


**Best Practices
Best Appraisals**
Avoiding mistakes, problems
and complaints

Presented by: Dennis Badger



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Before we begin... Thank-you

**Arkansas Appraiser
Licensing & Certification Board**

Staff

- Lee Gordon, Executive Director
- Diana Piechocki, Chief Investigator
- Kelli Black, Executive Assistant
- Laurie Welch, Administrative Assistant



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Before we begin... Thank-you


- Drew Vance, Chairman
- Pete Prutzman, Vice Chair
- Bob Costner
- Thad Eckolls
- Samantha Johnson
- Burney Lightle
- Rick Mahan
- Alex McIntosh
- Shannon Mueller
- Rhona Weaver



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Announcements

- *Break times*
- *Restroom locations*
- *Be considerate of those near you*
- *Turn off cell phones*
- *No recording*



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Why Are You Here?



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Goals & Objectives



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Overall Goals


- **Highlight and analyze the most common mistakes in appraisal practice.**
- **Enhance your knowledge and understanding of USPAP.**
- **Have fun!**




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Learning Objectives


- **Identify techniques that increase professionalism.**
- **Recognize practices that can discredit or diminish an appraiser's effectiveness.**
- **Identify common USPAP deficiencies**



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Learning Objectives

- **Identify the assignment elements necessary to determine the problem to be solved.**
- **Recognize how to measure if the scope of the assignment is sufficient**
- **Identify methods to reduce liability**

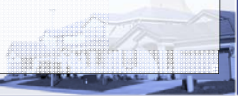



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Perception

- *What comes to mind when you are asked to think of a*

“Professional”

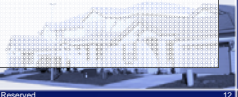


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What is Appraisal Practice?

Name five (5) examples of appraisal practice...

- Appraisal
- Appraisal Review
- Other Services performed by an individual when acting as an appraiser



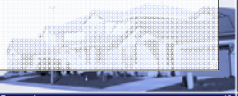
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What is Appraisal Practice?

Appraisal Practice, defined:

“Valuation services performed by an individual acting as an appraiser, including but not limited to appraisal and appraisal review.”

Source: USPAP 2014-2015 Edition



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What is Appraisal Practice?

Appraisal Practice comment excerpt:

“Comment: ...The use of other nomenclature for an appraisal or appraisal review assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the *Uniform Standards of Professional Appraisal Practice*”

Source: USPAP 2014-2015 Edition

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Life Scenario #1

Pam, a real estate broker and appraiser, receives a request by a local newspaper to serve as a guest columnist to discuss the “real estate market pulse” including the impact, if any, of current economic conditions.

Would this activity fall under appraisal Practice?

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Expectation is Critical

Appraiser, defined:

- **APPRAISER:** one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

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Expectation is Critical

Comment: Such expectation occurs when individuals, either by choice or by requirement placed upon them or upon the service they provide by law, regulation, or agreement with the client or intended users, represent that they comply.

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Life Scenario #2

Bob a certified residential appraiser, received a phone call from an irate property owner.

One week ago, Bob performed a "recertification of value" for his client, a local lender, on a single-unit dwelling he had previously appraised.

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Life Scenario #2

As it turns out, the built-in kitchen appliances that were in boxes in the garage at the time of his final inspection, which incidentally, were supposed to be installed by the work crew on-site, never made it any further into the house as promised by the builder. As a matter of fact, they somehow disappeared from the property.

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Life Scenario #2

The property owner now wants to know where their appliances are and why the report sent to the bank from the appraiser at closing states the property is 100% complete.

Would Bob's activity fall under appraisal Practice?

What problems might Bob face?

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Appraisal Practice Risk Factors

- What factors typically increase risk in appraisal practice?



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Appraisal Practice Risk Factors

What factors typically increase risk in appraisal practice?

- Time Constraints
- Availability of Resources
 - Physical
 - Mental
- Fees
- Relationships
- Public's confusion on what is an appraisal
- Other



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What Can Be At Risk?


- Reputation
- Integrity
- Relationships/Friendships
- Financial/Business Losses
 - Collection expenses
 - Uncollected fees
 - Litigation expense
 - Sanctions
- Appraisal Career



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The Assignment Request

How can something so simple so often be the root of such disaster?

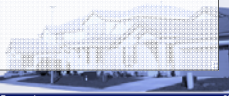


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The Assignment Request

“How can something so simple so often be the root of such disaster?”

- Anxious to get work
- Afraid to ask too many questions
- Time constraints
- Little if any communication
- Often “stuck in a rut”
- Incompetence

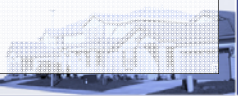


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The Assignment Request

“How can something so simple often be the root of such a disaster?”

