Appraisal Review
for Appraiser Regulators

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October 14, 2017
• How appraisal regulators can use appraisal reviews
• Types of appraisal reviews used by appraisal regulators
• Example of a USPAP compliancy form
How Appraisal Regulators Can Use Reviews
How Appraisal Regulators Can Use Appraisal Reviews

- To maintain public trust
- Minimum USPAP standards.
- Reviews can be a first step
- Field reviews can be a second step
Review Terminology

• USPAP uses the term appraisal review
• The Appraisal Institute’s Standards of Valuation Practice (SVP) uses the term review
• The International Valuation Standards (IVS) uses the term valuation review
“APPRAISAL REVIEW: the act or process of developing and communicating an opinion about the quality of another appraiser’s work that was performed as part of an appraisal or appraisal review assignment.”
Two Types of Appraisal Reviews

- Appraisal reviews can be used for:
  - work product submissions
  - initial complaint screening

- Appraisal field reviews can be used to consider:
  - geographic competence
  - Value opinions
  - other opinions and conclusions noted with a complaint
Reviewer Objectivity Revisited

- Obligation to protect the public trust
- Work that is meaningful and not misleading
- Acting in the role of a reviewer
Board Members as Reviewers

- Have same obligations
- USPAP and state law
Competence

USPAP States:

“COMPETENCY RULE

An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment. In all cases, the appraiser must perform competently when completing the assignment.”
USPAP defines the Scope of Work as “the type and extent of research and analysis in an appraisal or appraisal review analysis.”
The USPAP Scope of Work Rule States:

“SCOPE OF WORK RULE

For each appraisal and appraisal review assignment, an appraiser must:

1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and
3. disclose the scope of work in the report.”
Important Issues for Regulators

- USPAP
- IAG, FDIL, ECOA, Reg B, FNMA, ALLL, FASB
- Uniform Appraisal Standards for Federal Land Acquisitions and Just Compensation
- IRS
- Other standards
- Green construction
- LEEDS
- Historic preservation & easements
- TIF & Abatement
- Litigation precedents
Use a Review Form

- Appraisal Boards can develop forms:
  - USPAP checklist
  - State specific check list
  - Other information

- Forms allow for consistency
- Assist with SOW expectations
Summary

- Work product submission reviews
- Complaint cases
- Use of outside reviewers promotes and maintains public trust by ensuring Appraisal Board impartiality and objectivity
- Regulators and the review process
Reviewer Objectivity

- Obligation to protect the public trust
- Work that is meaningful and not misleading
- Acting in the role of a reviewer
Reviewer Objectivity

- Position of neutrality
- Reviewer might find no errors or weaknesses in some cases
- Review appraiser’s work, not appraiser
Reviewer Objectivity

• Reviewer different from appraiser
• No bias toward appraiser or report
• AI’s 7-step process for reviewers
Seven Key Steps of Real Property Appraisal Review

Step 1
Overview of the Review Process

A specific range of skill, knowledge ability to do something successfully being adequately or well qualified the condition of being capable of to meet demands, requirements

Ivelin Radkov/Shutterstock.com
Overview of the Review Process

<table>
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Overview of the Review Process

Assignment Conditions
1. *Extraordinary assumptions
2. Hypothetical Conditions
   *Only if reviewer is also providing an opinion of value

From: Review Theory, p. 123-124
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Assignment Conditions
3. Assumptions
4. Laws and regulations that apply to assignment
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**NOTE:** Assignment conditions can’t preclude the reviewer from achieving credible assignment results.
Seven Key Steps of Real Property Appraisal Review

Step 2
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| STEP 2 | Reviewer’s Scope of Work |
Overview of the Review Process

- **Scope of Work** - Type and extent of research and analyses in an appraisal/appraisal review assignment (USPAP, DEFINITIONS Section)
Overview of the Review Process

In a review assignment, the reviewer must:

• Identify the review problem to be solved
• Determine and perform the scope of work necessary to develop credible assignment results
• Disclose the reviewer’s scope of work in the report
Seven Key Steps of Real Property Appraisal Review

Step 3
Overview of the Review Process

**STEP 2**
Reviewer’s Scope of Work

**STEP 3**
Reviewer’s Research and Analyses

- Consistent with the reviewer’s scope of work, examine the work under review regarding
- Completeness
- Accuracy
- Adequacy
- Relevance
- Reasonableness

Completeness
- Comprehensive
- Thorough
• Completeness
  – Site description section states that the zoning classification is C4, but the report contains no explanation of what the zoning label means
• Accuracy

• Companion to completeness

• Best relates to data and analyses
  o Conformity
  o Correctness
  o Provable
Examples

