

Appraisers, Scope of Work and the "Alternatives."

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Today, appraisers are presented with many opportunities to produce "alternative" valuation reports. For appraisers, a positive shift has occurred in the valuation marketplace. Valuation consumers in capital markets, loan servicing, and home equity are migrating away from the wholesale use of broker price opinions (BPOs) and evaluations to valuations produced by appraisers. This new appreciation for professional appraisers has given rise to a fresh generation of appraisal reports with a different Scope of Work than conventional appraisal products required for loan originations.

This new breed of appraisal reports is termed "alternative" appraisal reports. But this moniker is a bit misleading. These products are appraisal reports as defined by USPAP. The "alternative" label has been applied because they are different in format from the traditional Fannie Mae/Freddie Mac appraisal form. These new appraisal formats are different than traditional appraisal forms but can be fully compliant with Uniform Standards. I emphasize "can be" because USPAP compliance rests on the appraiser, not the form.

The Appraisal Standards Board that promulgates USPAP makes it clear that no valuation form or product is labeled USPAP compliant. 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 plainly:

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.

Since appraisers bear the responsibility of being USPAP compliant, it is important that when completing these valuation products, they are in control of the appraisal process, and not limited by the form or format of the product. The Scope of Work for these products is

frequently limited when compared to typical GSE appraisal assignments. Appraisers are still responsible to determine if the Scope of Work is adequate to provide credible results. Typically, alternative assignments identify the Scope of Work regarding the level of inspection, valuation methodology and application of the three approaches to value. Appraisers should consider these common limitations on the Scope of Work before accepting the assignment.

Most alternative valuation products do not involve a full site inspection by the appraiser. Some involve a drive-by inspection, but many are based on an analysis by the appraiser without viewing the property. In these assignments, the appraiser provides a desktop appraisal relying on an inspection provided by a real estate agent or professional property inspector. The appraiser utilizes Extraordinary Assumptions when using the content provided by the third-party sources. These are similar to the Extraordinary Assumptions that would be applied to a drive-by assignment performed by the appraiser (for instance assumptions about the interior of the property).

As professional appraisers know, they can use Extraordinary Assumptions when they are uncertain about the physical, legal or economic characteristics of the subject property or conditions external to the subject property. Extraordinary Assumptions allow the appraiser to value a property under the presumption that the information they have been provided is accurate. If this information is found to be different, it could alter the appraiser's conclusions or opinions. If the appraiser appropriately notes Extraordinary Assumptions in their report, they mitigate their liability if these assumptions are found to be inaccurate or not true. To protect the appraiser, it is critical that the alternative appraisal report prominently discloses any Extraordinary Assumptions. Also, if the appraiser determines there is not enough information to complete the assignment credibly, they should immediately inform the client.

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

comparables provided to the appraiser. Alternative products that restrict the appraiser's input in the process make it difficult (or impossible) for the appraiser to comply with USPAP. Comparable selection is at the heart of the sales comparison approach upon which most of these alternative valuation reports rely. Appraisers should not accept appraisal assignments where they are restricted in the comparable properties they can use.

The methods of comparison between the subject and the comparables vary within alternative valuation reports. Some alternative valuation reports rely on qualitative analysis with the appraiser ranking the subject in comparison to the comparables. In this case, no adjustments are made and the appraiser reconciles an opinion of value from the qualitative approach. Other alternative valuation reports require the appraiser to make adjustments for differences and some actually suggest what the adjustment should be based on analytics from within their platform. Again, the appraiser must be in control of the process and be able to modify these adjustments if they do not find them credible.

The majority of alternative valuation reports rely wholly on the sales comparison approach. With single-family residential assignments, this may be adequate for a credible result most of the time. Appraisers, however, are required to consider all three approaches to value when completing an appraisal assignment. Appraisers should evaluate each assignment individually and determine if the sales comparison approach is all that is necessary for a credible result. As an example, if the property is new or nearly new, the cost approach may contribute to the appraiser's opinion of value and should be considered and employed. Appraisers must be able to supplement the alternative valuation report and modify the Scope of Work if additional approaches to value are necessary for a credible result.

Alternative appraisal products provide a new opportunity for real estate appraisers. These products can be profitable when considered on an hourly basis in comparison to standard appraisal work. As appraisers begin to embrace these products, they need to consider the Scope of Work carefully and make sure that they are still in control

of the appraisal process. Appraisers are the experts and the only ones that must be USPAP compliant. With careful analysis, they can help their clients determine the appropriate Scope of Work while still fulfilling these alternative appraisal assignments in a credible manner.