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Review of new evaluation guidelines & selecting AVM

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The recently released report on Interagency Appraisal and Evaluation Guidelines (IAEG) including (OCC); (FRB); (FDIC) (OTS); and (NCUA) (collectively, the Agencies), makes for excellent bedtime reading for insomniacs. However; for lenders it is an important redefinition of what can be used to support a loan under \$250,000. Historically, lenders used an evaluation, providing support for the lending. An Automated cap valuation Model (AVM) is sometimes used. Lenders like the evaluation product since it is less expensive than a full appraisal, and more importantly, it is faster. In busy times, appraisers can get backlogged with work sometimes adding weeks to the loan processing time.

IAEG Guidelines: The new guidelines redefine the definition of the evaluation. After studying the IAEG and in discussions with clients and appraisers we determined the new guidelines require a full appraisal, in most cases.

1. Market Value: The new IAEG requires a market value. AVMs are less precise and may or may not achieve the standard of a true market value.
2. Area and Neighborhood Analysis: The IAEG requires area and neighborhood analyses reflecting current local market conditions. These are not found in most AVMs available today.
3. Highest and Best Use: The evaluation must consider the property's current and projected use.
4. Property Inspection: While the IAEG does not require an inspection of the property the report must state how the evaluator supported the statement on the properties condition. To meet the intent of the guidelines we conclude a full inspection of the property would be called for in most instances.
5. As Is Value: The new IAEG guidelines require an AS IS value and states that no assumptions can be made that that the property (a) is in average condition, (b) complies with all zoning regulations and (c) is not affected by adverse market conditions. Most AVM's have disclaimers on these items.
6. Valuation Approaches: The IAEG outlines valuation approaches and report format. While it does not say which approaches to value should be employed, it does state that the approach(s) used should be tailored to the subject property. These might include the Sales, Income, and Cost approaches to value. AVMs are not eliminated as an approach, but they have many caveats.
7. Report Format: The report format outlined in the IAEG contains most of the requirements of a full appraisal report. It includes the:
 - * Location,
 - * Property description,
 - * Current and projected use,
 - * Inspection description,
 - * Approaches to value used,
 - * Supplemental data, if an AVM,

- * Data sources used in the analysis,
- * Property specific data sources,
- * Evidence of property inspection, (sketch),
- * Subject photos,
- * Description of the neighborhood (neighborhood analysis),
- * Local market conditions (area analysis), and
- * The evaluation report signed by the evaluator.

Using AVM's in compliance with the guidelines. If you or your organization is interested in acquiring an AVM process for evaluations, there are a variety of software programs available in the marketplace.

Part two will appear in the April 8th edition of the New England Real Estate Journal.

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