

ADVISORY OPINION 13 (AO-13)

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. Advisory Opinions are issued to illustrate the applicability of appraisal standards in specific situations and to offer advice from the ASB for the resolution of appraisal issues and problems.

SUBJECT: Performing Evaluations of Real Property Collateral to Conform with USPAP

APPLICATION: Real Property

THE ISSUE:

How can an appraiser operating under the *Uniform Standards of Professional Appraisal Practice (USPAP)* develop and communicate a valuation of real property collateral that complies with the *Interagency Appraisal and Evaluation Guidelines*?¹¹

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP & Advisory References

- The DEFINITIONS in USPAP include the following: *APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value.*
- Also included in the DEFINITIONS is the following: *APPRAISER: one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.*
- The SCOPE OF WORK RULE states in part, *Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment.*
- Under STANDARD 1, in developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.
- STANDARD 2 requires that a real property appraisal report contain sufficient information to enable intended users of the appraisal to understand the report properly.

Background

The terms “appraisal” and “evaluation” have specific meanings and uses for institutions regulated by and under the rules and published guidelines of the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) (Agencies). The federal regulators require that an appraisal must conform to generally accepted appraisal standards as evidenced by USPAP, but that an evaluation need not conform to USPAP. The Glossary (Appendix D) to the December 2010, *Interagency Appraisal and Evaluation Guidelines (Agencies’ Guidelines)* defines “evaluation” as: *A valuation permitted by the Agencies’ appraisal regulations for transactions that qualify for the appraisal threshold exemption, business loan exemption, or subsequent transaction exemption.* However, appraisers who are bound by USPAP must recognize that an evaluation meets the USPAP definition of appraisal and appraisers must comply with USPAP when providing such a service.

Appraisers must be aware that each lender may have its own internal policies and requirements regarding the format and content of an evaluation. Those policies and requirements supplement the requirements stated in the Agencies’ Guidelines. It is critical that the appraiser and the client have a mutual understanding of the intended use and the scope of work for the assignment. One way to enhance this mutual understanding is for the appraiser to request copies of the institution’s evaluation standards or requirements pertinent to the assignment.

ASB Opinion on Evaluations of Real Property Collateral

USPAP defines an appraisal as:

(noun) the act or process of developing an opinion of value; an opinion of value.

¹¹ *Interagency Appraisal and Evaluation Guidelines*, 75 *Federal Register* 77450 (December 2010)

42 An evaluation, per the Agencies' Guidelines, provides an estimate of market value. When that estimate of market
43 value is the opinion of an individual who is required to comply with USPAP, that opinion (i.e., the evaluation) is, per
44 USPAP, an appraisal. Therefore, an appraiser who is required to comply with USPAP must meet both the Agencies'
45 requirements for an evaluation and the requirements of STANDARDS 1 and 2 and other applicable parts of USPAP.

46 Any request for an opinion of value of real property requires compliance with the SCOPE OF WORK RULE, which
47 states in part:

48 *The scope of work must include the research and analyses that are necessary to develop credible*
49 *assignment results.*

50 *An appraiser must be prepared to support the decision to exclude any investigation, information, method, or*
51 *technique that would appear relevant to the client, another intended user, or the appraiser's peers.*

52 *An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the*
53 *assignment results are not credible in the context of the intended use.*

54 Under the SCOPE OF WORK RULE, any development requirements imposed on an assignment for evaluation of real
55 property collateral would be considered assignment conditions.

56 If an individual is engaged to provide information or analysis that does not include an opinion of value, the assignment
57 is neither an appraisal (per USPAP), nor an evaluation (per Agencies' Guidelines). However, if the individual providing
58 that service is acting as an appraiser (as defined in USPAP), the assignment would be appraisal practice and the
59 appraiser would be obligated to comply with the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL
60 EXCEPTION RULE.

61 Examples of requests for services that do not require a value conclusion include, but are not limited to:

- 62 • providing sales and rent data, listings, assessments and other similar information, without adjustments or
63 determination of comparability to indicate or suggest the value of a specific property; and
- 64 • providing data describing a neighborhood, community, or any other real estate market segment and analyses
65 on real estate market trends.

