

15 Hour USPAP Course Answers

Part 2.

USPAP Definitions

In the Real World

- 1) A client has hired an individual to provide consulting in a tax appeal case. The client has an appraisal report that provided a market value opinion of the property from an appraiser the client also hired. If the consulting individual is also an appraiser, but did not provide the appraisal report, can the individual be an advocate for the client?

Yes, if the individual is **not** acting in the role of an appraiser, (i.e., is refraining from real property appraisal practice **and** does not misrepresent his or her role in the assignment. In this situation the appraiser is acting as an advocate for the client and must not mislead.

This also assumes no state laws exist to the contrary.

- 2) A mortgage client suggested to an appraiser that if he would increase the value conclusion on an appraisal by just \$2,000 there would be more assignments coming his way. Should the appraiser change his opinion of value since it is less than a 1% difference?

No. An appraiser must perform assignments without accommodation of personal interests (promise of additional work). Additionally, an appraiser must not advocate the cause or interest of any party (either the mortgage broker or the homeowner).

In the Real World

- 1) A client wants to know the current value as though repaired, of a property that has been damaged due to flooding from a severe storm. What type of assignment condition should the appraiser use?

Hypothetical condition: the property as if repaired does not currently exist.

- 2) A client has repaired a property that was damaged due to flooding. Several neighboring properties that were similarly flooded and later repaired soon developed mold problems. The client's property shows no evidence of mold as of the effective date. What type of assignment condition should the appraiser use if the client wants a current value opinion of the property?

Extraordinary assumption: as of the date of value, the fact of the potential condition (i.e., mold) is unknown, and it is reasonable to believe the current condition is true.

USPAP in Action No. 1



An appraiser performed the cost approach in an appraisal of a new warehouse; the buyer paid \$1.9 million for the building and site. The property's appraised value was \$2 million. Identify each of the three components: the reproduction cost developed by the appraiser; the \$1.9 million figure; and the \$2 million figure as

- a) fact,
 - b) estimate of fact, or
 - c) an opinion
- in relation to the appraisal of this property.

Guidance:

The reproduction cost developed by the appraiser is an **estimate of fact** (b).

The \$1.9 million sale is the price as a stated **fact** (a).

The \$2 million value of the property is the appraiser's **opinion** (c).

USPAP in Action No. 2



I accept assignments from an Appraisal Management Company (AMC) that has informed me they are an authorized agent for the lenders they represent. The AMC does not want me to list their name as the client, and asks that I only list the name of the lender they are representing. USPAP says the appraiser's client is the party who engages the appraiser. Is it ethical to omit the AMC's name as the client on my reports?

Guidance:

Yes. If the AMC is acting as an agent for a lender, identifying only the lender as your client is acceptable. See FAQ 116, "Appraisal Management Company as Authorized Agent for a Client."

In the Real World

A client requests "a number" over the phone in advance of the written appraisal report. How should an appraiser handle this type of request?

This is an additional report – oral report. A summary of the oral report and a signed and dated certification must be included in the workfile.

Additionally, the workfile must contain a true copy of the written report that is delivered to the client.

In the Real World

A client contacts a broker to lease her office property. The broker also provides appraisal services, but the client was not aware of that when she contracted with the broker. Is this assignment under valuation services or appraisal practice?

This assignment is under valuation services because the client does not have expectations that the broker will act in the role of an appraiser.

Additional Guidance:

It is, however, incumbent on the appraiser not to misrepresent his/her role in the assignment.

Part 4.

ETHICS RULE, COMPETENCY RULE, and RECORD KEEPING RULE

USPAP in Action No. 3



I know appraisers who consistently conclude that the market value of any property they appraise is equal to the contract sales price. In doing so, they facilitate sales and financing of purchases, which is apparently what keeps their clients happy. Is this a violation of USPAP?