- Client may not know what questions to ask or there is confusion with what they do know
- No policies or procedures
- Often hard to identify the problem to be solved




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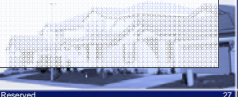
What is Scope of Work?

SCOPE OF WORK:

“the type and extent of research and analyses in an appraisal or appraisal review assignment.”



- USPAP 2014-2015 Edition

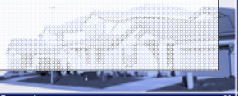


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What is Scope of Work?

For each appraisal and appraisal review assignment, an appraiser must:

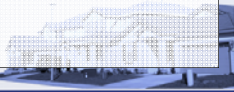
- identify the problem to be solved;
- determine and perform the scope of work necessary to develop credible assignment results; and
- disclose the scope of work in the report.



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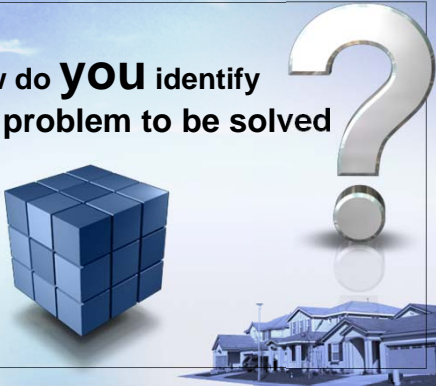
“If I were given one hour to save the planet, I would spend 59 minutes defining the problem and one minute resolving it.”

-Albert Einstein



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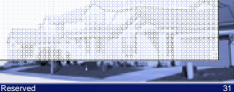

How do **YOU identify the problem to be solved**



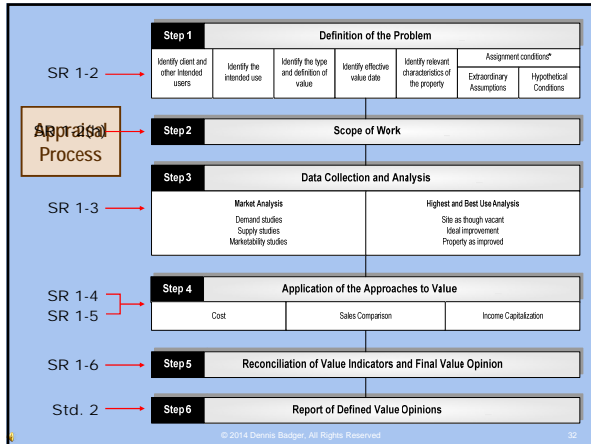
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What elements are required in identifying the Problem to be Solved?

- **client and other intended users;**
- **intended use of the appraiser’s opinions and conclusions;**
- **type and definition of value;**
- **effective date;**
- **relevant characteristics of the property;**
- **assignment conditions**



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Problem Identification

- **Communication with the client is required to establish most of the information necessary for problem identification.**
- **However, the identification of relevant characteristics is a judgment made by the appraiser that requires competency in that type of assignment.**

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Assignment Conditions Include:

- **assumptions,**
- **extraordinary assumptions,**
- **hypothetical conditions,**
- **laws, regulations, or guidelines,**
- **jurisdictional exceptions,**
- **and other conditions that affect the scope of work.**



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SOW Determination

- *Determining the scope of work is an ongoing process in an assignment.*



- *Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.*

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SOW Acceptability



The scope of work is acceptable when it meets or exceeds:

- *the expectations of parties who are regularly intended users for similar assignments; and*
- *what an appraiser's peers' actions would be in performing the same or a similar assignment.*

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SOW Acceptability

- *An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use.*



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SOW Acceptability

If relevant information is not available, an appraiser must withdraw from the assignment unless the appraiser can:

- *modify the assignment conditions to expand the scope of work to include gathering the information; or*
- *use an extraordinary assumption about such information, if credible assignment results can still be developed.*

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SOW Acceptability

- *An appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.*



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SOW Disclosure Obligations

The report must contain sufficient information to allow intended users to understand the scope of work performed.



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SOW Disclosure Obligations

Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.



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SOW Disclosure Obligations

Proper disclosure of the SOW should aide in communicating the appraiser's "story of value"



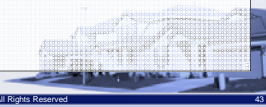
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Practical Applications

Question:

Can an appraisal or appraisal review assignment include more than one intended use?



