



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

National Uniform Standards of Professional Appraisal Practice (USPAP) Course

Student Manual
1.5-Hour Course

2006

Reviewed and Updated By
The Appraisal Standards Board (ASB)

In Cooperation With
The Education Council of Appraisal Foundation Sponsors (ECAFS)

Approved By
The Appraiser Qualifications Board (AQB) through its Course Approval Program



THE APPRAISAL FOUNDATION

Authorized by Congress as the Source of Appraisal Standards and Appraiser Qualifications

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Executive Summary of the 2008 Real Property Appraiser Qualification Criteria

Overview

Course Description

This is the *National Uniform Standards of Professional Appraisal Practice (USPAP) Course, 15-Hour* of The Appraisal Foundation. The *National USPAP Course, 15-Hour* focuses on the requirements for ethical behavior and competent performance by appraisers that are set forth in the *Uniform Standards of Professional Appraisal Practice (USPAP)*. This course is unique in that it is developed by The Appraisal Foundation with assistance from the Education Council of Appraisal Foundation Sponsors (ECAFS) and is revised on a periodic basis to stay current with the latest edition of USPAP.

Each student must have a copy of the 2006 USPAP document, which provides the framework for the course and is referred to throughout the course. The primary objective is that participants become familiar with the USPAP document.

The course material emphasizes the role of the appraiser and the impartiality associated with this role. Special responsibilities of the appraiser with regard to impartiality are explored in detail.

In addition to lectures, the course includes discussion problems that show how USPAP applies in situations that appraisers encounter in everyday practice. These examples address issues frequently experienced by appraisers as professionals in the appraisal of real property, personal property, and business or intangible assets, in appraisal review, and in real property appraisal consulting assignments.

This course is designed to aid appraisers seeking competency in USPAP, in all areas of appraisal practice including those subject to state licensing or certification and continuing education requirements imposed by professional organizations, client groups, or employers.

USPAP has been endorsed and adopted by major appraisal organizations in the United States. As required by federal law, USPAP must be used by states in their real estate appraiser certification programs.

This course provides at least 15 hours (50 minutes/hour) of instruction in USPAP that allows for a one-hour exam period within the 15-hour timeframe.

Learning Enhancements

The course student manual has been designed with a variety of elements to enhance your learning experience.

- **Preview** To give you a taste of what is to come, you will find a *Preview* page that begins each Part. Included on the *Preview* page is a brief overview of the content, learning objectives to consider as you move through the content, and learning tips to assist in understanding the information being presented.
- **Learning Objectives** Each learning objective covers essential information you need to know to fully understand the concepts in the course. Look them over before the Part begins so that you have a frame of reference as you move through the material. At the end of each Part, reread the objectives. Are you able to do what is stated? If not, this is the time to ask your instructor for help, or review the concepts that you do not understand.
- **In the Real World** Supplementing the discussion problems (*USPAP in Action*), we've included practical real world problems to help you visualize and practice what you are learning.
- **Fill-in-the-Blanks** When you write something down, you are more apt to remember it. The Student Manual has “missing” content in the outline that you will want to add in the space provided in your handbook as the instructor goes over the content.
- **Review** Each Part concludes with a review. Included in the review are the learning objectives and key terms and concepts that have been covered.
- **Review Quizzes and Section Practice Tests** Short quizzes are included at the end of most Parts, and Practice Tests are included at the end of each Section in the “Review.” The questions are similar to the types of questions you might find on the exam.

Classroom Guidelines

To make the classroom environment a positive experience for all attendees, adherence to the following is required:

- No smoking in the classroom
- Silence cell phones and pagers when class is in session
- Tape recording is prohibited
- Refrain from ongoing conversations with those seated near you and other distractive behavior while class is in session

General Information

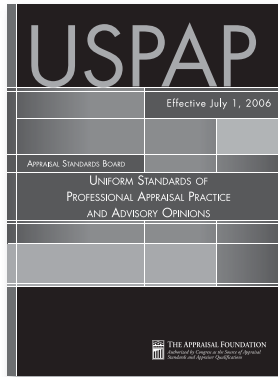
- **Breaks** There will be breaks during the morning session and breaks during the afternoon session, unless noted otherwise by the course sponsor. The lunch break is generally for one hour.
- **Attendance sheets** will be distributed during class to verify your attendance during the morning and afternoon sessions.
- **Certificate of completion** will be mailed after completion of the course, and attendance during the entire course is required.
- **Examination** This course provides at least 15 hours (50 minutes/hour) of instruction in USPAP that allows for a one-hour exam period within the 15-hour timeframe. The multiple-choice exam consists of 50 questions. You will be required to recognize definitions and concepts presented in the course, but not to memorize all of the Standards Rules.

Complaint Process

For the protection of all parties, The Appraisal Foundation has set up procedures for processing student complaints under the AQB Certified USPAP Instructor Program.

The complaint must be provided in writing to The Appraisal Foundation. The complaint will be reviewed to determine whether it has merit. If it is determined that the complaint has merit, an investigation will be conducted followed by a recommendation as to the next course of action.

Here's where we
are headed in the
morning session →



SECTION ONE

LEARNING FOCUS:

Part 1. Introduction to USPAP

Part 2. USPAP Definitions

Part 3. PREAMBLE and When USPAP Applies

Introduction

Clients hire appraisers to help them resolve appraisal problems. Some problems are straightforward, but others can be demanding and complex. USPAP (*Uniform Standards of Professional Appraisal Practice*) reflects the real world and the multifaceted nature of our profession. The goal of the course is to help you become familiar with USPAP.

USPAP was developed with the express purpose to promote and maintain a high level of public trust as well as confidence in professional appraisal practice. The development of standards changed the role of the appraiser in society and placed greater expectations on the appraiser to act in a manner that promotes public trust and confidence in appraisal services. The information in this course should prove helpful in your daily practice.

Let's think for a minute how USPAP actually benefits the appraisal profession.

USPAP provides

1. A common basis for comparison (are we doing the appropriate job?)
2. A reference source for those with little knowledge of appraisal practice
3. A basis for uniform enforcement
4. A reason for clients, other intended users, and the public to place their trust in the services performed by professional appraisers

Part 1.

Preview

Introduction to USPAP

To understand USPAP, you have to know its history. In this first part we will take a quick historical tour on the formation of professional appraisal standards.

This session will also examine the structure of The Appraisal Foundation and the role of its three boards. Finally, we will look at the structure of USPAP's contents and how it relates to the appraisal process.

Lesson Objectives

To prepare for Part 1, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Demonstrate awareness of the history of the development of the appraisal profession and the *Uniform Standards of Professional Appraisal Practice* (USPAP)
- Recognize the importance of maintaining “public trust” in appraisal services
- Identify the structure of USPAP
- Recognize the relationship between the organization of USPAP and the appraisal process
- Recognize the appraisal process provides a model for solving appraisal problems, regardless of whether the subject is real property, personal property, or intangible property

Learning Tips

The first session will be fast-paced and is intended to give a broad overview, so don't be overwhelmed by the amount of material. Your goal is to gain an overall perspective on the history and structure of USPAP. Most of the content for Part 1 will be found right here in your student manual; but starting in Part 2, we will be using and examining the USPAP document.

Part 1.

Introduction to USPAP

I. History of Appraisal Standards

A. The influence of historical events

1. Appraisal practice is an evolving profession influenced by historical events
2. Financial chaos in the United States in the 1920-30s era
3. Episodes of turmoil and abuse continued in the 1950s through the 70s and spiked in the late 1980s with the “Savings and Loan (S&L) Crisis”
4. Other historical events, such as mortgage scams and illegal property flipping in the 1990s and continuing today, have also influenced the appraisal profession

B. The role of the appraiser

1. Prior to the 1930s, mortgage brokers and real estate agents often undertook the task of appraising real property
2. In the wake of the stock market crash and the resulting economic depression, the first organized groups of professional appraisers appeared within the United States during the early 1930s
3. By the 1950s and 60s, there were more organizations representing real estate appraisers. All of these groups shared a common goal: to establish qualifications and standards of professional practice for their membership.

4. Three critical issues were recognized by these professional organizations
 - a. Providing credible appraisal services necessary for the general economic well-being of society
 - b. An existing social need for appraisal services carried out by ethical and competent individuals
 - c. Performance of professional services that create public trust in the individual appraiser and in appraisal practice

C. Development of appraisal standards

1. In the 1980s, leaders of the professional organizations recognized the need for a common set of standards in professional appraisal practice. They also sought to enhance the enforcement of those standards.
 - a. Some of the initial work focused on defining “market value” for real estate appraisals prepared for use by federally regulated agencies
 - b. Eight organizations based in the United States together with the Appraisal Institute of Canada formed what is known as the “Ad-Hoc Committee” to develop professional standards that would eventually become the *Uniform Standards of Professional Appraisal Practice* (USPAP)
 - c. The Ad-Hoc Committee knew that public recognition and acceptance of their work would require the formation of a new organization
 - d. A new organization would require independent authority over the standards and place the public’s interest ahead of any other constituency, including the membership of the Ad-Hoc Committee’s respective organizations
2. In 1987, eight major professional organizations based in the U.S. and one in Canada established The Appraisal Foundation (TAF), including three boards
 - a. The Appraiser Qualifications Board (AQB)
 - b. The Appraisal Standards Board (ASB)
 - c. The Board of Trustees (BOT)

3. USPAP was created with the express purpose of promoting and preserving public trust in professional appraisal practice

- a. Even though there are different asset types, **all appraisal disciplines** were included in USPAP to establish one set of standards for the appraisal profession
- b. The commitment to cultivate greater trust and confidence in professional appraisal practice is the task of the AQB and the ASB, with support from the sponsoring organizations of The Appraisal Foundation
- c. The concept of trust obligates the appraiser to act in the public's interest, which includes the following attributes:

- _____
- _____
- _____
- _____
- _____

d. In light of the above attributes, public interest rightly demands that a professional appraiser act in an ethical and competent manner

D. Public acceptance of USPAP

- 1. Congress contributed to USPAP's acceptance by identifying USPAP as the generally recognized standards of practice in the appraisal profession
- 2. Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), also known as the "S & L Bail-Out Bill," provided recognition and authorized federal financial institution regulatory agencies to reference USPAP in their regulations
- 3. The Executive Branch followed Congress by referencing USPAP in the Uniform Relocation Assistance and Real Property Acquisition Policies Act

4. With the Office of Management and Budget (OMB) Circular A-129, dated January 11, 1993, other federal agencies recognized USPAP
5. Private industry groups such as Fannie Mae, Freddie Mac, Farmer Mac, the Farm Credit Administration, and the Employee Relocation Council referenced USPAP and integrated the standards in their policies

E. Legal authority and adoption process

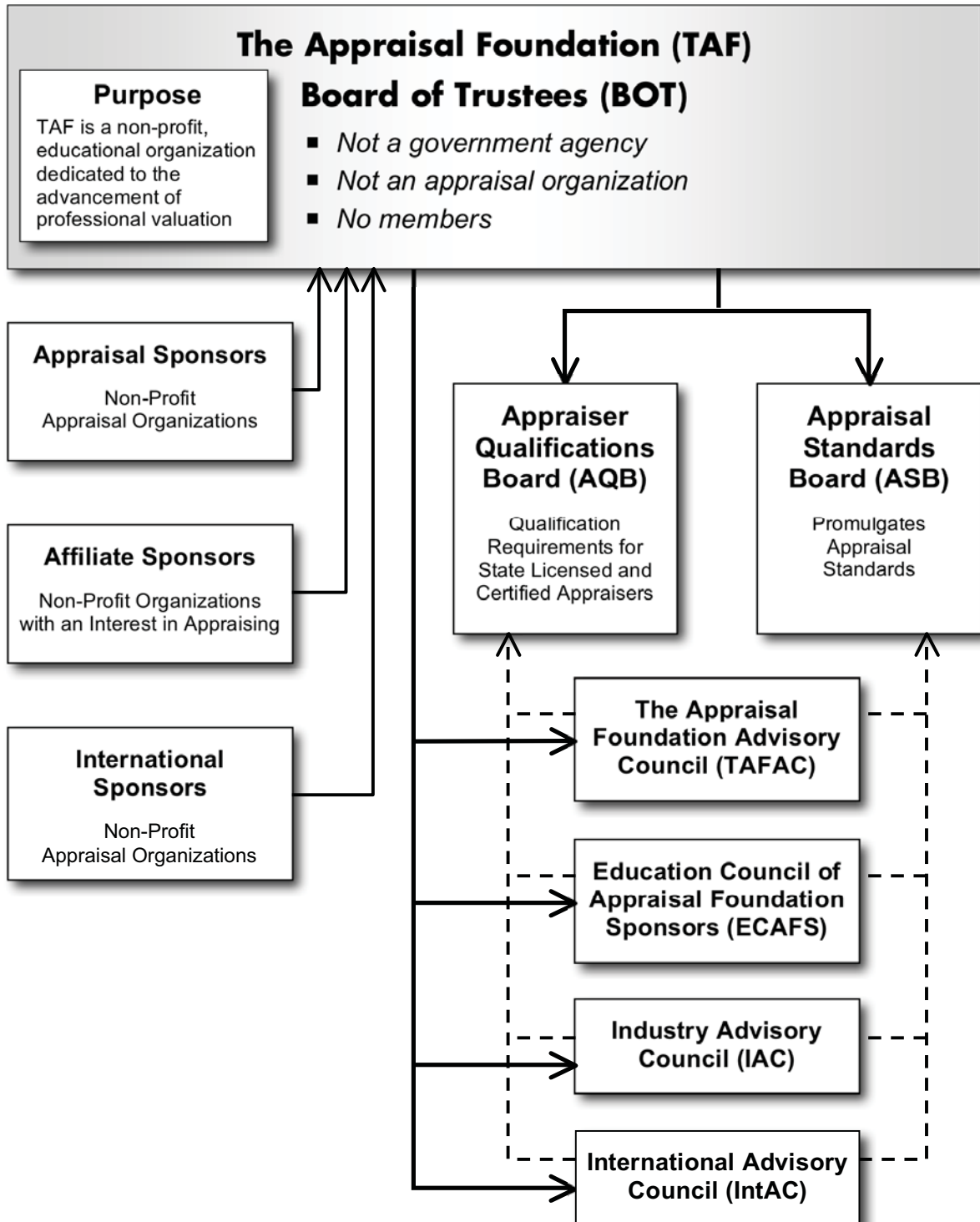
1. The Appraisal Foundation is a private entity and not a government agency. The Foundation and its Boards have no legal authority in any jurisdiction.
2. USPAP achieves legal authority by adoption, citation, or implementation by government agencies through regulation or administrative actions, or by private enterprise in the form of contract requirements

II. The Appraisal Foundation

A. The structure of The Appraisal Foundation (TAF) – *See the following page*

- Not a government agency
 - Not an appraisal organization
 - No members
1. TAF has three boards
 - a. Board of Trustees (BOT).
 - b. Appraiser Qualifications Board (AQB)
 - c. Appraisal Standards Board (ASB)
 2. TAF has three categories of sponsors
 - a. Appraisal Sponsors (non-profit appraisal organizations)
 - b. Affiliate Sponsors (non-profit organizations with an interest in appraising)
 - c. International Sponsors (non-profit appraisal organizations)