Guidance:

A contract price can be a good indicator of a property's market value, and it may be logical and reasonable for the appraiser to conclude that they are the same. However, this is not always the case. A contract sale price, while a significant piece of market data, must not become a target in an appraisal assignment. Competent analysis of relevant and credible market data must be the appraiser's basis for a market value conclusion.

Additional Guidance:

If an appraiser consistently concludes that the contract sale price of a property he appraises equals market value, particularly when a competent analysis of credible market data indicates otherwise, the appraiser's impartiality, objectivity, and independence appear to have been compromised. The Conduct section of the ETHICS RULE clearly prohibits such a practice. See FAQ 30, "Value Opinions that Equal Contract Prices."

In the Real World

- 1) If I have appraised a property multiple times within the previous three years, do I have to disclose the *number* of appraisal services? (e.g., “I have appraised the subject property three times during the previous three years.”)

Yes. Each prior service must be disclosed to the client and included in the report certification. See FAQ 19, “Disclosure of Any Prior Services Regarding the Subject Property, When an Appraiser has Appraised the Property Multiple Times”

- 2) The Comment to the Conduct section of the ETHICS RULE states, in part, *If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three-year period.* Does this really mean that the appraiser could not be engaged by this same client, on this property, within the three-year period?

Yes, the agreement not to disclose that he or she has appraised the property is between an appraiser and the client. However, there is nothing that prohibits a client and an appraiser from modifying the prior agreement to allow disclosure. See FAQ 22, “Disclosure of Any Prior Services Regarding the Subject Property Before Accepting an Assignment, When the Client had Previously Required an Appraiser to Sign a Confidentiality Agreement”

In the Real World

- 1) Is it ethical to reduce the fee for appraisals in cases when the loan did not close if the client agreed to pay extra for other assignments?

No. Direct the class to the Management section of the ETHICS RULE and point out the rule for compensation arrangements, specifically #5.

The fact that the fee could be made up in other fees does not change this interpretation.

- 2) A potential client has asked me to complete a form indicating what my appraisal fee would be for different assignments. The form asks me to indicate my appraisal fees according to appraised value by listing the fee for assignments with appraised values between \$100,000 and \$299,000, \$300,000 and \$499,000, and so on. Is it a violation of USPAP to quote fees in this manner?

Yes, this is a violation of USPAP. Completing and submitting such a form to a potential client establishes a compensation arrangement for assignments that is contingent on the amount of the value opinion. This is prohibited by the Management section of the ETHICS RULE, specifically the third paragraph. See FAQ 41, "Appraisal Fee is Contingent on the Appraised Value."

Additional Guidance for INTRW 1:

See FAQ 39, "Reducing Appraisal Fees When Transactions Fail to Close."

In the Real World

I just completed my first assignment for a new client, and the client is very angry and is refusing to pay me. The client is a lender and the subject property is a mid-size office property that I am well qualified to appraise. However, the client says that I did not use the correct definition of market value (the one required by FIRREA) and that I did not follow other requirements for appraisals used by federally regulated financial institutions.

The client did not tell me about these things when I started the assignment. I think it is their fault and not mine. I said if they want to pay me more, I will re-do the report with the new requirements.

Is the client or the appraiser correct? Has there been a violation of USPAP by the appraiser?

The client is correct. The appraiser has the responsibility to know all the laws and regulations applicable to an assignment, independent of information from the client. The *Comment* to the COMPETENCY RULE *requires recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.* The SCOPE OF WORK RULE reiterates and expands this requirement in its discussion of assignment conditions. The burden is on the appraiser to determine the appropriate scope of work, which includes the competency to understand which assignment conditions are applicable given the intended use and intended users. Lack of an appraiser's knowledge or experience does not excuse that appraiser from fulfilling USPAP obligations.

In the Real World

An appraiser is asked to accept an assignment involving a property type with which he has had no previous experience or knowledge. The appraiser notifies the client of his inexperience and lack of knowledge and the means for overcoming both issues. The report does not, however, disclose any of this information, as the client specifically asked the appraiser to keep the information confidential. Has the appraiser complied with USPAP?

