

Appraisal Review Update: Trends and Best Practices for Lenders and Appraisers

Presenters:

Eric Schwartz, MAI, SRA, AI-GRS

Rob Moorman, MAI, SRA, AI-GRS

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Meet the Reviewer!



The Reviewer's Responsibilities

- Identify the problem to be solved in the review assignment within the intended use.
- Understand key scope of work questions:
 - What will be reviewed?
 - Will the reviewer provide their own opinion of value?
 - Will the reviewer visit the property?
 - Will the reviewer accept or reject the work under review?
- Provide an opinion about the quality of another appraiser's work, not about the appraiser
- Stay focused on the objective of the review assignment and remain unbiased
- Use the review as a risk management tool
- Support findings with evidence and logic
- Comply with USPAPs Competency Rule, and the Code of Professional Ethics of the Appraisal Institute, if a member
- Provide positive feedback and constructive criticism
- Determine what is important based on assignment complexity and the organization's understanding of the risk inherent in the collateral and the market

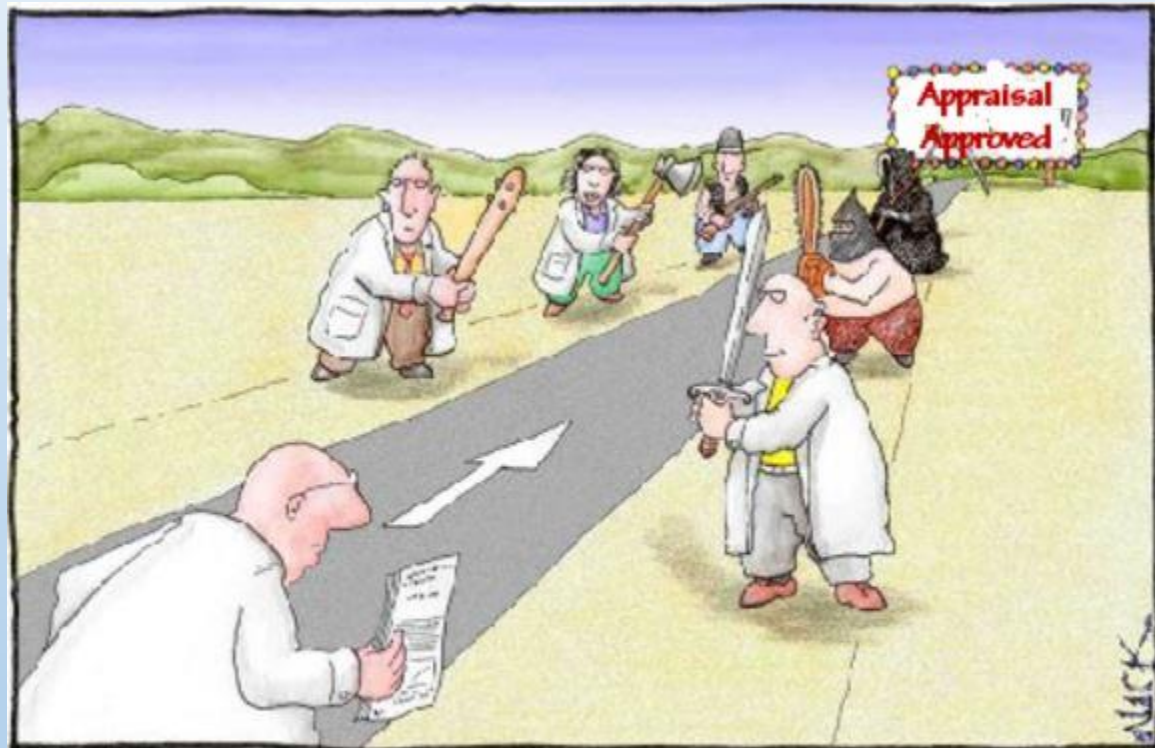
The Reviewer's Responsibilities

- State laws vary and a reviewer may need multiple licenses
- Interagency Appraisal and Evaluation Guidelines (Section XV, Dec. 2010): reviewer for a federally regulated lender must be licensed or certified *if* the reviewer provides a different opinion of value *and* the lender relies on the reviewer's opinion.
- Discern between major and minor errors and omissions.
- Some lenders require reviewers to report appraisers to state boards if there is a suspicion of failure to comply with USPAP or ethical or professional requirements of appraisers.
- Reviewers should never let the review format drive the scope of the work. A review form's pre-printed scope of work may not be adequate.
- Be able to discern what agreeing or disagreeing with an appraiser's value conclusions means for the reviewer. (See AO-20)
- Certification statement must comply with USPAP.

