



# narej

## **Computer Assisted Valuation Tools included in USPAP - by Marshall Hamilton**

November 10, 2017 - Appraisal & Consulting

Marshall Hamilton, DataMaster

Advisory Opinion 37 (AO-37), Computer Assisted Valuation Tools will be included in the 2018-2019 version of the Uniform Standards of Professional Appraisal Practice (USPAP). So, what does it mean for you? AO-37 clarifies the scope of computer assisted valuation tools related to appraisers and their responsibilities. These tools gather and analyze market data, and when used correctly, can add credibility to completed appraisals. AO-37 also reminds appraisers of their responsibility for the entire valuation process. Appraisers cannot use software or valuation tools to shield themselves from scrutiny.

The Appraisal Standards Board (ASB) adopted Advisory Opinion 18 (AO-18) in 1997. This AO set forth guidance for the use of Automated Valuation Models (AVMs). AO-18 clarified that appraisers can use AVMs as the basis for appraisals, although the output alone is not sufficient as an appraisal. As the ASB reviewed AO-18 for the upcoming version of USPAP, they considered replacing it. However, after receiving feedback from key stakeholders, they decided against replacing because it is specific to AVMs and still applies.

They decided to issue a new advisory opinion to address a broader range of technologies. The new AO became Advisory Opinion 37, Computer Assisted Valuation Tools. AO-37 clarifies appraisers' responsibilities while completing an appraisal using online or stand-alone software tools. AO-37 cites fourteen sections of USPAP, advising appraisers on more sections of USPAP than many other Advisory Opinions. Here are some important takeaways.

AO-37 cites issues appraisers face when relying on software or online resources to complete their appraisals. The AO addresses two broadly-used technologies — Regression Analysis and Multiple Listing Services — to illustrate the role of software tools in the valuation process. The main message of this AO is that technology can build credibility in appraisals as long as appraisers apply it correctly to support their decisions. Conversely, they can hurt credibility and valuation results if used incorrectly. Tools can support adjustments if appraisers are aware of the information used as the input and how to properly apply the output.

One major responsibility for appraisers is determining the scope of work for the appraisal

assignment. Because of this, appraisers must understand the assignment to make informed decisions regarding the process required. Appraisers must control the process, selection and input of information based on their knowledge and experience. If appraisers allow their software or tools to control the entire process the output may result in less credibility and/or misleading and unreliable results. Instead, appraisers should control determination of the process, data selection, parameter analysis and interpretation of the output.

AO-37 states that the Competency Rule applies to appraisers' familiarity with specific types of property or assets, market, geographic areas, intended use, specific laws or regulations, or analytical methods, etc. Appraisers must also understand how to apply their knowledge with or without computer assisted tools. AO-37 states "... the appraiser should be able to describe the overall process and verify that the computer assisted valuation tool is consistent in producing results that accurately reflect prevailing market behavior for the property that is being analyzed."

Appraisers are responsible for selecting the input parameters AND for affirming the inputs are entered correctly. This demonstrates that appraisers understand the market and have tested their software to make sure it works. Appraisers must also understand how to apply the results of the calculations. For example, appraisers must be able to determine what constitutes a strong relationship between variables from supporting materials such as graphs and tables. Appraisers cannot simply rely on the results of a given software or other tool unless they have reviewed it to ensure its reliability.

When using computer assisted valuation tools make sure the outputs or results pass the eye test with respect to prevailing market behavior. Remember, no software can replace your knowledge or experience. The AO reminds us "Regardless of the tool chosen, the appraiser is responsible for the entire analysis."

Marshall Hamilton is the marketing manager at DataMaster, Layton, Utah.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540