

## Conference Coverage



## Alternative reports provide opportunities

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Consumers of valuation services in the capital markets, loan servicing and home-equity sectors have typically used BPOs (Broker Price Opinions), evaluations or AVMs to support their collateral risk decisions. These consumers have shied away from “traditional” appraisal because of the additional cost and time involved.

The recent development of “alternative” appraisal reports, however, is reversing the wholesale use of BPOs, evaluations and AVMs and capital markets, loan servicing and home-equity sectors are gaining a new appreciation for appraisers.

Alternative appraisal reports are opening doors that were previously closed to appraisers. These business sectors always preferred professional appraisal services; they simply did not need the additional Scope of Work inside the standard GSE URAR report.

Alternative reports are compiled with information reflecting a different Scope of Work than the traditional GSE appraisal reports known as the 1004s, which can be 30 pages in length with a lot of narrative included.

“Many times, when completing the Scope of Work of an alternative assignment, appraisers remain at their desks relying on a third-party inspection of the property. Typically, these assignments produce credible results using the sales comparison approach only,” Clarocity Chief Valuation Officer Ernie Durbin told attendees at the 2017 Valuation Expo in Orlando, Fla.

“When developing the sales comparison approach, appraisers rely on qualitative analysis (without adjustments) and narrate the differences between the subject and the comparables in the final reconciliation of value.”

Durbin said alternative appraisal reports look different than traditional URAR reports but still meet all the reporting requirements of Standard 2 in the Uniform Standards of Professional Appraisal Practice (USPAP). Ultimately, USPAP compliance is up to the appraiser, Durbin emphasized.

“No appraisal report is USPAP compliant, only appraisers are USPAP compliant,” he said. “It is important that appraisers are in control of the valuation process and agree with the Scope of Work. Alternative valuation reports should not limit the comparable selection of the appraiser. This process must remain in the appraiser’s domain.”

The Scope of Work, limited in comparison to typical GSE work, can involve different levels of property inspection. These assignments can also engage the appraiser in the inspection process. Appraiser inspections can be either interior or exterior (drive-by). At times the appraiser's inspection is the same as in a standard 1004 or a 2055 report, according to Durbin. While the appraiser may be involved in the site inspection, typically these assignments will be completed with an inspection by a third-party vendor. In these circumstances, the appraiser remains at their desk.

"In this assignment type, the appraiser provides a desktop appraisal based on an inspection provided by a real estate agent or professional property inspector," he said. "The appraiser utilizes Extraordinary Assumptions regarding the content provided by the outside inspector. These are similar to the Extraordinary Assumptions that would be applied to a drive-by assignment performed by the appraiser themselves (for instance assumptions about the interior of the property).

"In selected market places, we are seeing alternative valuations coming to the forefront," Durbin added. "These kinds of reports will eventually enter the lending environment. For now, they are becoming more prevalent in the capital markets, default and servicing and home-equity sectors. These sectors are moving away from the BPOs. This new generation of appraisal reports are not replacing the work we've been doing. It's a new opportunity in a market where we haven't been able to compete."

Appraisers, Durbin noted, may be concerned about providing a desktop appraisal with someone else doing the inspection. USPAP does not require a physical inspection of the subject property or the comparable sales. Desktop appraisals are perfectly acceptable when this Scope of Work meets the needs of the intended user and intended use of the appraisal, Durbin said.

"For appraisers, this is a positive shift occurring in the valuation marketplace," Durbin said. "The moniker, 'alternative,' though, can be misleading. These new appraisal formats are different than traditional appraisal forms but can be fully compliant with [USPAP]. I say 'can' be because USPAP compliance rests on the appraiser, not the form. Appraisers are USPAP compliant, never the report."

The Appraisal Standards Board (ASB) declares no valuation form or product is USPAP compliant. As Durbin said, appraisers, not forms, bear the burden of compliance with the Standards. The appraiser needs to comply with the reporting needs of the intended user and intended use of the appraisal. A comment in the very beginning of Standard 2 spells this out:

- STANDARD 2 does not dictate the form, format, or style of real property appraisal reports. The form, format, and style of a report are functions of the needs of intended users and appraisers. The substantive content of a report determines its compliance.

Beyond the inspection, for an appraisal to be USPAP compliant, Durbin emphasized that the appraiser must be in control of the appraisal process. Comparable selection must be made by the appraiser. Some alternative products on the market now ask the appraiser to endorse or approve comparables provided to the appraiser.

"Be wary of these assignments. You may want to decline them if you are not in control of the process," he said. "In the qualitative approach, appraisers provide reconciliation and narration on their value opinion. That's what differentiates appraisers from other valuation providers, our ability to tell the story and reconcile information into

credible opinion of value.”

Durbin asked: Can you complete an appraisal in 45 minutes? The limited Scope of Work and desktop orientation of alternative reports is typically completed in less than an hour.

“In many platforms, data is imported after the appraiser has selected their comparables. Aerials and mapping are done automatically. Market analytics may be provided to the appraiser for additional support of their own local market expertise. The photos come to you because a third-party is doing the inspection. Yes, these reports can be completed credibly in less than an hour,” he said.

When analyzing the fees for alternative assignments, Durbin said alternative appraisal reports typically exceed the hourly rate appraisers received from standard GSE 1004 work. Durbin’s own research indicated a typical hourly rate of approximately \$65 for standard URAR work with the 1004 MC. Electronic polling of the audience during his presentation confirmed this hourly rate. Most alternative reports yield an hourly rate in excess of \$75 an hour and typically closer to \$100 per hour.

“These assignments can be a profitable addition to your practice,” Durbin said. “Why embrace these types of valuations? Well, again, the hourly rate can be profitable and possibly be an extra source of income. These alternative reports can be done anywhere where there is internet connectivity, and exploring different Scopes of Work in different markets, can only benefit the appraisal profession.”

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