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appraisalinstitute.org/aiconnect



Avoiding Common Errors in Appraisals for Financial Institutions

Panelists:

Brian Bailey, CCIM, Senior Financial Analyst

Commercial Real Estate, Federal Reserve Bank of Atlanta

James Murrett, MAI, Director of Appraisal Standards & Quality Enhancement

Colliers International Valuation and Advisory Services

Thomas D. Boyle, MAI, Senior Vice President & Chief Appraiser

US Bancorp

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American Savings Bank

Interagency Appraisal and Evaluation Guidelines Requires A Review of All Commercial Appraisal Reports

Review (77461)



Resolving Deficiencies and Documentation

- a) If deficiencies can't be resolved, second appraisal is permitted
- b) If reviewer is credentialed appraiser, a USPAP Standard 3 review (with reviewer's opinion of market value) is OK
- c) Appraisal or evaluation deficiency resolution is to be documented

Review (77461)



When a institution identifies deficiencies that cannot be resolved with the appraiser or person who performed the evaluation, the institution must:

- Obtain an appraisal or evaluation that meets regulatory requirements.
- The reviewer cannot change the value in the original appraisal.
- A USPAP compliant appraisal review performed by a state certified or licensed appraiser may result in a second opinion of market value to support its credit decision.

Referrals (77465)



- ✓ An institution should file a complaint with the appropriate state appraiser regulatory officials when it suspects that a state certified or licensed appraiser failed to comply with USPAP, applicable state laws, or engaged in other unethical or unprofessional conduct
- ✓ Effective April 1, 2011 an institution must file a complaint with appropriate state certifying and licensing agency under certain circumstances (TILA)
- ✓ An institution must also file a SAR with FinCEN when suspecting fraud or identifying other transactions meeting the SAR filing criteria

Solutions



- Read the Engagement Letter
- Understand the Scope of Work
- Keep the Lines of Communication Open with the Financial Institution

Solutions



Tell the Story

Solutions



IAEG requires the appraisal report to comply with USPAP

Note:

1. Reviewer may not be an appraiser
2. Reports may not remain with the original financial institution

Appraisals should include sufficient information to enable the intended user to understand the report properly

The level of detail should be sufficient for the institution to understand the appraiser's analysis and opinion of the property's market value

IAEG (77460)



Reflect a scope of work that provides credible assignment results

The appraisal report should also include a discussion on market conditions including relevant information on property value trends, demand and supply factors, and exposure time.

IAEG (77460)



- Must include any approaches to value that is applicable and necessary to the assignment.
- The report should also contain the rationale for omission of an approach to value.
- Must analyze and reconcile the information from the approaches to value to arrive at an estimate of market value.

IAEG (77472)

Definition of Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

Definition of Market Value (cont.)



Buyer and seller are typically motivated;

- Both parties are well informed or well advised, and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

IAEG (77459)



Market Value considers only Real Property

Value opinions such as “going concern value,”
“value in use,” or special value to the specific
to the subject property may not be used as
market value

IAEG (77459)



Must include and “AS IS” valuation

Market value must consider the real property’s actual physical condition, use and zoning as of the effective date of the appraiser’s opinion of value

IAEG - Appendix C – **AI[®] Connect** 
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Deductions and Discounts (77470)

Developed Lots, Attached or Detached Single-Family Homes & Condominium Units

Existing or proposed developments of five or more in a single development requires the appropriate discounts including:

Holding costs, marketing costs and entrepreneurial profit during the sales absorption period

IAEG Appendix C –



Deductions and Discounts (77470)

For construction, an appraisal of the individual units is permitted if it can be demonstrated through independently obtained feasibility study or market analysis that all units collateralizing the loan can be constructed and sold within 12 months.

Solutions



Proof the Report

Common Errors



- Report consistency
 - Estimate of value not consistent throughout report
 - Assumptions discussed in the narrative and calculations utilized in the assumptions varies
- Math errors

Solutions



Just Say No

Solutions



- Acknowledge issues which are time consuming
- Inform the client in advance that the deadline is not possible and provide a realistic indication of when the assignment will be completed
- Provide information which may assist the client as an interim solution

Financial Institutions utilize the data within the report including:

- Rental Survey Data
- Market Analysis
- Subject Information

Solutions



A correct report delivered a day later is better than a deficient report which will require revision.

IAEG - Federal Register

www.gpo.gov/fdsys/pkg/FR-2010-12-10/pdf/2010-30913.pdf

Interagency Appraisal and Evaluation Guidelines

www.fdic.gov/news/news/financial/2010/fil10082a.pdf

Review Checklist



Self Audit

<http://www.appraisalinstitute.org/myappraisal/institute/contract/audit.aspx>