

# Evaluating an Appraisal Report

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**INVESTMENT RECOVERY ASSOCIATION**

Promoting Professional Management of Surplus Assets

# STANDARDS

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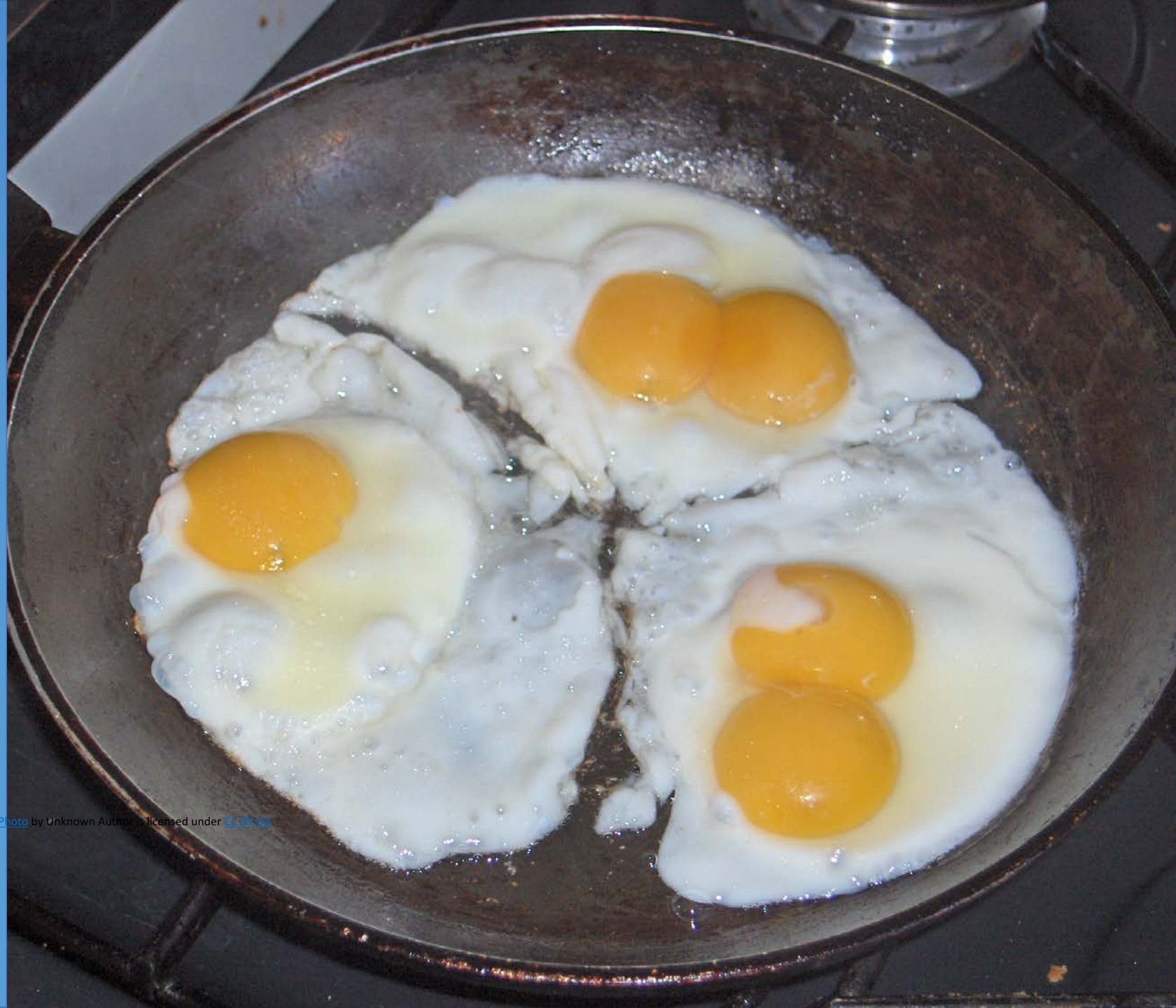
- Professional Standards: Rules of Practice
- Personal Standards: Societal Norms; Customs; Behavior; Ethics



# STANDARDS EXERCISE

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Let's make breakfast



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# Uniform Standards of Professional Appraisal Practice - USPAP