No. The COMPETENCY RULE requires that the lack of experience be disclosed in the report, and failure to do so is a violation of this RULE.

USPAP in Action No. 4



A certified residential appraiser recently received a call from a client for a fee quote on a full-service car wash. Since she has prepared appraisals on small commercial properties (working with a certified general real property appraiser), she believes she can adequately prepare an appraisal on a car wash facility. May she take the assignment? Does her being a certified residential appraiser affect her taking the assignment?

Guidance:

The first question cannot be simply answered with a yes or no. A full-service car wash is considerably different from a small commercial property and is typically a more complex assignment. The car wash also includes tangible personal property such as equipment and possible intangible interests such as an assembled workforce and capitalized economic profit. These elements of valuation are covered by STANDARDS 7-10.

Additional Guidance:

Before accepting the assignment, the appraiser must disclose her lack of knowledge and/or experience. She also must take the steps necessary to complete the assignment competently and describe the circumstances in the report. Finally, she must check applicable state real property appraiser laws to be sure her certification does not preclude her from this assignment.

In the Real World

- 1) I am an appraiser in a large firm and assist several of the senior appraisers in appraisal research, analysis and report preparation. In a recent USPAP class, the instructor said that associates must have either copies of their workfiles, or an agreement with their employer regarding access to the workfiles, for appraisals on which they provided significant assistance. Does that agreement have to be in writing?

No. USPAP does not specify whether the access and retrieval arrangements you make must be in writing. The **RECORD KEEPING RULE** states: *An appraiser must have custody of his or her workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile.* This agreement can be either written or oral. However, there is less chance for a misunderstanding about the agreement if it is in writing. See FAQ 84, “Access and Retrieval of Workfiles.”

- 2) How must recognition of my significant appraisal assistance be included when there is no written report, but significant assistance was provided and documentation of my work is in the workfile?

Based on the requirements in USPAP, the workfile of an oral report must include a signed certification stating the name of the person or persons providing significant appraisal assistance. The oral report must also include a summary of the extent of that assistance because Standards Rule 2-4 requires that oral reports address the substantive matters set forth in Standards Rule 2-2(b), which are the requirements for a Summary Appraisal Report. See FAQ 244, Question 2, “Significant Professional Assistance.”

In the Real World

- 3) I was recently told that USPAP allows appraisers to wait and create a workfile after the report has been delivered to the client for an appraisal, appraisal review, or appraisal consulting assignment. Is this true?

No. The RECORD KEEPING RULE states: *A workfile must be in existence **prior to** the issuance of a written or oral report. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.* See FAQ 86, “Creating a Workfile After Report Delivery.”

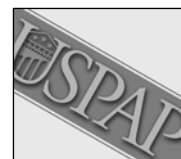
- 4) The RECORD KEEPING RULE states, in part: *The workfile must include...true copies of any written reports...* Does a true copy have to include a signature on the certification?

Yes. A true copy is a replica of the report sent to the client. Any signatures that were affixed to the original report must also exist on the copy for the workfile. See FAQ 85, “Signed Certification in True Copies.”

Part 5.

SCOPE OF WORK RULE

USPAP in Action No. 5



A real property appraiser is engaged to appraise a 12-unit apartment building to provide a market value opinion. The appraiser initially decided that the scope of work should include the inspection of two of each of the three unit types (studio, one- and two-bedroom). In the course of conducting the inspection, the property manager had a key for only one of the two-bedroom units; thus, the appraiser was unable to inspect one of the two-bedroom units as planned. Does this affect the scope of work?

Guidance:

The scope of work, which includes the degree of inspection, was affected because of lack of access. If the appraiser decides he/she has sufficient information to produce credible assignment results, the appraiser can complete the appraisal based on the inspection completed. The report would include a description of the scope of work performed, stating that five units had been inspected.