The Appraisal Foundation and Relationships



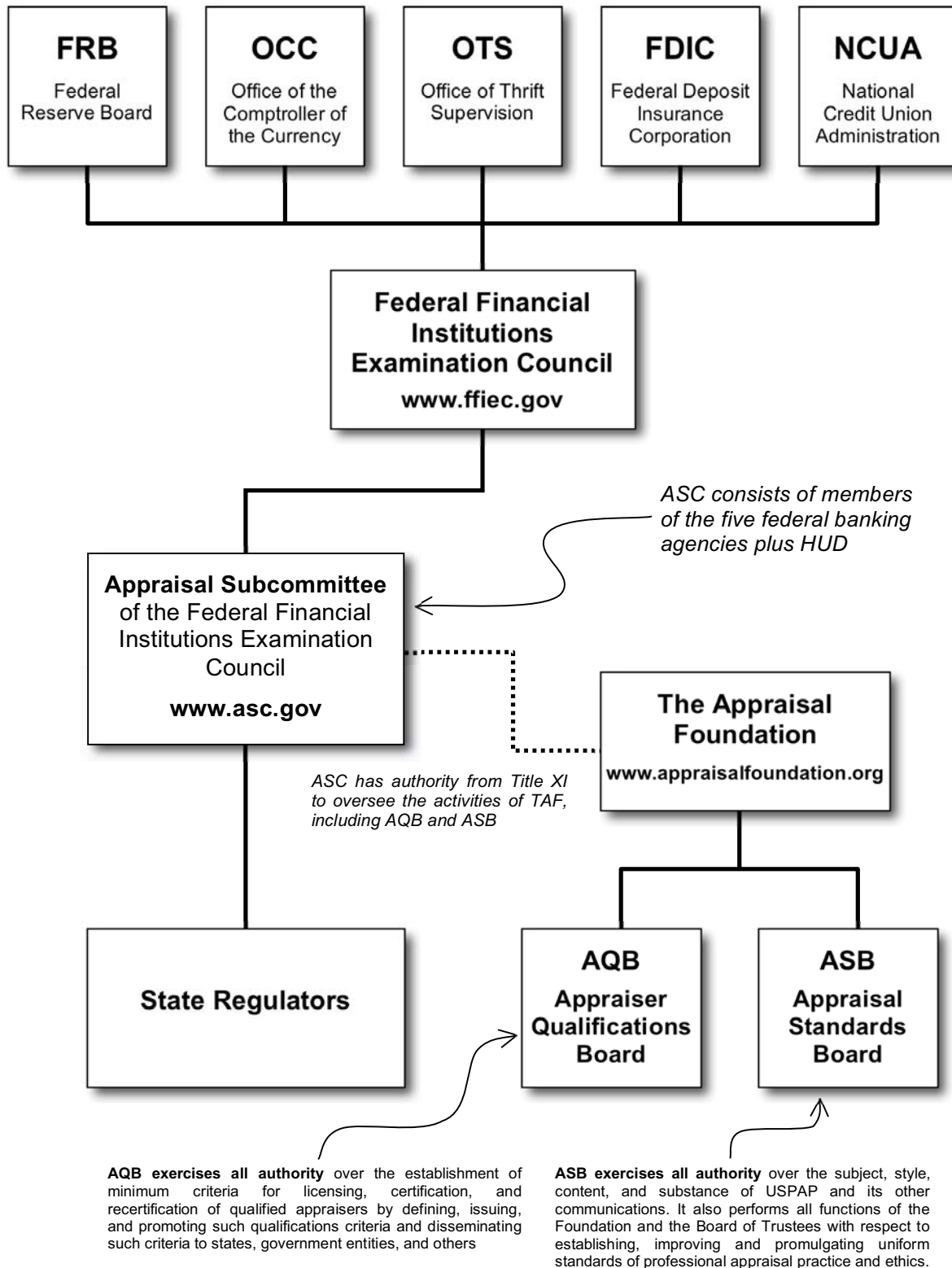
3. TAF has four advisory councils
 - a. The Appraisal Foundation Advisory Council (TAFAC) has representatives from non-profit organizations and government agencies
 - b. Education Council of Appraisal Foundation Sponsors (ECAFS) is comprised of educational specialists from appraisal sponsors and the Association of Appraisal Regulatory Officials (AARO)
 - c. Industry Advisory Council (IAC) has members from for-profit organizations
 - d. International Advisory Council (IntAC) is composed of both for-profit and non-profit groups with international valuation concerns/interests
- B. The role of the TAF boards (none of which is a government agency)
 1. The Board of Trustees (BOT)
 - a. Exercises all authority and power and performs all functions of TAF except for the authority, powers and functions that the Articles of Incorporation or the Bylaws have directed or required to be exercised or performed by the AQB or the ASB
 - b. Has two primary functions
 - Appoint members to the AQB and ASB
 - Ensure financing of TAF
 2. The Appraiser Qualifications Board (AQB)
 - a. Exercises all authority over the establishment of minimum education, experience, and other criteria for licensing, certification, and recertification of qualified appraisers
 - b. Defines, issues, and promotes such qualification criteria
 - c. Disseminates such qualification criteria to states, government entities, and others

3. The Appraisal Standards Board (ASB)
 - a. The ASB performs all functions of TAF with respect to establishing, improving and promulgating USPAP
 - b. Exercises all authority and power over the subject, style, content, and substance of USPAP and other communications related to Standards
 - USPAP establishes standards of professional appraisal practice for the guidance and education of appraisers and users of appraisal services
 - USPAP includes the DEFINITIONS, PREAMBLE, Rules, Standards, Standards Rules, and Statements on Appraisal Standards
 - Guidance in the form of Advisory Opinions, together with an Index, is also provided in the same bound publication for convenience. These items are examples of “other communications” that the ASB may issue to illustrate appraisal standards and offer advice, but they are not part of USPAP.
 - Monthly Q & As are available on The Appraisal Foundation’s website at www.appraisalfoundation.org. These are compiled annually into the *Frequently Asked Questions* (FAQ) publication (book) that is available for purchase from The Appraisal Foundation.
 - Most changes made to USPAP by the ASB have been the result of unsolicited letters or responses to exposure drafts from a variety of sources, including appraisal organizations, government agencies, client groups, work groups, appraisers, and members of the public
 - In reviewing comment letters received on exposure drafts, the ASB focuses on the reasoning and insight presented in the letter, rather than its source. The Board’s obligation to this process is for the good of the profession and for the benefit of the public who rely on professional appraisal services.

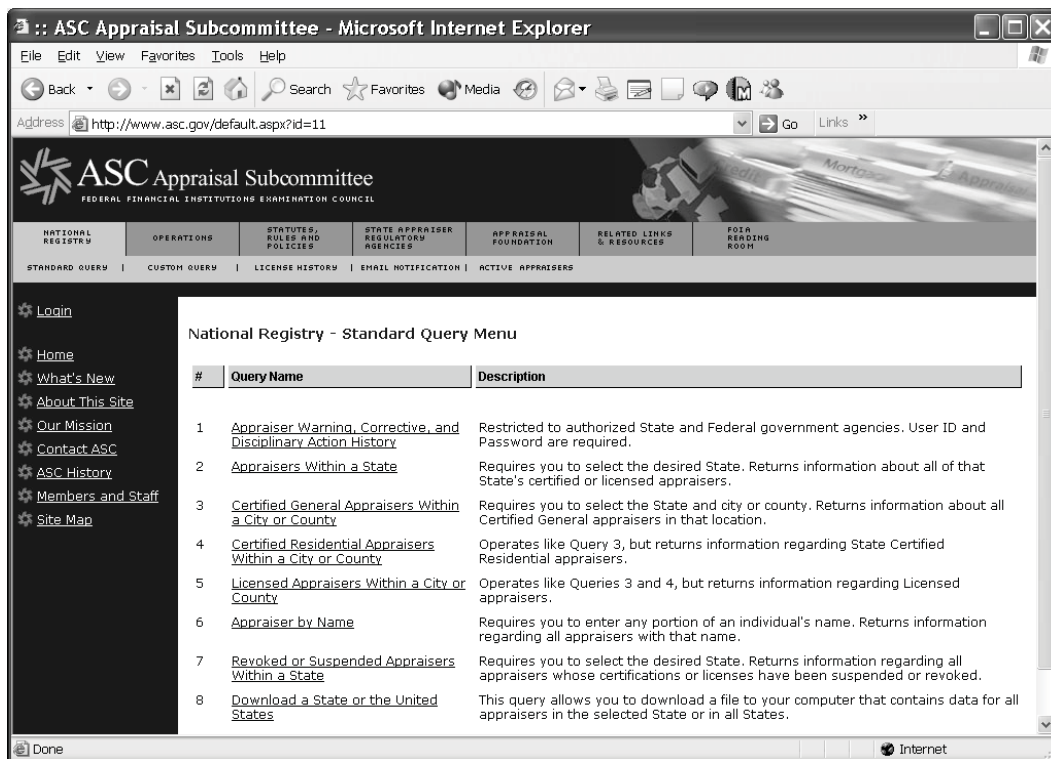
III. The Appraisal Subcommittee (ASC)

- A. Created as a result of FIRREA, the Appraisal Subcommittee (ASC) has as its focus a supervisory role over state boards and appraisers, with a duty to ensure that the government has sufficient controls in place over all real estate appraisal activity to protect it from loss
 - 1. FIRREA established the ASC within the Federal Financial Institutions Examination Council (FFIEC)
 - a. FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms and to make recommendations to promote uniformity in the supervision of financial institutions
 - b. Bank examiners working for federal banking agencies follow FFIEC principles and standards in their examination of financial institutions
 - 2. The ASC has six members, each designated by the head of his or her agency, and the chairperson is appointed by FFIEC. The members represent
 - a. Board of Governors of the Federal Reserve System (FRB)
 - b. Office of the Comptroller of the Currency (OCC)
 - c. Office of Thrift Supervision (OTS)
 - d. Federal Deposit Insurance Corporation (FDIC)
 - e. National Credit Union Administration (NCUA)
 - f. Department of Housing and Urban Development (HUD)
- B. The ASC is not a part of The Appraisal Foundation (TAF), but has authority from Title XI of FIRREA to oversee the activities of TAF, including both the AQB and the ASB in regard to real property issues
- C. Title XI also authorized the ASC to oversee the activities of state appraisal licensure and certification agencies

The Appraisal Foundation and FIRREA



- D. The ASC makes an annual report to Congress
- E. ASC operations are funded by state certified or licensed appraisers through their license renewal payment in the form of a National Registry fee. This fee is paid to the states, which then transfer it to the ASC.
- F. The ASC manages grants to The Appraisal Foundation that are used to support, in part, the real-property-related work of the AQB and the ASB



Page excerpt from the ASC's Internet website showing various query links.

IV. The Structure of USPAP

USPAP is intended to provide the common basis for all appraisal practice. To understand the uniform standards, it is important to see how its various parts complement the primary goal of promoting and preserving public trust. USPAP manages both the ethical side and the performance side of appraisal practice. The Rules in USPAP cover general practice policies, and the Standards Rules are elaborations of these policies to specific disciplines and assignment types.

A. Overview of USPAP's structural layout

1. DEFINITIONS
2. PREAMBLE
3. RULES
 - a. ETHICS
 - b. COMPETENCY
 - c. SCOPE OF WORK
 - d. JURISDICTIONAL EXCEPTION
 - e. SUPPLEMENTAL STANDARDS
4. STANDARDS 1-10
5. Statements on Appraisal Standards

B. The USPAP blueprint

1. DEFINITIONS section contains terms that have distinct meanings in USPAP
2. PREAMBLE
 - a. The PREAMBLE describes the overall structure of USPAP
 - b. The PREAMBLE sets forth the following general principle:

It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.

3. ETHICS and COMPETENCY RULES

- a. General ethical requirements are described in the ETHICS RULE
- b. General performance requirements are described in the COMPETENCY RULE
- c. Both Rules work together and are necessary to generate and maintain public trust in the appraisal profession, as appraisers must perform ethically and must be competent to provide the service he or she is offering

4. SCOPE OF WORK RULE

- a. Elaborates on problem identification, determination of an appropriate scope of work, and disclosure of the scope of work that was performed
- b. The scope of work is determined by the appraiser based on assignment elements that are part of problem identification

5. JURISDICTIONAL EXCEPTION RULE

- a. Recognizes that other laws or regulations may take precedence over USPAP in certain situations
- b. When a part of USPAP is contrary to law or public policy of any jurisdiction, that part of USPAP, and only that part of USPAP, is of no force
- c. Application of the JURISDICTIONAL EXCEPTION RULE is a matter of applicable law, regulation, etc. It is not a matter of choice by the appraiser.

6. SUPPLEMENTAL STANDARDS RULE

- a. Enables government agencies, government sponsored enterprises and other entities that establish public policy to establish additional development or reporting requirements
- b. Such additional requirements are recognized by USPAP as long as they do not detract from or diminish the purpose and intent of USPAP and are material to the development or reporting of assignment results

7. STANDARDS 1 through 10

- a. The Standards, with the exception of STANDARD 3 and STANDARD 6, are paired
- b. The titles of each of the Standards identify the discipline and task
 - STANDARD 1 – Real Property Appraisal, Development
 - STANDARD 2 – Real Property Appraisal, Reporting
 - STANDARD 3 – Appraisal Review, Development and Reporting
 - STANDARD 4 – Real Property Appraisal Consulting, Development
 - STANDARD 5 – Real Property Appraisal Consulting, Reporting
 - STANDARD 6 – Mass Appraisal, Development and Reporting
 - STANDARD 7 – Personal Property Appraisal, Development
 - STANDARD 8 – Personal Property Appraisal, Reporting
 - STANDARD 9 – Business Appraisal, Development
 - STANDARD 10 – Business Appraisal, Reporting

8. Statements on Appraisal Standards (SMTS)

- a. USPAP includes Statements on Appraisal Standards (SMTS). To clarify the intent of Statements, the following text appears at the beginning of every Statement:

Statements on Appraisal Standards are authorized by the by-laws of The Appraisal Foundation and are specifically for the purposes of clarification, interpretation, explanation, or elaboration of the Uniform Standards of Professional Appraisal Practice (USPAP). Statements have the full weight of a Standards Rule and can be adopted by the Appraisal Standards Board (ASB) only after exposure and comment.

- b. The Appraisal Standards Board of The Appraisal Foundation has issued ten Statements. Four Statements have been retired.

9. Comments

Comments are an integral part of USPAP and have the same weight as the component they address. These extensions of the DEFINITIONS, Rules, and Standards Rules provide interpretation and establish the context and conditions for application.

C. Other Communications

1. The bound edition also includes guidance material (for example, Advisory Opinions, Index)
2. The guidance material is not a part of the Uniform Standards of Professional Appraisal Practice (USPAP), but is bound with the published document for convenience of reference
3. To clarify the intent and purpose of such guidance material, the following text appears at the beginning of every Advisory Opinion:

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.

