APPRAISERS, APPRAISALS, & YOU: A LENDER'S GUIDE TO USPAP

THE APPRAISAL FOUNDATION
Authorized by Congress as the Source of Appraisal Standards and Appraiser Qualifications

In the lending world, the three C's (credit, capacity and collateral) are common knowledge. It is the valuation of the collateral that creates the need for a lender to use the services of a professional appraiser. A professional appraiser is an integral part of the collateral valuation, whether it is real property or personal property. The primary purpose of this guide is to assist the lender in working with the appraiser to properly value the collateral as part of the loan underwriting process.

WHAT IS USPAP?

In 1989, the *Uniform Standards of Professional Appraisal Practice* (USPAP) was authorized by Congress as the minimum performance standards for appraisal practice in the United States of America. Published by The Appraisal Foundation, USPAP is recognized as ***the source*** for standards for professional appraisal practice in the United States and many other parts of the world. The main purposes of USPAP are ***to protect the public*** and ***to promote public trust*** in the appraisal profession.

USPAP contains both rules and standards pertaining to: (1) development of an appraisal; and (2) the reporting of that value opinion to the client. USPAP provides details on what an appraiser must consider in order to be ***independent, impartial and objective*** and to arrive at a credible opinion of value. It does not dictate specific methodologies or approaches that are to be employed in order to arrive at a conclusion. For a complete understanding, the official USPAP document can be viewed at *www.appraisalfoundation.org*.

WHY IS USPAP IMPORTANT?

As a lending professional it is important to have a basic understanding of the appraisal profession. The information that appraisers convey to lenders can often be critical to the lender's decision-making process. It is important that the appraiser provides the lender with an unbiased and competently developed opinion of value so that the lender can make a sound lending decision.

WHO IS AN APPRAISER?

An appraiser is a professional who is required by law and professional standards to act in a manner that is ***independent, impartial and objective***. An appraiser is ***not*** an advocate. An appraiser's role is not to help make the loan or "hit a number."

It is a violation of USPAP for an appraiser to be an advocate when providing valuation services. He or she must remain impartial throughout the appraisal process and not favor a predetermined outcome.

HOW DO I SECURE AN APPRAISER'S PROFESSIONAL SERVICES?

USPAP requires the appraiser to understand the appraisal assignment to be undertaken. This is done through an agreement for services (for example, an ***Engagement Letter***). Among other things, the agreement for services specifies the ***scope of work*** (once it has been agreed upon by the appraiser and the client). Both the client and the appraiser must agree to the terms of the Agreement for Services before the assignment begins. These terms often include the following:

- The ***client*** (and any additional named intended users) have exclusive rights to the use of the appraisal. The client has the exclusive right to have a dialogue with the appraiser regarding the appraisal and its results, unless other parties are also authorized by the client.

- The ***scope of work*** details the specific work that has been agreed to by the client based on the appraiser's identification of the appraisal assignment.

- The ***method of delivery*** and ***type of report*** identify the means by which the appraiser will communicate their opinion of value to the client. The options available to an appraiser are either a written or oral report.

- The ***intended use*** indicates the purpose of the assignment.

The agreement for services must never make the assignment contingent upon "hitting a number."

FREQUENTLY ASKED LENDER-APPRAISER QUESTIONS AND ANSWERS

How may an appraiser report their opinion of value to me, the lender, as the client?

The appraiser may report the opinion of value as a single number, as a range of values (minimum to maximum), or relative to a benchmark. This should be specified in the agreement for services.

I've taken an application which will require an appraisal. May I ask the appraiser to provide me with comparable sales before engaging the appraiser to do an appraisal?

An appraiser must never accept an assignment which may compromise their ability to be *independent, impartial, and objective*. Asking for comparables in advance of an actual appraisal assignment could lead to such a compromise. If you need comparable sales before engaging an appraiser in an appraisal assignment, there are several appropriate sources for comparable sale information such as the local Multiple Listing Service (MLS), a Realtor®, or various websites.

Can an appraiser provide me with all sales that have occurred in a neighborhood or defined location before engaging in an appraisal assignment?

Yes, if the appraiser understands that you are not looking for the appraiser's opinion of those sales as comparables for any specific property, but rather all sales with specific criteria (for example, all two-bedroom, one-bath homes in a 5-mile radius). In that case, the appraiser is providing data and not an opinion about the appropriateness of those sales as potential comparables for any specific property.

Once again, this information is available from people who provide appraisals as well as from other sources such as the local Multiple Listing Service (MLS), a Realtor®, or, any number of various websites.

