

The reasonable exposure period is a function of price, time, and use, not an isolated opinion of time alone. As an example, an office building, an important artwork, a fine gemstone, a process facility, or aircraft could have been on the market for two years at a price of \$2,000,000, which informed market participants considered unreasonable. Then, the owner lowers the price to \$1,600,000 and starts to receive offers, culminating in a transaction at \$1,400,000 six months later. Although the actual exposure time was 2.5 years, the reasonable exposure time at a value range of \$1,400,000 to \$1,600,000 would be six months. The answer to the question "what is reasonable exposure time?" should always incorporate the answers to the question "for what kind of property at what value range?" rather than appear as a statement of an isolated time period.

Discussion of Exposure Time in the Appraisal Report

The discussion of reasonable exposure time should appear in an appropriate section of the appraisal report that presents the discussion and analysis of market conditions and be referenced at the statement of the value definition and value conclusion.

Applications to Client Uses of an Appraisal

When an appraisal is commissioned as the result of a mortgage application after a potential seller and buyer enter into a Contract for Sale, no conflict exists between the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal and the function (client use) of the appraisal.

When an appraisal is commissioned for employee relocation, asset evaluation, foreclosure, or asset management purposes, the presumption in the appraisal process that exposure time occurs prior to the effective date of the appraisal may conflict with the function of the appraisal as envisioned by the client.

Problems arise when clients attempt to make business decisions or account for assets without understanding the difference between reasonable exposure time and marketing time (see related Advisory Opinion AO-7 on Marketing Time Opinions).

CONCLUSIONS:

- The reasonable exposure time inherent in the market-value concept is always presumed to precede the effective date of the appraisal.
- Exposure time is different for various types of property and under various market conditions.
- The answer to the question "what is reasonable exposure time?" should always incorporate the answers to the question "for what kind of property at what value range?" rather than appear as a statement of an isolated time period.

Adopted September 16, 1993

Revised September 16, 1998

Revised September 15, 1999

STATEMENT ON APPRAISAL STANDARDS NO. 7 (SMT-7)⁴⁹
SUBJECT: Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments

THE ISSUE:

When is it appropriate to invoke the DEPARTURE RULE in performing real property and personal property appraisals, and what are the reporting requirements when the DEPARTURE RULE is utilized?

Throughout the history of appraisal practice, a perception has existed that certain types of market transactions require something less than or different from a Complete Appraisal. The phrase "something less than or different from" in this context has meant a Limited Appraisal and a condensed report. To distinguish this type of assignment from a Complete Appraisal, different names have been created for this activity, including Letter Opinion of Value, Update of an Appraisal, Recertification of Value, Certificate of Authenticity, Statement of Quality and Value and, more recently, Evaluation of Real Property Collateral.

When legitimate requests are made by a knowledgeable client or client group for a Limited Appraisal for a particular transaction or type of transaction, do the *Uniform Standards of Professional Appraisal Practice* allow an appraiser to perform such a service? If so, under what conditions?

THE STATEMENT:

Relevant USPAP References

In the DEFINITIONS Section of USPAP, the Comment to the definition of Appraisal Practice states:

The use of other nomenclature by an appraiser (e.g., analysis, counseling, evaluation, study, submission, valuation) does not exempt an appraiser from adherence to these standards.

The DEPARTURE RULE of USPAP states:

...An appraiser may enter into an agreement to perform an assignment in which the scope of work is less than, or different from, the work that would otherwise be required by the specific requirements...

This rule goes on to permit exceptions from specific requirements, provided that (in summary):

- the appraiser determines the appraisal process is not so limited that the results of the assignment are no longer credible;
- the appraiser advises the client of the limitations and discloses the limitations in the report; and
- the client agrees that the limited service would be appropriate given the intended use.

The following definitions from the DEFINITIONS Section of USPAP are also relevant to the understanding of the response to this issue:

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

Complete Appraisal: the act or process of developing an opinion of value or an opinion of value developed without invoking the DEPARTURE RULE

Limited Appraisal: the act or process of developing an opinion of value or an opinion of value developed under and resulting from invoking the DEPARTURE RULE.

BINDING REQUIREMENTS: all or part of a Standards Rule of USPAP from which departure is not permitted.

REPORT: any communication written or oral, of an appraisal, review, or consulting service that is transmitted to the client upon completion of an assignment...

SCOPE OF WORK: the amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following:

- the degree to which the property is inspected or identified;
- the extent of research into physical or economic factors that could affect the property;
- the extent of data research; and
- the type and extent of analysis applied to arrive at opinions or conclusions.

SPECIFIC REQUIREMENTS: all or part of a Standards Rule of USPAP from which departure is permitted...

Response to the Issue

The DEPARTURE RULE and STANDARDS 1 and 7 permit the development of two types of appraisals (Complete Appraisal and Limited Appraisal). Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the same time, appraisers must adhere to USPAP in the performance of all types of assignments.

In STANDARD 1 (Real Property Appraisal, Development), the requirements from which an appraiser is permitted to depart are within Standards Rules 1-3 and 1-4. In STANDARD 7 (Personal Property Appraisal, Development), the requirements from which an appraiser is permitted to depart are within Standards Rule 7-3 and 7-4. These are specific requirements that might not need to be applied in every assignment in order to produce a credible appraisal.

No departure is permitted from the requirements of Standards Rules 1-1, 1-2, or 1-5 (in real property appraisal), or Standards Rules 7-1, 7-2, or 7-5 (in personal property appraisal) because exceptions to these binding requirements would jeopardize the credibility of any appraisal.

The attached table illustrates the relationship of the action steps set forth in STANDARDS 1 and 7 and the content elements addressed in STANDARDS 2 and 8 to steps in the real property and personal property valuation processes.

Scope of Work

The DEPARTURE RULE states, "The burden of proof is on the appraiser to decide before accepting an assignment and invoking this rule that the scope of work applied will result in opinions or conclusions that are credible."

Standards Rules 1-2(f) and 7-2(f) require the appraiser to identify the scope of work necessary to complete the assignment. When the Departure Rule is invoked, the scope of work is reduced. It is important that both the appraiser and client fully understand how this will affect the reliability of the resulting opinions and conclusions. It is also important that the client agrees that the resulting level of reliability is appropriate for the intended use.

Applicable vs. Necessary Specific Requirements

The Comment to the DEPARTURE RULE states, in part:

Not all specific requirements are applicable to every assignment. When a specific requirement is not applicable to a given assignment, the specific requirement is irrelevant and therefore no departure is needed.

A real estate example of when a specific requirement would not be applicable is when the property appraised consists of unimproved land. Standards Rule 1-4(b), which requires a cost approach, is not applicable and for that assignment is effectively void. Therefore, departure is not an issue, and the appraisal does not become a Limited Appraisal because Standards Rule 1-4(b) was not followed. Similarly, in a personal property appraisal, failure to analyze an income approach in accordance with Standards Rule 7-4(c) would not result in a Limited Appraisal if the subject property is not potentially an income producing property considering its type and the intended use of the report.

Of those specific requirements that are applicable to a given assignment, some may be necessary in order to result in opinions or conclusions that are credible. When a specific requirement is necessary to a given assignment, departure is not permitted.

As an example in a real property appraisal context, Standards Rule 1-4(a) says that when a sales comparison approach is applicable to an assignment, the appraiser must analyze comparable data to develop a value opinion. Departure is permitted from this requirement. However, if the property appraised is a single-family residence, and the sales comparison approach is both applicable and necessary for credible results, departure would not be permitted. Similarly, in a personal property appraisal context, the appraiser must consider the sales comparison approach in accordance with Standards Rule 7-4(a) if the property being appraised is of a type that is normally traded as a whole and in an identifiable marketplace, and such analysis is consistent with the intended use of the report.

The Comment to the DEPARTURE RULE continues in part:

Departure is permitted from those specific requirements that are *applicable* to a given assignment, but *not necessary* in order to result in opinions or conclusions that are credible.

As an example, Standards Rule 1-4(b) says that when a cost approach is applicable to an assignment, the appraiser must, in effect, develop a cost approach to value. In the case of the appraisal of a single-family residence, a cost approach may be applicable. However, if it is not necessary for credible results, departure would be permitted. Similarly, in accordance with Standards Rule 7-4(b), a personal property appraiser valuing a collectable item such as a work of art or rare book would not need to consider the cost approach, since a replication would not result in an item of equal value or desirability.

The Comment to the DEPARTURE RULE defines “applicable”:

A specific requirement is *applicable* when:

- it addresses factors or conditions that are present in the given assignment, or
- it addresses analysis that is typical practice in such an assignment.

Examples of when specific requirements would be applicable include (but are not limited to) the following:

- Standards Rule 1-4(a) is nearly always applicable when the property appraised is a single-family residence, because a sales comparison approach is typical practice for this property type.
- Standards Rule 1-4(b) is probably applicable when the property improvements are proposed or newly constructed.
- Standards Rule 1-4(c) is applicable to most appraisals of income-producing properties.
- Standards Rule 1-4(d) is applicable whenever the interest appraised is a lease or leasehold estate.

- Standards Rule 1-4(e) is applicable whenever the property appraised involves an assemblage of interests or physical components.
- Standards Rule 1-4(f) is applicable whenever onsite or offsite, public or private improvements that could affect the subject property are anticipated.
- Standards Rule 1-4(g) is applicable whenever the appraisal includes property that is not real property.
- Standards Rule 1-4(h) is applicable whenever the appraisal involves proposed improvements.
- Standards Rule 7-4(a) is nearly always applicable when the property appraised is a classic automobile, 18th century chair, antique brooch, or metal working equipment, etc.; because a sales comparison approach is typical practice for that type of property.
- Standards Rule 7-4(b) is nearly always applicable when the property being appraised is new or a special design property.
- Standards Rule 7-4(c) is applicable when the property being appraised is income producing.
- Standards Rule 7-4(d) is applicable when the property being appraised is leased.
- Standards Rule 7-4(e) is applicable when the property being appraised involves an assemblage, a complete set, or a complete series.
- Standards Rule 7-4(f) is applicable when the property being appraised is damaged and a restoration or modification will affect market acceptance (such as replacement of three damaged legs to an 18th century high chest on chest, or user customization of the property).
- Standards Rule 7-4(g) is applicable when the property being appraised includes property that is not personal property.
- Standards Rule 7-4(h) is applicable when the property appraised involves proposed modifications.

The Comment to the DEPARTURE RULE also defines “not applicable”:

A specific requirement is not applicable when:

- it addresses factors or conditions that are not present in the given assignment, or
- it addresses analysis that is not typical practice in such an assignment, or
- it addresses analysis that would not provide meaningful results in the given assignment.

An example of when a specific requirement is considered *not applicable* might be Standards Rule 1-4(c), which calls for an income approach to value, when the property appraised is a single-family residence. For this property type, an income approach is not typical practice, and it generally would not provide meaningful results.

An example of when a specific requirement is considered *not applicable* might be Standards Rule 7-4(c), which calls for an income approach to value, when the property appraised is a diamond necklace, 19th century Meissen vase, a rare book, or autoclave. For this property type, an income approach is not typical practice, and it generally would not provide meaningful results.