4. The ASB has published twenty-nine Advisory Opinions (AOs); four have been retired

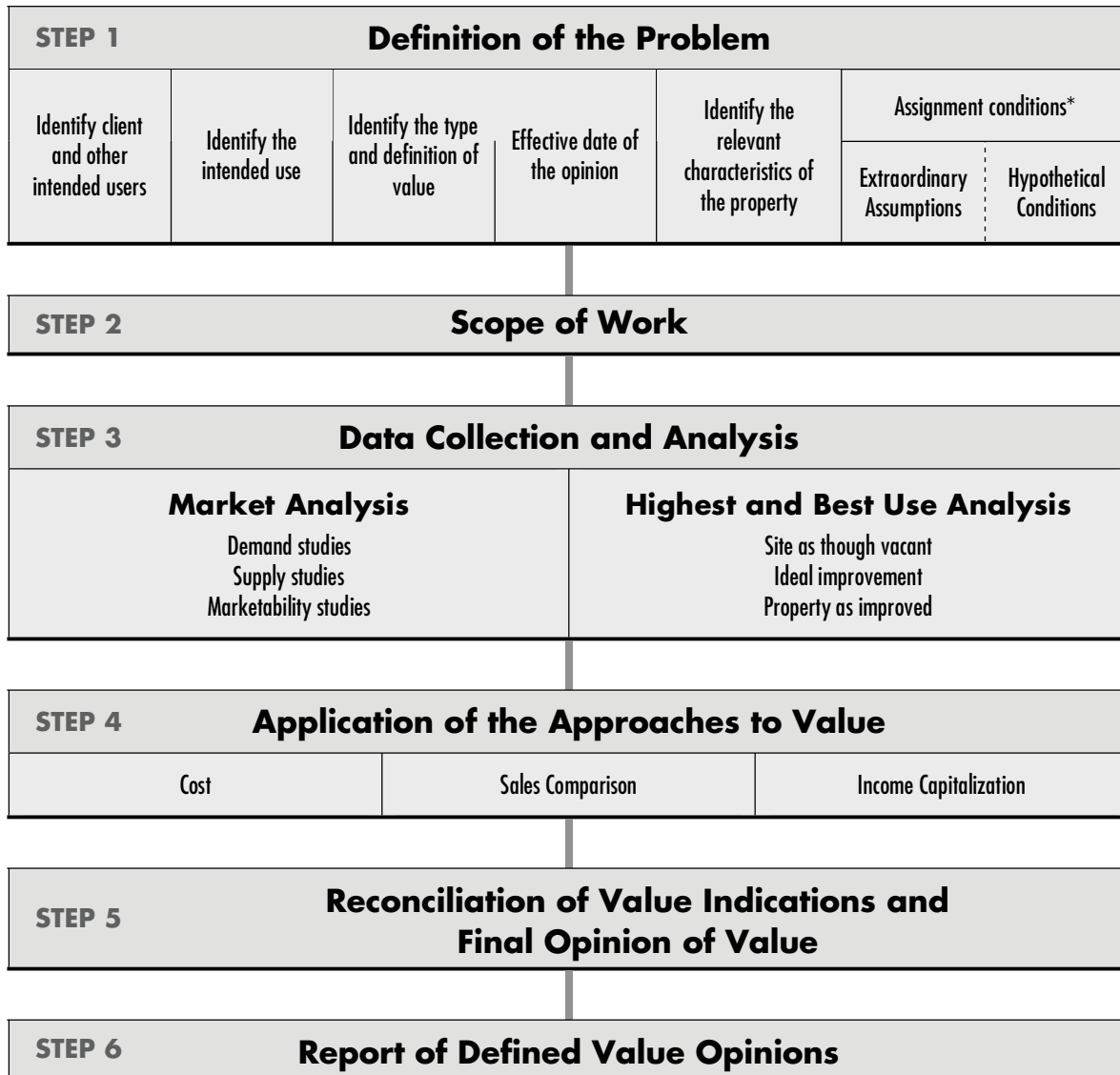
V. USPAP and the Appraisal Process

There is a distinct method by which competent appraisers apply their knowledge and skills to solve valuation problems. The method is called the appraisal process, and it is one of the sources of standards for professional appraisal practice. The process provides a model for resolving all kinds of valuation problems, regardless of whether the subject matter is real property, personal property, or a business interest. The model provides the framework for developing any type of value opinion.

- A. USPAP addresses the controlling steps and sequences in the appraisal process (See the chart on the following page)
 1. Definition of the problem
 2. Determine the appropriate scope of work
 3. Data collection and analysis

4. Application of the approaches to value
5. Reconciliation of value indications and final opinion of value
6. Report of defined value opinions

USPAP and the Appraisal Process



* **Assignment conditions** also include jurisdictional exceptions, supplemental standards, assumptions and limiting conditions.

- B. In USPAP, the appraisal process is divided into two distinct types of activity:
development and reporting
1. The development process begins with information identified in Step 1. The appraiser gathers most of this information from the client (with the exception of relevant property characteristics).
 2. The appraiser uses the initial information in Step 1, such as identification of the client and other intended users, intended use, and type of value, etc., to determine what assignment conditions (i.e., extraordinary assumptions and hypothetical conditions, jurisdictional exceptions, supplemental standards, assumptions and limiting conditions) may be required.
 3. With this information, the competent appraiser can determine the scope of work (Step 2) necessary to develop a credible solution to the problem. In Step 6 the appraiser will determine how much information to disclose in the report so the intended user can understand the scope of work.
 4. Based on the scope of work, the appraiser completes the development aspect of the appraisal process in Steps 3, 4 and 5 to reach a conclusion of value
 5. Reporting (Step 6) is the last component of the appraisal process. The communication, written or oral, of the appraiser's opinions and conclusions include disclosure of the information used in the development process.

Part 1.

Review

Learning Objectives

Now that you have completed Part 1, you should be able to

- ☑ Demonstrate awareness of the history of the development of the appraisal profession and the *Uniform Standards of Professional Appraisal Practice* (USPAP)
- ☑ Recognize the importance of maintaining “public trust” in appraisal services
- ☑ Identify the structure of USPAP
- ☑ Recognize the relationship between the organization of USPAP and the appraisal process
- ☑ Recognize the appraisal process provides a model for solving appraisal problems, regardless of whether the subject is real property, personal property, or intangible property

Terms and Concepts to Remember

- The Appraisal Foundation (TAF)
- Appraiser Qualifications Board (AQB)
- Appraisal Standards Board (ASB)
- Appraisal Subcommittee (ASC)
- Board of Trustees (BOT)
- Financial Institutions Reform, Recovery and Enforcement Act (FIRREA)

Review Summary

Here is a quick review of the essential components of Part 1.

1. Episodes of economic turmoil generated the need for greater education and higher standards of practice within the appraisal profession.
2. Eight U.S. based professional appraisal organizations created The Appraisal Foundation (TAF) in 1987 to promulgate standards of practice and minimum appraiser qualifications criteria for the benefit of the public.
3. The development of standards placed greater expectations on the appraiser to act in a manner that promotes public trust and confidence in appraisal services.
4. The Appraisal Standards Board has complete authority over the development and promulgation of appraisal standards (USPAP) within The Appraisal Foundation.
5. Statements on Appraisal Standards are issued by the Appraisal Standards Board (ASB) for the purpose of clarifying, interpreting, explaining or elaborating on USPAP.
6. The Appraisal Foundation supports the work of the Appraiser Qualifications Board and Appraisal Standards Board by providing staff support for both AQB and ASB activities, by funding their operations, and by publishing USPAP, qualification requirements, and other communications issued by the AQB and ASB. The AQB and ASB are accountable to The Appraisal Foundation with regard to the use of resources provided by The Appraisal Foundation.
7. The mission of the Appraisal Subcommittee is to ensure that real property appraisers who perform appraisals in real estate transactions that could expose the United States government to financial loss are sufficiently trained and tested to assure competency and independent judgment according to uniform standards and ethics.
8. USPAP provides a basis for professional practitioners to judge their own work and the work of their peers. USPAP also provides members of the public, clients, and other intended users with a basis for expectations regarding appraisal services.
9. USPAP facilitates uniform enforcement of standards and, together with competent enforcement activity, brings discipline to those who seek to abuse the public trust that is essential for orderly commerce in our society.
10. Public trust is based on a confidence that the professional appraiser will provide a service with independence, honesty, and integrity and that the appraiser's opinions and conclusions will be credible given the intended use and meaningful to the intended users.

Part 2.

Preview

USPAP Definitions

Your knowledge of definitions is critical to understanding USPAP. The terms defined in USPAP have distinct meanings and are necessary to appropriately understand and apply USPAP. The DEFINITIONS section in USPAP presents the essential definitions so they are easy to understand and apply in daily appraisal assignments.

Lesson Objectives

To prepare for Part 2, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Identify key terms defined in USPAP
- Recognize how these terms relate to USPAP concepts and principles

Learning Tips

Each class participant should spend some time reviewing the definitions found in USPAP, concentrating on the key terms discussed in class.

Do not try to assimilate all the definitions too quickly. This is an initial exposure. The terms will be presented repeatedly throughout the two-day course.

Part 2.

USPAP Definitions

I. Definitions

A. Why does USPAP define certain terms?

1. There are numerous terms critical to value-related services. USPAP defines those terms that are essential to understanding the uniform standards.
2. USPAP definitions have **distinct** meanings in the context of their use within the USPAP document
 - a. For example, the term *assignment* has a specific meaning as applied in USPAP versus its common dictionary meaning
 - b. USPAP is the source authority for many unique terms used in the appraisal profession. Examples of such terms are *extraordinary assumption* and *hypothetical condition*.
3. USPAP defines the components of the term *market value* rather than providing an actual definition
 - a. There are a variety of *market value* definitions
 - b. USPAP does not endorse any specific definition of market value or source
 - c. Source could be a recognized authority, i.e., regulatory agency; a specific legal jurisdiction, i.e., bankruptcy court; a specific body of knowledge, i.e., real property; or customized and specific to the client's intended use and identified scope of work

B. What are the key terms to know in your daily appraisal work?

1. All the terms listed in the DEFINITIONS section are important to understanding USPAP, but we will concentrate on these key terms and definitions
2. Of these terms, some are simple and similar to their everyday use. Others are more complicated and/or appraisal specific.

3. Overview of key terms (note that some are grouped)

- Advocacy
- Appraisal
- Appraisal Consulting
- Appraisal Practice
- Appraisal Review
- Appraiser
- Assignment
- Assignment Results, Confidential Information
- Assumption
- Bias
- Client
- Cost, Price, and Value
- Extraordinary Assumption
- Hypothetical Condition
- Intended Use and Intended User
- Report
- Scope of Work
- Signature
- Standard and Standards Rule (these two terms are not defined in USPAP)
- Valuation Services
- Workfile

C. Definitions in contrast

1. *Advocacy* vs. *bias*

- a. *Advocacy* means representing the cause or interest of another, even if that cause or interest does not necessarily coincide with one's own beliefs, opinions, conclusions, or recommendations; whereas, *impartiality* conveys a mental state that does not favor one side over another at the outset of an investigation. Example: attorneys are advocates for their clients; whereas, judges are impartial and neutral toward the parties that appear before them. An appraiser must be impartial and cannot be an advocate for the client or other intended users.
- b. *Bias* is a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment

In the Real World

1) A client has hired an individual to provide consulting in a tax appeal case. The client has an appraisal report that provided a market value opinion of the property from an appraiser the client also hired. If the consulting individual did not provide the appraisal report, can the individual be an advocate for the client?

2) An appraiser receives an assignment from a bank on a property for which he has been promised a listing through his brokerage service. Can the appraiser take the assignment since the listing agreement is not in effect at the present time?

2. *Assumptions, extraordinary assumptions and hypothetical conditions*
- a. Appraisers make a variety of *assumptions* in every appraisal assignment. For example, appraisers often assume that the property has clear title. That is a general assumption which is taken to be true.
 - b. An *extraordinary assumption* involves a situation directly related to a specific assignment. If an appraiser did not inspect the interior of a property, the appraiser might use an extraordinary assumption to alert the client regarding the uncertainty in the data acquired.
 - c. A *hypothetical condition* assumes something that is contrary to what exists as of the effective date of the appraisal. These are typically “what if” scenarios supposed for the purposes of analysis. What if the zoning were different? What if the building was already renovated?

In the Real World

- 1) A client wants to know the repaired value of a property currently damaged due to flooding from a severe storm. What type of assignment condition should the appraiser use?

- 2) A client has repaired a property that was damaged due to flooding. Several neighboring properties that were similarly flooded and later repaired soon developed mold problems. The client’s property shows no evidence of mold as of the effective date. What type of assignment condition should the appraiser use if the client wants a current value opinion of the property?

3. *Cost, price and value*

- a. *Cost* is a fact or an estimate of fact (such as when an appraiser estimates the cost of improvements for a particular property)
- b. *Price* becomes fact once it is stated. An appraiser can estimate a price that a property owner should ask, but once the owner agrees on the price it becomes a fact.
- c. *Value* is an opinion and is never a fact

USPAP in Action No. 1



An appraiser performed the cost approach in an appraisal of a new warehouse; the buyer paid \$1.9 million for the building and site. The property's appraised value was \$2 million. Identify each of the three components: the reproduction cost developed by the appraiser; the \$1.9 million figure; and the \$2 million figure as

- a) fact,
- b) estimate of fact, or
- c) an opinion

in relation to the appraisal of this property.

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4. What is an appraiser?

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5. Who is the client in an appraisal assignment, and what type of relationship is created?

- a. The client is the party or parties who engage an appraiser (by employment or contract) in a specific assignment
- b. The client identified by the appraiser is the party or parties with whom the appraiser has an appraiser-client relationship in the related assignment
- c. The client may be an individual, group or entity

6. *Assignment, assignment results, and confidential information*

- a. An *assignment* is a service that is the consequence of an agreement between an appraiser and a client. The assignment is what initiates the appraiser-client relationship.
- b. *Assignment results* are the appraiser's opinions, conclusions and recommendations
- c. *Confidential information* is information that is either identified by the client as confidential and not available from any other source or classified as confidential or private by applicable law or regulation (Gramm-Leach-Bliley Act)
 - Assignment results are not an example of confidential information, but instead must be treated as confidential (see the ETHICS RULE)

7. *Intended use and intended user*

- a. *Intended use* is critical to the scope of work decision. It is determined by the appraiser after communication with the client **at the time of the assignment**.
- b. *Intended user* is the client and any other party identified as users by the appraiser based on communication with the client **at the time of assignment**

USPAP in Action No. 2



A lender has engaged an individual to perform an appraisal for refinance purposes on a property. The property owner pays the appraiser when they meet at the residence. Who is the client and other intended users in this assignment?

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8. *Report, signature and workfile*

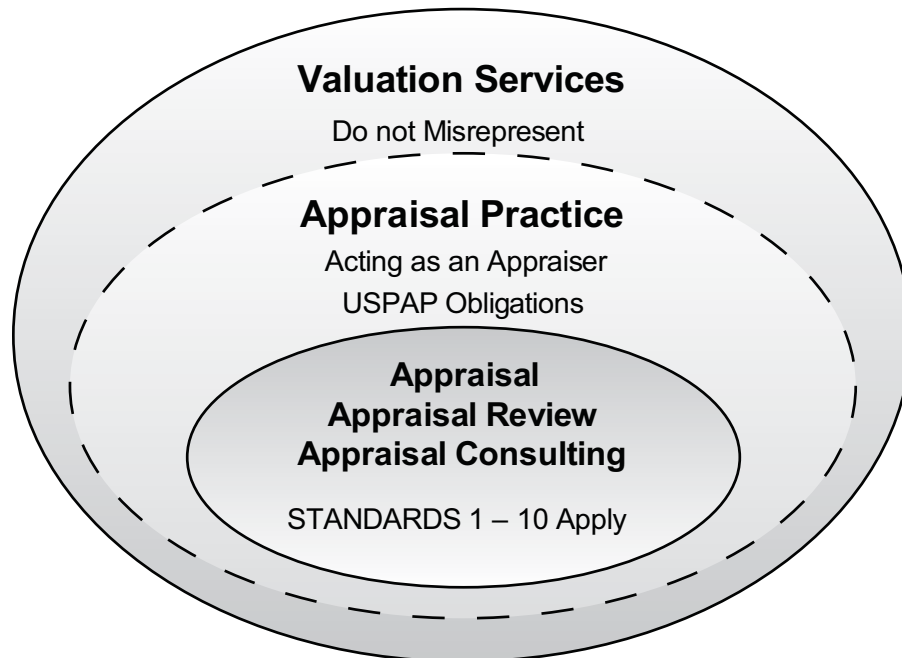
- a. An appraiser's *report* is either written or oral communication that is transmitted to the client upon completion of the assignment
- b. An appraiser's *signature* is personalized evidence that authenticates that the appraiser performed, and is responsible for, the contents of the report
 - Signature can be a handwritten mark
 - Signature can be a digitized image controlled by the appraiser
- c. If the assignment involves appraisal, appraisal review or appraisal consulting, the appraiser must have a workfile for that assignment
- d. The *workfile* documents the support for the appraiser's analyses and conclusions

In the Real World

A client requests “a number” over the phone in advance of the written appraisal report. How should an appraiser handle this type of request?

D. Definitions associated with appraisal practice

1. *Valuation service*



- a. This is the all-encompassing world of value-related services
- b. Valuation services are performed by appraisers and by others

2. *Appraisal practice*

- a. Performed only by appraisers
- b. USPAP applies only to appraisal practice
Note: Consider “What is USPAP?” based on what was presented in Part 1
- c. Identified services within appraisal practice include
 - Appraisal
 - Appraisal Review
 - Appraisal Consulting
- d. Other services provided as an appraiser and within appraisal practice might include teaching appraisal courses, performing feasibility studies, writing an appraisal article, or performing a market study as examples
- e. When the service is performed by an individual acting in the role of an appraiser, it is appraisal practice. Remember that a client has expectations that the individual will act in the role of an appraiser (i.e., with impartiality, objectivity and independence).

