

Overview and Background

- ❖ **The Appraisal Foundation (TAF)** is NOT a government agency and consists of:
 - The Board of Trustees (BOT) – Appoints members of ASB and AQB and ensures financing of TAF
 - The Appraisal Standards Board (ASB) – Develops, interprets, and amends USPAP
 - The Appraiser Qualifications Board – establishes education and experience criteria for licensed and certified appraisers
- ❖ **The Appraisal Subcommittee** provides federal oversight for The Appraisal Foundation and the state licensing agencies to ensure that appraisers in federally related transactions are sufficiently trained and competent.
 - Oversight also necessary to insure that state agency policies and procedures are consistent with Title XI of FIRREA.
 - Maintains an official registry of all licensed and certified appraisers.

USPAP – consists of Definitions, Rules, Standards, Standards Rules, Statements, and Comments – note that the comments are an integral part of USPAP and are considered extensions of the Definitions and Rules.

- ❖ **Definitions** - Know the definition of each of the following words as that definition is given in USPAP and know the comments provided here for each of the terms:
 - Appraisal
 - An appraisal includes an estimate of market rent, price per square foot, price per acre, etc. and includes a specific amount, a range of numbers, or a relationship of numbers (greater than or less than).
 - Appraisal Consulting
 - A feasibility study that has a value estimate included would be considered an appraisal consulting assignment as long as the appraisal (value estimate) was not its primary purpose.
 - Appraisal Practice – includes only valuation services performed by an individual acting as an appraiser.
 - Acting with bias or as an advocate of the client's interest is not permitted in appraisal practice
 - Appraisers may advocate the client's interest if they are performing valuation services NOT as an appraiser.
 - It is important that appraisers not be misrepresent their roles when providing services NOT as an appraiser (providing valuation services outside of appraisal practice).
 - An appraiser who represents sellers as a real estate agent may provide a listing price for the property; an appraiser who represents buyers as a real estate agent may suggest an offering price for a property – neither of those acts would be an appraisal practice according to USPAP and neither would be an appraisal.
 - Submitting an estimate of the cost of construction for a proposed improvement would be an appraisal practice for which there are no Standards Rules (Ethics, Competency, etc. still apply). Teaching appraisal courses falls into the same category. So, also, does providing a study of supply and demand factors for a client when no value estimate is requested.
 - Appraisal of art prepared by a personal property appraiser who is also an art dealer is appraisal practice.
 - Appraisal of a coin, gem, or furniture by a personal property appraiser who is also a numismatist, gemologist, or furniture dealer is also an appraisal practice.
 - Appraisal Review
 - As used in USPAP, this refers to Standard 3 which provides standards for conducting a critical analysis of another appraiser's work.
 - Appraiser
 - One who is expected to perform valuation services competently, and in a manner that is independent, impartial, and objective.

- Appraiser's Peers – other appraisers who have the expertise and competency in a similar type of assignment.
- Appraisal Consulting – the act or process of developing an analysis, recommendation, or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results.
 - A feasibility study that includes an opinion of value is an appraisal consulting assignment.
- Client
 - The person with whom the appraiser has an appraiser-client relationship.
- Confidential Information
 - All of the information in an appraisal report is not confidential, only that which is covered by the definition (identified as confidential by the client and not available from other sources).
- Extraordinary Assumption – used in situations when the appraiser is uncertain about some fact.
 - Presumes as fact otherwise uncertain information
 - Can only be used if required to properly develop credible opinions and conclusions
 - Can only be used if the appraiser has a reasonable basis.
- Hypothetical Condition – assumption contrary to what is known to be true.
 - Assumes something to be true that is known to be false.
 - Can only be used if required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison.
- Intended Use
 - Necessary for, and drives, the determination of scope of the work in appraisal assignments
 - Identified by the appraiser based on communication with the client at the time of the engagement
- Intended User
 - Drives scope of the work
 - Identified by the appraiser based on communication with the client at the time of the engagement
- Personal Property
- Real Estate
- Real Property
- Scope of the Work – the amount and type of information researched and the analysis applied in an assignment (also see Scope of the Work Rule)
 - Appraiser is responsible for supporting scope of the work decisions.
 - Appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis that would render the appraisal not credible.
 - Driven in large part by the intended use and intended users.
 - Considerations made during the Scope of Work decision include:
 - Degree to which the property is inspected.
 - The extent of research.
 - The type and extent of analysis.
 - Whether approaches to value are relevant.
- Valuation Service
 - Pertains to all aspects of property value and includes services performed by both appraisers and non-appraisers.
 - Includes real estate brokerage activities, appraisals, appraisal reviews, automobile appraisals, art appraisals, construction draw inspections, feasibility studies, teaching appraisal, etc.

