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2012 Appraisal Institute Annual Meeting

Aug. 1-3

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Avoiding Common Errors in Appraisals for Financial Institutions

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Outline



- Why does this come up?
- What/where are the rules?
- “Us” vs. “them”
- If “they” call
- The offer you can’t refuse?
- The beginning
- The middle
- The Ending
- Your Review
- Misc.

Why reviews?



2010 Interagency Appraisal & Evaluation Guidelines:

“...prior to a final credit decision, an institution should review appraisals and evaluations to ensure they comply with the Agencies’ appraisal regulations and are consistent with supervisory guidance and its own internal policies.” (pg. 32-33 of 70).

Review Scope of Work (pg. 33 & 34 of 70)



2010 Interagency Appraisal and Evaluation Guidelines

- Should ensure appraisal contains sufficient information and analysis to support the decision to engage in the transaction.
- Institution should be able to assess the reasonableness of the appraisal including appropriateness and support of:
 - Valuation methods
 - Assumptions
 - Data sources
- Institution should implement a risk-focused approach for determining the depth of the review.
- Should consider how the appraisal was obtained – did you order it or did another lender?

Competency Rule



- USPAP Competency Rule: Competency requires recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.
 - FIRREA
 - Interagency Appraisal and Evaluation Guidelines
 - USPAP

Rules...

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Rules



Key Documents

Check back often for links to documents, research reports, articles and other resources pertaining to recent legislation and other developments affecting the valuation industry.

[Draft Good Faith Estimate \(Loan Estimate\) Form, February 2, 2012](#)

[FDIC Inspector General Material Loss Report Findings on Appraisal Issues 2009-2010 \(Excel file\)](#)

[Final Rule, Real Estate Appraisals, June 7, 1994](#)

[2010 FBI Mortgage Fraud Report Year in Review](#)

[Interagency Appraisal and Evaluation Guidelines](#)

[Appraiser Opinions on Department of Veterans Affairs Appraisal & Inspection Fees](#)

[Distressed Commercial Real Estate - Appraisal Resources](#)

[Chicago Fed Letter: Why aren't banks lending more? The role of commercial real estate \(November 16, 2010\)](#)

[Overview of Interim Final Rule on Appraiser Independence/Reasonable & Customary Fees \(October 20, 2010\)](#)

USPAP

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FOREWORD

REVISIONS TO USPAP AND USPAP ADVISORY OPINIONS

After the publication of the 2010-11 edition of USPAP, a series of five exposure drafts were released to obtain feedback on possible modifications for the 2012-13 edition. On April 8, 2011, the Appraisal Standards Board (ASB) approved and adopted modifications to the 2012-13 edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP). These modifications include:

1. **Revisions to DEFINITIONS of “Client,” “Extraordinary Assumption,” and “Hypothetical Condition,”** as well as moving the definition of “Exposure Time” from STATEMENT ON APPRAISAL STANDARDS NO. 6 (SMT-6) to the DEFINITIONS section - The definition of client was revised to further clarify the proper application of the term client and to facilitate in the proper identification of the Client in assignments. Adding the concept of the effective date of the assignment results to the definitions of Extraordinary Assumption and Hypothetical Condition will reduce misunderstanding and misapplication of both terms. The definition of Exposure Time has been moved from SMT-6 to the DEFINITIONS section which will enhance the usability of USPAP.
2. **Creation of a new RECORD KEEPING RULE and Related Edits to the Conduct Section of the ETHICS RULE** - The Board heard concerns about the location of record keeping requirements within the ETHICS RULE. After exposing the concept of moving record keeping into a separate rule, it was determined that record keeping should be a separate Rule. However, a provision was added to the ETHICS RULE so that anyone who willfully or knowingly violates the RECORD KEEPING RULE is also in violation of the ETHICS RULE.
3. **Revisions Relating to Development and Disclosure of Exposure Time Opinion** - In order to assure that intended users understand the context in which the opinion of value is developed, the Board has adopted revisions to make it a clear requirement that reasonable exposure time must be *reported* in all assignments in which an opinion of reasonable exposure time must be *developed*. As clarified in the 2012-13 edition of USPAP, exposure time must be developed “When exposure time is a component of the definition for the value opinion being developed.”
4. **Revisions to Standards Rules 2-3, 3-6, 5-3, 6-9, 8-3 and 10-3 (signed certification statement)** - The 2010-11 edition of USPAP initiated the requirement to disclose any services regarding the subject property performed by the appraiser within the prior three years in the

USPAP 2014



TAF Exposure Draft concepts:

- Appraisal Report Issues:
- Scope of work to include developing estimate and reporting?
- Drop self contained?
- Drop self contained and restricted use?
- “Draft” reports – allow or not?