USPAP in Action No. 6



A real property appraiser accepted an assignment to appraise a three-unit residential property. The intended use of the appraisal was for mortgage financing. The client requested that the appraiser not verify the legal status (e.g., compliance with zoning, building codes, use permits) of the three units with municipal officials. What should the appraiser do?

Guidance:

The appraiser must evaluate whether credible assignment results can be achieved under these assignment conditions.

If the client has already performed the research, (i.e., provided written confirmation from the zoning commission or planning department, etc. to the appraiser) the assignment might be acceptable.

USPAP in Action No. 7



An appraiser was engaged to appraise a one-unit residence. Based on the appraiser's identification of the appraisal problem, the appropriate scope of work was determined to include development of the sales comparison and cost approaches. However, at the time of inspection, the appraiser discovered that the property was not a one-unit, but instead a three-unit property. What should the appraiser do?

Guidance:

Based on new information, the appraiser should reconsider the appraisal problem and the appropriate scope of work. The change in relevant property characteristics of the subject property significantly changes the appropriate scope of work. The initial scope of work is no longer suitable and would not produce credible assignment results. The type of data to be researched and the type of analysis to be applied changed when the property type changed from a one-unit to a three-unit. A new appraisal problem requires reexamination of the scope of work. The appropriate scope of work for the new problem includes considering the approaches to value that apply, such as the income approach and cost approach. Is either or both necessary for credible assignment results?

USPAP in Action No. 8



An appraiser has been engaged to perform an “exterior only” inspection for the appraisal of a one-unit house for a potential home equity loan. Another appraiser has been asked to appraise a one-unit home in the same development for an FHA loan. Since the subject properties are similar, would the assignments require the same scope of work?

Guidance:

No. The subject of the assignment and its relevant characteristics is just one of several assignment elements that define an appraisal problem. Because of the critical differences in the intended use and the appraisal problem to be solved, the scope of work that is acceptable for the first assignment would not be acceptable for the second assignment (i.e., an appraisal performed for an FHA loan is subject to additional inspection requirements).

USPAP in Action No. 9



An appraiser has agreed to complete an assignment in the next two days. While conducting research, the appraiser discovers that the primary data source for the assignment, a regional computer database, is off-line and will not be available for three days. What is the appropriate course of action?

Guidance:

If an appraiser is unable to perform research that the appraiser's peers would conduct and intended users would expect, the appraiser must modify the assignment to allow time for the research to be conducted or withdraw from the assignment.

Part 6.

JURISDICTIONAL EXCEPTION RULE

In the Real World

- 1) An appraiser was recently hired to perform an appraisal assignment for a government agency. The agency has a regulation that requires the appraiser to provide the appraisal report to other government agencies if requested. Does this regulation create a jurisdictional exception to the Confidentiality section of the ETHICS RULE?

No. Since the Confidentiality section allows for the disclosure of confidential information to “persons specifically authorized by the client and such third parties as may be authorized by due process of law,” the JURISDICTIONAL EXCEPTION RULE would not apply.

Guidance:

See FAQ 112, “Jurisdictional Exception and Confidentiality.”

In the Real World

- 2) A property owner's attorney in a condemnation case has asked a real property appraiser to use the JURISDICTIONAL EXCEPTION RULE of USPAP in a particular assignment. The subject property sold within one year of the appraisal for what everyone admits was a very low price, although all parties claim the sale was not made under duress. The attorney does not want the prior sale mentioned in the appraisal report.

The appraiser reviews USPAP with the attorney, showing him Standards Rule 1-5 (requires appraisers to analyze any prior sales of the property being appraised that occurred within three years). The attorney is aware that the JURISDICTIONAL EXCEPTION RULE exists and tells the appraiser to apply it in this situation. How should the appraiser respond?