❖ **Preamble**

- Purpose is to promote and maintain a high level of public trust
- Standards are for appraisers and the users of appraisal services
- Neither the TAF nor the ASB enforces USPAP. Compliance is based on obligation to comply with law or regulation, by agreement with the client or intended users, or by voluntary compliance (choice).

❖ **Ethics Rule** – Know the Ethics Rule; that it is intended to promote and preserve the public trust; and know the limitations and requirements of the four sub-sections of the Ethics Rule and the brief comments that follow:

➤ **Conduct**

- Requires competency, impartiality, objectivity, and independence
- In appraisal practice
 - cannot be an advocate for any party or issue (just assignment results).
 - cannot be bias.

➤ **Management**

- Requires disclosure of fees paid in the procurement of an assignment (note – in Georgia, the recipient of the fee must hold an appraiser classification)
- Prohibits compensation arrangements that inspire unethical behavior
- This would prohibit a fee based on a percentage of the final value conclusion.
- Unethical to accept assignment where payment of fee is conditioned on the loan closing.

➤ **Confidentiality**

- Prohibits disclosure of confidential information or assignment results to anyone other than the client (and those specified by the client), state enforcement agencies (as authorized by due process of law), and peer review committees.
- The confidential nature of the appraiser-client relationship lasts indefinitely
- The client must authorize the use of confidential information.
- Authorization is not required for disclosure if the information is modified through redaction or aggregation.

➤ **Record Keeping**

- Appraiser must prepare a workfile for each appraisal (see USPAP for content required)
- Must retain the file for minimum of five years or two years after the final disposition of legal proceedings in which the appraiser testifies (whichever period is longer).
- Appraisers must have custody of the workfiles or make arrangements for access and retrieval with the party having custody of the files.
- Work files are required for appraisal, appraisal review, and appraisal consulting assignments. However, work files would NOT be required if an appraiser were providing other services such as teaching, authoring a book, or providing brokerage services.

❖ **Competency Rule**

- Considered prior to accepting an assignment.
- Applies to type of property, geographic location, and type of analysis necessary to complete the assignment.
- Does not require the appraiser to inform the client that the appraiser is competent – requires disclosure only if not competent.
- If not competent, can take the assignment (with client's agreement) only if:
 - Incompetence disclosed.
 - Take steps necessary to complete the assignment competently.
 - Describe in report the lack of knowledge and experience and describe steps taken.

❖ **Scope of the Work Rule**

- Must identify the problem to be solved.
 - Must gather and analyze information about the assignment elements – know what assignment elements are.
- Must determine and perform the scope of the work necessary to develop credible assignment results.
 - Know when scope of the work is acceptable
- Must disclose the scope of work in the report.
 - Scope of work does not have to be contained in a separate section of the report – it may be stated throughout the report.

❖ **Jurisdictional Exception Rule**

- Jurisdictional Exception is created by the presence of contrary law or public policy.
- Acts as a severability clause to preserve the balance of USPAP whenever a portion of USPAP is in conflict with local law.
- Example – Georgia law permits conduct, which is in conflict with USPAP when a Georgia appraiser is involved in tax assessment appeals.

❖ **Supplemental Standards Rule** – additional requirements for appraisals issued by a government agency.

- Supplemental standards may be issued by government agencies, government sponsored enterprises, or other entities that establish public policy.
- Permits USPAP to be augmented, never abridged.

Note: An appraiser may be asked to provide services as an appraiser (appraisal practice) for which there are no USPAP Standards such as appraisal instructor, textbook author, or cost estimates for new construction. In events such as those, the Ethics Rule, Competency Rule, etc. (above) must still be followed.

