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The Appraisal Institute's Guide Note

December 13, 2012 - Appraisal & Consulting

The Appraisal Institute, the nation's largest professional association of real estate appraisers, published guidance in November to help appraisers learn what evaluations are, when they are used and who can prepare them. The Appraisal Institute's "Guide Note 13: Performing Evaluations of Real Property Collateral for Lenders" addresses how appraisers should prepare an evaluation for a lender and comply with the Uniform Standards of Professional Appraisal Practice.

The Guide Note said, "Federally insured lending institutions in the United States are subject to regulations regarding real estate appraisals. For lending transactions involving real estate, a lender must obtain an appraisal from a state licensed or certified appraiser. There are 12 exemptions from this requirement. For three of these exemptions, in lieu of an appraisal by a licensed or certified appraiser the lender may obtain an evaluation."

Evaluations, per the Interagency Appraisal and Evaluation Guidelines, are market value opinions that may be provided by individuals who are not state licensed or certified appraisers. However, state licensed and certified appraisers may provide them, according to the Appraisal Institute's Guide Note. The interagency guidelines also state that an evaluation must be based on a valuation method that is appropriate for a transaction rather than the method that renders the highest value, lowest cost or fastest turnaround time.

The Appraisal Institute's Guide Note states that USPAP allows an appraiser to adjust the scope of work for a valuation assignment as long as the resultant value opinion is credible, given the intended use. When preparing an evaluation, the appraiser may consider narrowing the scope of work as appropriate.

According to the interagency guidelines, a lender may obtain an evaluation in lieu of an appraisal when the loan transaction:

- * has a transaction value equal to or less than \$250,000;
- * is a business loan with a transaction value equal to or less than the business loan threshold of \$1 million, and is not dependent on the sale of, or rental income derived from, real estate and the primary source of repayment, or
- * involves an existing extension of credit at the lending institution, provided that:
 - * there has been no obvious and 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.

With Guide Note 13 the Appraisal Institute provides guidance
for the appraisers considering offering evaluations as a service. Done
per the notes an evaluation can be another business option for
appraisers.

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