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Practical Applications

Answer:

Yes. USPAP requires appraisers to identify the intended use of the appraiser's opinions and conclusions. There is no prohibition against having more than one intended use. However, when performing an appraisal, appraisal review, or appraisal consulting assignment with multiple intended uses, the appraiser must be very careful to clearly identify each of the intended uses in the report to limit the possibility of confusion.

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Common SOW Deficiencies

- **Failing to identify relevant laws, regulations, or guidelines that apply to an assignment**
- **Example: Is the assignment to be prepared in compliance with FannieMae or FreddieMac appraisal requirements and guidelines?**

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Common SOW Deficiencies

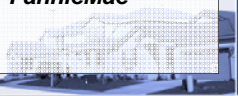
- **Failing to adhere to laws, regulations, or guidelines applicable to an assignment.**
- **Example: FHA/VA appraisal guidelines and requirements applicable to an assignment are disregarded.**

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Common SOW Deficiencies


- *Failing to identify the problem to be solved for an assignment.*
- *Examples:*
- *Leased Fee vs. Fee Simple*
- *Appraising 5 acres out of a 40-acre parcel for an assignment under FannieMae requirements.*



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Common SOW Deficiencies


- *Failing to sufficiently collect, verify, or analyze information:*
- *Examples:*
- *Subject ownership information*
 - *Current listing or agreement of sale*
 - *Prior sales history*
- *Comparable ownership info.*



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Common USPAP Deficiencies

- *What does "analyze" mean to you*



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Common USPAP Deficiencies

analyze

- **—analyzable, *adj.* —analyzabilisyl>ty, *n.* —analysis, *n.***
- **/an"l uyZ/, *v.t.*, analyzed, analyzing.**
- **1.** to separate (a material or abstract entity) into constituent parts or elements; determine the elements or essential features of (opposed to *synthesize*): *to analyze an argument.*
- **2.** to examine critically, so as to bring out the essential elements or give the essence of: *to analyze a poem.*
- **3.** to examine carefully and in detail so as to identify causes, key factors, possible results, etc.
- **4.** to subject to mathematical, chemical, grammatical, etc., analysis.

— Random House Webster's Unabridged Dictionary

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Common USPAP Deficiencies

- **What does "verify" mean to you**



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Common USPAP Deficiencies

Verify

- **—verifiability, verifiableness, *n.* —verifiable, *adj.* —verifier, *n.***
- **/ver"euh fuy/, *v.t.*, verified, verifying.**
 - **1.** to prove the truth of, as by evidence or testimony; confirm; substantiate: *Events verified his prediction.*
 - **2.** to ascertain the truth or correctness of, as by examination, research, or comparison: *to verify a spelling.*
 - **3.** to act as ultimate proof or evidence of; serve to confirm.

— Random House Webster's Unabridged Dictionary

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Common USPAP Deficiencies

- **Failing to sufficiently collect, verify, or analyze information:**
- **Examples:**
- **Utilize data sources that an appraiser's peers would utilize. (i.e. MLS, tax assessor, and other third-party service providers)**

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Common USPAP Deficiencies

- **Failing to have a complete or accurate Certification Statement**

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Common USPAP Deficiencies

- **Failing to complete an assignment competently**
 - *What is necessary to be competent?*
 - *How does one know when they are competent?*

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Common USPAP Deficiencies

- ***Failing to adequately supervise a trainee or apprentice appraiser***

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Heat pump?



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Common USPAP Deficiencies

- ***Failing to think "outside the box"***
 - *Often times appraisers can verbalize information about a characteristic or their analysis, but fail to adequately summarize information beyond a "field" on a form report*

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Common USPAP Deficiencies

- *Failing to identify the client, other intended users, and the intended use of an assignment*
- *Remember, the audience of your assignment results is your client and other intended users*

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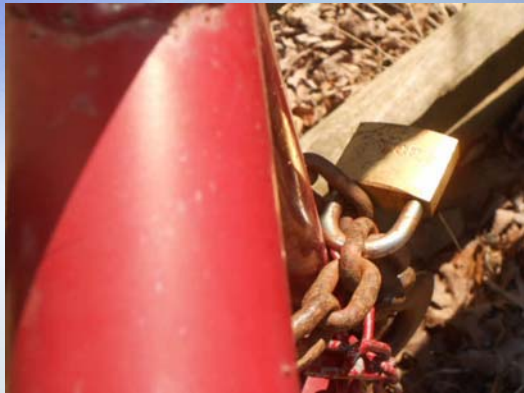
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Common USPAP Deficiencies

- *Failing to state, clearly and conspicuously, all extraordinary assumptions and hypothetical conditions*
- *Failing to state that the use of any extraordinary assumptions and hypothetical conditions might have affected assignment results*