If the borrower pays for the appraisal, does that make the borrower the client?

No, the party or parties that engage the appraiser in the assignment is the appraiser's client, regardless of who pays for the appraisal.

Is it permissible for an appraiser to provide an oral report in advance of receiving the written appraisal report?

Yes, as long as the appraiser conforms to the USPAP requirements for an oral report.

May the appraiser modify his or her opinion of value after providing me the opinion of value in advance of receiving the report?

Yes, if the appraiser has new information that leads the appraiser to conclude, based on an ***independent, impartial and objective*** analysis, that a change is warranted.

How do I get my questions on an appraisal report answered by the appraiser?

You must be the client, or the appraiser must have authorization from the client, in order for the appraiser to discuss the appraisal with you.

I am the client. May I request that the appraiser readdress (transfer) the report to another party?

No. Once a report has been prepared for a named client(s), the appraiser is ***not permitted*** under USPAP to "readdress" (transfer) the report to another party.

If a new client wants to establish an appraiser/client relationship they must engage the appraiser in a new assignment. There are also some additional issues which come into play in such a situation. Here's an example:

> On February 1st, Lender A engages appraiser Bill Smith to appraise 123 Main Street. Bill goes out that day and inspects the property. He delivers the report on February 5th. On February 14th, Bill is contacted by Lender B who says he has a copy of Bill's appraisal report prepared for Lender A, and wants it transferred over to Lender B. Bill explains it can't be transferred. However, Lender B can engage Bill in a new assignment, as a different client. There are several options available:
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> 1. Bill can perform another inspection and issue an appraisal with a new effective date;
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> 2. Bill can issue an appraisal with a new effective date, but include an Extraordinary Assumption that the property is in the same condition that it was on February 1st. It is important to note that USPAP requires Extraordinary Assumptions to be clearly stated and be conspicuous. It may not be buried in the report in a place no one would likely read. It should be noted that this is not an option for an appraisal performed for Fannie Mae or Freddie Mac. Both state the effective date is the date of inspection;
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> 3. Bill can issue a Retrospective Appraisal with February 1st as the effective date. This is a problem if the appraiser is using the standard URAR form without modification.
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> 4. Under the Code of Federal Regulations (12 CFR 34.45), one federally regulated financial institution can accept an appraisal performed for another federally regulated financial institution, ***without*** having the appraisal "readdressed."

Although federally regulated financial institutions may transfer an appraisal to a different federally regulated financial institution, an appraiser cannot "readdress" (transfer) the report to another party. For more guidance, please read USPAP *Advisory Opinion 26, Readdressing (Transferring) a Report to Another Party, and Advisory Opinion 27, Appraising the Same Property for a New Client.*

I have a copy of an appraisal performed for another client. I would like to ask the appraiser some questions about this appraisal. Does USPAP prohibit the appraiser from discussing the appraisal with me?

Yes. USPAP prohibits the appraiser from communicating *assignment results* or *confidential information* (both, as defined in USPAP) to anyone other than the client and parties specifically authorized by the client (with the exception of those authorized by due process of law, state appraiser regulatory agencies, and a duly authorized professional peer review committee under certain conditions). Even if you were identified as an intended user in the original appraisal report, you are not part of the appraiser-client relationship. Therefore, authorization from the client would be needed if you wanted to discuss assignment results or confidential information with the appraiser.

Without an agreement between the appraiser and the original client allowing the release of the information pertaining to the assignment, the appraiser is ***prohibited*** from communicating assignment results which include the appraiser's opinions, assumptions, conclusions, the value conclusion or any confidential information as defined in USPAP. The appraiser may confirm that he or she performed an appraisal on the subject property, unless he or she was contractually obligated with the original client not to make such a disclosure.

If I engage the appraiser in an appraisal assignment to re-appraise a property, will the value change?

It depends on several factors, specifically whether the market, available market data, the collateral, the scope of work, the type and definition of value, or the effective date have changed.

Who determines the date of value of the appraisal report?

The appraiser in conjunction with the client determines the effective date of value. In most cases that will be the date of the appraiser's inspection; however, lending regulations may require a prospective (future) or retrospective (past) effective date in some instances.

Does an appraiser have to inspect the interior and exterior of the property?

No, it is not a requirement of USPAP that an inspection is performed but the appraisal report must certify whether the appraiser did or did not inspect the property, and if so, when. Be aware of lending regulations that dictate the need and extent of an inspection. If so, be sure to specify this in the agreement for services.