The Reviewer's Responsibilities

- The reviewer must remember that perfection is impossible to attain, both in the appraisal under review as well as with the review report. See SR 1-1 (c) referenced here:
- **509 Comment: Perfection is impossible to attain, and competence does not require perfection.**
- **510 However, an appraiser must not render appraisal services in a careless or negligent manner.**
- **511 This Standards Rule requires an appraiser to use due diligence and due care.**
- So you may ask: why are the bank reviewers holdovers from the Spanish Inquisition?
 - Good question!

The New/Improved Review Process?????



Most appraisers regarded the new streamlined appraisal-review process as "quite an improvement."

Questions?

- Who can prepare appraisal reviews?
- Can a non-appraiser review an appraisal report? Example?
- If an appraiser acting as a reviewer is *not* evaluating the quality of another appraiser's work is the reviewers report an appraisal?
- Can attorneys who are not appraisers evaluate the quality of another appraiser's work?
- Do non-appraisers have to have appraisal competency and independence? Example?
- Why is an appraiser hired to review another appraiser's work? Example?
- Must the appraiser and the reviewer possess the same competency level?
- "I review in my office for quality control purposes only. Is this activity an appraisal review?"
- "I trained someone to review appraisals for completeness and accuracy only. Is this activity an appraisal review?"
- Should the reviewer read the entire report or focus on the key findings and supporting analyses?

Who can prepare an appraisal review?

Anyone may form an opinion about an appraiser's work, however:

- Appraisal reviews are performed by qualified appraisers.
 - They may need to be licensed in the state where the real property that is the subject of the report under review is located.
 - They usually need to be licensed if they are opining to value.

Can a non-appraiser review an appraisal report? Example?

Yes

- This is called an “administrative review” in the 14th Edition.
- Example: Non-certified bank reviewer checking for factual accuracy, completeness, or compliance with USPAP and regulations.

If an appraiser acting as a reviewer is not evaluating the quality of another appraiser's work, is the reviewer's report an appraisal?

- No, it would be an administrative review.

Can attorneys who are not appraisers evaluate the quality of another appraiser's work?

- No, they are not competent to do so. They would also be completing administrative reviews – checking for completeness and factual accuracy for litigation purposes.

Do non-appraisers have to have appraisal competency and independence? Example?

- No, non-appraisers do not have to comply with standards.
- Example – Broker's Price Opinion (BPOs) – no standards apply.

Why is an appraiser hired to review another appraiser's work? Example?

- Appraisal reviews are performed to reinforce the client's confidence in the credibility of the work and its conclusions.
- Clients in many professions seek a second opinion. Real Estate Appraisal is no exception.
- Example: Litigation where the credibility of the opposing expert may be in question if the appraisal is not credible.

Must the appraiser and the reviewer have the same competency level?

- It depends upon the reviewer's scope of work.
 - If no value opinion is part of the review assignment, the competency level of the reviewer may be lower than the author of the appraisal report.
 - However, a qualified reviewer generally has expertise with the property type involved in the work being reviewed and with the methods applicable to the valuation of that property type.

I review in my office for quality control purposes only. Is this activity an appraisal review?

- No, as long as the results are not communicated to the client.

I trained someone to review appraisals for quality control and accuracy, only. Is this activity an appraisal review?

- No, this is, again, an administrative review. No opinion is being given of the quality of another appraiser's work.

Should the reviewer read the entire report or focus on the key findings and supporting analyses?

- This is an assignment and scope of work issue. Remember, reviewing the area description only is still an appraisal review if an opinion about the quality is rendered.