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- Financial Institutions Reform, Recovery, Enforcement Act (FIRREA, 1989)
- Created the Appraisal Sub-Committee (ASC)
- ASC funded by real property licensing fees
- The Appraisal Foundation, established in 1987, authorized by FIRREA in 1989 as the source of appraisal standards and appraiser qualifications.
- Appraisal Standards Board, Appraiser Qualifications Board



# USPAP STRUCTURE

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- Preamble
- Definitions
- Rules
- Standards Rules
- Advisory Opinions/FAQ's (Guidance only)



# USPAP CONTENT

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- **Definitions** are terms with a unique meaning within USPAP, different from “everyday” definition.
- **Rules** are overarching rules that apply to all appraisers:
  - ▶ ETHICS
  - ▶ RECORD KEEPING
  - ▶ COMPETENCY
  - ▶ SCOPE OF WORK
  - ▶ JURISDICTIONAL EXCEPTION



# USPAP CONTENT – Standards Rules

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- Standards Rules are the rules that apply to specific appraisal disciplines.
- Standards Rules are paired, odd #'s are development, even #'s are reporting/communication.
  - ▶ **1-2 Real Property Appraisal**
  - ▶ **3-4 Appraisal Review**
  - ▶ **5-6 Mass Appraisal**
  - ▶ **7-8 Personal Property Appraisal**
  - ▶ **9-10 Business Appraisal**



# USPAP DEFINITIONS

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- **Client:** *the party or parties who engage, by employment or contract, an appraiser in a specific assignment. Individual, group, or entity.*
- **Credible:** *worthy of belief*  
*Comment: Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.*
- **Intended use:** *the use(s) of an appraiser's reported appraisal or appraisal review assignment results, as identified by the appraiser based on communication with the client at the time of the assignment.*
- **Intended user:** *the client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser, based on communication with the client at the time of the assignment.*





# USPAP DEFINITIONS

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- **Extraordinary assumption:** *an assignment – specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.*

Comment: *Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis.*

- **Hypothetical condition:** *a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.*

Comment: *Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.*



# USPAP DEFINITIONS

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- **Scope of work:** *the type and extent of research and analyses in an appraisal or appraisal review assignment.*
- **Assignment results:** *Assumptions, extraordinary assumptions, hypothetical conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work. (Comment defines “laws and regulations”)*



# REPORT CONTENT – STANDARDS RULE 8-1

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*Each written or oral personal property appraisal report must:*

- a) clearly and accurately set forth the appraisal in a manner that will not be misleading;*
- b) contain sufficient information to enable the intended users of the appraisal to understand the report properly; and*
- c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.*



# REPORT CONTENT, SR 8-2 (a) (i-xii)

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- state the identity of the client and the identity of any intended users (by name or type)
- state the intended use
- summarize information sufficient to identify the property involved in the appraisal, including the physical and economic characteristics
- state the property interest appraised
- state the value definition, cite the source
- state that date of value and the date of the report



# REPORT CONTENT, SR 8-2 (a) (i-xii)

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- summarize the scope of work
- summarize the information analyzed, the methods employed, reasoning; summarize exclusion of an approach to value (sales comparison, cost, income)
- summarize the results of the analysis of a agreement of sale, validated offer or third-party offer to sell, option, listing, or prior sale



# REPORT CONTENT, SR 8-2 (a) (i-xii)

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- state the class of the subject property, the use on the date of value, the use reflected in the appraisal (current and alternative use)
- when applicable summarize the opinion of the appropriate market or market level
- clearly and conspicuously state all extraordinary assumptions and hypothetical conditions, state that their use might of affected the assignment results
- include a signed certification



# Why does this matter?

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## Basic:

- Physical and economic characteristics of the subject property
- Definition of Value
- Date of Value
- Date of Report



# Why does this matter?

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- Intended Use (the appraiser's understanding)
- Responsibility to intended users (client and other)
  - ▶ **Credible = *worthy of belief***
- Scope of work, what did the appraiser do?
- Analysis of prior sales, pending offers, etc.
- Current use/alternative use
- Market levels, level of trade, value to whom?
- Extraordinary assumptions and hypothetical conditions





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- intended use, purpose
  - assume, assumption
  - rely, reliance, information from others
  - market, market type, market conditions, etc.
  - responsible, not responsible
  - valid, not valid
  - economy, economical, industry
  - analysis



# **WORK SESSION**

# QUESTIONS

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