Instructions from a client do not establish a jurisdictional exception.. The Rule is not applicable unless compliance with the requirements of USPAP are precluded by law or regulation of a jurisdiction.

In the Real World

- 3) State whether each one of the following statements is a jurisdictional exception
- You have been asked to use a specific definition of market value in an assignment
 - Your state regulations say you need to keep your workfile for six years
 - The probate court pays appraisers based on the value of the property
 - In an eminent domain case, the state agency client does not want you to consider the future improvements

1st bullet: No – This is an assignment element issue (type and definition of value)

2nd bullet: No – This is a management issue related to state certification and licensing requirements

3rd bullet: Yes – Jurisdictional exception that must be supported by a citation of the law or regulation

4th bullet: No – This is an assignment element issue (assignment condition)

Part 7.

STANDARD 1

In the Real World

- 1) A local lender has asked me to appraise a 5-acre portion of a 62-acre parcel. Am I permitted to comply with this request?

SR 1-2(e)(v) states that the subject of an assignment may be a physical segment of a property. However, appraisers must also comply with any laws, regulations, guidelines or other assignment conditions that might apply. If the assignment requires compliance with assignment conditions, the appraiser must be aware of the current guidelines (or regulations, if applicable). Failure to recognize applicable assignment conditions would be a violation of the ETHICS RULE or COMPETENCY RULE.

- 2) I was recently asked to perform a real estate appraisal assignment, but the individual that contacted my firm was not the client and indicated that the client could not be identified. Can I accept this assignment and comply with USPAP?

No. Standards Rule 1-2 states that an appraiser must identify the client and other intended users. See Confidentiality section of the ETHICS RULE.

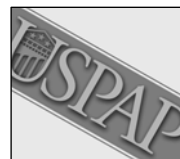
Guidance for ITRW 1:

See FAQ 178, “Appraising Physical Segments (5-Acre Portion).”

Guidance for ITRW 2:

See FAQ 118, “Client Cannot Be Identified.”

USPAP in Action No. 10



A residential appraiser offers quick turnaround and the lowest fees in town. The appraiser asserts the secret to her success is her efficiency. She completes her property inspections in 10 minutes, using the city assessor's database for the site and building dimensions and enters data on the subject property directly into her laptop computer on site. Her comparable sales and photos come directly from the MLS database, and she does not inspect them. It is not unusual for her to complete 8 appraisals a day and electronically transmit them to her clients.

Two of her appraisals have recently come under fire. In one case, her best comparable sold under duress, a situation that would have been revealed by verification with a participant to the transaction. Another sale was located in a neighborhood of a different price range from that of the subject; this fact was not disclosed in her report. In the other case, the subject was actually 400 square feet larger than reported in the city records, resulting in a significant value difference.

The appraiser explained that she can't be efficient and earn a respectable fee if she has to measure the subject property each time, drive by the comparables and verify data with a participant to the transaction. Is she required by Standards to measure the subject property, drive by her sales and verify her data?

Guidance:

USPAP does not require either an inspection or verification of the improvements of a subject property (See AO-2, “Inspection of Subject Property”). The complexity of the assignment and the intended use provides the appraiser with the answer concerning the level of inspection, i.e., the scope of work that will produce credible assignment results.

The example does not specify the intended uses of the appraisal in question. Other issues to discuss are Standards Rule 1-1(b) and 1-1(c). Appraisers must use due diligence and due care in performing appraisal services, including gathering factual data such as square footage. Standards Rule 1-4 requires the appraiser to collect, verify, and analyze all information necessary for credible assignment results. It also requires analysis of comparable sales data that are available.

The term “verify” is not defined in USPAP and means different things to different appraisers. The scope of work decision is a function of expectations of participants in the market for similar appraisal services and what the appraiser’s peers’ actions would be in performing similar assignments.

In the Real World

- 1) I am currently appraising an office building that was transferred 18 months ago by a deed in lieu of foreclosure. Am I required to analyze this transaction?