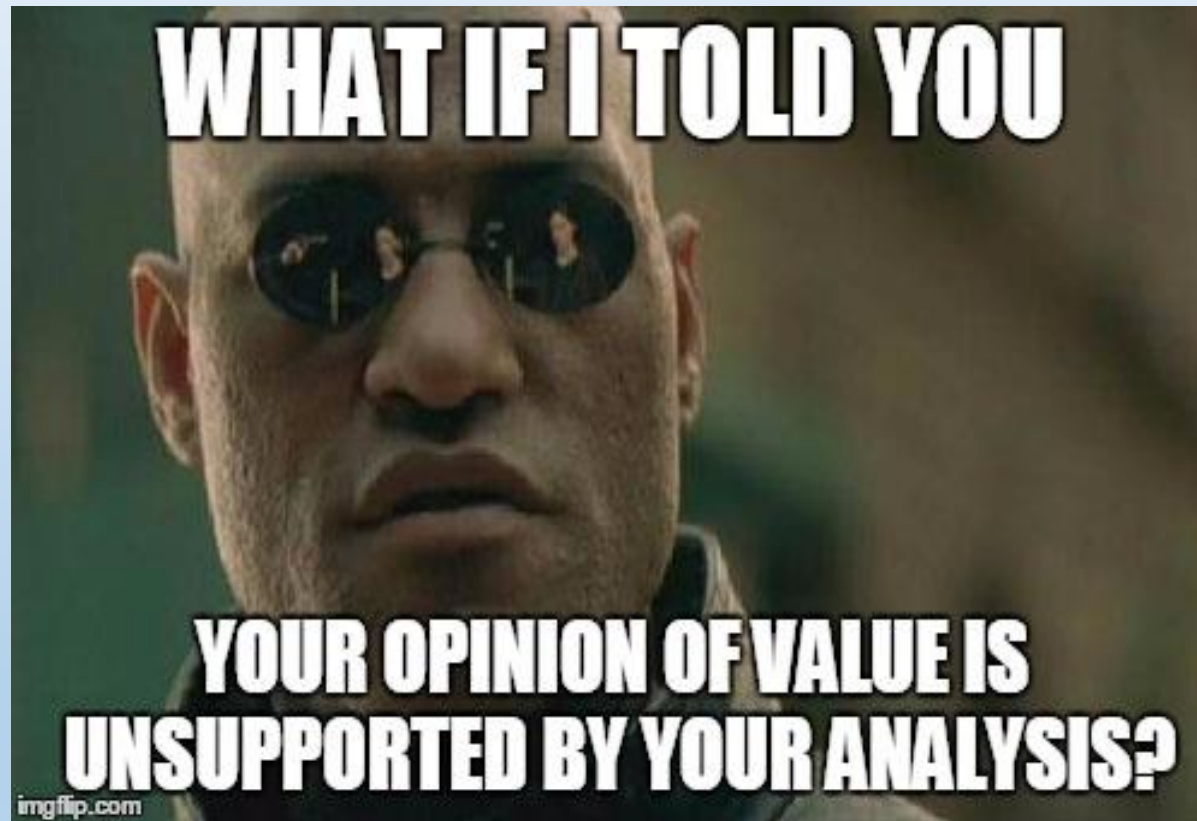
The Appraiser's Role

- Understand the intended use of the appraisal and appraisal report.
- Identify the appraisal problem
- Understand the scope of work
- Understand one's competencies
- Deliver a credible and compliant report on time
- Be professional in all communications with the client
- Write convincing reports. Write clearly and concisely without jargon
- Don't make economic claims you cannot support or do not understand

Terminology and Standards

- Appraisal
- Appraisal review
- Appraiser
- Reviewer
- USPAP SR-1, 2 and 3
- USPAP AO-20
- USPAP FAQ 295

What happens when we disagree?



Appraiser and Reviewer Disagree: Now What?

- Recognize that professional differences are common.
- Both parties have to be respectful of the other
- Reviewers cannot force an appraiser to change their opinions
- Reviewers may conclude an opinion of value that is different from the appraiser's opinion.
 - Must be documented and the reviewer's report must conform to SR 3-4, 3-5 and 3-6
 - May result in greater audit and examiner scrutiny of the reviewer's work.
 - Appraiser may not want future assignments

Appraiser and Reviewer Disagree: Now What?