In the Real World

A client contacts a broker to lease her office property. The broker also provides appraisal services, but the client was not aware of that when she contracted with the broker. Is this assignment under valuation services or appraisal practice?

3. *Scope of work*

- a. Defined as the type and extent of research and analyses in an assignment
- b. For each appraisal, appraisal review, and appraisal consulting assignment an appraiser must
 - Identify the problem to be solved
 - Determine and perform the scope of work necessary to develop credible assignment results for the intended use
 - Disclose the scope of work performed in the report

E. Key terms not defined in USPAP

1. There are two key terms not defined in the DEFINITIONS section of USPAP. Even so, they are important terms for appraisers to understand.
2. *Standards and Standards Rule*
 - a. There are 10 Standards in USPAP. A Standard is a benchmark or a set of criteria used to measure performance. In this case, USPAP Standards are measuring ethics and competency.
 - b. STANDARDS 1 and 2, 4 and 5, and 9 and 10 are paired to address development and reporting, respectively; STANDARD 3 addresses development **and** reporting of an appraisal review; and STANDARD 6 addresses development **and** reporting of a mass appraisal
 - c. Each Standard is comprised of Standards Rules that identify the requirements and guidance applicable to that Standard

Part 2.

Review

Learning Objectives

Now that you have completed Part 2, you should be able to

- Identify key terms defined in USPAP
- Recognize how these terms relate to USPAP concepts and principles

Terms and Concepts to Remember

- Advocacy
- Appraisal
- Appraisal Consulting
- Appraisal Practice
- Appraisal Review
- Appraiser
- Assignment
- Assignment Results
- Assumption
- Bias
- Client
- Confidential Information
- Cost
- Extraordinary Assumption
- Hypothetical Condition
- Intended User
- Intended Use
- Price
- Report
- Scope of Work
- Signature
- Standard
- Standards Rule
- Valuation Services
- Value
- Workfile

Review Quiz

Identify the correct term based on the limited definition that is provided.

1. The party or parties who engages an appraiser: _____
2. Assumes conditions contrary to known facts: _____
3. Services performed by an individual acting as an appraiser: _____
4. Documents the support for the appraiser's conclusions: _____
5. Presumes as fact otherwise uncertain information: _____
6. A preference that precludes an appraiser's impartiality: _____
7. The amount asked, offered or paid for a property: _____
8. Services pertaining to aspects of property value: _____
9. The act or process of developing an opinion of value: _____
10. An opinion that expresses an economic concept: _____

Your instructor will review the above questions in class so you can check your responses.

Part 3.

Preview

PREAMBLE and When USPAP Applies

The purpose of USPAP is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. For this reason, individuals must know when their services are required to comply with USPAP. Many appraisers have more than one professional role. For example, some appraisers are also brokers, property managers, consultants, or attorneys. Do you know how USPAP applies to individuals who sometimes provide other services as well as appraisals?

Lesson Objectives

To prepare for Part 3, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Recognize the difference between valuation services and appraisal practice
- Recognize the purpose of USPAP is to promote and maintain a high level of public trust in professional appraisal practice
- Recognize USPAP establishes minimum requirements for professional appraisal practice
- Recognize that an individual **must** comply with USPAP when required by law, regulation or agreement (with the client or other intended users), and **should** comply with USPAP when representing oneself as an **appraiser**
- Recognize within USPAP that being an “appraiser” is established by expectation and obligation, not by an individual’s credentials
- Recognize the appraiser has a professional responsibility to identify the capacity in which he or she is performing
- Recognize an appraiser acting in another role must ensure that intended users are not misled as to the individual’s role in providing that valuation service

Learning Tips

Keep your USPAP open. We will be looking at the PREAMBLE as well as Advisory Opinion 21 (AO-21) as we explore the differences between valuation services and appraisal practice and discuss USPAP obligations. We will use definitions you have just learned and relate them to everyday practice.

Part 3.

PREAMBLE and When USPAP Applies

I. PREAMBLE

The PREAMBLE identifies

A. Purpose of USPAP

1. To promote and maintain a high level of public trust in professional appraisal practice
2. To establish minimum requirements for professional appraisal practice

B. Who benefits from USPAP

1. Providers of appraisal services
2. Users of appraisal services

C. When USPAP applies

1. Compliance with USPAP is required when either the service or the appraiser is obligated to comply by
 - a. Law
 - b. Regulation
 - c. Agreement (with the client or other intended users)
2. When not obligated, individuals may still choose to comply

D. The content of each section of USPAP

USPAP addresses the ethical and performance obligations of appraisers through DEFINITIONS, Rules, Standards, Standards Rules, and Statements

E. What appraisal services are covered by USPAP

1. Appraisal
2. Appraisal review
3. Real property appraisal consulting
4. Other services when choosing to represent oneself as an appraiser

F. What property types are covered by USPAP

1. Tangible (real and personal property)
2. Intangible (business interests and others)

II. When Does USPAP Apply?

A. USPAP Compliance

1. When should an individual comply with USPAP?
 - a. An individual **must** comply with USPAP when required by law, regulation or agreement (with the client or other intended users)
 - b. An individual **should** comply with USPAP when choosing to represent oneself as an appraiser

2. A review of two USPAP definitions aid in the understanding of the above compliance issues

a. **Valuation Services:** *services pertaining to aspects of property value.*

Comment: Valuation services pertain to all aspects of property value and include services performed both by appraisers and by others.

b. **Appraisal Practice:** *valuation services performed by an individual acting as an appraiser including, but not limited to appraisal, appraisal review, or appraisal consulting.*

Comment: Appraisal practice is provided only by appraisers, while valuation services are provided by a variety of professionals and others. The terms appraisal, appraisal review, and appraisal consulting are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review and is required as a component of the analysis in an appraisal consulting assignment. The use of other nomenclature for an appraisal, appraisal review, or appraisal consulting assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.

B. Acting as an appraiser or performing a service “as an appraiser” means

1. Representing oneself as an appraiser
2. An expectation of appraisal competence in the service being provided
3. An expectation that the service will be provided in a manner that is independent, impartial, and objective

C. An expectation for an individual to act as an appraiser indicates an obligation to comply with USPAP to

1. Maintain public trust
2. Adhere to the definition of “appraiser,” not by an individual’s credentials
3. Meet expectations of clients and other intended users when an appraiser is identified

D. Responsibilities of an individual regarding user expectations include

1. Identifying the capacity in which he or she is performing, and inquire about the intended users' expectations
2. When performing services **outside** appraisal practice, individuals must not misrepresent themselves
3. An individual, when given the opportunity, can choose to provide a valuation service as an appraiser or in some other capacity, but must use great care not to violate public trust

E. USPAP compliance obligations for appraisal practice

1. Individuals performing appraisal, appraisal review and appraisal consulting services must retain a workfile and comply with the DEFINITIONS, PREAMBLE and the Rules in USPAP. Moreover, individuals performing these services must comply with the respective Standards and Standards Rules that are applicable to each service.
2. Services performed by an individual acting as an appraiser to which STANDARDS 1 through 10 do not apply still require compliance with the portions of USPAP that apply generally to appraisal practice
 - a. These portions of USPAP are the DEFINITIONS, PREAMBLE, ETHICS RULE (except the Record Keeping section), COMPETENCY RULE, JURISDICTIONAL EXCEPTION RULE, and SUPPLEMENTAL STANDARDS RULE
 - b. For assignments that fall outside STANDARDS 1 through 10, there are no workfile or record keeping requirements in USPAP
3. Some services provided by an appraiser that are included in appraisal practice but have no specific performance standards include
 - a. Providing sales data for a general type of property (not a specific property)
 - b. Measuring services (e.g., measuring the gross living area of a residence)
 - c. Writing an article about market grid adjustment techniques

- d. Verifying zoning issues and potential uses of a property
 - e. Analyzing specific elements of value, such as reproduction cost or functional utility
- F. USPAP obligations for valuation services performed by an individual outside of appraisal practice
- 1. An individual who acts in other professional roles, such as an attorney, accountant, broker, or consultant, must ensure that intended users are not misled when he or she is acting in these other capacities
 - 2. A valuation service based on advocacy or compensation arrangements that are contrary to the ETHICS RULE cannot be performed by an individual acting as an appraiser
- G. Additional guidance – AO-21, *USPAP Compliance* (Review this Advisory Opinion in USPAP)

Appraisal Practice

- 1. Hired specifically because of appraisal expertise
- 2. Must be impartial, independent, and objective
- 3. No advocacy or contingent fee arrangements permitted
- 4. Must follow USPAP performance standards (STANDARDS 1-10) for
 - Appraisal
 - Appraisal review
 - Appraisal consulting
- 5. When there are no specific performance standards in an assignment, an appraiser must still comply with the portions of USPAP that apply generally to appraisal practice
 - DEFINITIONS
 - PREAMBLE
 - ETHICS RULE – Conduct, Management, and Confidentiality sections
 - COMPETENCY RULE
 - JURISDICTIONAL EXCEPTION RULE
 - SUPPLEMENTAL STANDARDS RULE

Part 3.

Review

Learning Objectives

Now that you have completed Part 3, you should be able to

- ☑ Recognize the difference between valuation services and appraisal practice
- ☑ Recognize the purpose of USPAP is to promote and maintain a high level of public trust in professional appraisal practice
- ☑ Recognize USPAP establishes minimum requirements for professional appraisal practice
- ☑ Recognize that an individual **must** comply with USPAP when required by law, regulation or agreement (with the client or other intended users), and **should** comply with USPAP when representing oneself as an **appraiser**
- ☑ Recognize within USPAP that being an “appraiser” is established by expectation and obligation, not by an individual’s credentials
- ☑ Recognize the appraiser has a professional responsibility to identify the capacity in which he or she is performing
- ☑ Recognize an appraiser acting in another role must ensure that intended users are not misled as to the individual’s role in providing that valuation service

Terms and Concepts to Remember

- Appraisal Practice
- Appraiser
- PREAMBLE
- Valuation Services

Review Quiz

For questions 1–5, complete the missing information in each sentence.

1. _____ is a valuation service performed by an individual acting in the role of an appraiser.

2. When performing valuation services outside of appraisal practice, an appraiser must be careful not to _____ the client and other intended users about their role.

3. For assignments that fall outside STANDARDS 1 – 10, there are no _____ requirements in USPAP.

4. What appraisal services are covered by USPAP?
 - _____
 - _____
 - _____
 - _____ while acting in the role of an appraiser.

5. Measuring a residential building is a service within _____ that has no specific performance requirements in USPAP.

Note: There are five more quiz questions on the following page.

Check the appropriate box for each question.

	TRUE	FALSE
6. If an individual who is both a broker and an appraiser provides a “value” opinion for a specific property to be used in a listing agreement, the service is always outside appraisal practice.	<input type="checkbox"/>	<input type="checkbox"/>
7. An individual must comply with USPAP when required by law, regulation, or agreement.	<input type="checkbox"/>	<input type="checkbox"/>
8. Appraisal practice pertains only to market value appraisals.	<input type="checkbox"/>	<input type="checkbox"/>
9. An appraiser has a professional responsibility to identify the capacity in which he or she is performing.	<input type="checkbox"/>	<input type="checkbox"/>
10. The purpose of USPAP is to promote and maintain a high level of public trust in professional appraisal practice	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the quiz questions in class so you can check your responses.

Section Practice Test

The following multiple-choice questions apply to Parts 1 through 3.

1. Real estate brokerage, appraisal reviews, and real property appraisals are all included within
 - A. appraisal practice
 - B. appraisal consulting
 - C. valuation services
 - D. market analysis

2. The PREAMBLE of USPAP states that the Standards are
 - A. only for appraisers
 - B. for appraisers and users of appraisal services
 - C. limited to state certified or licensed appraisers
 - D. only for users of appraisal services

3. According to USPAP, the party or parties who engage an appraiser in a specific assignment defines the
 - A. client
 - B. party who pays the fee
 - C. appraiser's peers
 - D. other intended users

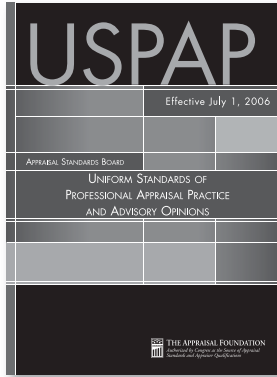
4. USPAP is enforced by
 - A. The Appraisal Foundation
 - B. the Appraisal Standards Board
 - C. the Appraisal Subcommittee, through Congress
 - D. state regulatory agencies

5. USPAP is developed, interpreted, and amended by the
 - A. Appraisal Standards Board
 - B. Appraiser Qualifications Board
 - C. Appraisal Subcommittee
 - D. state regulatory agencies

6. Which of the following best describes the Statements on Appraisal Standards?
- A. Offers advice, but do not carry the same weight as the Standards Rules.
 - B. Have the full weight of a Standards Rule and can be adopted by the ASB only after exposure and comment.
 - C. Do not establish new standards or interpret existing standards but are issued to illustrate the applicability of appraisal standards in specific situations.
 - D. Are not an integral part of the Uniform Standards and are extensions of the Standards Rules.
7. If an appraiser assumes a condition to be true that does not exist for purposes of analysis, this is an example of
- A. an extraordinary assumption
 - B. an assumption
 - C. a limiting condition
 - D. a hypothetical condition
8. Why are USPAP Advisory Opinions issued?
- A. To illustrate the applicability of appraisal standards
 - B. To establish new appraisal standards
 - C. To interpret existing standards
 - D. To revise existing standards
9. If an appraiser assumes a condition to be true and evidence supports that belief, although that fact is not certain, this is an example of
- A. an extraordinary assumption
 - B. an assumption
 - C. a limiting condition
 - D. a hypothetical condition
10. A workfile must be maintained for
- A. written appraisal reports only
 - B. oral appraisal reports only
 - C. valuation services that are outside USPAP
 - D. any assignment that is covered by Standards Rules

11. Advisory Opinions are best described as
- A. issued by the Appraisal Subcommittee
 - B. subject to Fannie Mae requirements
 - C. not part of USPAP, but included as reference material
 - D. an alternative index to USPAP
12. An electronic signature may be used only if the
- A. software used to affix the signature is current
 - B. report is on an approved form
 - C. appraiser will be storing the report by electronic means
 - D. appraiser has sole, personalized control of affixing the signature
13. A tangible object that is not real estate is
- A. real property
 - B. personal property
 - C. a business entity
 - D. borrowed property
14. Appraisal practice includes only
- A. valuation services performed by an individual acting as an appraiser
 - B. market value appraisals
 - C. work completed by licensed and certified appraisers
 - D. appraisal, appraisal review, and appraisal consulting
15. Who maintains the official national registry of state certified and licensed appraisers?
- A. Appraiser Qualifications Board
 - B. Appraisal Standards Board
 - C. The Appraisal Foundation
 - D. Appraisal Subcommittee

Here's where we are headed in the afternoon session →



SECTION TWO

LEARNING FOCUS:

Part 4. ETHICS RULE and COMPETENCY RULE

Part 5. SCOPE OF WORK RULE

Part 6. JURISDICTIONAL EXCEPTION RULE and SUPPLEMENTAL STANDARDS RULE

Part 4. Preview

ETHICS RULE and COMPETENCY RULE

We have already learned that the Rules apply to all the appraisal disciplines. In Section 2 each Rule will be discussed individually (Parts 4 through 6), with their corresponding learning objectives, for ease of understanding and reference.

The focus of Part 4 will be on the difference between ethical and competent behavior. Acting ethically is a matter of right intention, while acting competently is a matter of correct performance. The discussion will include both ethical principles for defining right intent and benchmarks in USPAP for acting competently.

