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Interagency guidelines - How do they affect appraisal practice?

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New appraisal and evaluation guidelines were issued by the Fed, OCC, FDIC, OTS, and the National Credit Union Administration (NCUA) in December 2010. They supersede the 1994 Interagency Appraisal and Evaluation Guidelines.

"These Guidelinesaddress supervisory matters relating to real estate appraisals and evaluations used to support real estate-related financial transactions. Further, these Guidelines provide federally regulated institutions and examiners clarification on the Agencies' expectations for prudent appraisal and evaluation policies, procedures, and practices." The guidelines clarify problem areas in appraisal practice.

Appraiser Independence.

There is much material relating to appraiser independence, etc. Appraiser communication is addressed follows: "An institution may exchange information with appraisers and persons who perform evaluations, which may include providing a copy of the sales contract for a purchase transaction." Of particular importance: "an institution should not directly or indirectly coerce, influence, or otherwise encourage an appraiser or a person who performs an evaluation to misstate or misrepresent the value of the property." Further the "person who selects or oversees the selection of appraisers or persons providing evaluation services should be independent from the loan production area." The guidelines also address the use of appraisals done for other banks. Appraisers still must not be "transferring," "recertifying," or "overwriting" appraisal reports.

Market Value.

The market value definition and certification (which exceeds that of USPAP) are reiterated. Values based on "going concern value," "value in use," or a "special" value to a specific property user "may not be used as market value for federally related transactions. An appraisal may contain separate opinions of such values so long as they are clearly identified and disclosed."

As-is Value.

This concept which has not been well understood is defined as follows. "The estimate of market value should consider the real property's actual physical condition, use, and zoning as of the effective date of the appraiser's opinion of value."

Prospective Values/Hypothetical Conditions/Extraordinary Assumptions.

Prospective market value opinions should be "based upon current and reasonably expected market conditions... and there should be a point of reference to the market conditions and time frame on which the appraiser based the analysis." Extraordinary assumptions are appropriate in these assignments. Hypothetical conditions are not.

Scope of Work.

Excellent guidance is provided in this respect in keeping with USPAP concepts. The appraiser's

scope of work should be "consistent with the extent of the research and analyses employed for similar property types, market conditions, and transactions." Thus, "an institution should be cautious in limiting the scope of the appraiser's inspection, research, or other information used to determine the property's condition and relevant market factors, which could affect the credibility of the appraisal. The guidelines note that engagement letters should contain a statement of intended use.

Reporting Options.

USPAP states that appraisal reports "must contain sufficient information to enable the intended user of the appraisal to understand the report properly." The guidelines state that an institution specifies an appraisal report option that is "commensurate with the risk and complexity of the transaction." This advice should prove helpful to reviewers.

Automated Valuation

Models/BPOs.

For federally-related transactions, the "result of an Automated Valuation Model (AVM), by itself or signed by an appraiser, is not an appraisal, because a state certified or licensed appraiser must perform an appraisal in conformance with USPAP and the Agencies' minimum appraisal standards."

Language relating to BPOs references Dodd-Frank.

The Guidelines provide additional guidance on evaluations, appraisal review, discounts for tract developments and non-stabilized properties. The fact that the Guidelines have incorporated USPAP concepts and have been brought up to date make them essential for appraisers' understanding of this practice area.

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