The Comment to the DEPARTURE RULE also defines “necessary”:

A specific requirement is considered to be both applicable and necessary when:

- it addresses factors or conditions that are present in the given assignment, or
- it addresses analysis that is typical practice in such an assignment, and

- **lack of consideration for those factors, conditions, or analyses would significantly affect the credibility of the results.**

When a specific requirement is considered “necessary,” it is inappropriate to depart from it. Examples of when adherence to specific requirements become necessary include (but are not limited to) the following:

- Standards Rule 1-4(a) or 7-4(a) become a necessary requirement when the sales comparison approach is the most meaningful valuation approach and failure to apply it would result in an appraisal that is not credible.
- Standards Rule 1-4(b) or 7-4(b) become a necessary requirement when the cost approach is the most meaningful valuation approach and failure to apply it would result in an appraisal that is not credible.
- Standards Rule 1-4(c) or 7-4(c) become a necessary requirement when the income approach is the most meaningful valuation approach and failure to apply it would result in an appraisal that is not credible.
- Standards Rule 1-4(d) 7-4(d) become a necessary requirement when failure to take into account the terms and conditions of the lease would result in a lease interest valuation that is not credible.
- Standards Rule I-4(e) or 7-4(e) become a necessary requirement when failure to properly account for the assemblage of various estates or component parts would result in an appraisal that over- or understates the value of the whole, or is otherwise not credible.
- Standards Rule 1-4(f) or 7-4(f) become a necessary requirement when failure to take into account anticipated public or private, onsite- or offsite improvements would result in a valuation that is not credible.
- Standards Rule 1-4(g) or 7-4(g) become a necessary requirement when failure to account properly for non-real-estate items would result in a valuation that is not credible.
- Standards Rule I-4(h) or 7-4(h) become a necessary requirement when failure to analyze proposed improvements, or modifications to personal property properly would result in a valuation that is not credible.

The Comment to the DEPARTURE RULE also defines what is meant by “typical practice”:

Typical practice for a given assignment is measured by:

- the expectations of the participants in the market for appraisal services, and
- what an appraiser’s peers actions would be in performing the same or a similar assignment.

“The expectations of the participants in the market for appraisal services” means those entities that are commonly clients of appraisers and who regularly use appraisals. “Appraiser’s peers” are other competent, qualified appraisers who have expertise in similar types of assignments involving similar types of properties.

Standards Rules 1-4 and 7-4 address most of the operational steps in the appraisal process, including the three traditional approaches to value. The ability to invoke departure from this standards rule allows flexibility in the scope of work relating to these operational steps.

Levels of Reliability

Although no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in real property appraisals. The highest level of reliability is a Complete Appraisal performed without invoking the DEPARTURE RULE. Limited Appraisals performed under and resulting from invoking the DEPARTURE RULE have varying levels of reliability.

Both appraisers and users of appraisal services must realize that, as the degree of departure increases, the corresponding level of reliability of the Limited Appraisal decreases and the user of the appraisal service accepts a higher level of risk.

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 or STANDARD 7 is not affected by the type of appraisal report prepared under STANDARD 2 or STANDARD 8, respectively. The extent of the appraisal process performed under STANDARD 1 or STANDARD 7 is the basis for the reliability of the value conclusion.

Although the level of reliability may vary, the degree of credibility may not. The results of an appraisal must be credible, given the purpose and intended use of the assignment. Departure from specific requirements must not suggest carelessness or negligence in the appraisal development process. The burden of proof is on the appraiser to decide that the scope of work applied in an assignment is adequate and leads to results that are credible and meaningful to the intended users.

Reporting Requirements

STANDARD 2 (Real Property Appraisal, Reporting) and STANDARD 8 (Personal Property Appraisal, Reporting) contain written reporting Standards to which departure does not apply. Standards 2 and 8 mandate one of three options for written report formats (Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report) and content items for each option.

USPAP does not dictate the form, format or style of appraisal reports, which are functions of the needs of users and providers of appraisal services. USPAP also does not mandate that each appraisal report be lengthy and full of disclaimers.

When reporting the result of a Limited Appraisal the appraiser must disclose permitted departures in compliance with Standards Rule 2-2(a), (b), or (c), in a written real property appraisal report and Standards Rule 8-2(a), (b), or (c), in a written personal property appraisal report; so that the client and intended users of the report can understand the level of reliability of the Limited Appraisal. Specifically, these rules require that the report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.⁵⁰

Clarification of Nomenclature

Various nomenclature has been developed by clients and client groups for certain appraisal assignments. The development of this Statement on Appraisal Standards is a response to inquiries about several types of appraisal assignments, and it is appropriate to clarify the meaning of these terms for future reference.

The term "Letter Opinion of Value" has been used to describe a one-page letter sent to a client that stated a value opinion and referenced the file information and experience of the appraiser as the basis for the opinion. This type of service does not comply with USPAP and should be eliminated from appraisal practice. USPAP recognizes that the results of any appraisal assignment may be presented in a letter format, provided that the content items in one of the three report options under Standards Rule 2-2 or 8-2 are addressed. The Restricted Use Appraisal Report is the minimum report format; it replaces the concept of the Letter Opinion of Value.

The term "Update of an Appraisal" is defined as an extension of an original Complete or Limited Appraisal and report relied on by a client for a prior business decision. The Update of an Appraisal changes the effective date of the value opinion. See Advisory Opinion AO-3 for a further discussion and description of this type of appraisal assignment.

The term "Recertification of Value" has been mistakenly used in lieu of the term Update of an Appraisal by some clients. A Recertification of Value is performed to confirm whether or not the conditions of an appraisal have been met. A Recertification of Value does not change the effective date of the value opinion.

The term "Evaluation of Real Property Collateral" is used by financial institutions. The manner in which an appraiser can provide an Evaluation of Real Property Collateral is described in Advisory Opinion AO-13.

CONCLUSIONS:

- Appraisers are trained and qualified to identify when a Limited Appraisal is appropriate. At the same time, appraisers must adhere to USPAP in the performance of all types of assignments.
- As long as the appraiser determines that the request for something less than or different from a Complete Appraisal would result in opinions and conclusions that are credible, then the DEPARTURE RULE can be invoked and the assignment can be accepted and performed.
- To make the initial determination that the requested Limited Appraisal is appropriate, the appraiser must at least know the level of understanding that the client has of the type of real estate and market conditions involved and the intended use of the appraisal.
- It is not always appropriate to expect a single point opinion of value when a Limited Appraisal is authorized and performed. The resulting opinion of value may be expressed as a single point value opinion, a range in value, or a value relationship (e.g., not less than, not more than) from a previous value opinion or established benchmark (e.g., assessed value, collateral value).
- Standards Rules 2-2 and 8-2 set forth three options for any written report (Self-Contained Appraisal Report, Summary Appraisal Report, or Restricted Use Appraisal Report) and content items for each option.
- Although no appraisal conclusion is a guarantee, USPAP allows for different levels of reliability in real property and personal property appraisal assignments. The highest level of reliability is a Complete Appraisal performed without invoking the DEPARTURE RULE.
- Limited Appraisals performed under and resulting from invoking the DEPARTURE RULE have varying levels of reliability.
- Both appraisers and users of appraisal services must realize that, as the degree of departure increases, the corresponding level of reliability of the Limited Appraisal decreases and the user of the appraisal service accepts a higher level of risk.
- The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 or 7 is not affected by the type of appraisal report prepared under STANDARD 2 or 8, respectively. The extent of the appraisal process performed under STANDARD 1 or 7 is the basis for the reliability of the value conclusion.
- When reporting the result of a Limited Appraisal, the appraiser must disclose permitted departures in compliance with Standards Rule 2-2(a), (b), or (c), in a written real property appraisal report and Standards Rule 8-2(a), (b), or (c), in a written personal property appraisal report; so that the client and intended users of the report can understand the level of reliability of the Limited Appraisal.

Adopted March 22, 1994
Revised September 16, 1998

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Relationship Between the Real Property Valuation Process and USPAP Standards 1 and 2

The Real Property Valuation Process

Define the Appraisal Problem

- (1) Identify the Intended Use and Users of the Appraisal
- (2) Define Value(s) to be Developed
- (3) Establish Date(s) of Value Opinion(s)
- (4) Identify and Locate the Real Estate
- (5) Identify the Property Rights to be Valued
- (6) Identify Limiting Conditions or Limitations

Preliminary Analysis and Plan: Select and Collect Data

General (market):	Subject Property:	Competitive Properties:
Market Analysis	Property Analysis	Comparison Analysis
Demand Components	Site/Improvements	Sales
Supply Components	Size	Rentals
Trends	Age and Condition	Costs
Forecasts	Location	Elements of Comparison
	Legal (Title, Use)	Units of Comparison

Develop Highest and Best Use Opinion

Land as if Vacant and Available
Property as Improved (Existing or Proposed)

Develop Indicator(s) of Land/Site/Value (As Defined)

Sales Comparison	Income Capitalization	Income Capitalization
	Subdivision/Development	
Develop Indicator(s) of Improved Property Value (As Defined)	Sales Comparison	Income Capitalization
Cost		

Reconcile Value Indicators; Reach Defined Value Opinion

Report Opinion(s) of Value(s) (As Defined)

Uniform Standards References

DEVELOPMENT RULES

- Ethics Rule
- Competency Rule
- Departure Rules
- Definitions
- Standards Rules 1-1, 1-2

Standards Rule 1-3

Standards Rule 1-3

Standards Rule 1-4

Standards Rule 1-4

Standards Rule 1-5

Standard 2

REPORTING RULES

- Standards Rule 2-1
- Standards Rule 2-2:
 - (a)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)
 - (b)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)
 - (c)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)

Standards Rule 2-2:

- (a)(ix)
- (b)(ix)
- (c)(ix)

Standards Rule 2-2:

- (a)(x)
- (b)(x)
- (c)(x)

Standards Rule 2-2:

- (a)(ix) and (xi)
- (b)(ix) and (xi)
- (c)(ix) and (xi)

Standards Rule 2-3

Relationship Between the Personal Property Valuation Process and USPAP Standards 7 and 8

The Personal Property Valuation Process

Define the Appraisal Problem

- (1) Identify the Intended Use and Users of the Appraisal
- (2) Define Value(s) to be Developed
- (3) Establish Date(s) of Value Opinion(s)
- (4) Identify Subject Property(s)
- (5) Identify Property Rights to be Valued
- (6) Identify Limiting Conditions or Limitations

Preliminary Analysis and Plan: Select and Collect Data

General (Market)	Subject Property	Competitive Analysis
Market Analysis	Property Analysis	Comparison Analysis
Relevant Market	Description	Sales
Demand Components	Origin	Rentals
Supply Components	Age and Condition	Costs
Trends	Dimensions	Elements of Comparison
Forecasts	Creator / Manufacturer	Units of Comparison

Analyze Highest and Best Use Opinion

Identify the Location of the Most Relevant Market

Analysis of Indicators of Value

Collect Data, Analyze Data, and Verify Where Appropriate

Develop the Appropriate Approach(es) to Value (As Defined)

Cost, Income, and / or Sales Comparison

Reconcile Value Indicators; Reach Defined Value Opinion

Report Opinion(s) of Value(s) (As Defined)

Uniform Standards References

DEVELOPMENT RULES

Ethics Rule

Competency Rule

Departure Rule

Definitions

Standards Rules 7-1, 7-2

Standards Rule 7-3

Standards Rule 7-3

Standards Rule 7-4

Standards Rule 7-5

Standard 8

REPORTING RULES

Standards Rule 8-1

Standards Rule 8-2:

(a)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)

(b)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)

(c)(i), (ii), (iii), (iv), (v), (vi), (vii), (viii)

Standards Rule 8-2:

(a)(ix)

(b)(ix)

(c)(ix)

Standards Rule 8-2:

(a)(x)

(b)(x)

(c)(x)

Standards Rule 8-2:

(a)(ix) and (xi)

(b)(ix) and (xi)

(c)(ix) and (xi)

Standards Rule 8-3

STATEMENT ON APPRAISAL STANDARDS NO. 8 (SMT-8)
SUBJECT: Electronic Transmission of Reports

THE ISSUE:

The Record Keeping section of the ETHICS RULE states that written records of assignments include true copies of written reports. The term "written records" also includes information stored on electronic, magnetic, or other media. Standards 2, 3, 5, 6, 8, and 10 specify the reporting requirements for reports. What constitutes an acceptable electronic transmission of appraisal, appraisal review, and consulting reports?