The narrative discussion of the cost approach is inconsistent with the cost approach summary ...
Adequacy

- From a review context; two aspects
  - Minimum
  - Acceptable
Adequacy Example

- The appraisal report does not adequately address relevant characteristics of the property
- Such as cross easements in a shopping center
Relevance

- Connected
- Applicable
- Useful
- Significant

ZONING:
The Subject Site per the Area Planning Commission is reported as a recently re-zoned PDRN. The Planned Development (PDNR) zoning is a “pending” zoning that is really contract zoning. The land is now “ear marked” for a specific project but will not be “so zoned” until the improvements are fully designed and approval signed off on (and completed and the final plat recorded as a technical matter). In essence the SITE is SPECIFIC USE ZONED.

For numerous reasons the locals are enamored with the use of PD Zoning to “control” what goes on in development. Often it ZONING seems more like mating elephants, entertaining monkeys, and herding cats than LAND PLANNING! Then there are the REAL ISSUES: the
• **Reasonableness**
  – Common sense—practical judgment, realistic, and credible
  – Rational—balanced and sound thinking, not excessive or extreme
  – Fair—impartial, objective, evenhanded, and open-minded
  – Acceptable—suitable
• Tests of reasonableness
  – An appraisal report under review states that public utilities are projected in the subject’s area within the next three to five years.
    ○ May need to verify with local officials
  – Did the appraiser select comparable sales that are similar in regard to the projected arrival of public utilities
Seven Key Steps of Real Property Appraisal Review

Steps 4-7
### Overview of the Review Process

#### STEP 3
**Reviewer’s Research and Analyses**
- Consistent with the reviewer’s scope of work, examine the work under review regarding:
  - Completeness
  - Accuracy
  - Adequacy
  - Relevance
  - Reasonableness

#### STEP 4
**Review of Appraiser’s Analyses, Opinions, and Conclusions**
- Develop an opinion of whether the analyses are appropriate within the context of the requirements applicable to that work.
- Develop an opinion of whether the opinions and conclusions are credible within the context of the requirements applicable to that work; and
- Develop reasons for any disagreement.
### Overview of the Review Process

#### STEP 4

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Overview of the Review Process

**STEP 6**
Development of the Reviewer's Own Opinion of Value
When the scope of work includes the reviewer developing his or her own opinion of value

**STEP 7**
Reviewer's Report Consistent with Intended Use
Overview of the Review Process

The minimum content for a written review report per USPAP STANDARD 3 summarized as follows:

1. Reviewer’s client and any other intended users of the review report. *Who does the reviewer intend will use the review report?*
2. Reviewer’s intended use of the review. *How does the reviewer intend the review report to be used?*
3. Purpose of the review. *What is the problem the review is solving or the question(s) it is answering?*
4. Subject of the review assignment. *What is being reviewed?*
5. Ownership interest of the property that is the subject of the work under review.
6. Date of the work under review. *The date the appraiser transmitted the work under review to his/her client."
7. Effective date of the opinions and conclusions in the work under review.
Overview of the Review Process

8. Appraiser(s) who completed the work under review. *If you are not provided with the identity of the appraiser(s), state that in the report.*

9. Date of the review report. *This will be the date you transmit your review report to your client.*

10. Extraordinary assumptions and hypothetical conditions used in the review and a statement that their use might have affected the assignment results. *These will be the reviewer’s extraordinary assumptions and hypothetical conditions, not the appraiser’s, though there may be overlap.*

11. Reviewer’s scope of work.

12. Reviewer’s opinions and conclusions about the work under review, including the reasons for any disagreement.

13. When the scope of work includes the reviewer’s development of an opinion of value, state which information, analyses, opinions, and conclusions in the work under review the reviewer accepted as credible and used in developing the reviewer’s own opinion. Summarize any additional information relied on and the reasoning for the reviewer’s opinion of value. *This latter part will be the filling discussed in Part 10.*

Value Added

• Value of the appraisal review function
• Subject of the review
• Work file
Value Added

• Common issues
• Successful reviewers
• Quality control
• Eligible to prepare reviews
Credibility Added

• Reinforce confidence
• Appraisal process vs. the appraisal review process
• Competency issues
• Geographic
• Sector
• Technical
• Effective date issues
• Time of report
• Time of review
Multi-faceted Thinker

- The review appraiser excels:
  - Mental math
  - Custom analysis
  - Reasonableness tests
  - Technology
- Working parts of real estate sectors
- Urban economist
Technical Talk – Reviews

- Tests of Reasonableness
  - Comparable sales
  - Bracketing
  - The best metrics

- Errors
  - Magnitude
  - Counterpoint
Appraisal Institute
Review Designations

AI-GRS

AI-RRS