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Why hire a commercial real estate appraiser? - by Mark Plourde

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So you want to finance commercial real estate and the bank requires an appraisal. Here are a few things you should know about hiring an appraiser. As defined by the Uniform Standards of Professional Appraisal Practice (USPAP), the client is “The party or parties (i.e., individual, group, or entity) who engage an appraiser by employment or contract in a specific assignment, whether directly or through an agent.” (1)

An appraisal for a federally related transaction (basically a real estate loan of \$500,000+) must be prepared directly for a financial institution. Federal banking regulations require that a “financial institution” actually order the appraisal and thus be the client of the appraiser. This is an important distinction to note. Yes, you are paying (the bank) for the appraisal, however you are not the client – the bank is. The Interagency Appraisal and Evaluation Guidelines state:

“An institution or its agent must directly select and engage appraisers. The only exception to this requirement is that the Agencies’ appraisal regulations allow an institution to use an appraisal prepared for another financial services institution provided certain conditions are met....Independence is compromised when a borrower recommends an appraiser or a person to perform an evaluation. Independence is also compromised when loan production staff selects a person to perform an appraisal or evaluation for a specific transaction....An institution’s selection process should ensure that a qualified, competent and independent person is selected to perform a valuation assignment...An institution’s use of a borrower-ordered or borrower-provided appraisal violates the Agencies’ appraisal regulations. However, a borrower can inform an institution that a current appraisal exists, and the institution may request it directly from the other financial services institution.” (2)

Does the client of the appraiser determine the appraisal assignment results? No, the appraiser is bound by professional standards to provide competent, unbiased appraisal services and opinions of value, regardless of who the client is. The appraiser is ethically bound to apply the necessary scope

of work, due diligence, market data, analyses, and reporting in compliance with professional standards to document credible results for the client.

On April 9, 2018 the Federal Financial Institution Regulatory Agencies adopted a Final Rule regarding Real Estate Appraisals that increased the loan threshold level to \$500,000, at or below which appraisals are not required for commercial real estate transactions. The agencies determined that the increased threshold level posed no threat to the safety and soundness of financial institutions. Regulated institutions can now obtain an “evaluation” rather than an appraisal of the real property collateral below the \$500,000 loan level on commercial real estate. But to be clear, an “evaluation” is not required to meet professional valuation standards or report content that appraisers must comply with in rendering opinions of value under USPAP.

At this writing, it is not currently legal for a licensed or certified appraiser in Maine to provide an “evaluation” that would not meet the minimum standards of USPAP. In other words, licensed appraisers are not allowed to provide anything less than a full USPAP compliant appraisal, regardless of the federally accepted threshold level. Does it make sense to you to bar trained independent experienced appraisers from being able to provide this level of professional service to financial institutions (who are now making larger loans that their borrowers will be on the hook for) while allowing anyone else with a pulse to provide such important “opinions of value” with no professional standards or certification requirements to comply with? I for one think not.

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(1) The Uniform Standards of Professional Appraisal Practice, 2020-2021, published by the Appraisal Foundation, Page 4

(2) Interagency Appraisal and Evaluation Guidelines
<http://www.fdic.gov/news/news/financial/2010/fil10082a.pdf>

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