******

**Editor’s Note:** Most view the new TRID regulations as a “sea change” for the real estate industry, but how will it affect appraisers? It depends, according to the experts.
 **TRID: What’s It Mean for Appraisers?**

By Isaac Peck, Editor

Lenders, AMCs, and appraisers are anxiously awaiting TRID, the TILA-RESPA Integrated Disclosure rules, which will bring significant changes to borrower disclosures, essentially merging the HUD-1 Settlement Statement, Good Faith Estimate (GFE) and the Truth-in-Lending disclosure form into two new forms: a Loan Estimate and a Closing Disclosure. Here’s what it means for appraisers and appraiser fees.

TRID’s effective date is just around the corner, recently extended to October 3, 2015, a Saturday, which many say gives lenders an opportunity to roll out new systems over the weekend. Richard Cordroy, Director of the Consumer Financial Protection Bureau (CFPB), has also indicated to Congress that the CFPB will be “sensitive” to institutions making good faith efforts to implement TRID. This suggests that a grace period will ease the transition, even after October 3, although lenders and AMCs are not wasting any time formulating strategies to comply.

While much attention has been paid to how this process will impact lenders and mortgage brokers, not much analysis has been offered on how this process will affect appraisers.

**Zero Tolerance**

Much like the GFE, the Loan Estimate (LE) must be sent to a borrower within three business days after the borrower applies for a loan. However, while the GFE previously allowed for a 10% variance in appraisal fees, the new TRID rule now classifies appraisal fees in the zero-percent tolerance category-along with all the other fees that consumers cannot shop for.

The result of this change is that, except in very specific circumstances, the original appraisal fee quoted to the borrower cannot be changed. There are six exceptions where zero-tolerance fees (like appraisal fees) may be adjusted based on specific criteria, these instances include: (1) a changed circumstance, (2) a changed circumstance requiring eligibility, (3) revisions requested by the consumer, (4) interest rate dependent changes, (5) expiration of terms due to consumer delays, and (6) a delayed settlement date on a construction loan.

While seemingly broad, most of these exceptions have little to do with appraisals and, for the most part, will be applicable to only a small fraction appraisal fees.

Yet there is one exception that many insiders say may apply to appraisals and that is a changed circumstance. In the vast majority of cases, a changed circumstance will be the applicable exception for any change to an appraisal fee, making it important for AMCs and appraisers to understand the criteria behind it.

**Changed Circumstance**

TRID defines a changed circumstance as one that is “beyond the control of any interested party.” Such a circumstance may occur because of an “unexpected event specific to the consumer or the transaction” or because “information specific to the consumer or transaction… was inaccurate or changed after the disclosures were provided.” A changed circumstance may also be the “discovery of new information specific to the consumer or transaction that the creditor did not rely on when providing the original disclosures.”

TRID provides an appraisal-related example that is easy to follow. Imagine that a borrower submits a loan application for a residential property located outside of town. The lender issues a Loan Estimate with an appraisal fee of $400 and the borrower indicates she is ready to move forward (a requirement under TRID). However, upon arriving at the subject property, the appraiser realizes that the property is located on a farm. The assignment, consequently, warrants a higher appraisal fee and this is considered a “changed circumstance” because “information specific to the consumer or transaction… was inaccurate or changed after the disclosures were provided.” In other words, the consumer provided inaccurate information which, once discovered, constitutes a changed circumstance.

How broad will this exception be? It depends on how lenders, and of course the CFPB, interpret the definition of a changed circumstance. If a property that is originally thought to be 1,200 sq. ft. turns out to be 2,400 sq. ft., does that constitute a changed circumstance? What if there is negative stigma or functional obsolescence associated with the property? The broad language of TRID means that different lenders will interpret these questions differently. After all, the realization that some information is inaccurate or changed, as well as the discovery of new information, can all be indicators of a changed circumstance and thus apply to the appraisal process.

However, some industry insiders insist that because the address was already known before the fee was disclosed to the borrower, only the most extreme changes in circumstance will be allowed.

The downside for everyone involved is that once a changed circumstance is established and an increase in an appraisal fee is agreed upon, the lender then has to issue revised disclosures to the borrower. This process, while not expensive, costs the lender time and money. The result likely will be that lenders may be reluctant to allow such changes even if the criterion for a changed circumstance is clearly present.

**Appraiser Money**

Tim Shaw, President of Accurity Valuation, a nationwide appraisal firm, reports that TRID may cause some negative repercussions for appraisers. “Depending on the AMC, TRID may make it much more likely that requests for fee increases will be declined. It’s likely to suppress appraisal fees,” says Shaw. Another potential strategy that AMCs might use will be to bid out orders, similar to the way commercial appraisals are ordered, to avoid TRID violations. “We may see an increase in appraisal order bidding for rural property, outliers, and complex properties, as AMCs and lenders become wary to estimate the cost of an appraisal on atypical properties. The downside to this as a widespread approach is that it may slow the loan process down by up to an extra day,” reports Shaw.