THE STATEMENT:

Relevant USPAP References

Standards Rules 2-1(a), 5-1(a), 6-7(a), 8-1(a), and 10-1(a) require that a report must clearly and accurately set forth the appraiser's opinions and conclusions in a manner that will not be misleading.

Standards Rule 3-2(d) requires that an appraiser must set forth the opinions, reasons, and conclusions required in Standards Rule 3-1(d-g).

Standards Rules 2-2(a)(xii), (b)(xii), (c)(xii); 3-2(f); 5-2(j); 6-7(l); 8-2(a)(xii), (b)(xii), (c)(xii), and 10-2(a)(xi), (b)(xi) require that each written report contain a signed certification. Suggested specific content items for a certification are included in Standards Rules 2-3, 3-2(f), 5-3, 6-8, 8-3 and 10-3.

The Comment to the Record Keeping section of the ETHICS RULE states: "... A photocopy or an electronic copy of the entire actual written appraisal, appraisal review, or consulting report sent or delivered to the client satisfies the requirement of a true copy."

Transmission Standards

Technology now permits a report to be transmitted to the client by electronic means, thereby making the additional submission of a paper copy report unnecessary. An electronically transmitted report is a written report and must meet the USPAP reporting requirements.

Submission of a report by modem or other computer to computer link constitutes electronic transmission subject to the requirements of this Statement. For clarification, submission of a paper copy report by facsimile with a handwritten mark for the signature does not constitute electronic transmission as discussed in this Statement.

Integrity of Report Transmission

Report transmission addresses data integrity, not the format of the report. However, every transmitted report must meet minimum USPAP reporting content requirements, including a signed certification.

Appraisers must take reasonable steps to protect the data integrity of transmitted reports. The following steps should be taken depending on the client and type of report to be transmitted:

- Enter into a written agreement with the client that clearly states the responsibilities and obligations of the appraisers and the client
- Use computer software that provides, at a minimum, the following security measures:
 - Identifies transmission errors during the transmission process;

- Confirms date, time, and quantity of data transmitted by the appraiser and the date, time, and quantity of data received by the client (which could be different from the transmission date); and
- Protects signature integrity.

SMT-8: Electronic Transmission of Reports (continued)

Signed Certification

Any software program used to transfer a report electronically must provide, at minimum, a digital signature security feature for all appraisers signing a report. The appraiser(s) should ensure that the signature(s) are protected and that only the appraiser(s) maintain control of the signature. This control may be maintained by passwords (e.g., PIN numbers), hardware devices (e.g., secure cards), or other means. Electronically affixing a signature to a report carries the same level of authenticity and responsibility as an ink signature on a paper copy report.

Signature in a signed certification is defined in the DEFINITIONS section of USPAP as follows:

SIGNATURE: personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and the conclusions in the report.

Comment: A signature can be represented by a handwritten mark, a digitized image controlled by a personalized identification number, or other media, where the appraiser has sole personalized control of affixing the signature.

Record Keeping

The Record Keeping section of the ETHICS RULE applies to all reports and permits storage on electronic, magnetic, or other media. A true electronic and/or paper copy of the transmission must be retained by the appraiser. A paper copy of an electronically transmitted report is not required.

CONCLUSIONS:

- An electronically transmitted report is a written report and must meet USPAP reporting requirements.
- Appraisers must take reasonable steps to protect the data integrity of transmitted reports.
- Any software program used to transfer a report electronically must provide, at a minimum, a digital signature security feature for all appraisers signing a report.
- Electronically affixing a signature to a report carries the same level of authenticity and responsibility as an ink signature on a paper copy report.
- The Record Keeping section of the ETHICS RULE applies to all reports and permits storage on electronic, magnetic, or other media. A true electronic and/or paper copy of the transmission must be retained by the appraiser.

Adopted July 18, 1995

Revised

September

16,

1998

STATEMENT ON APPRAISAL STANDARDS NO. 9 (SMT- 9)
SUBJECT: Identification of the Client's Intended Use in Developing and Reporting Appraisal, Appraisal Review, or Consulting Assignment Opinions and Conclusions

THE ISSUE:

An appraiser must identify and consider the client's intended use of the appraiser's reported opinions and conclusions in order to properly define the problem under study and to understand his or her development and reporting responsibilities in an appraisal, appraisal review, or consulting assignment.

An appraiser must state the client's intended use of the appraisal opinions and conclusions in an appraisal report.

What kind of information must an appraiser identify and consider regarding the client's intended use of an appraisal, review, or consulting report in the course of accepting and completing an assignment, and which of that information must an appraiser include in the report?

THE STATEMENT:

General

Although identification of the client's intended use of an appraisal, appraisal review, or consulting report is also a business concern, this activity is an essential step to be taken by an appraiser in performing professional appraisal, appraisal review, or consulting services.

This Statement addresses an appraiser's obligations related to the client's intended use when performing professional appraisal practices under USPAP.

STANDARDS 1, 6, 7 and 9 require an appraiser to identify the purpose and intended use of the appraisal in the course of developing his or her opinions or conclusions in the assignment.

STANDARDS 2, 6, 8 and 10 require an appraiser to state the purpose and intended use of the appraisal in the report. In the context of a written real property appraisal report, Standards Rule 2-2(a) states: "The content of a Self-Contained Appraisal Report must be consistent with the intended use of the appraisal, and, at a minimum..." Standards Rule 2-2(b) states "The content of a Summary Appraisal Report must be consistent with the intended use of the appraisal, and, at a minimum..." Standards Rule 2-2(c) states: "The content of a Restricted Use Appraisal Report must be consistent with the intended use of the appraisal, and, at a minimum ..." Identical language appears in Standards Rules 8-2(a), 8-2(b) and 8-2(c). Similar language appears in other USPAP reporting Standards.

STANDARD 3 requires an appraiser to certify that, among other matters, his or her compensation is not contingent on the use of the review report. STANDARD 5 requires an appraiser to certify whether his or her compensation is contingent on the use of the consulting report. An appraiser performing a review or consulting assignment must be aware of the client's intended use of the appraiser's reported opinions and conclusions in order to reasonably provide the required certification.

The intended use of an appraiser's reported appraisal, appraisal review, or consulting assignment conclusions and opinions is established by the client. The client's intended use may encompass requirements of one or more other intended users. An appraiser cannot reasonably identify the client's intended use without having identified the client and having established a clear understanding of the client's requirements by communicating with the client or the client's agent. An appraiser identifies the client's intended use by communicating with the client before accepting an assignment.

Although an appraiser bound by the *Uniform Standards of Professional Appraisal Practice* must identify and consider the client's intended use of the appraiser's reported appraisal, appraisal review, or consulting opinions and conclusions, an appraiser must not allow a client's intended use or the requirements of any user of the report to affect the appraiser's independence and objectivity in performing an assignment. An appraiser must not allow a client's objectives to cause the analysis or report to be biased.

Identification of the Client and Intended Users in an Assignment

In order to properly define the problem under study and to understand his or her responsibilities in an assignment, an appraiser must identify the client and, to the extent practical, other intended users as part of the process of identifying the client's intended use of the appraisal, appraisal review, or consulting report. This could be accomplished by communication with the client prior to accepting the assignment.

An appraiser should use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE. In this context, the client may be identified as a person or entity, or as an agent of an intended user. In those rare instances where the client wishes to remain anonymous, the appraiser must still document the identity of the client in the workfile, but may omit the client's identity in the appraisal, appraisal review, or consulting report.

The term "Client" is defined in the DEFINITIONS section of USPAP as

the party or parties who engage an appraiser (by employment or contract) in a specific assignment.

The term "Intended Use" is defined as

the use or uses of an appraiser's reported appraisal, appraisal review, or consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.

The term "Intended User" is defined as

the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or consulting report, by the appraiser based on communication with the client at the time of the assignment.

An appraiser's obligations to the client are established in the course of considering and accepting an assignment. Once an assignment is accepted, an appraiser is obligated to complete the assignment as agreed and in compliance with USPAP. However, if an appraiser becomes aware of a change in the client's intended use of the report, the appraiser must consider whether the extent of the appraisal, appraisal review, or consultation process and type of report initially agreed upon are still appropriate and, if they are not, the appraiser must communicate with the client to establish an appropriate basis upon which to proceed.

If the appraiser is contacted regarding an assignment or report by a party other than the appraiser's client, before responding the appraiser must review his or her obligations to that client. An appraiser may need to review the Confidentiality section of the ETHICS RULE and Statement on Appraisal Standards No. 5 (SMT-5) for requirements, and Advisory Opinion AO-10 for guidance.

An appraiser's obligations to other intended users may impose additional development and reporting requirements in the assignment. It is essential that an appraiser establish with the client a clear and mutual understanding of the needs of all intended users prior to accepting an assignment. An appraiser's obligation to intended users other than the client is limited to addressing their requirements as identified by the client at the time the appraiser accepts the assignment.

Neither the client nor the appraiser is obligated to identify an intended user by name. If identification by name is not appropriate or practical, an appraiser's client and the appraiser may identify an intended user by type.

A party receiving a report copy from the client does not, as a consequence, become a party to the appraiser-client relationship.

Parties who receive a copy of an appraisal, appraisal review, or consulting report as a consequence of disclosure requirements applicable to an appraiser's client do not become intended users of the report unless the client specifically identifies them at the time of the assignment.

Disclosure of Client and Intended User(s) in an Appraisal, Appraisal Review, or Consulting Report

Except when specifically requested not to do so as part of the agreement with the client, an appraiser must disclose the identity of the client and, to the extent practical, any other intended users in an appraisal, appraisal review, or consulting report. The purpose of this reporting requirement is to (1) ensure that the client and any other intended users can recognize their relationship to the assignment and report, and (2) ensure that unintended users will not be misled by notifying them that they are neither the client nor an intended user. For example, a statement similar to the following may be appropriate:

This report is intended for use only by (identify the client) and (identify any other intended users by name or type). Use of this report by others is not intended by the appraiser.

If the client's identity is omitted from an appraisal report, the appraiser must (1) identify the client, and should identify any intended users in the workfile, and (2) provide a notice in the appraisal report that (i) the identity of the client has been omitted in accordance with the client's request and (ii) the report is intended for use only by the client and any other intended users identified by the client at the time the assignment was accepted.

Identification of the Client's Intended Use in an Appraisal, Appraisal Review, or Consulting Assignment

Identification of the client's intended use is one of the essential steps in defining the appraisal, appraisal review, or consulting problem. Identification of the client's intended use helps the appraiser and the client make two important decisions about the assignment:

- the appropriate extent of the appraisal, consulting, or review development process to employ, and
- the level of detail to provide in the appraisal, appraisal review, or consulting report.

