• Practicing appraisers know USPAP, and appraisers that complete review work know USPAP’s Standard 3. But what about USPAP’s Advisory Opinion 20?

• USPAP’s Advisory Opinion 20 addresses an appraisal review assignment that includes the reviewer’s own opinion of value.

• What is the “controversy” with AO 20? It is the suggested language that reviewers can use when they are not providing an opinion of value as part of their review scope of work.
Regardless of how reviewers see this … clients may believe the reviewer’s scope of work automatically includes the reviewer agreeing (or disagreeing) with the appraiser’s value opinion.

Reviewers should be aware of this perception, or expectation.

One of the primary reasons appraisals are reviewed is to obtain confirmation of the accuracy of the value conclusion – essentially a second opinion of value.
• Why wouldn’t our clients expect that a reviewer who is qualified to develop an opinion about the “quality” of another appraiser’s work also take ownership of the value conclusion as part of the review?

• Clients may not understand that a review assignment that includes the reviewer’s concurrence with the appraiser’s opinion of value is actually a two-stage assignment:
  1) an appraisal review, and
  2) a value opinion by the reviewer
Why is this a two stage assignment?

If the reviewer states agreement with the appraiser’s value conclusion, the reviewer has provided an appraisal too.

DEFINITION OF APPRAISAL:

1) The act or process of developing an opinion of value, or

2) An opinion of value
• AO 20 does not address the idea that clients may have pre-existing ideas or expectations about the reviewer’s scope of work.

• The questionable language offered in AO 20 is found on Page 137, "Illustrations of the Language in an Appraisal Review Report WITHOUT an Opinion of Value" (AO 20 starts on Page 133 of USPAP).

• The intent of the language is to communicate that the reviewer is not expressing an opinion of value (including concurrence with the appraiser’s value).
Examples of the Questionable Language in AO 20:

- The value opinion stated in the appraisal is adequately supported.

- The value conclusion is appropriate and reasonable given the data and analyses presented.

- I approve the appraisal report for use by (name) Bank.

Might the client take these statements to mean the reviewer agrees with the appraiser’s value conclusion?
The language examples in AO 20 are weasel words …
From Wikipedia:

“A weasel word is an informal term for words and phrases aimed at creating an impression that a specific or meaningful statement has been made, when instead only a **vague or ambiguous claim** has actually been communicated. This can enable the speaker to later deny the specific meaning if the statement is challenged.”

Vague or ambiguous language = potentially misleading.
Weasel words are contrary to the stated purpose of USPAP …

To promote and maintain a high level of public trust in appraisal practice … by communicating in a manner that is meaningful and not misleading.

Instead of using weasel words, focus on the client’s expectation or perception of the service being performed.
The perception at a bank’s credit department is something like this:

• The appraisal department engaged an appraiser on their approved appraiser list.

• The appraisal department’s qualified reviewer accepted this report (the review does not indicate the appraisal was rejected and the reviewer has not provided a different value conclusion).

• The appraisal report (including the value conclusion) can be relied upon for the bank’s decision making purpose.
Why should we be concerned with our client’s expectation or perception of the service and scope of work we are performing?

The purpose of USPAP is to promote and maintain a high level of public trust in appraisal practice ... by communicating in a manner that is meaningful and not misleading.

And the weasel words in AO 20 are contrary to the stated purpose...

But the Advisory Opinions are not part of USPAP ??
Included in the FOREWARD to the Advisory Opinions is the following:

• **Advisory opinions are not part of USPAP.**

• Advisory opinions are a form of guidance issued by the ASB to illustrate the applicability of USPAP in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.
So Advisory Opinions are not “part of USPAP”
... and yet they are called USPAP Advisory Opinions
... and they are published in the same volume as USPAP

Perhaps the USPAP Advisory Opinions should be identified as:
“ASB Guidance on Selected Appraisal Issues”

There are currently 31 Advisory Opinions presented on more than 100 pages in the current edition of USPAP.
Question: Why do clients obtain appraisal reviews?

Reviewers need to know this – understanding the purpose and the intended use of the review are CRITICAL when establishing an appropriate scope of work.

Answer: Reviews are performed to reinforce the client’s confidence in the credibility of the appraisal work and its conclusions.
The appraisal profession is no different from others in that clients often seek second opinions from other professionals.
Intended Uses of Appraisal Reviews

Common intended uses revolve around valuation confirmation and quality control for specific decisions, including:

- **Lending** purposes including loan origination and portfolio monitoring
- **Governmental** purposes including taxation and eminent domain
- **Litigation** purposes involving property valuation disputes
- **Business** purposes including buy-sell-lease-build, and charitable donation
If the credibility of the value conclusion is important, obtaining a second opinion of value from another appraiser (in the form of an appraisal review) makes a lot of sense.

If the client is a federally-regulated lender, how often would it be an acceptable scope of work to complete a Standard 3 review that did not include the reviewer’s opinion of value?

