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to the Real Estate Community

Helpful Hints

About the Author



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USPAP 2006 Changes Appraisal Options

Once again commercial appraisal terminology will be changing. No longer will you be able to order a “limited” analysis as the whole concept of “Departure” has been removed. With the Uniform Standards of Professional Appraisal Practice (USPAP) 2006, appraisers can no longer conduct a limited analysis or have the ability to depart from specific guidelines of USPAP. USPAP has always identified a minimum set of standards that apply in all appraisal, appraisal review and appraisal consulting assignments. The appropriate scope of work (type and extent of research and analyses) continues to be based on what is required to produce credible assignment results. The only main difference is that appraisers are now required to determine the level of detail that will be required to produce a reliable appraisal report for their clients with all assignments. No longer can the client limit the analysis of a property to only a single valuation technique (ie. a sales comparison approach). Although it has always been the appraisers responsibility to determine the level of detail required, many have used the excuse that the client only wanted a single valuation method to reduce the amount of detail in the report and thus attempt to transfer the liability to the client for the production of unsubstantiated value conclusions. This has created many issues in the appraisal profession and has actually caused many reports to be prepared that are not in compliance with USPAP. In response, the 2006 version of USPAP puts more responsibility on to the appraiser to determine how much detail is required to be included within the appraisal report to provide a document that is credible.

According to USPAP 2006, “departure addressed only a single dimension of appraisal development (the application of a specific requirement) while scope of work addresses both the application and the extent of development. For example,

USPAP 2006 should lead to the generation of more credible appraisal reports.

Greater reliance is placed on the Scope of Work. This should not cause any major changes in the appraisal profession as a whole.

development of an approach may have been excluded by invoking departure, but the scope of work analysis addresses both the decision to develop an approach and the determination of the appropriate technique and what constitutes appropriate and sufficient data and analyses to support the conclusion.”

Industry Changes - For an industry as a whole, the shift is meant to lead to the production of appraisal reports that can be more greatly relied upon. Commercial appraisers should now identify the total scope of work that was conducted within an appraisal assignment. The report itself should now contain a prominent section that greatly details the steps that were conducted in the production of the appraisal report. What factors the appraiser considered relevant, what analyses are considered relevant and what steps were taken to develop the appraisal. From the clients perspective, they should now be able to determine exactly what factors the appraiser considered in generating the appraisal assignment. They can ascertain what the appraiser considered to be relevant and determine why certain analyses were not included within the appraisal. By examining the scope of work section of the assignment, the client should be able to determine if the appraisers logic makes sense and if the document should be able to be relied upon.

Appraisers Perspective - As with any major change, appraisers opinions are greatly varied on the applicability of this change in USPAP. Some believe that this change will force appraisers to conduct all the approaches to value and that the days of developing a single approach to value are gone. This is incorrect. What the change means is that the client can no longer dictate what approaches to value are to be developed and limit the analyses. In actuality, the client never could limit the appraisal. Departure could only be conducted if the request made by the client would not reduce the credibility of the assignment. Many appraisers just assumed that if a client only wanted a single approach developed that they could not consider other approaches even if the approaches may have been relevant. This was not the case. Even though a client requested a limited analyses, it has always been up to the judgment of the appraiser to determine if the limitation would cause the creation of an unreliable value conclusion. In cases where it would, it has always been the appraisers responsibility to develop all applicable approaches. This decision to develop or not develop an approach falls under the scope of work. So, although the terminology of departure and limited analyses is gone, the development of the appraisal report should not significantly

The best way to protect yourself is to hire qualified, credible appraisers that have the knowledge, experience and integrity to properly conduct the appraisal.

change. Other appraisers who already fully understood the concept of departure and limited analyses believe that this change will not cause any major changes in the way appraisal reports are developed. All that will happen is that one section of the report will get a little larger and that the credibility of an appraisal report will be more easily determined by the client. What should happen is that those appraisers that should not be conducting commercial analyses will become apparent by clients and that the profession as a whole will be enhanced.

What to watch out for. When ordering an appraisal report, be careful to watch out for appraisers that, in attempts to lower appraisal fees, will continue to develop appraisals that do not consider all of the factors relevant in producing a credible value conclusion. When reviewing any appraisal, fully read the scope of work section of the report. Consider whether or not the decision to develop or not develop an approach to value actually makes sense. Do not be afraid to contact the appraiser and ask questions or to even contact other experts in the marketplace and ask their opinion on what should be considered in developing a value conclusion on a particular type of property.

How to protect your interest - The best way to protect your interest in a property, whether it is an ownership interest or a financial interest, is to hire credible appraisers. Consider the appraisers background. Examine their experience and their education and when ordering an assignment ask whether or not they are qualified to conduct the assignment. Communication is very important. Make sure to provide as many of the details about the property as possible when ordering the assignment so that the appraiser can more fully determine the scope of work when quoting a fee and turn around time. If you are concerned with the appraisers qualifications, do not be afraid to ask to view a sample of work with the specific type of property being considered. Build a relationship with your appraiser and always communicate.

For lenders, one of the best ways to protect your interest is in education and proper training. With the number of appraisers out there promoting their services and boasting that they are qualified to conduct an assignment, the only way to truly protect yourself is to know and understand the proper ways to appraise a property. Train staff members how to properly conduct a review and watch for the production of unreliable appraisal reports. Do not just assume that because someone has a license that they are actually qualified to conduct an analysis.

Give greatest consideration to appraisers that have earned the MAI designation.

No major industry changes should occur.

Education is the key to solving many of the issues in the appraisal profession.

Commercial appraisal is a field that requires many years of experience and training and a great amount of education to become competent. When hiring an appraiser consider their background and hire only those that are truly competent to conduct the assignment. Hire those individuals who have the knowledge, experience and integrity to conduct a proper appraisal. Hire an individual that has earned an MAI designation with the Appraisal Institute. This will assure you that the appraisal will be credible.

In my opinion - To sum up these changes in USPAP, I really do not see a major shift in the way appraisals will be conducted. Appraisers have always been responsible for determining the scope of work required for an assignment and the changes in terminology in USPAP will not greatly change the profession. What will happen is that clients to appraisals will be more easily able to determine if an appraisal is credible by focusing in on the scope of work section of the report. Appraisal fees may fluctuate very slightly on a case by case basis, but it should not be so drastic to cause any major changes in policies. Turn around times will likely become worse during the second half of 2006 as appraisers implement the changes and figure out the best ways to generate reports. But, within a short time it will be business as usual.

My direction for the next year is to help the appraisal profession as a whole by working with my clients to better educate them on the proper ways to determine if an appraisal report is credible and to help develop better review procedures and policies both within Good Valuation and within the marketplace as a whole. I have developed a section on my web site entitled "Press Releases" that allows me to continually update all my clients on changes in the industry and ways to help them watch out for fraudulent appraisals. I have also provided a section that allows anyone to "Ask the Appraiser" a question concerning anything to do with the appraisal profession. I attempt to answer all questions and those that I consider to be relevant to the industry as a whole get posted confidentially on the web site. I have become very active in working with the Indiana Attorney Generals office to assist in finding those appraisers who hold themselves out as being qualified to conduct appraisals, however, continually commit fraud and are the driving force behind the large number of foreclosures in the State. I am also providing on site training to any of my clients on the proper ways to conduct appraisal reviews.