An appraiser needs to be aware, to the fullest degree practical, of the client's report use intentions so as to reasonably ensure that the appraisal, review, or consulting development process and report address the client's stated needs. When the client intends that a report be used by others, the needs of those additional users may affect the extent of the appraisal, review, or consulting process as well as the content of a report.

Disclosure of the Client's Intended Use in a Report

An appraiser can avoid misleading parties in possession of an appraisal, appraisal review, or consulting report by clearly identifying the client's intended use in the report and stating that other uses are not intended. For example, a statement similar to the following may be appropriate:

This report is intended only for use in (describe the use). This report is not intended for any other use.

The use description provided in the statement must be specific to the assignment.

CONCLUSIONS:

- An appraiser must identify the client and, to the extent practical, other intended users as part of the process of identifying the client's intended use of an appraisal, appraisal review, or consulting report, by communication with the client prior to accepting the assignment.
- An appraiser should use care when identifying the client to ensure a clear understanding and to avoid violations of the Confidentiality section of the ETHICS RULE.
- The appraiser's obligations to the client are established in the course of considering and accepting an assignment.
- The appraiser's obligation to intended users other than the client is limited to addressing their requirements as identified by the client at the time the appraiser accepts the assignment.
- Identification of the client's intended use of the report is one of the essential steps in defining the appraisal, appraisal review, or consulting problem.
- An appraiser identifies the client's intended use of an appraisal, appraisal review, or consulting report by communicating with the client before accepting an assignment.
- Appraisers can avoid misleading parties in possession of a report by clearly identifying the client's intended use in the report and stating that other uses are not intended by the appraiser.
- Except when specifically requested not to do so as part of the agreement with the client, an appraiser must disclose the identity of the client and, to the extent practical, any other intended users of an appraisal report in the report to (1) ensure that all intended users recognize their relationship to the assignment and report and (2) ensure unintended users will not be misled by notifying them that they are neither the client nor an intended user.
- If the client's identity is omitted from an appraisal report, the appraiser must (1) document the identity of the client, and should identify any other intended users in the workfile, and (2) provide a notice in the appraisal report that (i) the identity of the client has been omitted in accordance with the client's request and (ii) the report is intended for use only by the client and any other intended users.

Adopted August 27, 1996

Revised September 16, 1998

Revised September 15, 1999

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(for guidance only)

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ADVISORY OPINION 1 (AO-1)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Sales History

THE ISSUE:

The *Uniform Standards of Professional Appraisal Practice* (USPAP) and supplemental standards issued by others contain sales history requirements that obligate appraisers of real property to analyze, and report pending and recent agreements, options, listings, and sales involving the property being appraised. Because of differences in state laws and operating practices relating to the disclosure and confidentiality of real property sales data, the ways in which appraisers comply with the sales history requirements vary according to the jurisdiction and the availability of information. This lack of consistency has raised questions regarding the applicability and relevance of the sales history requirements.

How can the appraiser best comply with the sales history provisions of the applicable appraisal standards in the face of obstacles that are beyond the control of the appraiser?

ADVICE FROM THE ASB ON THE ISSUE:

This Advisory Opinion offers advice and guidance for compliance with the requirements to analyze and report sales history and related information in the appraisal of real property.

USPAP Standards Rules 1-5(a) and (b) requires an appraiser to analyze (a) any current Agreement of Sale, option, or listing of the property being appraised, if such information is available to the appraiser in the normal course of business, and (b) any prior sales of the property being appraised that occurred within one year for a one-to-four family residential property or three years for all other property types. In any case, USPAP Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) call for the written appraisal report to contain sufficient information to indicate compliance with the sales history requirement. Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) further require that, if sales history information is unobtainable, the written appraisal report must include a commentary on the efforts taken by the appraiser to obtain the information.

Supplemental standards issued by regulatory agencies and eminent domain authorities also contain requirements that require the appraiser to analyze, and report sales history information, and these requirements vary according to jurisdiction.

The requirement for the appraiser to analyze and report sales history and related information is fundamental to the appraisal process. Just as the appraiser must take into account pending and recent sales of comparable property, the appraiser must take into account any pending and recent sales of the subject property itself. This is not to say that the agreed price in a pending or recent sale of the subject property is necessarily representative of value as defined in the report, but the appraiser's failure to analyze and report these facts may exclude important information from the sales comparison approach to value. Information pertaining to the current market status and the sales history of the subject property may also be useful information for the determination of highest and best use or the analysis of market trends.

Sample Sales Histories

The following sample sales histories are offered as examples of information that might be included in an appraisal report in compliance with the applicable standards.

For a commercial property that is not under agreement or option, is not offered for sale on the open market and has not changed hands within the past three years, the sales history might be shown in the appraisal report as follows:

The owner reports that the subject property is not under current agreement or option and is not offered for sale on the open market. According to public records, the subject property has not changed hands during the past three years.

For a commercial property that is offered for sale on the open market and was acquired by the current owner during the past year, the sales history to be included in the appraisal report might appear as follows:

The subject property is currently offered for sale at a listing price of \$XXX,XXX. A copy of the listing agreement with Mary Smith, real estate broker, is included in the addendum to this report.

The subject property was sold by John Jones to the current owner on June 1, 19XX, for a reported price of \$XXX,XXX. The parties to the transaction have affirmed that the seller received all cash and that the reported price was unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. This sale is analyzed in the Sales Comparison Approach section of the appraisal report.

According to the public records, there have been no other transfers of the subject property within the past year.

Sample Comments

The following sample comments are offered as examples of comments that might be included in an appraisal report in cases where pertinent information is not available to the appraiser in the normal course of business. The comments are fictitious and are offered only for purposes of illustration.

In cases where the property being appraised is known to be the subject of a pending transaction, but where the appraiser is not privy to the terms of the pending transaction, and where the parties to the transaction have declined to disclose the terms of the transaction to the appraiser, the sales history to be included in the appraisal report might include a comment such as the one shown below:

The property being appraised is known to be the subject of a pending purchase and sale agreement, but the appraiser was unable to obtain the terms of the agreement. The current owner confirmed that the property is under agreement, but declined to disclose the terms of the agreement or to discuss the nature of the agreement.

In jurisdictions where reliable price information cannot be found in the public records, and where the appraiser is unable to obtain complete information in the normal course of business, it would be appropriate to include in the appraisal report a comment similar to the one shown below:

The subject property was sold by John Jones to the current owner on June 1, 19XX, for an unknown price. The appraiser attempted to obtain the purchase price and other terms of the transaction without success. The parties to the transaction declined to discuss the terms or conditions of the sale.

According to the public records, there have been no other transfers of the subject property within the past three years.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved **December 3, 1990**

ADVISORY OPINION 2(AO-2)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Inspection of Subject Property Real Estate

THE ISSUE:

What constitutes a minimum inspection of the real estate of the subject property under the applicable standards of the *Uniform Standards of Professional Appraisal Practice* (USPAP)? Under what conditions is an appraisal without the benefit of an interior and complete exterior inspection permissible?

ADVICE FROM THE ASB ON THE ISSUE:

The elements of USPAP relating to inspection of real estate for the purpose of developing an appraisal require that the appraiser adequately identify the real estate, the purpose and intended use of the appraisal, the extent of the data collection process, any limiting conditions, and the effective date of the appraisal. USPAP also mandates that each written appraisal report must contain a signed certification that requires each individual signing the appraisal report to certify that he or she has or has not made a personal inspection of the property. The extent and depth of the inspection process vary with the type of property appraised and the conditions of the appraisal. This Advisory Opinion addresses only the minimum general requirements of the inspection process, with no discussion of special requirements or property types. It is the appraiser's responsibility to determine if adequate information is available about the subject real estate to develop a real property appraisal that conforms with USPAP. An appraiser cannot rationally develop an appraisal if adequate information on the subject real estate is not available. Consequently, where physical characteristics information is not available through an opportunity for a complete inspection or from reliable third-party sources, an appraiser has the duty to obtain the necessary information to develop the appraisal before continuing or to withdraw from the assignment.

Many appraisals involve an inspection of the land and an exterior and interior inspection of the existing improvements by an appraiser on a walk-through basis. This type of inspection is not necessarily the equivalent of an inspection by a qualified engineer. An appraiser's inspection should, at the minimum, be thorough enough to (a) adequately describe the real estate in the appraisal report, (b) develop an opinion of highest and best use, when such an opinion is necessary and appropriate, and (c) make meaningful comparisons in the valuation of the property.

There are situations where interior and complete exterior inspections are not possible as of the effective date of the appraisal. For example, inspections are not physically possible where improvements have been destroyed, removed, or not yet built. Inspections are not legally or contractually possible if the appraiser is denied access by the property owner or if the contract stipulates a drive-by appraisal.

Where an interior and complete exterior inspection is not possible for any valid reason, physical characteristics information about the real estate should be obtained from reliable third party sources in the form of photographs, public information from local assessors and other governmental agencies, and private information from multiple listing and other data service firms and files of individuals. The same sources that are utilized to research and verify comparable sales data can be used to obtain information about the subject property. An appraisal developed without the benefit of an interior and complete exterior inspection by the appraiser is subject to the same standards that would apply if the appraiser had made a complete personal inspection.

An appraisal report with a certification stating that a personal inspection was made represents that the performed inspection was sufficient to satisfy all the requirements of the applicable standards rules. If a personal inspection was made of a property with existing enclosed improvements and the inspection was limited to an external observation, this limitation should be disclosed. On the other hand, an inspection of a property consisting of land only without enclosed improvements would require no such disclosure.

An appraisal report may contain a certification stating that a personal inspection was not made by the appraiser. Simply disclosing this fact, however, does not relieve the appraiser of the responsibility to determine whether adequate information about the subject real estate is available to develop a credible appraisal. 51

Examples of Limiting Conditions

The examples cited below are illustrations of the wording of a limiting condition in an appraisal report for a client that requested a drive-by appraisal.

The appraiser has been requested to perform a drive-by appraisal and not to disturb the occupants by entering the building. The physical characteristics used to develop this appraisal are based on an inspection that the appraiser made three years ago when the property was appraised for estate tax purposes. For the purpose of this appraisal it is assumed that the interior condition of the subject property has not materially changed during the past three years. The subject property was observed from the public street as of the effective date of the appraisal. This exterior inspection revealed that the outside of the building has been repainted and the roof has been replaced.

or

The appraiser has been requested to perform a drive-by appraisal and not to disturb the occupants by entering the building. The physical characteristics used to develop this appraisal are based on the assessment records of (cite jurisdiction) and on the multiple listing service information of (cite source). The subject property was observed from the public street as of the effective date of the appraisal. On the basis of the observed conditions, the assessment records and multiple listing service information appear to be accurate. For the purposes of this appraisal it is assumed that the interior condition of the subject property is consistent with the exterior conditions as observed and that the information concerning the interior condition as provided by the assessor's records and the multiple listing service is accurate.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved December 4, 1990

Revised

September

16,

1998

ADVISORY OPINION 3 (AO-3)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Update of an Appraisal

THE ISSUE:

Statement on Appraisal Standards No. 7 (SMT-7) on *Permitted Departure from Specific Requirements for Real Property and Personal Property Appraisal Assignments* clarifies the term Update of an Appraisal. An update involves a combination of incorporation by reference from an original report and descriptions and analyses of changes in conditions between the effective date of the update and the prior report or update. What should be considered in agreeing to develop and report an update?