Lesson Objectives

To prepare for Part 4, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Identify the four sections of the ETHICS RULE (Conduct, Management, Confidentiality, and Record Keeping)
- Identify the ethical obligations relating to development and communication of assignment results
- Recognize the components of competent performance (knowledge and experience necessary to competently complete an assignment)
- Identify the competency requirements that must be met before accepting an assignment
- Apply the Rules to situations through *USPAP in Action* discussion problems

Learning Tips

The tempo changes again in this part. Part 4 provides you with the opportunity to identify Rules as they apply to everyday practice. There are several *USPAP in Action* situations and *In the Real World* examples for group discussion. This is a great way to learn how your peers handle similar situations that come up in daily practice. Your participation will enhance your learning experience, so get involved in the class discussions.

Part 4.

ETHICS RULE and COMPETENCY RULE

I. ETHICS RULE

- A. Overview of Rule (establishes fundamental obligations of an appraiser as part of the profession)
 - 1. An appraiser must
 - a. Observe the highest standards of professional ethics
 - b. Not misrepresent his or her role when providing valuation services that are outside of appraisal practice
 - c. Certify compliance with USPAP
 - d. Communicate in a manner that is not misleading
 - 2. Sections of Rule
 - a. Conduct
 - b. Management
 - c. Confidentiality
 - d. Record Keeping
 - 3. Activities covered
 - a. General conduct
 - b. Development
 - c. Communication

B. Conduct

1. General conduct: an appraiser must
 - a. Perform ethically and competently
 - b. Perform in accordance with USPAP and any supplemental standards agreed to by the appraiser when accepting the assignment
 - c. Not engage in criminal conduct
2. Development issues: an appraiser must
 - a. Perform with impartiality, objectivity, and independence, and without accommodation of personal interests
 - b. Not perform as an advocate for any party or issue
 - c. Not accept assignments with predetermined opinions and conclusions
 - d. Not use or rely on **unsupported** conclusions relating to race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or unsupported conclusions that homogeneity of such characteristics is necessary to maximize value
3. Communication/reporting issues: an appraiser must **not**
 - a. Communicate assignment results in a misleading or fraudulent manner
 - b. Use or communicate a misleading or fraudulent report
 - c. Permit an employee or other person to communicate a misleading or fraudulent report

USPAP in Action No. 3



I know appraisers who consistently conclude that the market value of any property they appraise is equal to the contract sales price. In doing so, they facilitate sales and financing of purchases, which is apparently what keeps their clients happy. Is this a violation of USPAP?

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C. Management

An appraiser must

1. Disclose any fees, commissions, or things of value paid in the procurement of an assignment
2. Not accept an assignment or have a compensation arrangement for an assignment, that is contingent on any of the following:
 - a. The reporting of a predetermined result
 - b. A direction in assignment results that favors the cause of the client
 - c. The amount of a value opinion
 - d. The attainment of a stipulated result
 - e. The occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose
3. Not advertise for or solicit assignments in a manner that is false, misleading, or exaggerated

In the Real World

- 1) Is it ethical to reduce the fee for appraisals in cases when the loan did not close if the client agreed to pay extra for other assignments?

- 2) A potential client has asked me to complete a form indicating what my appraisal fee would be for different assignments. The form asks me to indicate my appraisal fees according to appraised value by listing the fee for assignments with appraised values between \$100,000 and \$299,000, \$300,000 and \$499,000, and so on. Is it a violation of USPAP to quote fees in this manner?

D. Confidentiality

1. The confidential nature of the appraiser-client relationship must be protected
2. An appraiser must act in good faith with regard to the legitimate interests of the client in using confidential information and communicating assignment results
3. An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations applicable in an assignment
4. An appraiser may only disclose confidential information to
 - a. Client and persons specifically authorized by the client
 - b. State enforcement agencies and such third parties as authorized by law
 - c. Duly authorized professional peer review committees (except if it would violate applicable law or regulation)

E. Record Keeping

1. An appraiser **must** prepare a workfile for each appraisal, appraisal review, or appraisal consulting assignment. The workfile must include
 - a. The name of the client and the identity, by name or type, of any other intended users
 - b. True copies of any written report documented on any type of media
(**Note:** A *true copy* includes a photocopy or an electronic copy of the entire actual written report sent or delivered to a client. An appraiser who signs any part of the report, including a letter of transmittal, must also sign the certification.)
 - c. Summaries of any oral reports or testimony, or a transcript of testimony including a signed and dated certification
 - d. All other data, information and documentation necessary to support the appraiser's opinions and conclusions and show compliance with the Record Keeping section and all applicable Standards

2. Workfile retention

- a. At least five (5) years after preparation or two (2) years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last
- b. An appraiser must have custody of the workfile or make appropriate workfile retention, access and retrieval arrangements with the party that does have custody of the workfile

In the Real World

1) A fee appraiser is seeking to get on the approved list for a local lender. The lender requires appraisers to provide sample appraisal reports performed within the past year. Is there a way the appraiser can accomplish this without violating USPAP?

2) In order to satisfy the Record Keeping section of the ETHICS RULE, should an appraiser retain a photocopy of the appraisal report that was sent to the client?

In the Real World

- 3) A client's business associate asked the appraiser for information relating to an appraisal report the appraiser prepared for the client. Can the appraiser disclose the results of an appraisal assignment to parties other than the client?

- 4) An independent contractor who works for an appraisal company on a regular basis wants to keep the files relating to his work in his own possession. The appraiser who owns the company has always kept all appraisal file documentation (including hard copies of appraisal reports, field notes, drawings, etc.). Under USPAP, must the appraiser personally keep the workfile?

II. COMPETENCY RULE

A. Overview of Rule

1. Identify the competency requirements that must be met before accepting an assignment
2. Competency applies to appraiser's familiarity with
 - a. A specific property type
 - b. A market
 - c. A geographic area
 - d. An analytical method
3. Competency is reflected in correct judgment and correct execution

B. Judgment

1. Correctly identifying the problem to be solved for the purpose of making a scope of work decision
2. Problem identification is a process of gathering, filtering, and analyzing information
3. Sources of information used in this process typically include
 - a. The client
 - b. A relevant jurisdiction
 - c. Third party information sources
 - d. Direct observation

C. Execution

1. Takes place during the development and reporting of an appraisal
2. According to USPAP, the appraiser must
 - a. Identify the problem to be solved **and**
 - b. Have the knowledge or experience to complete the assignment competently **or**
 - c. Disclose the lack of knowledge/experience to the client in advance **and**
 - Take all steps necessary or appropriate to complete the assignment competently **and**
 - Describe the lack of knowledge and/or experience and steps taken to complete the assignment competently in the report

In the Real World

An appraiser is asked to accept an assignment involving a property type with which he has had no previous experience or knowledge. The appraiser notifies the client of his inexperience and lack of knowledge and the means for overcoming both issues. The report does not, however, disclose any of this information, as the client specifically asked the appraiser to keep the information confidential. Has the appraiser complied with USPAP?

USPAP in Action No. 4



A certified residential appraiser recently received a call from a client for a fee quote on a full-service car wash. Since she has prepared appraisals on small commercial properties (working with a certified general real property appraiser), she believes she can adequately prepare an appraisal on a car wash facility. May she take the assignment? Does her being a certified residential appraiser affect her taking the assignment?

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III. Relevant Advisory Opinions

A. Reference is made to the following Advisory Opinions for use in Part 4

1. AO-5, *Assistance in the Preparation of an Appraisal*
2. AO-21, *USPAP Compliance*

Part 4.

Review

Learning Objectives

Now that you have completed Part 4, you should be able to

- ☑ Identify the four sections of the ETHICS RULE (Conduct, Management, Confidentiality, and Record Keeping)
- ☑ Identify the ethical obligations relating to development and communication of assignment results
- ☑ Recognize the components of competent performance (knowledge and experience necessary to competently complete an assignment)
- ☑ Identify the competency requirements that must be met before accepting an assignment
- ☑ Apply the Rules to situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Assignment Results
- Confidentiality
- Confidential Information
- Communication
- COMPETENCY RULE
- ETHICS RULE
- Execution
- Judgment
- Record Keeping
- Reporting
- Unethical Contingent Compensation
- Workfile
- Workfile Retention

Review Quiz

Check the appropriate box for each question.

	TRUE	FALSE
1. It is unethical to accept an assignment with the understanding that payment will be made if and when the loan closes.	<input type="checkbox"/>	<input type="checkbox"/>
2. Under USPAP, confidential information is information the appraiser receives from the client and is identified by the client as confidential.	<input type="checkbox"/>	<input type="checkbox"/>
3. An appraiser may only disclose confidential information to the client and to persons specifically authorized by the client.	<input type="checkbox"/>	<input type="checkbox"/>
4. The COMPETENCY RULE requires the appraiser to disclose lack of knowledge or experience before accepting an assignment.	<input type="checkbox"/>	<input type="checkbox"/>
5. The four parts of the ETHICS RULE are <u>Conduct</u> , <u>Management</u> , <u>Confidentiality</u> and <u>Record Keeping</u> .	<input type="checkbox"/>	<input type="checkbox"/>
6. An appraiser is not permitted to use or communicate a misleading or fraudulent report.	<input type="checkbox"/>	<input type="checkbox"/>
7. An appraiser may accept assignments with predetermined opinions and conclusions as long as the purchase contract supports the opinion or conclusion.	<input type="checkbox"/>	<input type="checkbox"/>
8. Bias is allowed in an appraisal report as long as it is disclosed in the report.	<input type="checkbox"/>	<input type="checkbox"/>
9. Payment of a fee to procure appraisal assignments is permitted if disclosed in the certification and in any transmittal letter.	<input type="checkbox"/>	<input type="checkbox"/>
10. An appraiser must obtain the necessary competency prior to accepting the assignment.	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the quiz questions in class so you can check your responses.

Part 5.

Preview

SCOPE OF WORK RULE

Part 5 examines the SCOPE OF WORK RULE. The SCOPE OF WORK RULE provides flexibility in determining the work that is necessary to address different assignments.

Lesson Objectives

To prepare for Part 5, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Recognize that identification of the problem to be solved provides the appraiser with the basis for determining the type and extent of research and analysis to include in the development of an assignment
- Recognize that determining the scope of work is an ongoing process in an assignment, and the scope of work must include research and analyses that are necessary to develop credible assignment results
- Recognize the disclosure obligations required in the SCOPE OF WORK RULE
- Apply the Rule to situations through *USPAP in Action* discussion problems

Learning Tips

You are now familiar with the process we are using to discuss the Rules in USPAP. Two Advisory Opinions, AO-28 and AO-29, provide additional guidance as we discuss the SCOPE OF WORK RULE.

Part 5.

SCOPE OF WORK RULE

I. Overview

A. Three-section Rule

1. Problem identification
2. Scope of work acceptability
3. Disclosure obligations

B. Scope of work – general

1. Scope of work includes, but is not limited to
 - a. The extent to which the property is identified
 - b. The extent to which tangible property is inspected
 - c. The type and extent of data researched
 - d. The type and extent of analyses applied to arrive at opinions or conclusions
2. Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work in an assignment
3. Credible assignment results require support by relevant evidence and logic
4. The credibility of assignment results is measured in the context of the intended use

II. Problem Identification

- A. Common assignment elements addressed in problem identification (see applicable Standards Rules – SR 1-2, SR 3-1, SR 4-2, SR 6-2, SR 7-2, and SR 9-2) For example, in an appraisal, identification of the problem to be solved requires the appraiser to identify the following assignment elements:
1. Client and any other intended users
 2. Intended use of the appraiser’s opinions and conclusions
 3. Type and definition of value
 4. Effective date of the appraiser’s opinions and conclusions
 5. Subject of the assignment and its relevant characteristics
 6. Assignment conditions
- B. Elements provide an appraiser with the basis for determining type and extent of research and analyses to include in the development of an appraisal. (Similar information is also necessary in appraisal review and appraisal consulting assignments.)
- C. Requires communication with client to establish most of the information necessary; however, identification of relevant characteristics is a judgment made by the appraiser that requires competency.
- D. Assignment conditions include
1. Assumptions
 2. Extraordinary assumptions
 3. Hypothetical conditions
 4. Supplemental standards
 5. Jurisdictional exceptions
 6. Other conditions that affect the scope of work

III. Acceptability

- A. Scope of work is acceptable when it meets or exceeds
 - 1. Expectations of parties who are regularly intended users for similar assignments **and**
 - 2. What an appraiser's peers' actions would be in performing the same or a similar assignment

- B. Process
 - 1. Determining scope of work is an ongoing process in the assignment
 - 2. Information or conditions discovered during the assignment might necessitate reconsidering the scope of work
 - 3. An appraiser must be prepared to support the exclusion of any investigation, information, method, or technique that would appear relevant to the client, another intended user, or the appraiser's peers

- C. Assignment conditions
 - 1. Appraiser must not allow assignment conditions to limit the scope of work to such a degree that assignment results are not credible in the context of the intended use
 - 2. Appraiser must withdraw from an assignment if relevant information is not available because assignment conditions limit research opportunities, **unless** the appraiser can
 - a. Modify assignment conditions to expand the scope of work to include gathering the information **or**
 - b. Use an extraordinary assumption about such information if credible assignment results can still be developed
 - 3. Appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased

IV. Disclosure Requirements

- A. Report must contain sufficient information to allow intended users to understand the scope of the work performed
- B. This includes disclosure of research and analyses performed and might include disclosure of research and analyses not performed
- C. There is no requirement for the scope of work to be in a defined, specific or separate section of the report

V. Advisory Opinion Guidance

- A. Reference is made to two Advisory Opinions for use in conjunction with the SCOPE OF WORK RULE: AO-28 and AO-29 provide relevant information and illustrations for use with this section. These Advisory Opinions will be of help to you in answering the following *USPAP in Action* discussion problems.

USPAP in Action No. 5



A real property appraiser is engaged to appraise a 12-unit apartment building to provide a market value opinion. The appraiser initially decided that the scope of work should include the inspection of two of each of the three unit types (studio, one- and two-bedroom). In the course of conducting the inspection, the property manager had a key for only one of the two-bedroom units; thus, the appraiser was unable to inspect one of the two-bedroom units as planned. Does this affect the scope of work?

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USPAP in Action No. 6



A real property appraiser accepted an assignment to appraise a three-unit residential property. The intended use of the appraisal was for mortgage financing. The client requested that the appraiser not verify the legal status (e.g., compliance with zoning, building codes, use permits) of the three units with municipal officials. What should the appraiser do?

USPAP in Action No. 7



An appraiser was engaged to appraise a one-unit residence. Based on the appraiser's identification of the appraisal problem, the appropriate scope of work was determined to include development of the sales comparison and cost approaches. However, at the time of inspection, the appraiser discovered that the property was not a one-unit, but instead a three-unit property. What should the appraiser do?

USPAP in Action No. 8



An appraiser has been engaged to perform an “exterior only” inspection for the appraisal of a one-unit house for a potential home equity loan. Another appraiser has been asked to appraise a one-unit home in the same development for an FHA loan. Since the subject properties are similar, would the assignments require the same scope of work?

USPAP in Action No. 9



An appraiser has agreed to complete an assignment in the next two days. While conducting research, the appraiser discovers that the primary data source for the assignment, a regional computer database, is off-line and will not be available for three days. What is the appropriate course of action?

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Part 5.

Review

Learning Objectives

Now that you have completed Part 5, you should be able to

- ☑ Recognize that identification of the problem to be solved provides the appraiser with the basis for determining the type and extent of research and analysis to include in the development of an assignment
- ☑ Recognize that determining the scope of work is an ongoing process in an assignment, and the scope of work must include research and analyses that are necessary to develop credible assignment results
- ☑ Recognize the disclosure obligations required in the SCOPE OF WORK RULE
- ☑ Apply the Rule to situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Acceptability
- Appraiser's Peers
- Assignment Conditions
- Assignment Elements
- Credible
- Disclosure Obligations
- Problem Identification
- Scope of Work
- Scope of Work Decision

Review Quiz

Complete the missing term in problems 1 through 5.

1. In an assignment, the scope of work is an _____ process.
2. In order to determine the appropriate scope of work, the appraiser must _____ the problem to be solved.
3. An appraiser must not allow client objectives to _____ the assignment results.
4. Appraisers have broad _____ and significant _____ in determining the appropriate scope of work in an assignment.
5. An appraiser's report must contain _____ to allow intended users to understand the scope of the work performed.