“Us” vs. “Them”?

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Appraisers

- Saw the property
- Saw the market
- Saw the comparables
- Talked to market participants.
- Are in a hurry to get the job done.
- May not have read the regulations
- May not have read the engagement letter.
- May be too close to the trees to see the forest.
- Most likely have appraised this property type before

Reviewers

- Did not see the property
- Did not see the market
- Did not see the comparables
- Did not talk to market participants.
- Are in a hurry to get the job done.
- Probably have read the regulations.
- Probably wrote the engagement letter.
- Can see the forest.
- Probably have reviewed appraisals on similar properties.

If “they” call

- ~~• The loan officer told me.....~~
- ~~• The borrower told me.....~~
- ~~• That’s a great question, Bob, what were we thinking there??~~
- ~~• So I have written, so it shall be...~~
- ~~• What number are you looking for?~~
- ~~• And how does this affect the value?~~
- ~~• Have you ever done one of these?~~
- ~~• When did you last appraise?~~

Do we understand each other?

- **Understand the RFP:**
 - What property?
 - What value scenarios
 - What assignment conditions?
 - Scope of work?
 - Who to sign?
 - Ask for clarification
- **Understand the Engagement letter**
 - What property?
 - What value scenarios
 - What assignment conditions?
 - Scope of work?
 - Who to sign?
 - Late fees?



In the beginning



- LLL, MMM, CYA:
 - Information needed – information not provided
 - Delivery date
 - No plans, no costs, no proforma, no problem? Pull the stop chain.
 - Property identification. Size. Legal description.

The Middle



- Comparables
 - Explain search parameters, search results, data selected. (I shouldn't be able to find better comps than you)
 - Listings can be informative (especially when it's the subject)
 - Explain extent of "verification".
 - Talk to the market, not just to CoStar.
- Subject Income/expense projections vs. actuals.
 - Different? Why?

Ending



- Reconcile subject property value estimate with:
 - Recent or current purchase
 - Current listing price
 - Confirm the subject transaction – don't assume.
 - Assessed value
- Signing the certificate means... you've read & agree with the appraisal and can answer questions about it.
- Required items in addenda?
 - License
 - Qualifications
 - Engagement letter
 - Legal description
 - Income/expense history

Your Review



- Check engagement letter:
 - Right property?
 - Right Legal Interest?
 - Right Value Scenarios?
 - Assignment conditions met?
- Check appraisal product:
 - Right Regional/Neighborhood Description?
 - Accurate scope of work (what not done?)
 - Extraordinary assumptions disclosed?
 - Narrative input conclusions match actual inputs?

Misc.

- “Rose colored glasses” vs. “Oscar the Grouch”.
- The ever increasing pie
- Ignoring the idiot lights
- Sergio’s appraisal – The Good, the Bad & the Ugly.



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At the end of the seminar participants will be able to

- Recognize the need for commercial appraisal reviews performed by reviewers who are cognizant of their ethical and professional responsibilities.
- Review the impact of USPAP, FIRREA, and other regulations on the review process.
- Identify types of commercial appraisal review assignments and the process employed in the reviewer's scope of work.
- Identify the analytical steps necessary to develop a review opinion.
- Examine and analyze the component parts of a commercial appraisal report for review purposes and identify tests of reasonableness that may be applied.
- Define six characteristics of quality appraisal reports and the role of client expectations in defining a "good" appraisal.
- Identify and discuss 14 warning signs of a problem appraisal.
- Illustrate 13 examples of complex commercial review appraisal assignments.
- Discuss the process of appropriate "reviewer to appraiser" communication.