Yes. See AO-4 and Standards Rule 1-5(b).

- 2) Does Standards Rule 1-5 require an appraiser to analyze the sales history for the comparable sales?

No. This Standards Rule addresses only the subject property.

- 3) I know that USPAP requires an appraiser to develop a reconciliation of the approaches to value that are used in an assignment. Does USPAP require the appraiser to reconcile the data used in each approach to value?

Yes. See Standards Rule 1-6.

Guidance for INTRW 1:

See FAQ 225, “Sales History Analysis for Deed in Lieu of Foreclosure.”

Guidance for INTRW 2:

See FAQ 224, “Analysis of Sales History for Comparable Sales.”

Guidance for INTRW 3:

See FAQ 192, “Reconciliation of the Approaches to Value.”

Part 8.

STANDARD 2

In the Real World

- 1) I currently work as a trainee in an appraisal firm. I contribute significant real property appraisal assistance to appraisal assignments performed by other appraisers in the firm, but do not sign the certification or report. I understand my name must be stated in the certification. Must the certification include a description of my assistance?

No description is required in the certification. Standards Rule 2-2 requires the extent of the assistance to be described, summarized, or stated in the report.

- 2) I am employed at a firm where my reports are reviewed by a supervisory appraiser. The supervisory appraiser recently asked me to make changes to a report that resulted in a value opinion with which I do not agree. I am not comfortable signing the amended report. What are my obligations under USPAP?

If the report does not represent your own opinions and conclusions, then you must not sign the report or the certification. See Standards Rule 2-3.

Guidance for INTRW 1:

It could be in the certification or included in some other section. See Standards Rule 2-2(a)(vii), (b)(vii), and (c)(vii) for reference. See AO-31, *Assignments Involving More than One Appraiser, and*. FAQ 246, “Reporting Significant Real Property Appraisal Assistance.”

Guidance for INTRW 2:

See FAQ 248, “Disagree with Supervisor on Value Conclusion.”

USPAP in Action No. 11



An appraiser is asked to complete an appraisal and submit a Self-Contained Appraisal Report. The letter of transmittal and other sections of the document identify the report as such. In the appraisal report, the appraiser briefly summarizes the highest and best use section. However, the approaches to value are very detailed and meet the requirements of a Self-Contained Appraisal Report. Have the requirements for a Self-Contained Appraisal Report been satisfied?

Guidance

This example addresses the definitions and requirements of Standards Rule 2-2, especially the differences among **describe**, **summarize**, and **state**. The requirements were not met in this instance since the report does not completely meet the requirements for the options stated in the report. The report was labeled as a Self-Contained Appraisal Report. All of the requirements were met except the rationale for the highest and best use was summarized, not described. The appraiser should have labeled this a Summary Appraisal Report, even though some of the data is described.

USPAP in Action No. 12



A mortgage client hired an appraiser to prepare an appraisal on a one-unit property. He asked that she discuss her value opinion with him orally prior to transmitting the report. The appraiser completed her analysis and telephoned the client with her conclusions. The client was indignant and objected strongly to the value conclusion, indicating that the “figure” would not help his client’s objectives. He further indicated that there would be no need to provide a written report. What are the appraiser’s obligations under USPAP?

Guidance:

Clearly, reporting of the value conclusion to the client is an oral report. A summary of such a report, along with the appraiser’s signed and dated certification must be included in the workfile. Reference is made to Standards Rule 2-4, which states that an oral appraisal report must address the substantive matters required in a Summary Appraisal Report (see Standards Rule 2-2(b)). The client does not have to take delivery of the written report. The appraiser has met the assignment conditions by completing the appraisal, providing an oral report and maintaining a workfile for the assignment. The workfile must be retained for the specified period required by USPAP.

Part 9.

