

BPO Basics

Eight Tips for Drafting Better BPOs

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REALTOR® Code of Ethics

Standard of Practice 11-1

When REALTORS® prepare opinions of real property value or price, other than in pursuit of a listing or to assist a potential purchaser in formulating a purchase offer, such opinions shall include the following unless the party requesting the opinion requires a specific type of report or different data set:

1. identification of the subject property
2. date prepared
3. defined value or price
4. limiting conditions, including statements of purpose(s) and intended user(s)
5. any present or contemplated interest, including the possibility of representing the seller/landlord or buyers/tenants
6. basis for the opinion, including applicable market data
7. if the opinion is not an appraisal, a statement to that effect (Amended 1/10)

Source: [REALTOR® Code of Ethics](#)

Broker's Price Opinions (BPOs) aren't new. A small group of REALTORS® were doing BPOs long before the market took a tumble. But as more homes moved into the "distressed" category, banks began ordering more and more BPOs to get through the short sale and foreclosure process. "That increased demand for BPOs just as REALTORS® were moving from traditional real estate to the distressed market," says Michael Ramer, president of

the [National Association of Broker Price Opinion Professionals](#). "Now BPO is a part of everyone's vernacular."

Broker's price opinion (BPO): The real estate broker's opinion of the expected final net sale price, determined prior to the acquisition of the property.
Source: [NAR's Glossary of Industry Terms](#)

BPOs are a part of the new real estate landscape. Some agents have become experts at crafting these snapshots of the market. Others see it as a potential revenue stream and are trying to get their foot in the door. If you find yourself in BPO territory without a map, here are eight things you need to keep in mind:

1. It's just your opinion.

First and foremost, remember what the O in BPO stands for. The REALTOR® Code of Ethics requires a statement to the effect that your BPO is not an appraisal (see box "Standard of Practice 11-1"). "It's only a broker's opinion or agent's opinion," says [Jerome King](#), designated broker of Long Realty Company in Tucson. "As long as that is expressed clearly in the report, you are effectively managing your risk."

NOTE: Not all states allow real estate licensees to charge a fee for a BPO. Arizona's law on this issue was clarified in July 2007. The legislature removed the words "for the purposes of prospective listing or sale" from A.R.S. 32-3602 (1). The statute now exempts from the appraisal licensing requirement: "[a] real estate broker or salesperson who is licensed in this state and who, when acting as such, gives an opinion as to the price of real estate if this opinion is not referred to as an appraisal."

Next, be sure that the opinion is yours. That means you, as the licensee, need to be the one preparing it. "There are BPO agents right now that are using assistants and clerical

help," reports [Shivani Dallas](#) with RE/MAX Infinity in Chandler. "A BPO should come from a licensed REALTOR® who can evaluate comps appropriately."

"A BPO is a marriage of art and science," says Ramer. "You have to pull good comps, go through them, adjust the comparables. That's the science. The art comes in at the end when you apply your gut to it. Is that a good price?"

The Appraisal Community Weighs In on BPOs

"We can't sell property without a license, how come you can value a property?" asks Sue S. Miller, SRA, with [Miller Pipher](#) in Phoenix and president of the Coalition of Arizona Appraisers.

It's not surprising to find that appraisers have concerns about BPOs. Appraisers are, of course, defending the economics of their profession. When a bank can pay \$45 for a BPO, it is less likely to pay for the more expensive appraisal.

Beyond economics, however, appraisers also have concerns about the quality of BPOs.

Appraisers have had a license requirement since the S&L crisis in the 1990s and have received significant training in valuation. Consequently, they are frustrated when banks ask them to justify their valuations because an opinion comes in with a substantial variation.

While she acknowledges that many REALTORS® do good BPO work, Miller notes that others "are taking MLS data, not taking best comparables and just averaging them or making random

2. Assume your audience knows nothing.

The asset manager or review specialist who looks over your BPO is likely not in Arizona, doesn't know what DOM means and has never

adjustments that aren't supportable."

"I support the appraisal community and believe that they should be involved in this process from the beginning," says Jerome King, designated broker of Long Realty Company in Tucson.

"However, the creditors and lenders have chosen this method, BPOs, to get a quick snapshot of value."

Appraisers are aware that "REALTORS® are responding to a need," says Miller. In the end, appraisers have many of the same concerns as REALTORS® about the role banks are playing in the marketplace. "They're able to call the shots," says Miller.

"They shouldn't be able to do that."

experienced a monsoon. You need to describe the property clearly and in plain language. "Try to tell a story about the property," advises Frank Dickens with RE/MAX Achievers in Phoenix. "Much like we describe properties in MLS for the public to view, we want to assume the reviewer has no idea about the property, surrounding neighborhoods, regional conditions and the property condition."

For example, instead of saying "floor plans in the subject area vary," you might explain that the developer provided floor plans ranging from 1400-2800 square feet and that the 1800 square feet model had a higher than average rate of sales, suggests Dickens. "This will indicate to the asset manager, if their floor plan is 2800 square feet, they may need to consider aggressive marketing and lower than average pricing. Alternatively, if the floor plan is

1400 square feet, they may be able to enhance pricing in hopes of a better return.”

