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Bridging a 20-year gap

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â€” The Appraisal

Institute's new appraisal review designationThe Great Depression of the 1930s brought chaotic conditions to the valuation field. As a solution, the Appraisal Institute was formed in 1932 and created the first appraisal text, conducted courses to train appraisers, bestowed MAI designation and set ethics and guidelines to be followed.

The savings and loan crisis of the 1980s was the next chaotic condition, which resulted in government controls being placed over the appraisal industry. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) was the basis for appraiser licensing, regulation and guidelines. Uniform Standards of Professional Appraisal Practice were created by the Appraisal Standards Board of the Appraisal Foundation, authorized by Congress as the source of appraisal standards and qualifications. Each state within the U.S. set up their own board of registration for appraisers.

While FIRREA was intended for lending institutions, appraisals go far beyond preparation for lenders alone. Appraisals can be prepared for boards of appeal, zoning boards of review and any number of other parties outside of FIRREA and outside of the state and federal court system of the United States.

Those reviewing reports need not necessarily be appraisers or judges. Reports can end up in anyone's hands and people with their own agenda. On an anonymous basis, complaints can be filed with state boards involving appraisers. I regularly attend national appraisal meetings. At one meeting, in casual conversation, one of the nation's top appraisers let it be known that "he was turned in twice last week." It is the impact of stories of this type that cause the Appraisal Institute to act time and time again!

Appraisal Review Process

In 2013, the Appraisal Institute created a 376-page handbook on the theory behind review and the appraisal review process. The Appraisal Institute followed up with a 33-hour course on appraisal review taught by top appraisal instructors in the country. The Appraisal Institute has taken a giant step forward in an effort to clearly define appraisal review and how it should be applied.

By definition, a reviewer is "an appraiser who prepares an appraisal review." This is a key distinguishing point between those writing commentary on an appraisal and those qualified to provide commentary. Over the past 20 years, the appraisal field has been host to appraisal review that is not necessarily presented by those "acting in the role of reviewer" with impartiality, objectivity and Independence.

The Appraisal Institute handbook specifically states: "A review should never be used as an opportunity to discredit another appraiser. Nor should a reviewer criticize solely for the sake of criticizing. The reviewer findings must be supported by evidence and logic (data and analysis) in the

same manner required by an appraiser in an appraisal assignment."

The Appraisal Institute has created a seven-step review process. The process starts with identification of the problem. The next step is the defining of the scope of work. Just the reading of a report and providing commentary does not comply with scope of work. The reviewer is responsible for demonstrating that the scope of work is sufficient to provide a credible assignment result.

Steps three through seven involve five elements of quality. The third step is particularly important as it addresses completeness, accuracy, adequacy, relevance and reasonableness.

Steps four and five are explanatory steps presenting the review of the appraisal report itself. Steps six and seven involve circumstances where a reviewer chooses to present their own opinion of value. Their value must be consistent with the report's original intended use.

Conclusion

The Appraisal Institute has moved to bridge the gap in the appraisal industry that has developed over the past 20 years. Just as appraisers have obligations under USPAP, the Appraisal Institute suggests that those who 'review' have similar obligations.

The Appraisal Institute has created a new designation AI-GRS, which stands for AI-General Review Specialist. The need for this designation is brought about by the importance that appraisal review plays in risk management and "mitigation for many client/users of appraisal services." The designation follows the handbook referenced above and lays out a path of conduct within the real estate profession. Review of the handbook is worthwhile homework for anyone involved with the valuation industry.

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