How can I get a sample copy of an appraiser's work?

The appraiser can provide a complete sample of his work if he gets authorization from the client to provide it to you. This authorization is necessary under the **Confidentiality** section of the Ethics Rule in USPAP.

What if an appraiser can not, or does not want to, obtain authorization from his client to provide a sample appraisal to me?

The appraiser can remove all confidential information from the appraisal report.

Can the client suggest the scope of work or instructions for the appraiser to use in performing the appraisal?

Yes, the client can *suggest* the scope of work or specific instructions to the appraiser. However, the appraiser operating under his or her professional obligations, determines an appropriate scope of work to produce credible assignment results. Therefore, the minimum requirements for the scope of work are determined by the appraiser.

As the client, I engaged an appraiser to perform an appraisal for mortgage financing purposes in a purchase transaction. The appraiser's opinion of value did not support the pending sale price. As a result, the purchase transaction was not consummated. However, one week later the buyer and seller entered into a new purchase agreement in which the sale price coincided with the appraised value. May I, as the client, ask the appraiser for a revised report that includes the analysis of the newly agreed-upon sale price? Is this a new assignment?

If you, as the client, do not require a more current effective date, USPAP would not mandate treating the request as a new assignment. However, if the client does requires a more current effective date, the request must be treated by the appraiser as a new assignment.

In this example, regardless of whether the effective date is changed, the date of the report would have to change to accurately reflect the appraiser's consideration of the newly obtained agreement of sale. Because the new purchase agreement was obtained ***after*** the date of the first report, the revised report would need to have a date of report that is the same as, or later than, the date the new purchase agreement was obtained by the appraiser.

In addition, the new report would also need to reflect the appraiser's analysis of the prior agreement of sale (where the appraisal did not "support" the pending sale price). In the development of an appraisal, an appraiser is required under USPAP to ***not commit a substantial error of omission or commission that significantly affects an appraisal.*** Since information about the prior agreement of sale is known by the appraiser and that information is relevant to the appraisal problem, it must be considered and reported.

As the client, I contacted the appraiser to ask him to change the effective date of his appraisal to make it one week after the effective date shown in the report. Does USPAP permit the appraiser to simply change the effective date without taking additional steps?
No. As indicated in the USPAP Scope of Work Rule, the effective date of the appraiser's opinions and conclusions is an assignment element.

If the client asks for an appraisal with a different effective date, the appraiser needs to determine the appropriate scope of work to produce credible assignment results for this request. Such a request would need to be considered a new assignment, but that does not necessarily require "starting from scratch." As with all new assignments, the appraiser must decide the appropriate scope of work to produce credible assignment results. This would include a decision as to whether or not it was necessary to perform another inspection, as well as the extent of any additional research and analyses that might be required. The scope of work for the new assignment may be different from the scope of work completed in the earlier assignment. As with any assignment, the appraiser might be able to use information and analyses developed for a previous assignment.

As a client, I see many residential appraisal assignments that use standard preprinted appraisal software forms. These forms ask the appraiser to identify whether neighborhood property values are "increasing," "stable," or "declining." As a lender, I am reluctant to accept appraisal reports where "declining" is checked (even when this is an accurate analysis). If I ask the appraiser to change "declining" to "stable," may the appraiser make such a change without violating USPAP?

No, because this would be a clear violation of USPAP. If the appraiser is aware that a market is "declining" and either ***intentionally or due to gross negligence***, reports it as being otherwise, he or she is in violation of the Ethics Rule in USPAP.

If an appraisal report indicates that property values are "stable" when they are actually "declining," and the appraiser's data support the conclusion of "declining" values, the report is misleading and in violation of USPAP. In addition, if the appraiser does not properly recognize that a market is "declining," he or she may also be in violation of other requirements in USPAP, as well as the Competency Rule in USPAP.

REMEMBER THIS SIMPLE TRUTH:

The appraiser is *not* an advocate. He or she must always be *independent, impartial and objective.*

Otherwise, the appraiser is in conflict with USPAP which is designed to protect the public and promote public trust in the appraisal profession.

The Appraisal Foundation, a Congressionally authorized non-profit organization established in 1987, is dedicated to the advancement of professional valuation. The Foundation accomplishes its mission through the work of its three independent Boards: the Appraisal Practices Board (APB), the Appraiser Qualifications Board (AQB), and the Appraisal Standards Board (ASB). More information on The Appraisal Foundation is available at www.appraisalfoundation.org.

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