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## **Public beware - Not all appraisals are alike!**

November 12, 2008 - Appraisal & Consulting

The public appears to have a misperception that any appraisal of a single-family residence completed on the same property as of the same date of valuation should arrive at more or less the same value. Unfortunately, that just is not the case. For the sake of discussion, let us define an appraisal as a specific value for a specific property. In today's climate, a number of products exist that provides an appraisal. As I explain these products, please bear with me as we dive into a huge pot of alphabet soup. These products vary considerably in price and include the following:

BPO is an acronym for a broker's price opinion and is typically a value of a property generated by a real estate broker. Few guidelines exist for how a BPO should be performed. A state licensed appraiser is permitted to perform a BPO as long as the appraiser adheres to our professional ethics known as the Uniform Standards of Professional Appraisal Practice or USPAP. The fee for this product is generally at the lower end of the fee range.

CMA is an acronym for a comparative market analysis and is typically a value of a property generated by a real estate broker as part of the process of determining an asking price for real property before it is marketed for sale. This product examines recent sales of properties similar to the property to be listed. From my experience, no fee is charged for a CMA as it is part of the brokerage service.

AVM is yet another acronym for automated valuation model. An AVM is a computer software program that uses property database information such as assessment and sales data to arrive at a value for a particular property. Several AVM programs are available for a fee while others are free. The reliability of an AVM depends on the quality of the database upon which the value is generated. I have heard mixed reviews on this type of product.

The URAR stands for Uniform Residential Appraisal Report. This product is typically completed by a licensed real estate appraiser and involves an interior and exterior inspection of the property, research and analysis of comparable sales of similar properties, adjustments to the comparable sales to account for differences with the property being appraised, and the development of a value conclusion. The fee for this product can vary considerably depending on a wide variety of factors including the complexity of the property to be appraised as well as who orders the appraisal which brings us to our next acronym, the AMC.

An AMC is an appraisal management company whose purpose is to act as the intermediary between users of appraisal services such as banks and other financial institutions and appraisers. The last several years have witnessed the rise of numerous AMCs. Typically, a user of appraisal services will contact an AMC and request an appraisal. The AMC will then contact an appraiser and

negotiate with the appraiser in terms of the fee and the timing of the delivery of a URAR report. Once the report is completed and delivered to the AMC, the AMC may review the appraisal for accuracy and adherence to sound appraisal practice.

In theory, the AMC appears to be a reasonable business enterprise providing a legitimate service. In practice, the AMC has turned out to be largely disastrous for appraisers to the extent that some very good appraisers have been driven out of business. An appraiser will be contacted by an AMC with a request for an appraisal with a stated value and dictate a set fee which is often 50% of a standard appraisal fee. USPAP clearly stipulates that an appraiser may not accept an assignment that includes the reporting of predetermined opinions and conclusions (see the Conduct provision of the Ethics Rule of USPAP).

Apparently, many AMC employees are not aware of USPAP and that appraisers must comply with USPAP or risk losing their state license to practice appraisal. Once an appraisal is complete, the AMC reviews the report and if the report contains information that may not be acceptable to the secondary market, the AMC has been known to pressure the appraiser to change the report. If the appraiser does not comply with the pressure, the appraiser may be blacklisted or not paid for his or her hard work. As a result of these tactics, many mortgages have been sold on the secondary market that are backed by faulty appraisals, and we all know where that has gotten us.

Obviously, not all AMCs operate under such damaging practices. However, the errant practices have to come to the notice of regulators as well as state attorneys general. With the current economic crisis unfolding, it is essential that sound appraisal practices are followed and the appraisers be adequately compensated for their expertise.

Patricia Amidon, MAI, is principal at Amidon Appraisal Co., Portland, Me.

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