Keep in mind that virtually all lending decisions involve a loan to value ratio ... and LTV is a meaningless ratio without a credible opinion of value!
Scope of Work Concepts – Appraisal Review

The client’s intended use drives the appraisal review scope of work.

• An acceptable scope of work includes the research and analyses necessary to develop credible assignment results.

• An acceptable scope of work meets or exceeds the expectations of parties who are regularly intended users for similar assignments.
• The appraisal review scope of work can vary considerably, and may change during the review process.

• There are no pre-printed forms for CRE appraisal reviews, though the use of templates is common. Pre-printed review forms are more common in residential lending.

• One residential review form that specifies an extensive scope of work is the Fannie Mae 2000/Freddie Mac 1032 form. See https://www.fanniemae.com/content/guide_form/2000.pdf
SCOPE OF WORK (first paragraph, Form 2000)

The scope of work for this appraisal field review is defined by the complexity of the appraisal report under review and the reporting requirements of this report form, including the following statement of assumptions and limiting conditions, and certifications. The review appraiser must, at a minimum:

(1) read the entire appraisal report under review, (2) perform a visual inspection of the exterior areas of the subject property from at least the street, (3) inspect the neighborhood, (4) inspect each of the comparable sales from at least the street, (5) perform data research and analysis to determine the appropriateness and accuracy of the data in the appraisal report, (6) research, verify, and analyze data from reliable public and/or private sources, (7) determine the accuracy of the opinion of value, and (8) assume the property condition reported in the appraisal report is accurate unless there is evidence to the contrary.
SCOPE OF WORK (second paragraph, Form 2000)

If the review appraiser determines that the opinion of value in the report under review is not accurate, he or she is required to provide an opinion of market value.

The review appraiser is not required to replicate the steps completed by the original appraiser that the review appraiser believes to be reliable and in compliance with the applicable real property appraisal development standards of the Uniform Standards of Professional Appraisal Practice. Those items in the appraisal report under review are extended to this report by the use of an extraordinary assumption, which is identified in Section II, Question 2.

If the review appraiser determines that the opinion of value is not accurate, he or she must present additional data that has been researched, verified, and analyzed to produce an accurate opinion of value in accordance with the applicable sections of Standard 1 of the Uniform Standards of Professional Appraisal Practice.
Outstanding scope of work – detailed and written with unambiguous language. **No weasel words here!**
Expectations of Federal Regulators

The Federal bank regulatory agencies (FDIC, FRB, and OCC) understand the appraisal and appraisal review process.

The Interagency Appraisal and Evaluation Guidelines (12-2-2010) are still the law of the land.

The Interagency Guidelines include significant discussion about reviewer qualifications, the depth of the review process, and steps related to resolving deficiencies in appraisals.
From the Interagency Guidelines:

“…Reviewers should possess the requisite education, expertise and competence to perform the review commensurate with the complexity of the transaction, type of real property, and market …”

“…An institution may rely on the second opinion of market value obtained through an acceptable USPAP-compliant appraisal review to support its credit decision…”
One of the topics this article addresses is appraisal review programs lacking adequate independence or expertise of reviewers.
Appraisal & Review Competency (USPAP)

1. **Specific property type** (industrial, office, retail, multi-family)

2. **Market** (local, regional, or national)

3. **Geographic area** (subject’s location – urban, suburban, rural)

4. **Intended use** (lending, eminent domain, business decision)

5. **Specific laws and regulations** (SBA, DOT, IRS, Yellow Book)

6. **Analytical method** (three approaches to value)
Appraisal Institute – Leadership in Appraisal Education

The Review Theory courses demonstrate leadership and have been well received in the appraisal industry. As of May, 2017 there were almost 800 members who had been awarded the AI-GRS designation or the AI-RRS designation.
AO 20 is covered in the Appraisal Institute’s Review Theory courses, including the questionable language.

**In keeping with the stated purpose of USPAP, every effort should be made to use unambiguous language, like the language in the Fannie Mae 2000 form!**

Instead of “The value opinion stated in the appraisal is adequately supported” or one of the other examples of language offered in AO 20…

“The appraisal review scope of work did not include the reviewer’s development of an opinion of value; as such, the reviewer is neither agreeing nor disagreeing with the appraiser’s value conclusion.”
Conclusions

• The client’s intended use drives the appraisal review scope of work.

• Are appraisal reviewers acting to maintain a high level of public trust when they decide to complete an appraisal review assignment without providing their own opinion of value?

• Some of the suggested language in AO 20, relative to an appraisal review without the reviewer’s opinion of value, is contrary to the stated intention of USPAP.

• The Appraisal Institute is an industry leader, and its members can provide reviews with more transparent language than the weasel words offered in AO 20.
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Reference Resources

- The Interagency Appraisal & Evaluation Guidelines, 12-2-2010
- Review Theory – General, Appraisal Institute
- Fannie Mae Form 2000 / Freddie Mac Form 1032, March 2005
- Supervisory Insights, Winter 2016, FDIC
Thank You