3. Be better than the next.

There are plenty of folks willing to take on BPO work at the moment. If you want to become a go-to provider, take the time to do a good job. “The minimum time it should take is two hours, and sometimes it takes five and six hours—if you do them right,” says [Michael Rose](#) with Coldwell Banker Residential Brokerage in Scottsdale, who has a significant REO practice.

Use the format the lender or valuation company requires, read the instructions carefully and follow the rules to a tee. Most provide detailed specifications for comparable location, lot size, square footage and so forth. If your adjustments are beyond the suggested limits, explain why.

And be early. “Early is on time, on time is late,” says Ramer. “Turn-around time is a big buzz in this industry.” If you are going to be late, communicate that as quickly as you can—but don’t expect sympathy.

4. Go above and beyond.

“While some asset companies limit the number of photos, most don’t,” says Dickens. “The more documentation you can provide with your story about the property, the more your BPO will shine.” He also provides additional MLS statistics to better illustrate market conditions, notes if the property will sell with government-insured financing, flags potentially conflicting information (i.e. if a room addition has affected square footage) and so on.

5. Know your market.

When Rose’s wife moved from commercial real estate to residential, he put her to work on BPOs because he felt it was an excellent way to gain an understanding of the market. “I think every single agent that’s out there should know how to do BPOs because it forces you to do due diligence,” he says. Whether you are looking to secure a listing client or counsel a buyer, the BPO process allows you to understand the property in a way an ordinary CMA cannot.

You can’t be an expert everywhere. When offering their

services to a valuation company, “some real estate agents will try to get a big service area,” Ramer says. “But if you take too big of a service area, you may be selling yourself short in terms of knowing your market area.” Stick to what you know—and get to know it even better through the BPO process.

6. If you’re new, get help.

The BPO industry has a low tolerance for error. “If you miss a task, if you’re a day late, there’s a black mark,” says Rose. “You only need three of those black marks, and you don’t get any more work.” Consequently, it isn’t easy to learn on the job.

If you’re new to the process, seek out an experienced agent to mentor you. Rose did an exercise with four new agents. He provided a property address and asked everyone to do a BPO. “All five of us did it, and the price variation was over \$100,000 on some of them,” he says. Try the exercise and compare your choices with those of your mentor to see where you might improve.

Another good starting point for the beginner BPO writer is NABPOP’s [standards](#) (“musts”) and [guidelines](#) (“best practices”) developed with lenders’ quality-control departments, valuation companies and on-the-street agents. NABPOP also offers a certification education program.

7. Remember: This isn’t a listing.

Be careful that you don’t fall into “listing” language as you write the BPO. You are not selling this house on the MLS. “You are providing a no-kidding assessment of what the house is,” says Ramer. “It’s not ‘beautiful, airy foyer.’ They want ‘shingle damage.’” Be clear, concise and factual.

8. BPOs matter.

Remember that a BPO is not simply an extra source of income. It can affect a homeowner and the marketplace. “If the agent turns in that piece of paper that says the listing agent priced it too low, the bank is going to ask the buyer to come up with more or the homeowner will go to foreclosure in this market,” explains [Desiree Montgomery](#), an agent with Realty Executives in Phoenix who serves on the Arizona Department of Real Estate’s Short Sales Task Force and the Arizona Treasurer’s Short Sale Round Table.

"A homeowner shouldn't go to foreclosure for an opinion."

"People don't realize that banks are making decisions on these," echoes Ramer. "And liquidity of credit is based on how fast they can make decisions." However, he emphasizes that there are checks and balances in the system. Often, banks get multiple BPOs and other valuations done. "In most cases, where there's financing, there's going to be an appraisal anyway," says [Martha Appel](#), designated broker at Coldwell Banker Residential Brokerage in Scottsdale.

A side note: If you have a short sale listing and receive a BPO that comes in very differently than you feel it should have, you can contest it. "The bank will find a third-party BPO preparer to go out and re-do it," reports Dallas. "Banks are opening their eyes to the fact [that some are flawed]."

Is BPO Work Right for You?

"As a broker and manager, I would not want to see one of my agents making a living doing this," says King. "They should be out selling real estate." That said, BPOs can be a valuable tool in your REALTOR® tool box. They can teach you new things about your marketplace, how you suggest listing prices and how you review third-party valuations.

If you are going to be engaged in BPOs, be sure to talk with your broker about BPO questions you may have. And remember, BPO fees are earned from conducting real estate activities, so all payments should be made directly to your broker. Per A.R.S. 32-2154 (7) (10), failure to have payments go through your broker can be grounds for denial, suspension or revocation of your license.

Finally, be sure that you have realistic expectations for BPO work. They don't pay much, often as little as \$45. And they aren't a guaranteed "in" for REO business. "Three years ago, we were told, 'If you do BPOs, they'll get you a listing' - which is not true," says Rose. "It's not what you know. It's who you know, like anything else."



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Stan Battersby


The article on BPO is OH so true.

I hear that the Banks are foreclosing on places and then asking the owner if they want to rent the place and when their credit is OK to buy the property back at less than what the had owed before. Have you heard anything like that?

Stan Battersby

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