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What is an evaluation versus an appraisal?

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This article will discuss an evaluation versus an appraisal. So what is an evaluation? What qualifications are required to prepare an evaluation? Is a real estate appraiser license required to prepare an evaluation? Is an evaluation an appraisal?

The term evaluation was defined by the Interagency Appraisal and Evaluation Guidelines dated December 2, 2010 (the guidelines). The guidelines address supervisory matters relating to real estate appraisals and evaluations used to support real estate-related financial transactions by financial institutions regulated by the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA) (collectively the Agencies). The guidelines provide federally regulated institutions and examiners clarification on the Agencies expectations for prudent appraisal and evaluation policies, procedures, and practices.

An evaluation is a term used to describe an estimate of value for certain real estate-related transactions that are exempt from the Agencies appraisal requirements. The guidelines define an "evaluation" as "a valuation permitted by agencies' appraisal regulations for transactions that qualify for the appraisal threshold exemption, business loan exemption, or subsequent transaction exemption." The guidelines define "Appraisal Threshold" as "an appraisal is not required on transactions with a transaction value of \$250,000 or less." The Business Loan Threshold is defined as "a business loan with a transaction value of \$1 million or less does not require an appraisal if the primary source of payment is not dependent on the sale of, or rental income derived from, real estate." The subsequent transaction exemption requires that "there has been no material change in market conditions or physical aspects of the property that threaten the adequacy of the institution's real estate collateral protection after the transaction, even with the advancement of new monies; or there is no advancement of new monies other than funds necessary to cover reasonable closing costs."

The guidelines say that an evaluation should identify the location of the property, describe the property and its current and projected use, provide an estimate of the property's market value, describe the method used to confirm the property's physical condition and the extent to which an inspection was performed, describe the analysis that was performed and the supporting information, describe the supplemental information that was considered when using an analytical method or technological tool, indicate all sources of information used in the analysis to value the property including external data sources, property specific data, evidence of property inspection, photographs of the property, description of the neighborhood or local market conditions, and information on the preparer when an Evaluation is performed by a person.

The guidelines require that a person who performs an evaluation possesses the appropriate

appraisal or collateral valuation education, expertise, and experience relevant to the type of property being valued. The guidelines do not require a state certified or licensed appraiser to perform an evaluation. An evaluation as defined by the guidelines is not an appraisal.

State real estate appraisal licensing laws vary by state. In New England, evaluations are permitted without an appraisal license in Massachusetts, N.H. and Vermont. Evaluations require an appraisal license in Connecticut, Rhode Island and Maine.

The guidelines define an appraisal as "a written statement independently and impartially prepared by a qualified appraiser (state licensed or certified) setting forth an opinion as to the market value of an adequately described property as of a specified date(s), supported by the presentation and analysis of relevant market information." The Uniform Standards of Professional Practice defines an appraisal as "the act or process of developing an opinion of value." An appraisal must conform to the Uniform Standards of Professional Appraisal Practice (USPAP).

A valuation assignment for a regulated financial institution, for a real estate-related transaction that does not meet the exemption for the appraisal threshold, the business threshold or the subsequent transaction exemption requires an appraisal prepared by a qualified real estate appraiser in compliance with the Uniform Standards of Professional Appraisal Practice.

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