Check the appropriate box for each question.

	TRUE	FALSE
6. Exclusion of a valuation approach that is not applicable in a given assignment is an application of a scope of work decision.	<input type="checkbox"/>	<input type="checkbox"/>
7. An appraiser who allows assignment conditions to significantly limit the scope of work can affect the credibility of the assignment results.	<input type="checkbox"/>	<input type="checkbox"/>
8. Scope of work has no disclosure requirements.	<input type="checkbox"/>	<input type="checkbox"/>
9. The credibility of assignment results is measured in the context of the intended use.	<input type="checkbox"/>	<input type="checkbox"/>
10. Identifying scope of work requires communication with the client.	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the above questions in class so you can check your responses.

Part 6.

Preview

JURISDICTIONAL EXCEPTION RULE and SUPPLEMENTAL STANDARDS RULE

In Part 6 the JURISDICTIONAL EXCEPTION RULE and the SUPPLEMENTAL STANDARDS RULE will be discussed and applied to practical appraisal situations.

Lesson Objectives

To prepare for Part 6, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Recognize the applicability of the JURISDICTIONAL EXCEPTION RULE
- Recognize who may issue supplemental standards and the type of requirements that are and are not addressed in the SUPPLEMENTAL STANDARDS RULE
- Apply the Rules to various situations through USPAP in *Action* discussion problems

Learning Tips

We have two more Rules to cover, but this session is a bit shorter than the others. This will allow time for any additional questions you might have at the end of the day. The course instructor will also cover additional tips on how to effectively study the materials we have covered on Day One in the course. This will be an aid in your preparation for the final exam tomorrow.

Participants should use the quizzes and practice tests as a learning tool and as part of their course review process.

Part 6.

JURISDICTIONAL EXCEPTION RULE and SUPPLEMENTAL STANDARDS RULE

I. JURISDICTIONAL EXCEPTION RULE

A. Overview of Rule

1. *Jurisdictional exception* is defined by USPAP as

An assignment condition that voids the force of a part or parts of USPAP, when compliance with part or parts of USPAP is contrary to law or public policy applicable to the assignment.

The Rule specifically states:

If any part of USPAP is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force or effect in that jurisdiction.

- a. Requires disclosure of the part or parts of USPAP disregarded and the legal authority justifying the appraiser's actions in the report
- b. *Law* means a body of rules with binding legal force established by controlling governmental authority, such as in a court of law
- c. *Public policy* refers to more or less well-defined moral and ethical standards of conduct currently and generally accepted by the community as a whole and recognized by the courts with the aid of statutes, judicial precedents and other similar available evidence such as regulations established by regulators
- d. *Jurisdiction* refers to the legal authority to legislate, apply or interpret law in any form at the federal, state and local levels of government
- e. Attorneys or other professionals who advise people in the law do not constitute "law" or "legal authority" as used in the JURISDICTIONAL EXCEPTION RULE

2. Recognizes that laws or regulations may take precedence over USPAP in certain situations
3. When a part or parts of USPAP (not USPAP as a whole) is contrary to law or public policy of any jurisdiction, **only** that part or parts is of no force

B. Application of Rule

1. Not a choice between the appraiser and the client. It is the appraiser's responsibility to determine whether the use of the Rule is appropriate to the assignment.
2. Condition of a particular assignment due to applicable law or public policy. An appraiser has disclosure obligations in connection with this Rule.
 - a. The appraiser's report must identify the part or parts of USPAP that are voided by law
 - b. Disclose the legal authority justifying the action

In the Real World

- 1) An appraiser was recently hired to perform an appraisal assignment for a government agency. The agency has a regulation that requires the appraiser to provide the appraisal report to other government agencies if requested. Does this regulation create a jurisdictional exception to the Confidentiality section of the ETHICS RULE?

In the Real World

- 2) A property owner's attorney in a condemnation case has asked a real property appraiser to invoke the JURISDICTIONAL EXCEPTION RULE of USPAP in a particular assignment. The subject property sold within one year of the appraisal for what everyone admits was a very low price; although, all parties claim the sale was not made under duress. The attorney does not want the prior sale mentioned in the appraisal report.

The appraiser reviews USPAP with the attorney, showing him Standards Rule 1-5 (requires appraisers to analyze any prior sales of the property being appraised that occurred within three years). The attorney is aware that the JURISDICTIONAL EXCEPTION RULE exists and tells the appraiser to invoke it for this situation. How should the appraiser respond?

In the Real World

- 3) State whether each one of the following statements is a jurisdictional exceptions.
- You have been asked to use a specific definition of market value in an assignment.
 - Your state regulations say you need to keep your workfile for six years.
 - The probate court pays appraisers based on the value of the property.
 - In an eminent domain case, the state agency client does not want you to consider the future improvements.

II. SUPPLEMENTAL STANDARDS RULE

A. Overview of Rule

1. Supplemental Standards are defined by USPAP as

Requirements issued by government agencies, government sponsored enterprises, or other entities that establish public policy which add to the purpose, intent and content of the requirements in USPAP, that have a material effect on the development and reporting of assignment results.

2. Provides a reasonable means to augment USPAP with requirements that **add** to the requirements set forth by USPAP
3. Supplemental Standards requirements:
 - a. **Cannot** diminish the purpose, intent, or content of USPAP
 - b. Must materially affect the development and reporting of assignment results

B. Supplemental standards

1. Issued by:
 - a. Government agencies such as FHA and VA
 - b. Government sponsored enterprises like Fannie Mae and Freddie Mac
 - c. Other entities that establish public policy, such as State Real Estate Appraisal Boards
2. Published in
 - a. Regulations
 - b. Rules
 - c. Policies
 - d. Other similar documents

3. Same applicability to all properties or assignments in a particular category or class, regardless of contracting entity
4. Relevant Advisory Opinions
 - a. SMT-10, *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction*
 - b. AO-7, *Marketing Time Opinions*
 - c. AO-25, *Clarification of the Client in a Federally Related Transaction*

In the Real World

- 1) Can a client's supplemental standards require less than USPAP?

- 2) Who is responsible for deciding if supplemental standards apply to an assignment?

USPAP in Action No. 10



A client has included a requirement in an assignment for an appraiser to not complete an analysis step that USPAP requires in that assignment. The client said his requirement is a supplemental standard that takes the place of USPAP. Is this correct?

Part 6.

Review

Learning Objectives

Now that you have completed Part 6, you should be able to

- ☑ Recognize the applicability of the JURISDICTIONAL EXCEPTION RULE
- ☑ Recognize who may issue supplemental standards and the type of requirements that are and are not addressed in the SUPPLEMENTAL STANDARDS RULE
- ☑ Apply the Rules to various situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Government Agencies
- Government Sponsored Enterprises
- Jurisdiction
- Jurisdictional Exception
- Law
- Other Entities that Establish Public Policy
- Public Policy
- Supplemental Standards

Section Practice Test

The following multiple-choice questions apply to Parts 4 through 6.

1. Which of the following assignment conditions add to the development and reporting requirements in USPAP?
 - A. Hypothetical conditions
 - B. Jurisdictional exceptions
 - C. Supplemental standards
 - D. Extraordinary assumptions

2. When a part or parts of USPAP is contrary to law or public policy in any jurisdiction, appraisers must
 - A. ignore USPAP
 - B. ignore the law and adhere to USPAP
 - C. be allowed to take exception to the law and public policy
 - D. adhere to the law, taking Jurisdictional Exception only to the part or parts of USPAP that is contrary to law

3. The purpose of the JURISDICTIONAL EXCEPTION RULE is to
 - A. allow for cooperation with other professional appraisers
 - B. preserve the balance of USPAP when a part or parts is contrary to law or public policy
 - C. place additional requirements on the appraiser
 - D. permit acceptance of assignments in other geographic areas

4. Supplemental standards may be issued by
 - A. government agencies
 - B. insurance companies
 - C. financial institutions
 - D. attorneys

5. Confidential information under USPAP is information the appraiser
 - A. receives from the real estate agent
 - B. receives from another appraiser
 - C. receives from the client and is identified as confidential but is available from other sources
 - D. receives from the client, is identified by the client as confidential, and is not available from other sources

6. In order to accept an assignment when an appraiser initially lacks the knowledge or experience to complete an assignment competently, he or she must
 - A. associate with an appraiser qualified to complete the assignment
 - B. ask for more time and reduce the fee
 - C. refer the appraisal to appraisers qualified to complete the assignment
 - D. disclose to the client, prior to accepting the assignment, the lack of knowledge or experience

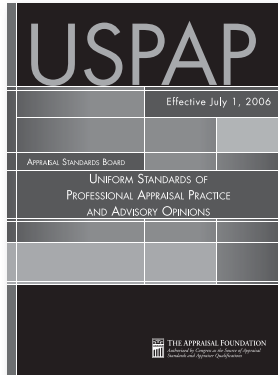
7. An appraiser has been asked to complete an appraisal assignment. The fee is to be paid when and if the loan closes. According to USPAP, may the appraiser accept the assignment under these conditions?
 - A. Yes, this is a business decision between the appraiser and the client
 - B. No, the fee is a contingency arrangement and violates the ETHICS RULE
 - C. Yes, as long as the appraiser clearly discloses the basis of such a contingency in the certification and in any letter of transmittal
 - D. No, unless the appraiser receives written permission allowing the transfer of the appraisal to other parties

8. Identification of the intended use of an appraiser's opinions and conclusions is
 - A. necessary only when doing non-mortgage assignments
 - B. not required unless the client wants the intended use to be disclosed
 - C. necessary for determining the appropriate scope of work
 - D. not necessary in most appraisal assignments

9. The amount and type of information researched and the analyses applied in an assignment defines the
- A. scope of work
 - B. market analysis
 - C. property and market area inspections
 - D. assignment conditions
10. When is the payment of fees, commissions, or things of value in the procurement of an appraisal assignment allowed?
- A. Never
 - B. Only when the payment is in excess of the first fee
 - C. Always
 - D. Only when the payment is properly disclosed
11. The disclosure of confidential information to a third party is unethical unless
- A. instructed by an attorney
 - B. authorized by the client
 - C. beneficial to the borrower
 - D. needed in another similar assignment
12. Exclusion of an approach to value that is not applicable in a given assignment is a
- A. choice of the client
 - B. supplemental standard
 - C. scope of work decision
 - D. jurisdictional exception
13. My state regulations identify that I must keep my workfiles for 7 years. This is a
- A. USPAP Rule
 - B. jurisdictional exception
 - C. scope of work decision
 - D. supplemental standard

14. The scope of work is acceptable when it
- A. is agreed to by the client
 - B. meets or exceeds the expectations of parties who are regularly intended users for similar assignments
 - C. helps the client make the loan
 - D. is different from what an appraiser's peers actions would be in performing the same type assignment
15. In appraisal practice, acting as an advocate for any party or issue is
- A. not permitted
 - B. permitted when a contingent fee is not involved
 - C. permitted when done by an unlicensed appraiser
 - D. permitted when appropriately disclosed

Here's where we
are headed in the
morning session →



SECTION THREE

LEARNING FOCUS:

Part 7. STANDARD 1

Part 8. STANDARD 2

Part 9. STANDARD 3

Part 7. Preview

STANDARD 1

The basic requirements for developing a real property appraisal are presented in STANDARD 1. We will use USPAP for the review of the six Standards Rules addressed in STANDARD 1.

You will find that the development requirements of STANDARD 1 are similar to those of STANDARDS 4, 7, and 9, which apply to appraisal consulting services, personal property appraisal and business appraisal, respectively. The development requirements are also similar to those in the Standards Rules found in the first parts of STANDARDS 3 and 6, which apply to appraisal review and mass appraisal, respectively. While other specialized areas of appraisal practice covered under these Standards involve different types of property or practice, the appraisal process, including the basic Standards Rules for developing an opinion of value or an analysis, recommendation or conclusion, are generally similar to those in STANDARD 1.

Lesson Objectives

To prepare for Part 7, please review the following learning objectives.

Participants will be able to

- Recognize the correlation between STANDARD 1 and the appraisal process
- Recognize the objective of the development process is to form opinions and conclusions in an ethical and competent manner
- Recognize that an appraiser must perform any and all analyses necessary for credible assignment results
- Identify the assignment elements that must be analyzed in order to identify the problem to be solved in the appraisal assignment
- Apply STANDARD 1 to various real property appraisal situations through *USPAP in Action* discussion problems

Learning Tips

The tempo of the course changes here, as we will spend even more time in USPAP. You may want to do some highlighting as we move through STANDARD 1.

Part 7.

STANDARD 1

I. Overview

- A. Standard requires the appraiser to
 - 1. Identify the problem to be solved
 - 2. Determine the scope of work necessary to solve the problem
 - 3. Correctly complete research and analyses necessary to produce credible assignment results
- B. Requirements in STANDARD 1 follow the appraisal development process in order of topics addressed, and it can be used as a checklist
- C. STANDARD 1 includes six Standards Rules

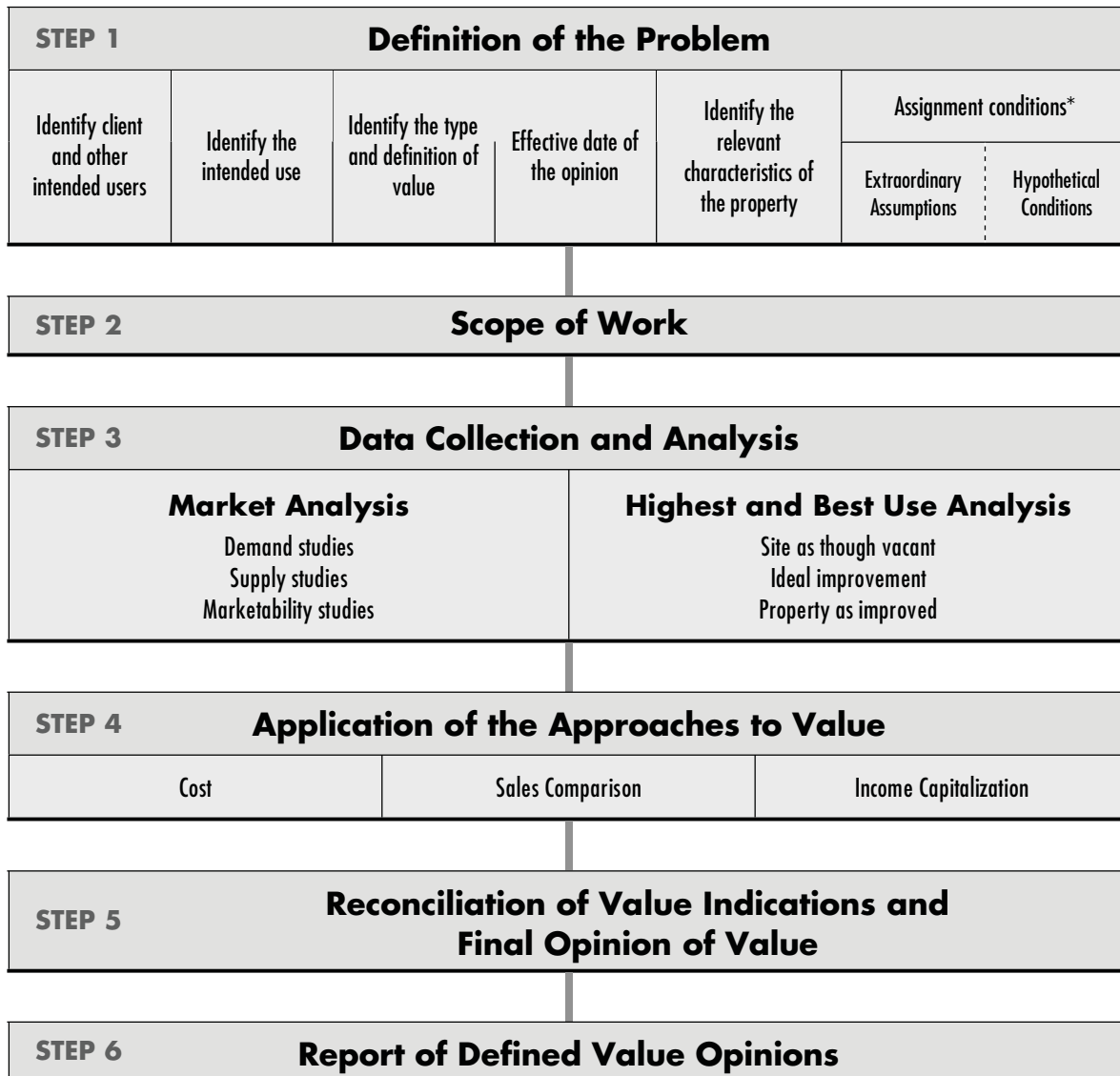
II. Key Points

- A. Standards Rule 1-1
 - 1. Elaborates on requirements in the COMPETENCY RULE
 - 2. Addresses obligations of an appraiser
 - a. Be aware of, understand and correctly employ recognized methods and techniques
 - b. Do not commit substantial errors of omission or commission
 - c. Do not provide services in a careless or negligent manner

B. Standards Rule 1-2

1. Follows the topics addressed in steps 1 and 2 of the appraisal process

USPAP and the Appraisal Process



* **Assignment conditions** also include jurisdictional exceptions, supplemental standards, assumptions and limiting conditions.