- The reviewer's work-file: must be complete and comprehensive
- AO-20: Familiarize yourself with the advisory opinion on the reviewer developing an opinion of value, and on what language in the review indicates the reviewer did/did not develop an opinion of value.
- Reviewer's report could incorporate data and analyses from the appraiser's report as well as data and analyses generated by the reviewer
- The reviewer's own data and analyses must be presented in the reviewer's report (SR 1 and SR 2)
- Clearly state any extraordinary assumptions regarding data presented in the appraiser's report and relied upon by the reviewer

Reviewers and Appraisers

Two opposing view points

Appraiser's view of the Reviewer



The reviewer's view of himself



Discussion Items

- Cultivation of the cooperative relationship
 - Identification of the primary goal: a credible appraisal report
 - Strategies to achieve the agreed upon goal
- The integral role of a properly developed highest and best use analysis
- Weaknesses in the market analysis and its implication on report credibility
- The importance of valuing FF&E and intangibles.
- What if the appraiser is a SME and the reviewer is not?

Trends in Reviewing

- The appraiser population has been decreasing: Who will appraise in the future and who will review the reports?
- Regulatory agencies have not lost sight of the importance of the review process.
- The words “review” and “reviewer” occurred 10 times in the 1994 Interagency and Appraisal and Evaluation Guidelines and 95 times in the 2010 edition. “Independent” occurred eight times in 1994 and 53 times in the 2010 edition. Significant increase in the use and importance of each.
- Reviewers should be able to demonstrate and document competency.
- Exams and audits focus on appraiser competencies, reviewer competencies, appraisal management independence, regulatory compliance, policy compliance and procedures compliance.
- Reviewers are often specialists and SMEs, but are not required to be.
- 487 AI-GRS designations have been conferred and 168 AI-RRS designations have been conferred.

Appraisal Review Update: Trends and Best Practices for Lenders and Appraisers

➤ Resources

- *Review Theory: General*, The Appraisal Institute
- *Review Theory: Residential*, The Appraisal Institute
- *Appraisal Review, Chapter 32, pp. 671-682*, *The Appraisal of Real Estate*, 14th Edition, The Appraisal Institute, Chicago, IL
- *The Valuation Process, Chapter 4, p. 37, ibid.*
- *Appraising the Appraisal: The Art of Appraisal Review; Second Ed.*, Richard C. Sorenson, MAI, The Appraisal Institute, Chicago, IL
- Certification Standard of the Appraisal Institute, effective Feb. 20, 2015; The Appraisal Institute, Chicago, IL
- Sample Certification Statement: USPAP Compliant Appraisal Review Report, July 21, 2015, The Appraisal Institute, Chicago, IL
- *The Uniform Standards of Professional Appraisal Practice, 2016-2017*, The Appraisal Foundation
- *Exceeding Expectations: Producing Appraisal Reports and Services That Delight Clients*, Scott M. Schafer, MAI, The Appraisal Institute, Chicago, IL
- *5 Ways to Please Your Clients and 5 Reasons Why You Should*, <https://www.sitepoint.com>
- *The Dictionary of Real Estate Appraisal*, Fifth Edition, The Appraisal Institute

Appraisal Review Update: Trends and Best Practices for Lenders and Appraisers

➤ Resources

- “Parameters of a Risk-Focused Review Process”, 2015 AI Connect Dallas, TX; Craig Benton, MAI, AI-GRS and Justin Slack, MAI, SRA, AI-GRS, AI-RRS
- *The Interagency Guidelines on Appraisals and Evaluations*, 1994 and 2010
- “Is Excess Rent Intangible?”, Stephen D. Roach, MAI, SRA, AI-GRS, pp. 121-132, *TAJ Spring 2016*
- *FNMA FORM 2000/FHMLC 1032 12-2002*
- The Reviewer’s Checklist – Figure 32.1, page 682, *The 14th Edition*, The Appraisal Institute
- AI-RRS and AI-GRS designation curriculum, The Appraisal Institute
- FNMA B4-1.3-01: Review of the Appraisal Report (04/15/2014)
<https://www.fanniemae.com/content/guide/selling/b4/1.3/01.html#Appraisal.20Report.20Analysis>
- “How to review a commercial real estate appraisal report: How can an attorney ascertain the merit of an appraisal?”
www.srr.com
- “Cross examination of Appraisers: Winning Strategies and Techniques”; www.Sutherland.com
- “How to attack or defend comparable sales: Condemnee’s perspective”; www.pftlegal.com
- Various applicable state appraisal laws

Contacts

- Rob Moorman, MAI, SRA, AI-GRS
 - Robert.Moorman@prosperitybank.com
- Eric Schwartz, MAI, SRA
 - Eric.Schwartz@amegybank.com

THE END