STANDARD 3

In the Real World

I am performing a review of a real property appraisal, and my client has asked me to give my opinion of value even if I agree with the value in the appraisal. Does my concurrence constitute an appraisal opinion? If so, what do I need to do to comply with USPAP?

Yes. If you concur with the value in the report, it does constitute an appraisal by the reviewer. Standards Rule 3-3(c) states, “When the scope of work includes the reviewer developing his or her own opinion of value, review opinion, or real property appraisal consulting conclusion, the reviewer must comply with the Standard applicable to the development of that opinion. (i) The requirements of STANDARDS 1, 6, 7 and 9 apply to the reviewer’s opinion of value for the property that is the subject of the appraisal review.”

The Comment to Standards Rule 3-3(c) states, “These requirements apply whether the reviewer’s own opinion concurs with the opinions and conclusions in the work under review; or differs from the opinions and conclusions in the work under review.”

Guidance:

The steps that must be taken when the scope of work includes the reviewer expressing his or her own opinion of value are shown in the Comments to Standards Rule 3-3(c). Additional advice is contained in AO-20 and FAQ 297, “Reviewer Concurs with Value Conclusion.”

In the Real World

Can a reviewer use information and data that took place after the effective date to impeach or impugn appraisals and appraisers?

No. The Comment to Standards Rule 3-2(h) states: “Information that should have been considered by the original appraiser can be used by the reviewer in developing an opinion as to the quality of the work under review.

Information that was not available to the original appraiser in the normal course of business may also be used by the reviewer; however, the reviewer must not use such information in the reviewer’s development of an opinion as to the quality of the work under review.”

Guidance:

For additional guidance, see STANDARD 3 and AO-20. See FAQ 295, “Post-Valuation Date Information in Appraisal Reviews.”

USPAP in Action No. 13



An appraiser regularly reviews residential appraisals for a major lender. He has found numerous errors in several reports prepared by the same appraiser. He believes the errors are intentional and caused the value conclusions to be inflated in several instances. He has discussed the matter with his client, but he is wondering if he is permitted by USPAP to file a complaint with the appraiser's state appraiser board without his client's consent. Is he permitted to do so?

Guidance:

USPAP does not address filing complaints. Absent any higher precedent law or regulation, a reviewer may file a complaint with a state appraiser board without the consent of his or her client. The Confidentiality section of the ETHICS RULE states: "An appraiser must protect the confidential nature of the appraiser-client relationship" **and** "An appraiser must not disclose confidential information or assignment results prepared for a client to anyone other than the client and persons specifically authorized by the client; state enforcement agencies and such third parties as may be authorized by due process of law; and a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation." See FAQ 298, "Appraisal Review and State Appraiser Boards."

Part 10.

STANDARDS 4–10

In the Real World

A client asks an appraiser to review a real property appraisal report that was prepared by another appraiser. The client only wants an opinion about the quality of the original appraisal report and does not want the appraiser to develop a separate value opinion. May the client's request be treated as a real property appraisal consulting assignment under STANDARDS 4 and 5?

No. This is an appraisal review assignment that should be completed in compliance with STANDARD 3.

Guidance:

The Comment to STANDARD 4 specifically states, "...an opinion as to the quality of another appraiser's work cannot be the purpose of an appraisal consulting assignment."

USPAP in Action No. 14



A real estate developer contacts a certified general appraiser and asks him to develop opinions as to the current market value of five different unit types that are being considered for a new development. In addition, the developer wants the appraiser to perform a study to determine what mix of unit types would yield the fastest projected absorption rate. Which Standards apply?

Guidance:

The value opinions developed for the unit types are real property appraisals that should be developed in compliance with STANDARD 1 and communicated in compliance with Standards Rule 5-2(g). The assignment is a real property appraisal consulting assignment, which is driven by the results of the appraisal. The study of the absorption of the unit types should be developed in accordance with STANDARD 4 and communicated in compliance with STANDARD 5.