❖ **Standard 1** – pertains to the real estate appraisal process (not on test)

- Requires in general that the appraiser be aware of, understand, and correctly employ those methods and recognized techniques that are necessary to produce a credible appraisal (NOTE – this is a binding requirement and common to all of the appraisal disciplines – real estate appraisal, mass property appraisal, personal property appraisal, and business appraisal).
- Effective dates for appraisals may be for dates in the past (retrospective), for a current date, or for a future date (prospective).
- In a retrospective appraisal assignment, the appraiser must determine the cutoff date for comparable sales based on the market during the retrospective period.
- Requires that the appraiser identify and develop an opinion as to the effect on value whenever there is assumable financing or seller financing.
- Requires an appraiser to analyze the effect on value, if any, of anticipated public or private improvements including such things as sewer, water, paved streets, street lights, sidewalks, etc.
- Requires analysis of highest and best use whenever the purpose of the assignment is Market Value.
- Must consider the effect on value of physical characteristics including condition of the improvements. NOTE – this is true of all appraisal disciplines.

- Exposure time is an opinion developed by the appraiser as to the hypothetical period of time a property would have had to have been on the market to result in a market transaction at the value estimated on the effective date of the appraisal.
- An “update” of an appraisal is used to develop a more current value opinion in contrast to a “re-certification” which does not change the effective date of the appraisal.
- ❖ **Standard 2** – pertains to the reporting of a real estate appraisal – must contain sufficient information for intended users to understand the report.
 - Must identify the client by name or type (review all items to be included in the report – purpose, use, users, effective date, etc).
 - Provides for three types of reports: self-contained, summary, and restricted use.
 - The type of report (level of detail) is controlled by the intended use and intended users.
 - Either reporting option may be used with either appraisal permitted under Standard 1 (Complete or Limited).
 - All reporting options are considered to be equally credible.
 - The main difference between the reporting options is the level of detail.
 - Level of detail is distinguished by use of the terms “describe”, “summarize”, and “state.”
 - The most detailed is the Self-Contained Report. The least detailed is the Restricted Use Report.
 - The Restricted Use Report may only be used when the client is the only Intended User.
 - Client and intended users must be identified in the report by name or type.
 - Signed certifications are required in appraisal, appraisal review, and appraisal consulting reports.
 - Co-signing appraisers or supervisory review appraisers take full responsibility for the contents of the report.
 - The appraiser taking responsibility for the appraisal must sign the certification.
 - An appraiser who signs any part of the report must sign the certification.
 - Reports may be written or oral. Oral reports must contain the content of a Summary Appraisal Report.
 - Reports must include the effective date of the appraisal and the date of the report.
- ❖ **Standard 3**
 - Addresses both the development and the reporting of appraisal reviews.
 - The Competency Rule applies to the review appraiser as well.
 - If the reviewer is asked to provide a value for the work under review, the assignment is both a review and an appraisal.
 - The appraisal review must be conducted in the context of the market conditions as of the effective date of the work under review.
 - Review appraiser may inspect the property but it is not required. It is required to disclose in scope of the work whether the property was inspected.
- ❖ **Standard 4**
 - Appraisal consulting process.
- ❖ **Standard 5**
 - Appraisal consulting reporting.

❖ **Standard 6**

- The mass appraisal standard applies to ad valorem tax and other purposes

❖ **Standard 7**

- Personal property appraisal development.
- Level of trade is a market reference in personal property appraising.
- Personal property appraising requires that distinct levels of trade be recognized.
- When the value of personal property is derived from the object itself and from copyright protection, both the value of the item as personal property and the value of the copy protection must be estimated.

❖ **Standard 8**

- Personal property appraisal reporting.

❖ **Standard 9**

- Business (or Intangible Property) appraisal development.
- Business appraisal does not require the physical inspection of the assets
- Effective dates, as in the appraisal of real estate, may be for a date in the past, current, or future.

❖ **Standard 10**

- Business (or Intangible Property) appraisal reporting.
- Reporting options limited to Appraisal Report or Restricted Use Appraisal Report

❖ **Statements on Standards**

- Interpret and explain Rules and Standards

❖ **Advisory Opinions** – Provides further clarification, amplification, and guidance, but are never considered an integral part of USPAP.

- Advisory opinions illustrate the applicability of appraisal standards.