Due to the very broad definition of changed circumstance, AMC and lenders are interpreting TRID in different ways, but ultimately the decision and the responsibility of how best to comply with TRID lies with the lender. Sharon Lynn, Vice President of Client Relations for AMC Valuation Management Group (VMG), says that when VMG meets with lenders to discuss strategies for complying with TRID, she always makes it clear that VMG is not the lender’s general counsel, but its AMC. The result is that each lender decides individually how to interpret TRID and achieve compliance.

VMG’s approach stresses the importance of creating a dialogue with the buyer (or owner during a refinance) about the property in question. “Each client is different, but for the most part there has historically been very little dialogue with the buyer/owner as it relates to the property. TRID makes it very important that we understand, in advance, what kind of property we are dealing with. VMG is introducing a buyer/owner questionnaire to our clients and encouraging them to use it to collect additional information about the property that will be appraised,” says Lynn.

Creating a dialogue with the buyer and having them fill out a questionnaire regarding the property will provide critical information to both the lender and the AMC. “The questionnaire we are recommending to our lender clients will tip us off if we are dealing with a complex property and allow us to respond accordingly. If the property looks like it may be atypical or unique, we can then put that order out to bid immediately and before our client issues the Loan Estimate. The result is that we’ll be able to pay reasonable and customary fees to appraisers while helping our clients comply with TRID,” Lynn says.

The questionnaire may also need to vary, based on the region or state, as some property characteristics are atypical in some markets, but not others.

Lynn is careful to note that lenders are interpreting TRID differently, but reports that some lenders have adopted an interpretation that any property that is discovered to be atypical or unique would constitute a changed circumstance. “While TRID is clear that location is not a valid changed circumstance, since the property address was known at the time of disclosure, the discovery of other property attributes may be considered a valid changed circumstance by some lenders,” says Lynn.

In terms of what kinds of properties will be put out to bid, and what kinds of property attributes that, when discovered, may constitute a changed circumstance, VMG cites the following:

* Unique architectural style – log home, dome home, berm home
* Manufactured housing
* Historic homes
* Homes with accessory units (garage apartments, in-law suites, guest houses
* Large and/or high end, luxury homes
* Ocean front, lakefront, mountain homes
* Homes on acreage
* Anything that is atypical or unique for the market

However, each lender will respond differently. “As an AMC that works with many different lenders, we are seeing a variety of different approaches. We are committed to paying reasonable and customary fees and we try to be sensitive to the needs of our clients when formulating strategies to deal with TRID,” says Lynn.

**Customary & Reasonable Considerations**One potential problem some industry insiders see is that TRID and Dodd-Frank’s C&R fee legislation might end up conflicting, depending on how the CFPB enforces TRID. If the CFPB rules that complex properties do not constitute a *changed circumstance*, then TRID may wind up denying C&R fees for properties that turn out to be complex.

Given that the lender only has three days from receiving the borrower’s application to issuing a Loan Estimate, the expectation that the lender can research and know about *every* attribute of a property before quoting an appraisal fee seems unrealistic, and the extent that certain lenders and AMCs set fees in stone will undoubtedly influence whether C&R fees are paid to appraisers.

Additionally, while lenders may be tempted to adopt flat fee models across the country, such practices may lead to less than C&R fees being paid in some areas, given how widely fees vary nationally. A fee that is generous in one state may be less than C&R in another.

The potential upside for appraisers is that in some cases TRID may result in higher appraisal fees. Based on conversations Working RE has had with AMCs and lenders, some lenders may opt to pay a flat fee, on the high end, and quote it on everything; so all appraisers on a given panel will be paid the higher fee. In these cases, appraisers might actually end up getting paid more.

TRID is set to go into effect October 3, 2015.

**Upcoming Webinar**[**How and Why of Your Appraisals: How to Create a Proper Reconciliation**](http://www.workingre.com/efficiencies-increasing-business-bottom-line/) **Presented By:**Tim Andersen, MAI **Date:** September 10th, 10:00 – 11:30 a.m. PST

“Excellent webinar. I could not write notes fast enough!” – P. Murphy

Effective reconciliation is CRITICAL to communicating the assignment results to the appraisal reader. Learning how to reconcile the information in your appraisal is a proven way to make your clients happy, become a better appraiser, and avoid state sanctions.  This webinar includes practical tips and advice from USPAP expert Tim Andersen, MAI, on navigating the crucial, final step of every appraisal- the Reconciliation. See what to include and what to leave out in order to effectively and convincingly tell the story of your appraisal. Avoid call backs and burnish your reputation as a professional with this valuable and important webinar.[**Sign Up Now!**](http://www.workingre.com/efficiencies-increasing-business-bottom-line/)

**Fall Webinar Schedule:
September:**How to Create a Proper Reconciliation (above) **September:**Complaints, Claims and Your Teflon Suit (free) **October:**Professional Appraiser Series (2-parts) **November:**Appraiser Adjustments – Solving Common Problems (2-parts) **Season Ticket: $129**(Save 35% on all six webinars)

**Save $78: Get the Season Ticket**

**About the Author**
Isaac Peck is the Editor of Working RE Magazine and Marketing Coordinator at OREP.org, a leading provider of E&O Insurance for appraisers, inspectors, and other real estate professionals in 49 states. He received his Bachelors in Business Management at San Diego State University. He can be contacted at Isaac@orep.org or (888) 347-5273.