USPAP in Action No. 15



The chief appraiser for a city assessor's office prepares the annual values for all the commercial and industrial properties. A state statute requires that the properties be appraised as if in fee simple. An owner of several multi-tenant properties in the city is appalled when he receives his assessment notices. He has owned the properties for over ten years, and some of his leases date back to the time he purchased the buildings. The owner calls the appraiser and learns the properties are being valued at market rent levels despite the fact that if he wanted to sell the buildings, the purchaser would have to honor the existing lease contracts. The owner's complaint filed with the city manager states the appraiser is not using the appropriate valuation methodologies and techniques for valuing his leased fee interest. Did the appraiser violate USPAP by valuing the properties using market rent levels rather than contract rents?

Guidance:

The appraiser correctly appraised the properties as if in fee simple and unencumbered by existing leases as required by state statute. The Comment to Standards Rule 6-6(c) states: "In ad valorem taxation the appraiser may be required by **rules** or **law** to appraise the property as if in fee simple, unencumbered by existing leases. In such cases, market rent would be used in the appraisal, ignoring the effect of the individual, actual contract rents." (Bold added for emphasis.)

USPAP in Action No. 16



The owner/operator of an antique shop advertises that she offers appraisal services. An attorney has asked her to perform an appraisal of personal property for estate taxes, explaining that the estate was left to an only son. She accepts the assignment.

After inspecting the furniture, glassware, china, silver and other household contents, the appraiser completed the appraisal. In the report, she provided a short cover letter that simply stated she had performed the appraisal, identified the total marketable cash value, made an offer to buy the estate at the value given and included her signature. Attached were thirteen pages of inventory with short descriptions and individual values for each property.

Did the appraiser comply with USPAP?

Guidance:

No. The appraiser failed to comply with STANDARD 8. The report did not contain much of the information required in Standards Rule 8-2(a) (b) or (c), including lack of disclosure of all limiting conditions and a disclosure of the scope of work undertaken to complete the assignment. The report did not include a signed certification (Standards Rule 8-3). The appraiser did not comply with the Conduct section of the ETHICS RULE. An offer to buy evidences a “prospective interest” in the subject of the assignment and implies at least a preference or inclination that precludes an appraiser’s impartiality.

The COMPETENCY RULE is also relevant. The appraiser demonstrated a lack of knowledge by either education or experience that seriously affected both the development of the appraisal and the communication of the results in the report.

USPAP in Action No. 17



An appraiser has been asked for a value based only on “rules of thumb” used in a specific industry. The client intends to rely on the value as a “guideline valuation” for a buy-sell agreement. What should the appraiser do?

Guidance:

The key discussion point is the role of an appraiser compared to that of a person who does not hold him or herself out as an appraiser. In the business appraisal discipline, uses of “rules of thumb” are viewed as a very limited scope of work. For the intended use stated, there is a good chance that use of a rule of thumb without other research and analysis would not be an acceptable scope of work, i.e., produce credible assignment results. Therefore, the appraiser in this example would not be able to do the assignment as requested. However, an individual who does not hold him or herself out to be an appraiser is free to provide his/her client with a value conclusion based on a rule of thumb. The client would have no expectation that the individual would be providing professional appraisal advice.

In the Real World

A company has recently redeemed a retired director's stock. However, no mention of any prior transaction in company stock is made in a later appraisal. You are reviewing the appraisal report and wonder why no mention of the prior transaction was made, especially since the prior transaction was conducted at a price of more than double the appraisal conclusion. Upon further analysis, you find that the prior transaction seems to be overpriced, and the appraisal results seem appropriate. Did the appraiser comply with USPAP?

The issue is addressed in Standards Rule 9-4(b)(iv), which calls for analyzing past sales of capital stock or other ownership interests in the business being appraised when they are relevant.

Guidance:

The transaction appears relevant and thus should have been noted in the report; and, if it was not believed to be indicative of value, this should have been discussed and supported.