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## Evaluations – Are they an alternative to an appraisal? - by Shaun Fitzgerald

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Financial regulators have raised from \$250,000 to \$400,000 the threshold at which an appraisal is required. The wisdom of that decision may not be decided until we have another crash. In the meantime, appraisal clients might serve themselves well by understanding the difference between an appraisal and an evaluation. From the perspective of USPAP (the Uniform Standards of Professional Appraisal Practice), an evaluation is an appraisal. Appraisers who think they can avoid the standards in USPAP by calling their work an evaluation are kidding themselves. And, an appraisal client who requests an evaluation to save time or money might find that they have obtained none of the protections or assurances that they thought they were buying.

The Appraisal Foundation (TAF) wants to make sure that everyone involved knows the difference between the two. The Appraisal Standards Board (ASB) of TAF is actively soliciting comments on what changes if any should be made to USPAP. You may want to check out [appraisalfoundation.org](http://appraisalfoundation.org) to understand the details. Look for Concept Paper - Evaluation Standards in USPAP . That paper will do a much better job of explaining what is going on with evaluations than I can in this article. But I'd like to provide an overview. Plagiarism alert!!! In some cases, I'm lifting from that document "word-for-word."

Controversy and confusion about evaluations become apparent from the different perspectives of the guidelines, USPAP, and state regulatory agencies.

Is an evaluation an appraisal, or not? USPAP: Yes. USPAP has a broad definition of "appraisal" that encompasses all opinions of value. Guidelines: No. Unlike USPAP, the guidelines draw a bright-line distinction between an "appraisal" and an "evaluation" based upon differences in required analyses and report content. State regulatory agencies: Different answers, depending upon the state.

Who is allowed to perform appraisals? USPAP has no authority to specify who is allowed to perform appraisals. Guidelines: Only state licensed or certified appraisers may perform appraisals.

According to the Guidelines appraisals must be performed by state certified or licensed appraisers in accordance with requirements set forth in the appraisal regulations. In determining competency for a given appraisal assignment, a state certification or license is a minimum credentialing requirement. Appraisers are expected to be selected for individual assignments based on their competency to perform the appraisal, including knowledge of the property type and specific property market.” State Regulatory Agencies: When an appraisal is completed for a federally-related transaction, it must be performed by a state licensed or certified appraiser.

Who is allowed to perform evaluations? USPAP has no authority to specify who is allowed to perform evaluations. Guidelines: Qualified individuals may perform evaluations. For evaluations, the guidelines place responsibility upon each financial institution for hiring appropriately qualified individuals. Among other criteria, the financial institution is advised that “Persons who perform evaluations should possess the appropriate appraisal or collateral valuation education, expertise, and experience relevant to the type of property being valued. State Regulatory Agencies: The individual who can perform evaluations varies by state. Some states specifically exempt appraisers performing evaluations from USPAP compliance and state appraiser regulatory agency oversight. Other states require state licensed or certified appraisers to comply with USPAP when performing evaluations. A further subset of states does not permit evaluations unless they are performed by state licensed or certified appraisers.

Who enforces standards for evaluations? There are currently no enforceable development or reporting standards for evaluations. The guidelines are intended for clarification; they are not rules.

Is it possible to perform an evaluation in compliance with USPAP and state laws and regulations? Yes, but some of the reporting requirements may not mesh. For example, USPAP requires the evaluation report to prominently state whether it is an Appraisal Report or a Restricted Appraisal Report. Some states mandate that, in addition to the required USPAP label, the evaluation report must state on its face, “This is not an appraisal.”

Guidelines are written to provide guidance to federally regulated financial institutions and examiners - they are not written for appraisers or others completing evaluations.

Recent rulings have determined that federal guidance, such as the guidelines, is merely guidance and is therefore not enforceable. There are no true standards for the performance of evaluations. When evaluations are performed by individuals who are not credentialed or are exempted from oversight by state laws, there is no publicly accountable entity to turn to if the evaluation is not completed competently.

Thus it appears at this point that it is the client who is on the hook for the results of an evaluation. So, why pay for it if it means nothing?

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