trove of valuable insight. Why commit dangerous crimes, when you can make money in white collar crime?

⁶ Immergluck, D. & Smith, G. (2005). *There goes the neighborhood: The effect of single-family mortgage foreclosures on property values*. Chicago: Woodstock Institute.

⁷ This case stuck in my craw for many years. It has shaped my career in several ways: 1) I use USPAP as my mantra, and I follow it in my personal and professional life. I “Do no harm,” and I will never allow this travesty to happen again. 2) I lead by example. Other appraisers see me following USPAP, even when the easier course of action says otherwise. 3) I protect my clients, and any other intended users of my appraisals, from the ravages of fraudulent appraisals. Some students, after hearing this story, rededicate themselves to the class and go on to become dedicated appraisers and appraisal instructors.

Sam Martin is a national certified USPAP instructor who resides in Schaumburg, Illinois. A real estate broker and instructor, Sam has written numerous appraisal classes and has almost two decades of experience as a residential appraiser. Sam received his bachelor’s degree from the Loyola University of Chicago and an MA from the University of Illinois, Chicago. Sam can be reached at Sam@samthetutor.com.