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Common USPAP Deficiencies

- *Failing to summarize the support and rationale for the appraiser's opinion of highest and best use*

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Common USPAP Deficiencies

- *Failing to have true copies of any written appraisal or appraisal review reports*
- *Failing to have appropriate workfile retention, access, or retrieval arrangements with a party having custody of a workfile.*

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Common USPAP Deficiencies

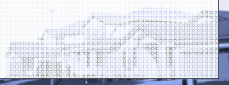
- *Failing to summarize the:*
 - *information analyzed*
 - *appraisal methods and techniques employed*
 - *reasoning that supports the analyses, opinions and conclusions*
 - *Reconciliation of the data and approaches*
 - *Analysis of prior subject sales, agreements of sale, options, and listings*
 - *Efforts undertaken to obtain such information or relevance*
 - *reasoning for the exclusion of one of the approaches to value*

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What does "Comparable" mean to you?


- **Does it mean**
 - "Identical"?
 - "Similar"?
 - "Equal"?
 - "Like"?



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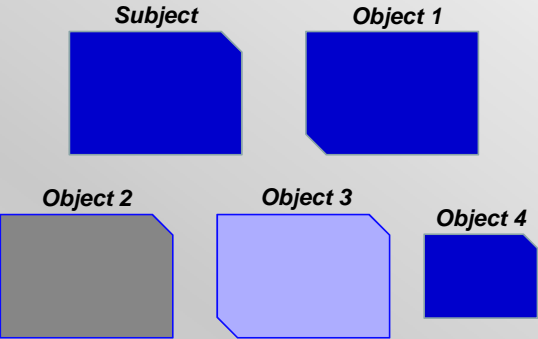
What does "Comparable" mean?

- **com·pa·ra·ble**
[kom-per-uh-buhl or, sometimes, kuhm-pair-]
–adjective
 - *capable of compared; having features in common with something else to permit or suggest comparison:*
 - *worthy of comparison:*
 - *usable for comparison; similar:*



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Exercise



Subject **Object 1**

Object 2 **Object 3** **Object 4**

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Common USPAP Deficiencies

- ***Failing to summarize the scope of work used to develop the appraisal or appraisal review***
 - *Type and extent of research and analysis*
 - *Extent of significant real property appraisal assistance*

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Common USPAP Deficiencies

- ***Failing to indicate the use of the real estate existing as of the effective date of the value and***
- ***Failing to indicate the use of the real estate reflected in the appraisal***

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Common USPAP Deficiencies

- ***Failing to summarize information sufficient to identify the real estate involved in the appraisal, including the physical, legal, and economic characteristics relevant to the assignment***

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Practical Applications

Question:

The subject property owner meets you during your site visit (inspection) and states the improvements have been totally rehabilitated since purchase one year ago. What would be your next course of action(s)?

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Practical Applications

Answer:

There is no one correct answer, however, one must collect, verify, and analyze.

- *Request copies of repair receipts*
- *Verify with public record improvements*
- *Verify condition prior to purchase*
- *Interview prior listing/selling agent(s)*
- *Interview prior owner*
- *Investigate!*

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Common USPAP Deficiencies

• *Failing to communicate with the client to properly identify the scope of the assignment:*

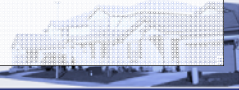
- *Examples:*
- *“Full blown appraisal”*
- *Hot dog vs. steak dinner*

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Common USPAP Deficiencies

- ***Failing to accurately communicate the scope of work performed or not performed***
- ***Examples:***
- ***Use of templates (cloning) inadvertently claims performance of a task that may not have been completed.***

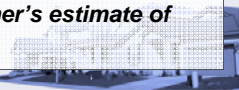


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Common USPAP Deficiencies

- ***Consciously or unconsciously targeting a number (sales price, owner's estimate of value, etc.)***
- ***Example:***
Selecting comparable sales based on a percentage (e.g. 25% above to 25% below) of contract price or owner's estimate of value.

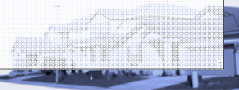


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Common USPAP Deficiencies

- ***Selecting sales outside of subject's market area in order to justify a value opinion rather than examining sales within immediate market area.***



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Common USPAP Deficiencies

- *Failing to spend enough time in a particular market to learn the local nuances.*



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Common USPAP Deficiencies

- *Failure to analyze sales or financing concessions in the comparable sales or subject property.*

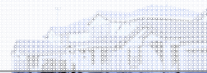


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Common USPAP Deficiencies

- *Failing to continuously improve his or her skills to remain proficient in real property appraisal*
- *Failing to act as a professional*



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