ADVICE FROM THE ASB ON THE ISSUE:

An update is an extension of an original Complete or Limited Appraisal and report relied on by a client for a prior business decision. The practice of requiring periodic updates is a reasonable portfolio management technique for financial institutions in monitoring asset quality.

In residential practice, updates are commonly required by lenders and secondary market participants when the time frame between the effective date of the appraisal and the closing of a loan exceeds four months and is less than one year.

Because the update is an extension of an original appraisal, three conditions should be met before an update assignment is accepted:

1. The original appraiser's firm and client are involved.
2. The real estate has undergone no significant change since the original appraisal.
3. The time period between the effective date of the original appraisal (or most recent update) and the effective date of the pending update is not unreasonably long for the type of real estate involved.

In the update, the appraiser addresses any changes in market conditions and the status of the subject since the effective date of the original appraisal or prior update, and analyzes the effect of these changes in arriving at a current value opinion for the subject.

All approaches to value developed in the original appraisal should be updated and the data used in these approaches should be analyzed again in addition to new data used in the update and data used in any prior updates.

In preparing an update, an appraiser should clearly state that the update report can be relied upon only by a reader familiar with the original report and any prior updates. In reviewing an update, a client should consider it in the context of the original appraisal and any prior updates. A good practice would be to file an original and updates in the same place.

Sample Content Outline for an Update Report

(Other Than 1-4 Family if real estate or personal property, as appropriate to the property type)

Introduction
Title page

Expanded Letter of Transmittal (Summary of Appraisal with reference to/excerpts from original appraisal, definition of value, date of value opinion, property rights appraised, approaches used, reconciliation and value conclusions, etc.)

Certification

Qualifying and limiting conditions/general underlying assumptions

Attachments

Identification of the subject property with photograph

Changes in market conditions since original appraisal (include current assessment/taxes, etc.)

Changes in subject property since original appraisal
(repairs, new leases, damage, obsolescence, etc.)

Highest and best use update, if applicable

Cost approach update, if applicable

Sales comparison approach update, if applicable

Income capitalization approach update, if applicable

Addenda

Detailed description, (legal description if real estate)

Other relevant information pertinent to the update

Qualifications of the appraiser

Sample Content Outline for an Update Report

(1-4 Family if real estate or personal property, as appropriate to the property type)

Letter of Transmittal with

Specific reference to original appraisal report

Statement of any changes in market conditions since original appraisal

Statement of any changes in subject property since original appraisal

Statement of value or extension of original value opinion and statement of new effective date

Certification

Attachment

Presentation and analysis of any additional data considered

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved March 5, 1991

Revised May 25, 1993

Revised March 22, 1994

Revised September 16, 1998

Revised September 15, 1999

ADVISORY OPINION 4 (AO-4)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Standards Rule 1-5(b)

THE ISSUE:

Standards Rule 1-5(b) requires an appraiser to analyze any prior sales of the property being appraised that occurred within one year for one-to-four family residential property and three years for all other property types. Must a transfer of title in lieu of foreclosure or a foreclosure sale be analyzed?

ADVICE FROM THE ASB ON THE ISSUE:

The intent of Standards Rule 1-5(b) is to encourage the research and analysis of prior sales of the subject property. Any prior sales of the appraised property within the prescribed period stated in Standards Rule 1-5(b) includes transfers in lieu of foreclosure and foreclosure sales.

A voluntary transfer of title by mortgagor to mortgagee in lieu of foreclosure as well as a foreclosure sale are grounded in objective necessity. Nevertheless, they are sales because they transfer ownership of and title to property for a valuable consideration. With research and analysis, an appraiser is able to report under STANDARD 2 that a prior sale of the subject property is influenced by undue stimulation or the sale does not reflect buyer and seller typical motivation.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved June 3, 1991

Revised September 16, 1998

ADVISORY OPINION 5 (AO-5)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Assistance in the Preparation of an Appraisal

THE ISSUE:

What is the appropriate level of participation for assistants in the appraisal process? Clients that require a licensed or certified appraiser, along with the agencies and entities responsible for federally related transactions, are concerned about the extent of participation of nonlicensed or uncertified assistants in the appraisal process. The issue is often expressed in terms of whether the assistant can conduct the property inspection alone and perform other parts of the appraisal process, or prepare an appraisal and appraisal report that only the principal appraiser signs. The primary area of concern is in situations where the typical ratio of assistants to principal appraisers is relatively high. What guidance can be found in the *Uniform Standards of Professional Appraisal Practice* (USPAP) on this issue?

ADVICE FROM THE ASB ON THE ISSUE:

Although the parties who raised this issue are primarily concerned with the field of residential appraising, the advice applies to all appraising.

Relevant USPAP References

The relevant responsibilities of appraisers with regard to this issue in USPAP are stated in the Conduct section of the ETHICS RULE, the COMPETENCY RULE, and Standards Rules 2-3, 2-5, 8-3, and 8-5. Advisory Opinion AO-2 on Inspection of Subject Property Real Estate offers additional guidance for real estate appraisers.

Standards Rules 2-5 and 8-5 are the most direct references in relation to this issue, and require that any appraiser who signs a report prepared by another must accept full responsibility for the appraisal and report. The text of each rule is unequivocal and directly addresses the concerns of the parties who raised this issue. The purpose of Standards Rules 2-5 and 8-5 is to prevent a principal appraiser from attempting to avoid full responsibility for an appraisal by using a conditional label on or near the signature line.

Standards Rules 2-3 and 8-3 require each appraiser signing a report to state whether or not he or she inspected the subject property and whether anyone not signing the report provided significant professional assistance. This mandatory disclosure informs and protects the client and other users of the appraisal.

Advisory Opinion AO-2 states: "An appraisal report may contain a certification stating that a personal inspection was not made by the appraiser. Simply disclosing this fact, however, does not relieve the appraiser of the responsibility to determine whether adequate information about the subject real estate is available to develop an appraisal that is not meaningless or misleading." The intent of this Advisory Opinion applies to personal property as well as real property appraisal.

The Conduct section of the ETHICS RULE states that an appraiser must not communicate assignment results in a misleading or fraudulent manner, and an appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.

Responsibility of Principal Appraisers and Competence of Assistants

The responsibility of the principal for the work of one or more assistants is inherent in most professions. For example, lawyers use associates, paralegals, and researchers, but are ultimately responsible for the document presented to the client. Partners in accounting firms often rely on audit assistants and tax preparers, but are ultimately responsible to the client for the audit or tax return.

As in other professions, the principal appraiser is responsible for closely supervising the work of assistants, for the training and development of assistants, and for exercising judgment as to the level of work the assistant is capable and competent to perform. The assistant, in turn, uses education, experience, and work product performed under the direction of the principal appraiser to achieve licensing, certification, and/or professional designation.

Each assistant will demonstrate proficiency in various aspects of the appraisal process at differing time intervals during his or her professional development. For example, the new assistant with minimal appraisal or related education and experience cannot be allowed to perform any step of the appraisal process alone without the guidance of a principal appraiser or a more experienced assistant. In contrast, in the context of real property appraisal, an assistant who recently entered the appraisal field, but has previous experience as a builder or real estate salesperson, may possess the knowledge and experience to adequately identify building materials, items of deferred maintenance, and forms of obsolescence. Although this assistant may be qualified to complete an inspection of the subject real estate alone, he or she would not be competent to relate the inspection to the valuation approaches, and an inspection by the principal appraiser or a more experienced assistant would be required.

As proficiency is demonstrated by an assistant, it is appropriate for the principal appraiser to place greater reliance on the work of that assistant. In the context of a real property appraisal assignment, an assistant who has meaningful appraisal education and extensive work experience may well be competent to inspect the real estate and prepare the appraisal report alone, subject to an appropriate final reconciliation by the principal appraiser who will be signing or co-signing the report. In this situation, the assistant's contribution is both significant and professional. The appropriate final reconciliation should include a discussion of all aspects of the appraisal process between the assistant and the principal appraiser.

If the principal appraiser signs the report alone, the contribution of the assistant must be acknowledged (Standards Rule 2-3 or 8-3), and the specific tasks performed by the assistant should be clearly stated. If both the assistant and the principal appraiser sign the report, the principal must accept full responsibility for all aspects of the appraisal process as evidenced by the contents of the report (Standards Rules 2-5 and 8-5, as applicable). In no circumstance is it appropriate for the principal appraiser to merely sign an appraisal report prepared by an assistant.

Examples of Proper Use of Assistants in the Appraisal Process

The following examples illustrate proper use of assistants in the appraisal process. Although the examples involve a real estate appraisal firm, personal property appraisers should find them equally helpful. Standards Rules 8-3 and 8-5 are equal in intent to Standards Rules 2-3 and 2-5.

Assistant Smith has been employed by Expert Valuers, Inc. for six months and is assigned to a team with Principal Appraiser Jones and four other assistants. Smith was required to complete a company orientation program during the first month of employment and has taken and passed course work in appraisal standards and principles. Jones or Assistant Brown, a team leader with two years' experience, accompanies Smith on all real estate inspections and guides her research and analysis activities daily. Smith completes rough drafts of various sections of the appraisal and rewrites them after consultation with Jones or Brown.

Smith is not yet allowed to co-sign appraisal reports by company policy. Jones signs each report as principal appraiser, acknowledges the specific contributions of Smith and/or Brown in the certification (Standards Rule 2-3), and takes full responsibility for the contents of the report (Standards Rule 2-5). If the certification shows that Brown inspected the real estate with Smith and Jones did not, then Jones must disclose that Brown was relied on for and is qualified to perform an inspection of the type of real estate being appraised.

Assistant Brown has two years of experience working with Expert Valuers, Inc., and is now a team leader working under Principal Appraiser Jones. Brown did not begin co-signing appraisal reports with Jones until he had successfully completed course work in appraisal standards, principles, and procedures and had demonstrated basic proficiency in most steps of the appraisal process. Until that time, he was always accompanied on real estate inspections by Jones or another senior person in the firm. Brown is now permitted to conduct inspections with less experienced assistants and regularly advises Jones of any unique physical attributes of a subject that may require re-inspection by Jones. Brown conducts all steps of the appraisal process, discusses his or her findings with Jones, and prepares final drafts of appraisal reports. In addition, he guides three other assistants in portions of the appraisal process when Jones is not available. If Brown co-signs a report with Jones, he also acknowledges the specific contributions of other assistants in the certification (Standards Rule 2-3) and takes full responsibility for the contents of the report (Standards Rule 2-5).

Principal Appraiser Jones is a partner in Expert Valuers, Inc., and is state certified. She has 15 years' appraisal experience and is responsible for two four-person appraisal teams headed by senior assistants. Jones runs the company orientation program for new assistants and conducts weekly team meetings that provide her with an opportunity to evaluate the appraisal competence of the assistants working with her. Four of the eight assistants have demonstrated a level of education and understanding of the process that enable them to conduct most steps of an appraisal. Jones allows these four assistants to conduct real estate inspections alone and to co-sign appraisal reports. Detailed interior photographs are required by company policy. Jones examines the photos with assistants when discussing preliminary conclusions and rough drafts of appraisals, and always conducts exterior inspections of the subject real estate at minimum. If unique characteristics are noted in an interior inspection conducted by an assistant, Jones re-inspects the real estate before the appraisal process is completed. Jones discloses the type and extent of her inspection in each report (Standards Rule 2-3) and acknowledges and takes full responsibility for the contributions of assistants (Standards Rules 2-3 and 2-5).