2. Applicable terms

- a. Exposure Time
- b. Marketing Time
- c. Extraordinary Assumptions
- d. Hypothetical Conditions
- e. Assumptions

3. Reminders

- a. Appraiser must not allow the intended use of an assignment or client's objectives to cause the assignment results to be biased or less than credible
- b. Information must come from sources the appraiser believes to be reliable
- c. In identifying relevant characteristics of the property, an appraiser may use any combination of a property inspection and documentation
- d. When appraising proposed improvements, an appraiser must examine, and have available for future examination, plans, specifications or other documentation sufficient to identify the extent and character of the proposed improvements
- e. Identification of real property interest appraised can be based on review of copies or summaries of title descriptions or other documents that set forth any known encumbrances or other factors that may affect the subject's property rights
- f. An appraiser is not required to value the whole when the subject of the appraisal is a fractional interest, a physical segment or a partial holding
- g. Review SMT-6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions* and SMT-9, *Identification of the Intended Use and Intended Users*

In the Real World

- 1) A local residential real property lender has asked me to appraise a 5-acre portion of a 20-acre improved property, stating that Fannie Mae will not lend on more than 5-acres. Am I permitted to comply with this request?

- 2) I was recently asked to perform an appraisal assignment, but the individual that contacted my firm was not the client and indicated that the client could not be identified. Can I accept this assignment and comply with USPAP?

STEP 3		Data Collection and Analysis	
Market Analysis		Highest and Best Use Analysis	
Demand studies Supply studies Marketability studies		Site as though vacant Ideal improvement Property as improved	

C. Standards Rule 1-3

1. Follows the topics identified under Step 3 of the Appraisal Process (Data Analysis, including Market Analysis and Highest and Best Use) as it applies to developing market value opinions
2. Reminders: an appraiser must
 - a. Avoid making an unsupported assumption or premise about market area trends, effective age and remaining life
 - b. Analyze relevant legal, physical and economic factors to the extent necessary to support the appraiser's highest and best use conclusion(s)

STEP 4			Application of the Approaches to Value		
Cost		Sales Comparison		Income Capitalization	

D. Standards Rule 1-4

1. Includes requirements for the application of the three approaches to value (Step 4 of the Appraisal Process) and other components of the analysis.
2. Approaches
 - a. Sales Comparison Approach
 - b. Cost Approach
 - c. Income Approach

USPAP in Action No. 11



A residential appraiser offers quick turnaround and the lowest fees in town. The appraiser asserts the secret to her success is her efficiency. She completes her property inspections in 10 minutes, using the city assessor's database for the site and building dimensions and enters data on the subject property directly into her laptop computer on site. Her comparable sales and photos come directly from the MLS database, and she does not inspect them. It is not unusual for her to complete 10 appraisals a day and electronically transmit them to her clients.

Two of her appraisals have recently come under fire. In one case, her best comparable sold under duress, a situation that would have been revealed by verification with a participant to the transaction. Another sale was located in a neighborhood of a different price range from that of the subject; this fact was not disclosed in her report. In the other case, the subject was actually 400 square feet larger than reported in the city records, resulting in a significant value difference.

The appraiser explained that she can't be efficient and earn a respectable fee if she has to measure the subject property each time, drive by the comparables and verify data with a participant to the transaction. Is she required by Standards to measure the subject property, drive by her sales and verify her data?

Use the following page for your notes on the above problem.

3. Other components (analyze the effect on value, if any, of each)
 - a. Leased fee or leasehold estate
 - b. Assemblage of various estates or component parts of a property
 - c. Anticipated public or private improvements, on or off the site
 - d. Non-realty items included in an appraisal

E. Standards Rule 1-5

1. Includes requirements for the appraiser to **analyze** the following information, if available to the appraiser in the normal course of business:
 - a. All agreements of sale, options and listings of the subject property current as of the effective date of the appraisal
 - b. All sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal
2. Reminders
 - a. The Comments to Standards Rules 2-2(a)(viii), 2-2(b)(viii), and 2-2(c)(viii) have corresponding reporting requirements relating to the availability and relevance of information
 - b. See AO-24, *Normal Course of Business*

STEP 5

**Reconciliation of Value Indications and
Final Opinion of Value**

F. Standards Rule 1-6

1. Includes requirements for the appraiser to reconcile
 - a. The quality and quantity of data available and analyzed within the approaches used
 - b. The applicability or suitability of the approaches used to arrive at the value conclusion

2. Reminder

- a. The Comments to Standards Rule 2-2(a)(viii) and 2-2(b)(viii) have corresponding reporting requirements relating to the availability and relevance of information

In the Real World

- 1) I am currently appraising an office building that was transferred 18 months ago by a deed in lieu of foreclosure. Am I required to analyze this transaction?

- 2) Does Standards Rule 1-5 require an appraiser to analyze the sales history for the comparable sales?

- 3) I know that USPAP requires an appraiser to develop a reconciliation of the approaches to value that are used in an assignment. Does USPAP require the appraiser to reconcile the data used in each approach to value?

III. Statement and Advisory Opinion References

- A. SMT-2, *Discounted Cash Flow Analysis* is relevant to Standards Rule 1-4 in some instances and should be reviewed as appropriate

- B. Reference is made to applicable Advisory Opinions for this session
 - 1. AO-1, *Sales History*

 - 2. AO-2, *Inspection of Subject Property*

 - 3. AO-4, *Standards Rule 1-5(b)*

 - 4. AO-17, *Appraisals of Real Property with Proposed Improvements*

 - 5. AO-19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments*

 - 6. AO-23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*

 - 7. AO-24, *Normal Course of Business*

Part 7.

Review

Learning Objectives

Now that you have completed Part 7, you should be able to

- ☑ Recognize the correlation between STANDARD 1 and the appraisal process
- ☑ Recognize the objective of the development process is to form opinions and conclusions in an ethical and competent manner
- ☑ Recognize that an appraiser must perform any and all analyses necessary for credible assignment results
- ☑ Identify the assignment elements that must be analyzed in order to identify the problem to be solved in the appraisal assignment
- ☑ Apply STANDARD 1 to various real property appraisal situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Assumption
- Exposure Time
- Extraordinary Assumption
- Highest and Best Use
- Hypothetical Condition
- Marketing Time
- Normal Course of Business
- Property Sales History

Review Quiz

Check the appropriate box for each question.

	TRUE	FALSE
1. Exposure time in a market value appraisal is an opinion developed by the appraiser.	<input type="checkbox"/>	<input type="checkbox"/>
2. Identification of the intended use of an appraiser's opinions and conclusions is not necessary in most appraisal assignments.	<input type="checkbox"/>	<input type="checkbox"/>
3. An appraiser may use any combination of a property inspection and documentation in identifying relevant characteristics of the subject property.	<input type="checkbox"/>	<input type="checkbox"/>
4. When appraising the market value of a property subject to favorable financing, it is not necessary to identify the special financing terms and develop an opinion of their effect on value.	<input type="checkbox"/>	<input type="checkbox"/>
5. Exclusion of a valuation approach that is not applicable in a given assignment is a scope of work decision.	<input type="checkbox"/>	<input type="checkbox"/>

Complete the missing term in problems 6 through 10.

6. When appraising real property, the appraiser must analyze prior sales of the subject over a _____ year time period.
7. An appraiser must be aware of, _____ and _____ recognized methods and techniques.
8. In developing a real property appraisal, an appraiser must collect, _____ and _____ all information necessary for credible assignment results.
9. Identification of the _____ and _____ of an appraiser's opinions and conclusions is necessary for determining the appropriate scope of work.
10. The effective date of an appraisal can be a _____, a retrospective date or a prospective date.

Part 8.

Preview

STANDARD 2

STANDARD 2 addresses the written or oral communication of a real property appraisal. The Standard states: *In reporting the results of a real property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading.*

Lesson Objectives

To prepare for Part 8, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Identify the three real property appraisal report options, and recognize that the report type must be prominently stated
- Recognize the essential differences among the three report options
- Recognize the elements that must be addressed in the report options
- Recognize a signed certification is an integral part of the appraisal report, as the signed certification evidences an appraiser's recognition of his/her ethical obligations
- Apply STANDARD 2 to a variety of real property appraisal situations through *USPAP in Action* discussion problems

Learning Tips

Keep your USPAP document handy as we will be reviewing each of the report options under this STANDARD. A chart from AO-11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2* has been placed in your manual for ease of reference as we proceed through STANDARD 2. The chart provides a quick checklist for you to use in everyday practice.

Part 8.

STANDARD 2

STEP 6

Report of Defined Value Opinions

I. Overview

A. STANDARD 2

1. Addresses the content and level of information required in each respective reporting option that communicates the results of a real property appraisal
2. Does **not** dictate form, format or style of real property appraisal reports. The substantive content of a report determines if it complies with the reporting options identified in STANDARD 2.

B. STANDARD 2 includes four Standards Rules

II. Key Points

A. Standards Rule 2-1 addresses **written** and **oral** real property appraisal reports

Each report must

1. Clearly and accurately set forth the report so that it will not be misleading
2. Contain enough information for the intended user to understand the report properly
3. Clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions and limiting conditions used in the assignment

B. Standards Rule 2-2

1. Identifies and describes the three report options
 - a. Self-Contained (Standards Rule 2-2(a))
 - b. Summary (Standards Rule 2-2(b))
 - c. Restricted Use (Standards Rule 2-2(c))
2. Report identification required
 - a. Prominently state which option is being used
 - b. May use any other label in addition to but not in place of the label set forth in this Standard for the type of report provided
3. Differences in options
 - a. Essential difference is content and level of information provided
 - b. Appropriate reporting option and level of information necessary are dependent on **intended use** and **intended users**
4. Relevant Statements and Advisory Opinions
 - a. SMT-3, *Retrospective Value Opinions*
 - b. SMT-4, *Prospective Value Opinions*
 - c. SMT-6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions*
 - d. SMT-9, *Identification of Intended Use and Intended Users*
 - e. AO-11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2*
 - f. AO-12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*
 - g. AO-2, *Inspection of Subject Property*

- h. AO-3, *Update of a Prior Appraisal*
- i. AO-5, *Assistance in the Preparation of an Appraisal*
- j. AO-26, *Readdressing (Transferring) a Report to Another Party*
- k. AO-27, *Appraising the Same Property for a New Client*

5. Reference chart for use with Standards Rules 2-2(a), (b) and (c)

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, by name or type; 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 may not be understood properly without additional information in the appraiser's workfile;
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 information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. summarize information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. state information sufficient to identify the real estate involved in the appraisal;
iv. state the real property interest appraised;	iv. state the real property interest appraised;	iv. state the real property interest appraised;
v. state the type and definition of value and cite the source of the definition;	v. state the type and definition of value and cite the source of the definition;	v. state the type of value, and cite the source of its definition;
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 the scope of work used to develop the appraisal;	vii. summarize the scope of work used to develop the appraisal;	vii. state the scope of work used to develop the appraisal;
viii. describe the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. state the appraisal methods and techniques employed, state the value opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained;
ix. state the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, describe the support and rationale for that opinion;	ix. state the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;	ix. state the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, state that opinion;
x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and
xi. include a signed certification in accordance with Standards Rule 2-3.	xi. include a signed certification in accordance with Standards Rule 2-3.	xi. include a signed certification in accordance with Standards Rule 2-3.
Comments have not been included in this chart		

C. Standards Rule 2-3 addresses the certification requirements

1. A signed certification must be included in any written report, and a signed certification must be included in the workfile in an oral report
2. A signed certification evidences an appraiser's recognition of his or her ethical obligations
3. Meeting the requirements of Standards Rule 2-3 for certification indicates compliance with USPAP
4. Professional assistance
5. The Comment to this Standards Rule reminds us of various obligations

D. Standards Rule 2-4

1. Indicates that an oral real property report, to the extent that it is both possible and appropriate, must address the substantive matters set forth in a Summary Appraisal Report (see Standards Rule 2-2(b))
2. The Comment section of the Rule references the Record Keeping section of the ETHICS RULE for corresponding requirements. These requirements include
 - a. The workfile must include summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification
 - b. A workfile must be in existence prior to and contemporaneous with the issuance of a written **or** oral report
 - c. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report

In the Real World

- 1) I currently work as a trainee in an appraisal firm. I contribute significant real property appraisal assistance to appraisal assignments performed by other appraisers in the firm, but do not sign the certification or report. I understand my name must be stated in the certification. Must the certification include a description of my assistance?

- 2) I am employed at a firm where my reports are reviewed by a supervisory appraiser. The supervisory appraiser recently asked me to make changes to a report that resulted in a value opinion with which I do not agree. I am not comfortable signing the amended report. What are my obligations under USPAP?

USPAP in Action No. 12



An appraiser is asked to complete an appraisal and submit a Self-Contained Appraisal Report. The letter of transmittal and other sections of the document identify the report as such. In the appraisal report, the appraiser briefly summarizes the highest and best use section. However, the approaches to value are very detailed and meet the requirements of a Self-Contained Appraisal Report. Have the requirements for a Self-Contained Appraisal Report been satisfied?

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USPAP in Action No. 13



A mortgage broker hired an appraiser to prepare an appraisal on a one-unit property. He asked that she discuss her value opinion with him orally prior to transmitting the report. The appraiser completed her analysis and telephoned the client with her conclusions. The broker client was indignant and objected strongly to the value conclusion, indicating that the “figure” would not help his client’s objectives. He further indicated that there would be no need to provide a written report. What are the appraiser’s obligations under USPAP?

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Part 8.

Review

Learning Objectives

Now that you have completed Part 8, you should be able to

- ☑ Identify the three real property appraisal report options, and recognize that the report type must be prominently stated
- ☑ Recognize the essential differences among the three report options
- ☑ Recognize the elements that must be addressed in the report options
- ☑ Recognize a signed certification is an integral part of the appraisal report, as the signed certification evidences an appraiser's recognition of his/her ethical obligations
- ☑ Apply STANDARD 2 to a variety of real property appraisal situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Certification
- Describe
- Summarize
- State
- Self-Contained Appraisal Report
- Summary Appraisal Report
- Restricted Use Appraisal Report
- Oral Appraisal Report

Review Quiz

Check the appropriate box for each question.

