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The creation of specific standards for evaluations - by Steven Spangle

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On August 1, The Appraisal Standards Board, an independent board of The Appraisal Foundation, announced it intends to consider the creation of specific standards for evaluations.

An evaluation is a tool, other than an appraisal, for determining the market value of a commercial or residential property.

FDIC regulations, www.fdic.gov/regulations/laws/rules/5000-4900.html, address when an evaluation can be used, who can perform an evaluation, and what information must be in the evaluation. There is no requirement that the preparer have any appraisal knowledge, experience or specific competence, potentially putting institutions and consumers at risk. However, at a minimum the preparer must be independent and unbiased. There is no requirement that a qualified appraiser be used.

An institution can use an evaluation if a property has a transactional value (amount of a loan) is below the de minimis of \$250,000 for residential and \$500,000 for commercial properties. Evaluations may also be used for existing extension of credit, provided: there no obvious and material conditions or physical aspects threaten the institutions real estate collateral. There is no advance of new money other than funds necessary to cover reasonable closing costs.

There must be requirements for who the institution will use and who will review the reports.

The evaluations must not simply support the loan decision they must also promote safe and sound lending decisions.

The FDIC web site provides an example of a report type that is not acceptable:

“A valuation method that provides sales or listing price, such as a brokers price opinion (BPO), cannot be used since it does not provide a properties market value.”

An evaluation must include: the name, contact information of the individual preparing the evaluation. It must identify the property location and provide a description of the property and the current and projected use. Provide a description of the property and its current and projected use.

Provide an estimate of the property's market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation (that is, the date that the analysis was completed), with any limiting conditions. Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed. Describe the analysis that was performed and the supporting information that was used in valuing the property. Describe the supplemental information that was considered when using an analytical method or technological tool.

Indicate all source(s) of information used in the analysis, as applicable, to value the property, including:

- External data sources (such as market sales databases and public tax and land records);
- Property-specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information);
- Evidence of a property inspection; •

Photos of the property; Description of the neighborhood; or

- Local market conditions.

These requirements are not that dissimilar from an appraisal and do not prevent an appraiser from accepting the assignment provided they augment these guidelines to make them conform with existing appraisal requirements. When hiring an appraiser to provide an opinion of market value there is the expectation of compliance with the appropriate appraisal standards. Qualified appraisers may not seek or accept evaluation assignments due to concerns over liability or over fee levels.

The ASB is planning on issuing a concept paper on potential standards for evaluation followed by a public hearing with panels of constituents on October 18, 2019, in Washington DC. It will be broadcast live via livestream. Appraisers and lenders with an interest should check The Appraisal Foundation website for more information. Everyone's opinion is important and will contribute to the best resolution.

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