Concluding Comments

The extent of assistance that can be provided in the appraisal process is directly related to the competence of the assistant, and the principal appraiser is responsible for continually evaluating the competence of his or her assistants.

If a client has evidence that a particular appraiser or firm is not taking appropriate responsibility for the actions of assistants, then a complaint to a state appraiser regulatory body or an appraisal organization would be in order. This complaint should be brought against the principal appraiser as well as the assistant.

USPAP requires an appraiser to disclose and accept responsibility. The state regulatory procedures established under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and appraisal organization ethics enforcement provide the ultimate recourse when an appraiser abdicates the responsibility required by USPAP.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 6 (AO-6)52

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. They do not constitute a legal opinion of the ASB.

SUBJECT: The Appraisal Review Function

THE ISSUE:

STANDARD 3 of the *Uniform Standards of Professional Appraisal Practice* (USPAP) states: “**In performing an appraisal review assignment involving a real property or personal property appraisal, an appraiser acting as a reviewer must develop and report a credible opinion as to the quality of another appraiser’s work and must clearly disclose the scope of work performed in the assignment.**” How does an appraisal review prepared by an appraiser in accordance with STANDARD 3 of USPAP differ from other types of appraisal reviews?

ADVICE FROM THE ASB ON THE ISSUE:

The ASB makes a distinction between the terms “technical review” and “administrative review.” A technical review is work performed by an appraiser in accordance with STANDARD 3 for the purpose of “...develop[ing] an opinion as to whether the analyses, opinions, and conclusions in the work under review are appropriate and reasonable, and develop[ing] the reasons for any disagreement.” (Standards Rule 3-1(g)). 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, etc.). Although the outline provided by STANDARD 3 may be helpful to these parties, they are not bound to observe STANDARD 3 as is the appraiser.

Technical Appraisal Review by an Appraiser Under Standard 3

Two issues separate the technical appraisal review performed in accordance with STANDARD 3 from administrative review. One is the ability under Standards Rule 3-1(a) and (c) to express a different opinion of value from that in the report under review. The other is the certification required by Standards Rule 3-2(f). Clients and users of appraisals performing administrative reviews are not required to certify, but the appraiser performing a technical appraisal review must.

The Comment to STANDARD 3 is explicit about the role of the appraiser in performing a appraisal review and about the responsibility of the appraiser to distinguish between the appraisal, appraisal review, and consulting functions that comprise appraisal practice as defined in USPAP.

Appraisers are required to follow STANDARD 3 in performing the appraisal review function and are subject to the ETHICS RULE, the COMPETENCY RULE, and all other applicable sections of USPAP. Individuals training to be an appraiser who assist in performing appraisal reviews must follow STANDARD 3 to ensure that their work product is consistent with USPAP as they seek appraisal experience. The ASB also realizes that some individuals performed appraisal review work substantially consistent with the intent of STANDARD 3 prior to the existence of STANDARD 3.

Administrative Review by Clients and Users of Appraisals

The administrative review is performed by a variety of individuals, including lawyers, accountants, loan underwriters, bank examiners, and corporate decision-makers. The intent of these individuals is to consider the information in the appraisal along with other information as part of the basis for a business decision.

An individual does not have to be a lawyer or an accountant in order to consider the advice of those professionals in making a decision. Similarly, the individual performing an 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 being used in the context of a broader business decision. The individual performing the administrative review may not necessarily have the competence or the information sources needed to perform an appraisal. After completing the administrative review, this individual is in a position to understand the strengths and weaknesses of the information leading to the value opinion in the report under review. With this and related information, the individual would be in a position to make decisions on issues such as whether or not to pursue litigation; what book value to establish for an asset; whether to apply conservative or aggressive underwriting guidelines; or whether to make or accept an offer to purchase; etc.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 7 (AO-7)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Marketing Time Opinions

THE ISSUE:

The *Uniform Standards of Professional Appraisal Practice* recognize that supplemental standards applicable to appraisals prepared for specific purposes or property types may be issued by public agencies and certain client groups. Some of these supplemental standards require the appraiser to analyze and report a reasonable marketing period for the subject property when developing and reporting an opinion of market value of real or personal property.

How is this reasonable marketing period opinion developed, and what is the relationship of this opinion of marketing time to the appraisal process?

ADVICE FROM THE ASB ON THE ISSUE:

The reasonable marketing time is an opinion of the amount of time it might take to sell a real or personal property interest in at the concluded market value level during the period immediately after the effective date of an appraisal.

Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (See Statement on Appraisal Standards No. 6 on *Reasonable Exposure Time in Market Value Opinions*.)

Rationale and Method for Developing a Marketing Time Opinion

The development of a marketing time opinion uses some of the same data analyzed in the process of developing a reasonable exposure time opinion as part of the appraisal process and is not intended to be a prediction of a date of sale or a one-line statement. It is an integral part of the analyses conducted during the appraisal assignment. The opinion may be expressed as a range and can be based on one or more of the following:

- statistical information about days on market;
- information gathered through sales verification;
- interviews of market participants; and
- anticipated changes in market conditions.

Related information garnered through this process includes other market conditions that may affect marketing time, such as the identification of typical buyers and sellers for the type of real or personal property involved and typical equity investment levels and/or financing terms. The reasonable marketing time is a function of price, time, use, and anticipated market conditions such as changes in the cost and availability of funds B not an isolated opinion of time alone.

Discussion of Marketing Time in the Appraisal Report

Because marketing time occurs after the effective date of the market value opinion and the marketing time opinion is related to, yet apart from, the appraisal process, it is appropriate for the section of the appraisal report that discusses this issue and its implications to appear toward the end of the report after the market value conclusion. The request to provide a reasonable marketing time opinion exceeds the normal information required for the conduct of the appraisal process, and should be treated separately from that process.

It is also appropriate for the appraiser to discuss the impact of price/value relationships on marketing time and contrast different potential prices and the associated marketing time with the reasonable marketing time at the market value opinion level.

Applications to Client Uses of an Appraisal

Clients concerned with marketing real or personal properties that obtain a market-value appraisal as part of their decision-making process should be aware that it may be inappropriate to assume that the value remains stable during the marketing period. Therefore, it is technically incorrect for the user of an appraisal to take a current value opinion, carry it forward to the end of a concluded marketing period, and then discount back to the present.

Some clients attempt to solve their problem by ordering a "120-day market value," a "six-month market value," or a "one-year market value" from the appraiser. Unless the opinion of reasonable exposure time made by the appraiser in the course of such an assignment coincides with the precondition imposed by the client, the answer to this assignment cannot be stated as market value under a typical definition of the term. In such situations, the appraiser must clearly distinguish between a market value opinion allowing for reasonable exposure time and any alternative, appropriately defined, value opinions subject to a special limiting condition citing the client-imposed marketing time.

Whether or not the appraiser and client define the appraisal problem to include more than one opinion of market value, the roles of the parties must be kept clear. The appraiser provides the client with a supported opinion of defined value in an appropriately documented report that includes a section on reasonable marketing time and any inherent price/value implications. The ultimate decision on issues like what price to ask, when to accept a particular offering price, and how to account for the asset during the interim rests with the client.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 8 (AO-8)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Market Value vs. Fair Value in Real Property Appraisals

NOTE: The guidance in this Advisory Opinion also applies in personal property appraisals, when applicable.

THE ISSUE:

Most real property appraisal assignments require a market value opinion. Some regulatory agency rules require opinions of fair value for troubled real estate loans and real estate owned by a financial institution. Does fair value differ from market value?

ADVICE FROM THE ASB ON THE ISSUE:

Fair value is an accounting term and market value is an appraisal term. The accounting literature is clear on this distinction. The term fair value appears in four statements by the Financial Accounting Standards Board (FASB): No. 13, No. 15, No. 67, and No. 121. These references are summarized below and on the next page.

FASB Statement of Financial Accounting Standards No. 13 [Accounting for Leases, Effective January 1, 1977] The fair value of the leased property is the price for which the property could be sold in an arm's length transaction between unrelated parties.

FASB Statement of Financial Accounting Standards No. 15 [Accounting by Debtors and Creditors for Troubled Debt Restructuring, Effective December 31, 1977]. The fair value of the assets transferred is the amount that the debtor could reasonably expect to receive for them in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value of assets shall be measured by their market value if an active market for them exists. If no active market exists for the assets transferred but exists for similar assets, the selling prices in that market may be helpful in estimating the fair value of the assets transferred. If no market price is available, a forecast of expected cash flows may aid in estimating the fair value of assets transferred, provided the expected cash flows are discounted at a rate commensurate with the risk involved.

FASB Statement of Financial Accounting Standards No. 67 [Accounting for Costs and Initial Rental Operations of Real Estate Projects, Effective December 31, 1982]. The amount in cash or cash equivalent value of other consideration that a real estate parcel would yield in a current sale between a willing buyer and a willing seller (i.e., selling price), that is, other than in a forced or liquidation sale. The fair value of a parcel is affected by its physical characteristics, its probable ultimate use, and the time required for the buyer to make such use of the property considering access, development plans, zoning restrictions, and market absorption factors.

The American Institute of Certified Public Accountants states in its *Guide for the Use of Real Estate Appraisal Information* (1987 and 1990):

Fair value is defined in several authoritative accounting pronouncements: FASB Statement No. 13...; ...No. 15...; No. 67...; and ...No. 121. Although the definitions are phrased to fit the circumstances to which the pronouncements refer, fair value is generally defined as the amount that can be reasonably expected to be received in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale.

Rarely will market value and fair value be exactly the same because market value assumes the property has been previously exposed for sale and the closing takes place on the valuation date, while fair value assumes that the property has not yet been exposed to sale and the sale will occur in the future.

The auditor can generally relate the definition of fair value in the accounting literature to the appraiser's definition of market value.

It is clear from the accounting literature that the accountant looks to the appraisal concept of market value in establishing fair value. An example of a market value definition from the Glossary of USPAP is as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Informed appraisers and accountants should understand the relationship between the accounting term "fair value" and the appraisal term "market value" and be in a position to clarify the use of these terms for their common clients.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 9 (AO-9)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Responsibility of Appraisers Concerning Toxic or Hazardous Substance Contamination

THE ISSUE:

Federal and state legislation has been enacted to control environmentally toxic or hazardous substances and assign responsibility for any resulting contamination. How do the *Uniform Standards of Professional Appraisal Practice* (USPAP) apply to the appraisal of property considering:

- (1) recognition of contamination;
- (2) remediation and compliance cost estimation; and,
- (3) value opinions of interests in impacted real estate?

ADVICE FROM THE ASB ON THE ISSUE:

Honesty and professional competency are common threads throughout USPAP. The professional competency of an appraiser should not be presumed to include the knowledge or experience of a professional surveyor, architect, engineer, title lawyer, or other specialist. An appraiser that professes or implies such expertise but lacks the requisite qualifications is misleading the client, users of the appraisal report, and the public. Such misleading conduct is prohibited by the ETHICS RULE of USPAP. However, an appraiser may reasonably rely on the findings and opinions of a properly qualified specialist and may work in concert with other professionals in multidisciplinary groups assembled to address a contaminated parcel of real estate.