66 Appraisers who believe certain requests for evaluations of real property collateral are inconsistent with USPAP or
67 contrary to law or regulation should explain their concerns to the potential client. If necessary, additional information
68 and advice may be obtained from the appropriate federal regulator regarding the Agencies' Guidelines. If the client
69 does not agree to an assignment that allows the appraiser to comply with USPAP and applicable law or regulation, the
70 appraiser must decline or withdraw from the assignment.

71 **Illustration**

72 A potential client requests evaluations of real property collateral for two properties from an appraiser who is required to
73 comply with USPAP. The client wants to know the market value of the fee simple interest in the properties presented in
74 very brief and concise reports. The client is knowledgeable about the market for the types of property involved.

75 In an assignment to appraise either property, the appraiser must determine the appropriate scope of work to develop
76 credible assignment results based on the problem to be solved before considering the reporting requirements of
77 STANDARD 2.

78 One evaluation is for an existing single-family residential fee simple property in connection with a real estate loan
79 amount of less than \$250,000. The client requests only the sales comparison approach for this residential evaluation.

80 If the appraiser determines that the sales comparison approach alone is sufficient to produce credible assignment
81 results in the appraisal of the residential property, an evaluation (i.e., an appraisal) based solely on this approach can
82 be performed in compliance with USPAP.

83 The other evaluation is for an existing office building, occupied by the owner (without a lease). The lender is
84 considering a business loan amount of \$1,000,000 or less that is not dependent on the sale of, or rental income

derived from, real estate as the primary source of repayment.¹² The client requests only the income capitalization approach for this office building evaluation. 85
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If the appraiser determines that the income capitalization approach alone is sufficient to produce credible assignment results in the appraisal of the office building property, an evaluation of this property based solely on the income approach can be performed. However, if the sales comparison approach is necessary for credible results, the appraiser should discuss the necessity of developing and reporting it with the client. The appraiser is ultimately responsible and must include whatever research and analysis is necessary for credible results in the scope of work. 87
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Reporting the Results of an Evaluation

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When reporting evaluations, appraisers need to be aware that the evaluation content, described in the Agencies' Guidelines, may differ from the content required for appraisal reports under STANDARD 2 (see Advisory Opinion 11). It is important that the contents of all appraisal reports satisfy the requirements of STANDARD 2 as well as all applicable assignment conditions. In many cases, an Appraisal Report may be required, but in other cases, a Restricted Appraisal Report may be sufficient if expanded to include all of the content requirements for an evaluation. 93
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In addition to the requirements in USPAP, an appraisal report used in an evaluation assignment must also comply with the *Interagency Appraisal and Evaluation Guidelines*. The December 2010 Agencies' Guidelines include the following report requirements: 98
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XIII. Evaluation Content

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An evaluation should contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision. An evaluation's content should be documented in the credit file or reproducible. The evaluation should, at a minimum: 102
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- *Identify the location of the property.* 105
- *Provide a description of the property and its current and projected use.* 106
- *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.* 107
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- *Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed.* 110
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- *Describe the analysis that was performed and the supporting information that was used in valuing the property.* 112
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- *Describe the supplemental information that was considered when using an analytical method or technological tool.* 114
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- *Indicate all source(s) of information used in the analysis, as applicable, to value the property, including:* 116
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 - *External data sources (such as market sales databases and public tax and land records);* 118
 - *Property-specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information);* 119
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 - *Evidence of a property inspection;* 121
 - *Photos of the property;* 122
 - *Description of the neighborhood; or* 123
 - *Local market conditions.* 124
- *Include information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature (electronic or other legally permissible signature) of the preparer.* 125
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Conclusion

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An evaluation, when performed by an individual acting as an appraiser, is an appraisal. In addition to complying with USPAP, the appraiser must be aware of and comply with any additional assignment conditions and reporting requirements imposed on the assignment. 128
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¹² NCUA regulations do not contain an exemption from the appraisal requirements specific to member business loans.