

Appraisal Review in Light of USPAP

by Thompson Bradford Core

This article was written based on information contained in the 1994 edition of the Uniform Standards of Professional Practice (revised March 22, 1994), statements from the Appraisal Standards Board and from information contained in the Instructor's Manual for teaching the Uniform Standards of Professional Appraisal Practice, all provided by the Appraisal Foundation.

STATE CERTIFIED REAL ESTATE APPRAISERS know that all appraisal related assignments must fully comply with the Uniform Standards of Professional Appraisal Practice. The majority of assignments involve valuation, and appraisers continually strive to meet the real property appraisal requirements of Standard 1 and the reporting requirements of Standard 2.

In addition to valuation assignments, appraisers occasionally are requested to serve as a *review appraiser* within appraisal firms, institutions or on a contract or fee basis. This article will focus specifically on the Standards regarding review of real property appraisals.

There appears to be some confusion or lack of information as to what type of review is being requested by most individuals in the industry. The Appraisal Standards Board indicates that there are two types of appraisal review: a technical review and an administrative review.

A technical review is "work performed by an appraiser in accordance with Standard 3 for the purpose of forming an opinion as to whether the analysis, opinions and conclusions in the report under review are appropriate and reasonable".

An administrative review is "work performed by clients and users of appraisal services as a due diligence function in the context of making a business

decision (underwriting, buy/sell)." While the requirements provided by Standard 3 may be helpful to these parties, they are not bound to observe Standard 3 as is the appraiser.

Two factors separate the technical review performed regarding Standard 3 from the administrative review. One is the ability to express a different estimate of value. The other is the certification required by Standard Rule 3-2(e). Clients and users of appraisals performing administrative reviews are not required to certify, but the appraiser performing a technical review appraisal *must*.

Appraisers are required to follow Standard 3 in performing the review appraisal function and are subject to the Ethics Provision, Competency Provision and all other applicable sections of USPAP. The review appraiser must exercise extreme care in clearly distinguishing between the review process and the appraisal process. Original work by the review appraiser may be governed by Standard 1 rather than this standard. A misleading or fraudulent review and/or report violates the Ethics Provision.

Individuals training to be appraisers who assist in performing review appraisals must follow Standard 3 to insure that their work product is consistent with USPAP as they seek appraisal experience.

The administrative review is performed by a variety of individuals. These include, but are not limited to, lawyers, accountants, loan officers and underwriters, bank examiners, purchasers and sellers, and corporate decision majors. The intent of these individuals is to consider the information in the appraisal report along with other

information as part of the basis for a business decision. Also, the individual performing the administrative review does not have to be an appraiser to consider the information in an appraisal.

The clear distinction is that the administrative review is used in overall business decisions. The individual performing the administrative review may not necessarily have the competence or information sources to perform an appraisal. After completing the administrative review, this individual is in a position to do the following: understand the strengths and weaknesses of the information leading to the value estimate; make a decision whether or not to pursue litigation; apply conservative or aggressive underwriting guidelines; make or accept an offer to purchase; and/or check for content in a report such as legal description, property rights appraised, flood zone map, sales location map, highest and best use analysis.

In view of the foregoing, technical reviews are performed by appraisers. Appraisers who perform reviews are required to prepare a separate report or file memorandum, which sets out the results of the review process. Review appraisers go beyond checking for content, completeness and consistency in the report under review by providing comment on the content and conclusions of the report.

Reviewing is a *distinctly different* function than co-signing an appraisal report as indicated by Standard Rule 2-5. Review appraisers may or may not have full knowledge of the subject property or data in the report. Therefore, review appraisers should not sign the report unless they intend to take the responsibility of a co-signer.

Review appraisers must take appropriate steps to indicate the precise extent of the review process. A separate report or letter is one method. Another appropriate method is a form or checklist prepared and signed by the appraiser conducting the review and attached to the report under review. It is also possible that a stamped impression on the appraisal report under review, signed or initialed by the reviewing appraiser, may be an appropriate method for separating the review function from the actual signing of the report. To be effective, however, the stamp must briefly indicate the extent of the review process and refer to a file memorandum that clearly outlines the review process conducted.

If a reviewer is in disagreement with the contents of the report, he or she should state what is wrong, inappropriate or unreasonable. If the review appraiser indicates what the result(s)

should be, or what is correct, then a *substitute* appraisal report should be prepared and is subject to the requirements of Standards 1 and 2. If the review appraiser finds the report under review is not in compliance with the Standards, any items of non-compliance must be explained and handled in conformity with Standard 1 in order to provide a credible valuation estimate by the review appraiser.

Appraisers should be thoroughly familiar with these Standards before accepting review assignments. All sections of Standard 3 are binding requirements; therefore, *the Departure Provision may not be applied in this Standards rule.*

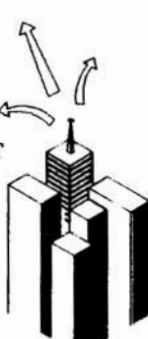
One question that frequently arises is: "Can a certified appraiser perform an administrative review?" For me, certified appraisers should not prepare administrative reviews, because a certified appraiser must *always* comply with the Standards. Individuals per-

forming administrative reviews are not required to comply with USPAP but *certified appraisers must*. Therefore, certified appraisers may only perform technical appraisal reviews under the guidelines of USPAP. □

Thompson Bradford Core is a state certified general real estate appraiser and currently serves on the Appraisal Sub-Committee of the Louisiana Real Estate Commission as Education Chairman. He is an approved instructor by the Commission and has taught the Uniform Standards of Professional Appraisal Practice course for the American Society of Appraisers. He is chairman of the American Society of Appraisers, Chapter 69 - Baton Rouge Branch and holds the Accredited Senior Appraiser (ASA) designation. He is a member of International Right of Way Association Chapter 43 and currently serves as the Louisiana appraiser certification liaison for IRWA.


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