Recognition of Contamination

An appraiser is a trained and experienced observer of real estate, but recognizing, detecting, or measuring contamination is often beyond the scope of the appraiser's expertise. The appraiser becomes aware of contamination through disclosure by the client and known facts prior to the acceptance of an appraisal assignment, or through the normal observation and research conducted during an appraisal assignment. If an appraiser is requested to complete a checklist as part of the process for recognizing contamination, the appraiser should respond only to those questions that can be answered competently by the appraiser within the limits of his or her particular expertise in this area. In each situation, the COMPETENCY RULE of USPAP outlines the responsibilities of the appraiser.

Remediation and Compliance Cost Estimation

Remediation and compliance cost estimation involves knowledge and experience beyond that of most appraisers. These estimates are typically provided by environmental consulting specialists who are properly versed in federal and state environmental requirements and are qualified to assess and measure the materials and/or methods appropriate for remediation or compliance. Other professionals who deal with legal liabilities and business operations may also be involved in the cost estimate process. An appraiser may reasonably rely on the findings and opinions of qualified specialists in environmental remediation and compliance cost estimation.

Value Opinions of Interests in Impacted Real Estate

Many clients employ experts in various disciplines separately and simultaneously, and make business decisions based on comparing the results of findings from the various experts. These clients may request an appraiser to appraise real estate that is or may be contaminated under the hypothetical condition that the real estate is free of contamination. An appraiser may appraise interests in real estate that is or is believed to be contaminated based on the hypothetical condition that the real estate is free of contamination when (1) the resulting appraisal is not misleading, (2) the client has been advised of the limitation, and (3) the ETHICS RULE of the USPAP is satisfied. To avoid confusion in the marketplace, the ETHICS RULE requires a clear and accurate disclosure of the factual contamination problem as well as a statement of the validity of and useful purpose for the extraordinary assumption that the real estate is not affected.

When qualified specialists have documented the existence of contamination and estimated the costs of remediation or compliance, an appraiser may be in a position to develop an opinion of "as is" value and should be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce a credible appraisal. The value of an interest in impacted or contaminated real estate may not be measurable simply by deducting the remediation or compliance cost estimate from the opinion of value as if unaffected. Other factors may influence value, including any positive or negative impact on marketability (stigma) and the possibility of change in highest and best use.

Multidisciplinary Solutions

Some appraisers have already developed a specialization in the valuation of interests in contaminated real estate through association with environmental engineers, environmental lawyers, and related professionals in a multidisciplinary group. This type of association is commendable, provided that each of the professionals involved remains within the limits of the expertise associated with his or her profession and acknowledges the contributions of the other professionals in any specific reports that rely in part on the work of others.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 10 (AO-10)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: The Appraiser-Client Relationship

NOTE: The guidance in this Advisory Opinion also applies in personal property appraisals.

THE ISSUE:

The appraisal rules adopted by the Federal Financial Institutions Regulatory Agencies (FFIRA) in August 1990 to comply with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) impose a requirement on regulated institutions that "if an appraisal is prepared by a fee appraiser, the appraiser shall be directly engaged by the regulated institution or its agent..."⁵³ Many times a property owner will directly engage an appraiser, then later decide to obtain a mortgage loan. This leads to two questions:

Question 1: Does an appraiser have an obligation under the *Uniform Standards of Professional Appraisal Practice* (USPAP) to ensure that his or her services are directly engaged by a regulated institution?

Question 2: What is the responsibility of the appraiser when requested to provide a new cover letter or appraisal transmittal letter indicating a lender as the client when the appraisal was originally performed for another party?

In addition to issues related to borrower and lender clients, appraisers are often faced with a request to perform an appraisal on a property that was previously appraised for another client. This leads to an additional question:

Question 3: How long does the appraiser-client relationship last?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP References

The ETHICS RULE emphasizes the personal obligations and responsibilities of the appraiser. The SUPPLEMENTAL STANDARDS section requires an appraiser to ascertain whether standards in addition to USPAP apply to the assignment being considered. Standards Rule 1-2(b) requires an appraiser to identify the intended use of the appraisal.

Response to Question 1:

Does an appraiser have an obligation under the *Uniform Standards of Professional Appraisal Practice* (USPAP) to ensure that his or her services are directly engaged by a regulated institution?

Before the appraiser accepts an assignment knowing the intended use of the appraisal is for a mortgage loan from a federally regulated institution, it is the appraiser's responsibility to disclose to the prospective client that the lender or its agent is required to directly engage the appraiser. If the client still wishes to order the appraisal after this disclosure, the appraiser should inform the client of the implications to Question 2.

Response to Question 2:

What is the responsibility of the appraiser when requested to provide a new cover letter or appraisal transmittal letter indicating a lender as the client when the appraisal was originally performed for another party?

The appraiser has a personal obligation and a professional responsibility to avoid any action that could be considered misleading and to protect the confidential nature of the appraiser-client relationship. Simply changing the title page or transmittal letter of an appraisal report without full disclosure of the original appraiser-client relationship is misleading. Appraisers should be aware that the same FFIRA appraisal rules cited above, as updated in 1994, state:

A regulated institution may accept an appraisal that was prepared by an appraiser engaged directly by another financial services institution if:

- (1) The appraiser has no direct or indirect interest, financial or otherwise, in the property or the transaction; and
- (2) The regulated institution determines that the appraisal conforms to the requirements of this part (of the FFIRA rules) and is otherwise acceptable.

Response to Question 3:

How long does the appraiser-client relationship last?

The end of the appraiser-client relationship cannot be stated as a definite time frame. One potential limit for the appraiser-client relationship is the completion of the intended use of the original appraisal. Another set of limits is outlined in Advisory Opinion AO-3 on *Update of an Appraisal*, particularly if the real estate has undergone no significant change and the time period since the original appraisal (or most recent update) would permit an update.

When an appraiser is contacted to appraise a property and reasonably believes that a prior appraiser-client relationship is still in effect, the appraiser should request a release (preferably in writing) from the prior client before accepting the new assignment.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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ADVISORY OPINION 11 (AO-11)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Content of the Appraisal Report Options of Standards Rules 2-2 and 8-254

THE ISSUE:

Standards Rules 2-2 and 8-2 of the *Uniform Standards of Professional Appraisal Practice* (USPAP) offer three written appraisal report options. What information should be contained in each type of report?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP References

Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the Complete or Limited Appraisal in one of three formats: Self-Contained Appraisal Report [Standards Rules 2-2 and 8-2(a)], Summary Appraisal Report [Standards Rules 2-2 and 8-2(b)], or Restricted Use Appraisal Report [Standards Rules 2-2 and 8-2(c)]. Standards Rules 2-2 and 8-2 require that the report prominently state which option is used.

The Comments to Standards Rules 2-2 and 8-2 state that the essential difference among the three options is in the content and level of information provided.

Statement on Appraisal Standards No. 7 (SMT-7) states, in the "Levels of Reliability" section:

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 or STANDARD 7 is not affected by the type of appraisal report prepared under STANDARD 2 or STANDARD 8, respectively.

The Comments to Standards Rules 2-2 and 8-2(a)(xi) and 2-2 and 8-2(b)(xi) include the same remark.

Prominent Statement of Option Used

The prominent statement of which option is used is a label that indicates to the reader how the appraisal is reported. Therefore, the statement should appear at or near the beginning of the report.

In narrative appraisal reports, the prominent statement of which report option is used could appear with the statement of the intended use of the appraisal, because the decision on which report option to use is primarily related to the intended use of the appraisal. For added prominence, a statement of the report option used could also appear on any cover page or transmittal letter, if part of the report.

In form appraisal reports, the prominent statement of which report option is used could appear in the margin at the top-front of the form. The level of detail of presentation of information suggested by the Uniform Residential Appraisal Report (URAR) form is consistent with the requirements for a Summary Appraisal Report.

Content of the Self-Contained Appraisal Report

The Self-Contained Appraisal Report should contain all information significant to the solution of the appraisal problem. *Describe* is the distinguishing term related to the Self-Contained Appraisal Report.

Standards Rules 2-2 and 8-2(a)(vii) require only a description of sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal. The reader of the Self-Contained Appraisal Report should expect to find all significant data reported in comprehensive detail.

Content of the Summary Appraisal Report

As noted in the Comments to Standards Rules 2-2 and 8-2(b),

The essential difference between the Self-Contained Appraisal Report and the Summary Appraisal Report is the level of detail of presentation.

The Summary Appraisal Report should contain a summary of all information significant to the solution of the appraisal problem. *Summarize* is the distinguishing term related to the Summary Appraisal Report.

Standards Rules 2-2 and 8-2(b)(vii) require a summary of sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal. The reader of the Summary Appraisal Report should expect to find all significant data reported in tabular or abbreviated narrative formats.

Content of the Restricted Use Appraisal Report

As noted in the Comment to Standards Rules 2-2 and 8-2(c)(xi),

The Restricted Use Appraisal Report is for client use only. Before entering into an agreement, the appraiser should establish with the client the situations where this type of report is to be used, and should ensure that the client understands the restricted utility of the Restricted Use Appraisal Report.

The Restricted Use Appraisal Report should contain a brief statement of information significant to the solution of the appraisal problem. *State* is the distinguishing term related to the Restricted Appraisal Report.

Standards Rules 2-2 and 8-2(c)(vii) require a statement on the extent of the process of collecting, confirming, and reporting data or a reference to an assignment agreement retained in the appraiser's workfile which describes the scope of work to be performed. The reader of the Restricted Appraisal Report should not expect to find all significant data reported.

The report must reference the existence of specific workfile information in support of the appraiser's opinions and conclusions. The contents of the workfile must be sufficient for the appraiser to produce a Summary Appraisal Report. The workfile should be available for inspection by the client (or the client's representatives, such as those engaged to complete an appraisal review), state enforcement agencies, and such third parties as may be authorized by due process of law, and a duly authorized professional peer review committee.

Differences in the Appraisal Report Options

Each of the appraisal report options has 12 reporting rules that serve as a content outline. The reporting rules for the Self-Contained Appraisal Report are Standards Rules 2-2 and 8-2(a)(i) through (xii). The reporting rules for the Summary Appraisal Report are Standards Rules 2-2 and 8-2(b)(i) through (xii). The reporting rules for the Restricted Use Appraisal Report are Standards Rules 2-2 and 8-2 (c)(i) through (xii).

The chart on the following page displays a rule-by-rule comparison of the reporting rules for the three types of reports. Space does not permit inclusion of the *Comments* to the reporting rules in the chart, except for an excerpt of the Comment on (vi). The Comments contain important distinctions that must be considered in the preparation of each type of appraisal report, and the reader of this advisory opinion should refer to the full text of Standards Rules 2-2 and 8-2.

