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CT regulation change to permit appraisers to complete evaluations - by John Galvin

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Instead of real estate appraisals completed in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), in 2010, federally regulated financial institutions were permitted by federal law to utilize non-USPAP compliant opinions of value of real estate provided in the written format of an evaluation. For most states, including Connecticut, this created a conflict. In Connecticut, no person shall act as a real estate appraiser or engage in the real estate appraisal business without the appropriate certification or provisional license issued under the CT Department of Consumer Protection through the CT Real Estate Appraisal Commission. An evaluation renders an opinion of value; thus, in CT, it has to be completed by a licensed/certified CT real estate appraiser. The CT Law also requires any licensed/certified Connecticut Real Estate Appraiser to comply with the requirements of USPAP. Consequently, until recently, there has been confusion in the market on who can complete an evaluation.

The confusion arose from the Inter-agency Appraisal and evaluation Guidelines (IAEG), which pertain to all real estate-related financial transactions originated or purchased by a regulated institution, or an operating subsidiary. The purpose of the guidelines is to provide federally regulated institutions and examiners clarification on expectations for prudent appraisal and evaluation policy, procedures, and practices (Page 1, Section I. Purpose of IAEG). The guidelines reference who can perform evaluations when an appraisal is not required and what information evaluations must contain. In other words, the guidelines indicate that anyone who meets the minimum qualifications can provide an evaluation. The guidelines also contain language that indicates an evaluation is not appraisal; however, the guidelines define it as a “valuation.” As a result, the perception evolved that someone other than a licensed/certified appraiser can be used to complete an evaluation. This is the conflict, as in CT, anything that renders an opinion of value is an appraisal, no matter what format it is communicated, even in an Oral-report format. The bottom line, in Connecticut, an evaluation has to be completed by a licensed/certified appraiser.

The purpose of the evaluation was to create a format that involved less reporting. It is for circumstances where an institution may not want to pay for or determine they do not need a higher-level of valuation service provided by a USPAP compliant appraisal format. However, Standard 2 of USPAP pertains to communicating an appraisal analysis. Standard 2 of USPAP outlines the minimum requirements for reporting an appraisal. Standard Rule 2-1, General Reporting Requirements, details that an appraisal report “MUST clearly and accurately set forth the appraisal in a manner that will not be misleading”. It also states the report “MUST contain sufficient information to enable the intended users of the appraisal to understand the report properly (2020-2021 USPAP, Effective January 1, 2020 – December 31, 2021, pg. 20, Lines 573-579)”. For the past few years, a lender looking to secure an opinion of value in the form of an evaluation in the State of Connecticut had to use a licensed/certified real estate appraiser but, by law, the licensed/certified real estate was, until recently, bound by USPAP and could not provide an evaluation format without creating a report compliant with USPAP.

This conflict has now been resolved, as the CT Department of Consumer Protection adopted updated Real Estate Appraisal Regulations. The updates were approved by the CT Attorney General on July 19, 2021 and the Legislation Regulation Review Committee on September 28, 2021 becoming effective September 30, 2021. The changes were prompted by the Connecticut Real Estate Appraisal Commission. Section 20-504-2 (4) was added, which states: “..when an evaluation of real property collateral is required in lieu of an appraisal, a Connecticut certified appraiser may perform such evaluations outside the scope the USPAP by following Section XII (evaluation Development) and Section XIII (evaluation Content) of the Interagency Appraisal and evaluation Guidelines...”. The bottom line, in Connecticut, a lender can now use a licensed/certified real estate appraiser to complete an evaluation and a CT licensed/certified real estate appraiser can perform an evaluation and still comply with State of CT Law.

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