STANDARDS RULES 2-2 AND 8-2 REPORT COMPARISON CHART: The essential difference among the three options is in the use and application of the terms **describe**, **summarize**, and **state**. Describe is used to connote a comprehensive level of detail in the presentation of information. **Summarize** is used to connote a more concise presentation of information. **State** is used to connote the minimal presentation of information.

a) Self-Contained Appraisal Report	b) Summary Appraisal Report	c) Restricted Use Appraisal Report
i. state the identity of the Client and any intended users, by name or type;	i. state the identity of the Client and any intended users, by name or type;	i. state the identity of the Client and any intended users, by name or type;
ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;
iii. describe the information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. Summarize information sufficient to identify the real estate or personal property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. state information sufficient to identify the real estate or personal property involved in the appraisal;
iv. state the property interest appraised;	iv. state the property interest appraised;	iv. state the property interest appraised;
v. state the purpose of the appraisal, including the type and definition of value and its source;	v. state the purpose of the appraisal, including the type and definition of value and its source;	v. state the purpose of the appraisal, including the type and refer to the definition of value pertinent to the purpose of the assignment;
vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;	vi. state the effective date of the appraisal and the date of the report;
vii. describe sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;	vii. summarize sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;	vii. state the extent of the process of collecting, confirming, and reporting data or refer to an assignment agreement retained in the appraiser's workfile, which describes the scope of work to be performed.
viii. state all assumptions, hypothetical conditions and limiting conditions that affected the analyses, opinions, and conclusions;	viii. state all assumptions, hypothetical conditions and limiting conditions that affected the analyses, opinions, and conclusions;	viii. state all assumptions, hypothetical conditions and limiting conditions that affected the analyses, opinions, and conclusions;
ix. describe the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;	ix. summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions;	ix. state the appraisal procedures followed, and the value opinion(s) and conclusion(s), and reference the work file;
x. state the use of the property existing as of the date of value, and the use of the real estate or personal property reflected in the appraisal; and, when the purpose of the assignment is market value, describe the support and rationale for the appraiser's opinion of the highest and best use of the real estate or personal property;	x. state the use of the property, existing as of the date of value, and the use of the real estate or personal property reflected in the appraisal; and, when the purpose of the assignment is market value, summarize the support and rationale for the appraiser's opinion of the highest and best use of the real estate or personal property;	x. state the use of the property, existing as of the date of value, and the use of the real estate or personal property reflected in the appraisal; and, when the purpose of the assignment is market value, state the support and rationale for the appraiser's opinion of the highest and best use of the real estate or personal property;
xi. state and explain any permitted departures from specific requirements of STANDARD 1 or 7, and the reason for excluding any of the usual valuation approaches;	xi. state and explain any permitted departures from specific requirements of STANDARD 1 or 7, and the reason for excluding any of the usual valuation approaches;	xi. state and explain any permitted departures from specific requirements of STANDARD 1 or 7; state the exclusion of any of the usual valuation approaches; and state a prominent use restriction that limits use of the report to the client and warns that the appraiser's opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser's workfile,
xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3.	xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3.	xii. include a signed certification in accordance with Standards Rule 2-3 or 8-3.

Explanatory Comments have not been included in this chart.

Examples of the Application of the Terms Describe, Summarize, and State in the Context of a Real Property Appraisal Report

The following presentations of the zoning section of a commercial appraisal report are used to exemplify the content differences in the three appraisal report options. These examples show a relative illustration of depth and detail of presentation and are not intended to characterize the format for an entire appraisal report. The examples are not intended to imply that information on zoning is necessary in all appraisal reports.

Example of Describe

ZONING

The General Business, B-4 zoning classification applies to the subject real estate. The purpose of the B-4 zone is to encourage local commercial development along arterial streets to serve the surrounding residential areas. The uses of and yard and bulk regulations to the B-4 zone are described below.

Principal Permitted Uses

Banking facilities; houses of worship; public buildings and facilities; service establishments; sit-down restaurants serving patrons on the premises; and stores for the sale of goods at retail.

Special Permit Uses

Business and professional offices; manufacturing of goods sold on the premises; medical clinics; multifamily dwellings (sites in excess of 15,000 sq.ft.), and take-out restaurants (sites in excess of 25,000 sq.ft.).

Yard and Bulk Regulations

Minimum Requirements

Lot Area: 10,000 sq.ft.

Lot Width:

100 feet

Front Yard:

20 feet

Side Yards:

10 feet (each)

Rear Yard:

10 feet

Off-Street Parking (Stores):

4 spaces per 1,000 sq.ft. of sales area

Maximum Requirements

Building Coverage:

50% of lot area

Building Height:

2 stories or 20 feet

Conclusions

On the basis of a review of the zoning regulations and a discussion with John N. Forcer of the Anytown planning and zoning office, the existing use and subject improvements are in conformance with zoning.

Example of Summarize

ZONING

The General Business, B-4 zoning classification applies. Its purpose is to encourage local commercial development of banking facilities, retail stores, and service establishments along arterial streets on minimum lots of 10,000 sq.ft. with a width of 100 feet. Building coverage is limited to 50% of the lot and building height is limited to two stories or 20 feet. John N. Forcer of the Anytown planning and zoning office indicates that the existing use and subject improvements conform.

Example of State

ZONING

General Business, B-4; existing use and subject improvements conform.

The purpose of the above examples is to show one view of the difference between the application of the terms describe, summarize, and state. The examples should not be extended beyond this Advisory Opinion to every section of an appraisal report.

Varying Depth and Detail Within the Report Option Selected

Standard Rules 2-2 and 8-2(a)(viii) and 2-2 and 8-2(b)(viii) use the words describe and summarize, respectively, as the distinguishing verb, but contain the identical Comment that each item must be addressed in the depth and detail required by its significance to the appraisal. The overall depth and detail of information presented to satisfy each standards rule, not the length of any specific item, determine the proper application of the report option utilized.

This Advisory Opinion focuses on the content of the appraisal report options and should be read in 1 conjunction with Advisory Opinion AO-12, which focuses on the use of the appraisal report options of STANDARD 2 and STANDARD 8.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

Approved July 30, 1993

Revised September 16, 1998

Revised

September

15,

1999

ADVISORY OPINION 12 (AO-12)

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. They do not constitute a legal opinion of the ASB.

SUBJECT: Use of the Appraisal Report Options of Standards Rules 2-2 and 8-255

THE ISSUE:

Standards Rules 2-2 and 8-2 of the *Uniform Standards of Professional Appraisal Practice* (USPAP) offers three written appraisal report options. What are appropriate circumstances for the use of these options?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP References

Under STANDARDS 1 and 7 of USPAP, an appraiser may develop either a Complete Appraisal performed without invoking the DEPARTURE RULE or a Limited Appraisal performed under and resulting from invoking the DEPARTURE RULE.

Under Standards Rules 2-2 and 8-2, an appraiser may communicate the results of the Complete or Limited Appraisal in one of three formats: Self-Contained Appraisal Report [Standards Rules 2-2 and 8-2(a)], Summary Appraisal Report [Standards Rules 2-2 and 8-2(b)], or Restricted Use Appraisal Report [Standards Rules 2-2 and 8-2(c)].

The above-referenced rules result in six combinations of appraisal and report permitted under USPAP:

STANDARD 1 or 7	STANDARD 2 or 8
Complete Appraisal	Self-Contained Appraisal Report
Complete Appraisal	Summary Appraisal Report
Complete Appraisal	Restricted Use Appraisal Report
Limited Appraisal	Self-Contained Appraisal Report
Limited Appraisal	Summary Appraisal Report
<u>Limited Appraisal</u>	<u>Restricted Use Appraisal Report</u>

Statement on Appraisal Standards No. 7 (SMT-7) on *Permitted Departures from Specific Requirements for Real Property and Personal Property Appraisal Assignments* sets forth the criteria for choosing between a Complete or Limited Appraisal and states:

The reliability of the results of a Complete Appraisal or a Limited Appraisal developed under STANDARD 1 or STANDARD 7 is not affected by the type of appraisal report prepared under STANDARD 2 or STANDARD 8, respectively.

SMT-7 reiterates the Comments under the report options in Standards Rules 2-2 and 8-2 that:

...the report of a Limited Appraisal must contain a prominent section that clearly identifies the extent of the appraisal process performed and the departures taken.

Deciding Which Report Option to Use

As with other business decisions that involve the application of USPAP, the existence of appraisal report options implies a dialogue between the appraiser and the client to define the appraisal problem prior to reaching an agreement to perform an assignment. Part of the definition of the appraisal problem is a decision on which report option is appropriate for the assignment. This dialogue/decision process can be applied to a single assignment or to a series of assignments performed by an appraiser for the same client. In most situations, the client may decide which report option is appropriate for the assignment. The appraiser may agree to provide the report option suggested by the client as long as the report option is consistent with the intended use of the appraisal.

The decision between using a Self-Contained Appraisal Report and a Summary Appraisal Report is not absolute. The following factors should be considered by the appraiser and the client in deciding whether a Self-Contained Appraisal Report or a Summary Appraisal Report is appropriate:

- the intended use of the appraisal;
- that the appraiser and client understand the differences between the options; and
- whether the intended use of the appraisal warrants comprehensive or summary disclosure of the steps in, and information considered in, the appraisal process.

A decision to use the Restricted Use Appraisal Report is absolute because the minimum level of information required in a Restricted Use Appraisal Report is not designed to address the needs of any third party users. When an appraiser uses the Restricted Use Appraisal Report option, a prominent notice to any reader must be provided. The prominent notice must warn any reader of the report that the appraiser's opinions and conclusions set forth in the report cannot be understood properly without additional information in the appraiser's workfile. The Restricted Use Appraisal Report may be useful when:

- only the client is expected to use the appraiser's opinions and conclusions set forth in the report;
- the client understands the limited utility of this option;
- the intended use of the appraisal warrants restricted disclosure about the appraisal process steps completed in the assignment; and
- the client (the only intended user) does not need the level of information required in a Self-Contained or Summary Appraisal report.

This Advisory Opinion focuses on the use of the appraisal report options and should be read in conjunction with Advisory Opinion AO-11, which focuses on the content of the appraisal report options of STANDARD 2 and 8.

This Advisory Opinion is based on presumed conditions without investigation or verification of actual circumstances. There is no assurance that this Advisory Opinion represents the only possible solution to the problems discussed or that it applies equally to seemingly similar situations.

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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. They do not constitute a legal opinion of the ASB.

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

THE ISSUE:

How can an appraiser operating under the *Uniform Standards of Professional Appraisal Practice* (USPAP) develop an evaluation of real property collateral (evaluation)?

ADVICE FROM THE ASB ON THE ISSUE:

Relevant USPAP References

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.

Under STANDARD 4, in performing real estate or real property consulting services, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible result.

The DEPARTURE RULE of USPAP states in part: "An appraiser may enter into an agreement to perform an assignment in which the scope of work is less than, or different from, the work that would otherwise be required by the specific requirements..."

Background

The terms "appraisal" and "evaluation" have special meaning and use 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), the National Credit Union Administration (NCUA), and the Office of Thrift Supervision (OTS) (agencies). The October 27, 1994, Interagency Appraisal and Evaluation Guidelines (Agencies' Guidelines) discusses "evaluation" as a term used to describe an estimate of value for certain real-estate-related transactions that are exempt from the agencies' appraisal requirements. The federal regulators have ruled that an appraisal must conform to generally accepted appraisal standards as evidenced by USPAP, but that an evaluation need not conform to USPAP. This distinction is important because appraisers who are bound by USPAP must comply with USPAP whenever they provide an opinion of value.

Many professional appraisers and state appraiser regulators have expressed uncertainty whether evaluations of real property collateral comply with USPAP. Appraisers are concerned with the potential consequences of a violation of USPAP.

The October 27, 1994, Interagency Appraisal and Evaluation Guidelines state:

An institution should establish prudent standards for the preparation of evaluations. At a minimum, an evaluation should:

- be written;
- include the preparer's name, address, and signature, and the effective date of the evaluation;
- describe the real estate collateral, its condition, and its current and projected use;
- describe the source(s) of information used in the analysis;
- describe the analysis and supporting information; and
- provide an estimate of the real estate's market value, with any limiting conditions.