	TRUE	FALSE
1. The three report options are Self-Contained, Summary, and Limited Appraisal Reports.	<input type="checkbox"/>	<input type="checkbox"/>
2. The client's name is not required by USPAP to be in an appraisal report.	<input type="checkbox"/>	<input type="checkbox"/>
3. There can be intended users other than the client for a Restricted Use Appraisal Report.	<input type="checkbox"/>	<input type="checkbox"/>
4. The disclosure of any significant real property appraisal assistance provided in an appraisal report is not required under USPAP.	<input type="checkbox"/>	<input type="checkbox"/>
5. Oral reports for real property appraisals must address the substantive matters required in a Summary Appraisal Report.	<input type="checkbox"/>	<input type="checkbox"/>
6. An appraiser who signs any part of an appraisal report must sign the certification.	<input type="checkbox"/>	<input type="checkbox"/>
7. An appraiser is obligated to identify the intended users of an appraisal report by name in the report.	<input type="checkbox"/>	<input type="checkbox"/>
8. When disclosing extraordinary assumptions and hypothetical conditions an appraiser must also state that their use might have affected the assignment results.	<input type="checkbox"/>	<input type="checkbox"/>
9. Each appraisal report requires two signatures, one for the appraisal and a signature on the certification.	<input type="checkbox"/>	<input type="checkbox"/>
10. An appraisal report must state the effective date and the date of the report.	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the above questions in class so you can check your responses.

Part 9.

Preview

STANDARD 3

The basic requirements for developing **and** reporting an appraisal review are presented in STANDARD 3. This Standard allows the appraiser to address all or part of the work under review. Appraisal review is a specialized area of appraisal practice.

Lesson Objectives

To prepare for Part 9, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Recognize the definition of *Appraisal Review*
- Recognize that appraisal review requires the reviewer to prepare a separate report setting forth the scope of work performed and the results of the appraisal review
- Recognize that an appraisal review can be a two-stage assignment: an appraisal review plus a value opinion by the reviewer
- Recognize that if a review assignment includes the reviewer developing his or her own opinion of value for the subject property, that opinion is an appraisal and must comply with applicable development standards and reporting Standards Rule 3-2(c)
- Apply appraisal review concepts to a variety of situations through *USPAP in Action* discussion problems

Learning Tips

As previously noted, you will find that many of the terms and concepts in STANDARD 3 are familiar because they are consistent with what you previously studied in STANDARDS 1 and 2. Indeed, STANDARD 3 is quite similar to those first two Standards, but with a specific focus on appraisers who perform appraisal review assignments.

Part 9.

STANDARD 3

I. Overview

- A. STANDARD 3 states an appraiser acting as a reviewer must
 - 1. Develop and report a credible opinion as to the quality of another appraiser's work
 - 2. Clearly disclose the scope of work performed
- B. Appraisal review is *the act or process of developing and communicating an opinion about the quality of all or part of the work of another appraiser that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment*
- C. The reviewer's opinion about quality, developed in the context of the requirements applicable to the reviewer's scope of work, must encompass
 - 1. Completeness
 - 2. Adequacy
 - 3. Relevance
 - 4. Appropriateness
 - 5. Reasonableness of the work under review
- D. Corresponding Rules
 - 1. COMPETENCY RULE – applies to the reviewer, who must correctly employ recognized methods and techniques necessary to develop credible appraisal review opinions, as well as avoid material errors of commission or omission
 - 2. ETHICS RULE – a misleading or fraudulent appraisal review report is unethical

- E. Appraisal review is
1. Different from the co-signing activity addressed in Standards Rules 2-3, 5-3, 6-9, 8-3 and 10-3
 2. An appraiser performing an appraisal review must not sign the work under review unless he or she intends to accept the responsibility of a co-signer of that work
- F. STANDARD 3 includes four Standards Rules

II. Key Points

- A. Standards Rule 3-1
1. Describes the steps necessary in **developing** an appraisal review
 2. Terms to review
 - Intended Use
 - Purpose of the Assignment
 - Extraordinary Assumption
 3. Reminders
 - a. Reviewer must ascertain whether the assignment includes the development of his or her own opinion of value about the subject property of the work under review
 - b. The subject of an appraisal review assignment may be all or part of a report, a workfile, or a combination of these, and may be related to an appraisal, appraisal review, or appraisal consulting assignment
 - c. In making a scope of work decision, the reviewer must identify any extraordinary assumptions necessary in the assignment
 - d. Appraisal review is to be conducted in the context of market conditions as of the effective date of the opinion in the work being reviewed

- e. When the reviewer's scope of work includes developing his or her own opinion of value, the following apply:
- The opinion is an appraisal, whether it concurs with or differs from the opinion of value in the work under review
 - The opinion (appraisal) must comply with applicable development standards and reporting Standards Rule 3-2(c)
 - The reviewer's scope of work may be different from the work under review
 - The effective date may be the same or different from the date of the work under review
 - The reviewer is not required to replicate the steps completed by the original appraiser. Items of work the reviewer concludes are credible and in compliance can be extended into the reviewer's value opinion development process by an extraordinary assumption. Those items not deemed credible or in compliance must be replaced.
 - The reviewer may use additional information that could not have been available to the original appraiser; however, the reviewer must not use such information as the basis to discredit the original appraiser's opinion of value.
- f. The reviewer must develop an opinion as to the completeness of the work under review, given the reviewer's scope of work
- g. The reviewer must develop an opinion as to the apparent adequacy and relevance of the data and the propriety of any adjustments to the data, given the reviewer's scope of work
- When reviewing a mass appraisal report and considering the propriety of any adjustment to value for isolated differences in data, the reviewer must develop an opinion as to the use of the coefficients from decomposition of a statistical model
- h. The reviewer must develop an opinion as to the appropriateness of the appraisal methods and techniques used and develop the reasons for any disagreement

- i. The reviewer must develop an opinion as to whether the analyses, opinions, and conclusions are appropriate and reasonable and develop the reasons for any disagreement
 - When reviewing a mass appraisal report, the reviewer must develop an opinion as to the standards of accuracy and adequacy of the mass appraisal testing performed and develop the reasons for any disagreement

In the Real World

I am performing a review of a real property appraisal, and my client has asked me to give my opinion of value even if I agree with the value in the appraisal. Does my concurrence constitute an appraisal opinion? If so, what do I need to do to comply with USPAP?

B. Standards Rule 3-2

1. Describes the steps necessary in **reporting** an appraisal review
2. Reminders
 - a. If the identity of the appraiser(s) in the work under review is withheld, the reviewer must state that fact in the review report
 - b. State the scope of work used in developing the appraisal review to enable intended users to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed (and might also include research and analyses not performed).
 - c. If any portion of the work involves significant appraisal, appraisal review, or appraisal consulting assistance, the reviewer must state the extent of that assistance in the review report. The name of those providing the significant assistance must be specifically stated in the certification.
 - d. When the reviewer's scope of work includes expressing his or her own opinion of value, the reviewer must
 - State which information, analyses, opinions, and conclusions in the material under review that the reviewer accepted as credible and used in developing the reviewer's opinion of value;
 - Summarize any additional information relied on and the reasoning and basis for the reviewer's opinion of value
 - State all assumptions and limiting conditions
 - Clearly and conspicuously state all extraordinary assumptions and hypothetical conditions connected with the reviewer's own opinion of value and state that their use might have affected the assignment results

- e. The reviewer does not have to prepare a separate appraisal report when including his or her own value opinion within the appraisal review report. However, data and analyses provided by the reviewer to support a different value conclusion must match, at a minimum, the reporting requirements for a Summary Appraisal Report for a real property appraisal (SR 2-2(b)) and a personal property appraisal (SR 8-2(b)), an appraisal consulting report for real property appraisal consulting (SR 5-2), a mass appraisal report for mass appraisal (SR 6-8), and an Appraisal Report for business appraisal (SR 10-2(a)).
- f. The reviewer must provide sufficient information to enable the client and other intended users to understand the rationale for the reviewer's opinions and conclusions

In the Real World

Can a reviewer use information and data that took place after the effective date to impeach or impugn appraisals and appraisers?

USPAP in Action No. 14



An appraiser regularly reviews residential appraisals for a major lender. He has found numerous errors in several reports prepared by the same appraiser. He believes the errors are intentional and caused the value conclusions to be inflated in several instances. He has discussed the matter with his client, but he is wondering if he is permitted by USPAP to file a complaint with the appraiser's state appraiser board without his client's consent. Is he permitted to do so?

C. Standards Rule 3-3 addresses the certification requirements

1. Similar in general content to Standards Rule 2-3
2. A signed certification is an integral part of the appraisal review report
3. Meeting the requirements of Standards Rule 3-3 for certification indicates compliance with USPAP
4. The Comment to this Standards Rule reminds us of our obligations

D. Standards Rule 3-4

1. Indicates that an oral appraisal review report, to the extent that it is both possible and appropriate, must address the substantive matters set forth in a Summary Appraisal Report (see Standards Rule 3-2)
2. The Comment section of the Rule references the Record Keeping section of the ETHICS RULE for corresponding requirements

E. Relevant Advisory Opinion

AO-20, An Appraisal Review Assignment That Includes the Reviewer's Own Opinion of Value

Part 9.

Review

Learning Objectives

Now that you have completed Part 9, you should be able to

- ☑ Recognize the definition of *Appraisal Review*
- ☑ Recognize that appraisal review requires the reviewer to prepare a separate report setting forth the scope of work performed and the results of the appraisal review
- ☑ Recognize that an appraisal review can be a two-stage assignment: an appraisal review plus a value opinion by the reviewer
- ☑ Recognize that if a review assignment includes the reviewer developing his or her own opinion of value for the subject property, that opinion is an appraisal and must comply with applicable development standards and reporting Standards Rule 3-2(c)
- ☑ Apply appraisal review concepts to a variety of situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Appraisal Review
- Extraordinary Assumption
- Intended Use
- Purpose of the Assignment

REVIEW QUIZ

Complete the missing term(s) in problems 1 through 5.

1. Appraisal review is the act or process of _____ and _____ an opinion about the quality of another appraiser's work.
2. If an appraiser is asked to develop an opinion as to the quality of another appraiser's work and to agree or disagree with the value conclusion, it is both a _____ and an _____.
3. The review appraiser must conduct an appraisal review in the context of market conditions as of the _____ of the appraisal under review.
4. An appraisal review requires the reviewer to prepare a separate report setting forth the _____ performed and the results of the appraisal review.
5. The subject of a review assignment may be _____ or _____ of a report, a workfile, or a combination of these.

Note: There are five more quiz questions on the following page.

REVIEW QUIZ – continued

Check the appropriate box for each question.

	TRUE	FALSE
6. An appraiser performing an appraisal review must not sign the work under review unless he/she intends to accept the responsibility as a co-signer.	<input type="checkbox"/>	<input type="checkbox"/>
7. An appraisal review can be a two-stage assignment: an appraisal review and a value opinion by the reviewer.	<input type="checkbox"/>	<input type="checkbox"/>
8. A review appraiser is not required to develop an opinion as to the completeness of the material under review.	<input type="checkbox"/>	<input type="checkbox"/>
9. An appraisal review is the process of both developing and reporting the supervision of an appraisal.	<input type="checkbox"/>	<input type="checkbox"/>
10. A reviewer must develop an opinion regarding the qualifications of the appraiser whose work is under review.	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the quiz questions in class so you can check your responses.

Section Practice Test

The following multiple-choice questions apply to Parts 7 through 9.

1. A review appraiser may use additional information that was not available to the original appraiser as long as the information
 - A. discredits the data in the appraisal report under review.
 - B. supports the data in the appraisal report under review.
 - C. is not used as the basis to discredit the original appraiser's value opinion.
 - D. is not used in a review that includes the reviewer's own opinion of value.

2. In developing an appraisal review, the reviewer must identify all of the following **except**
 - A. the purpose of the assignment.
 - B. the scope of work to be performed.
 - C. the intended use of the reviewer's opinions and conclusions.
 - D. the reviewer's concurrence of the appraiser's opinion of value, if not part of the reviewer's scope of work.

3. A reviewer must develop an opinion regarding
 - A. the appraiser's qualifications to complete the assignment.
 - B. the completeness of the work under review.
 - C. the appraiser's knowledge of USPAP.
 - D. the ethical and moral character of the appraiser.

4. In the development of an appraisal, the appraiser must
 - A. inspect the comparable sales, by at least driving by them.
 - B. inspect the subject property.
 - C. not commit a substantial error that significantly affects the appraisal.
 - D. use the three approaches to value.

5. To the extent possible and appropriate, an oral appraisal report must address the substantive matters that apply to a(n)
 - A. Appraisal Review Report.
 - B. Summary Appraisal Report.
 - C. Self-Contained Appraisal Report.
 - D. Restricted Use Appraisal Report.

6. According to USPAP, any appraiser who signs any part of an appraisal report is required to
 - A. sign the letter of transmittal.
 - B. inspect the property.
 - C. sign the certification.
 - D. read the report.

7. All appraisal reports must contain
 - A. a signed letter of transmittal.
 - B. sufficient information for intended users to understand the report.
 - C. adequate detail to allow the reader to understand the appraisal process.
 - D. maps, sketches, and photographs.

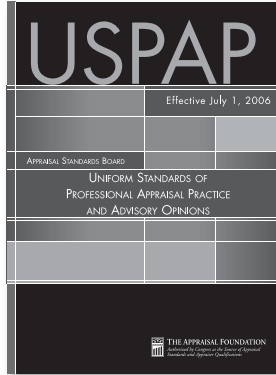
8. When reporting the results of an appraisal, dates that must be included are
 - A. effective date and report date.
 - B. inspection date and assignment date.
 - C. inspection date and report date.
 - D. inspection and contract date.

9. If an appraiser is asked to appraise a property on which there is a current agreement of sale, the agreement should be
 - A. disregarded because it is not a sale.
 - B. used as a comparable sale.
 - C. used as a guideline to select comparable sales.
 - D. analyzed in the appraisal.

10. The review appraiser must conduct an appraisal review in the context of market conditions as of the
- A. effective date of the appraisal under review.
 - B. original inspection date.
 - C. original report date.
 - D. review report date.
11. An extraordinary assumption may be used in an assignment only if
- A. mandated by law or public policy.
 - B. approved by the client.
 - C. accompanied by a limiting condition.
 - D. it is required to develop credible results.
12. What special requirements, if any, are appropriate when appraising the market value of a property subject to favorable financing?
- A. Ignore the favorable financing
 - B. Appraise the property under typical financing only
 - C. Include no special requirements as long as the financing is available to the typical purchaser
 - D. Identify the special financing terms and develop an opinion of their effect on value
13. Which of the following is not required by USPAP to be in an appraisal report?
- A. Type and definition of value
 - B. Effective date of appraisal
 - C. Client's specific name
 - D. Name or type of other intended users
14. The client is the only intended user for
- A. Restricted Use Appraisal Reports.
 - B. Summary Appraisal Reports.
 - C. Self-Contained Appraisal Reports.
 - D. Oral Appraisal Reports.

15. Compared to a value opinion expressed in a Summary Appraisal Report, a value opinion expressed in a Restricted Use Appraisal Report is
- A. less reliable.
 - B. more reliable.
 - C. less credible.
 - D. equally credible.
16. Which of the following best describes bias in appraisal practice?
- A. Permitted in market analysis
 - B. Allowed, as long as it is disclosed in the report
 - C. Not allowed
 - D. Allowed if disclosed prior to accepting the assignment

Here's where we are headed in the afternoon session →



SECTION FOUR

LEARNING FOCUS:

Part 10. STANDARD 4-10

Part 11. Statements and Advisory Opinions

Part 12. Examination

Part 10. Preview

STANDARDS 4-10

The tempo changes again in this part of the course, as we will be discussing STANDARDS 4 through 10. These Standards pertain to other types of appraisal practice. As noted earlier, the basic development requirements in other Standards parallel STANDARD 1, and the requirements for reporting are similar to STANDARD 2. We will use USPAP for the review of the six Standards. The student manual highlights the similarities and differences between STANDARDS 1 and 2 and STANDARDS 4 through 10.

Lesson Objectives

To prepare for Part 10, read the following learning objectives and refer back to them as you study this part of the Student Manual.

Participants will be able to

- Recognize the similarities between STANDARDS 1 and 2 and STANDARDS 4 through 10
- Recognize the differences between STANDARDS 1 and 2 and STANDARDS 4 through 10
- Recognize definitions appropriate to each of these Standards
- Apply concepts of each Standard to a variety of situations through *USPAP in Action* discussion problems

Learning Tips

This session will give you an opportunity to apply the concepts and terms you have been learning in prior sessions and relate them to other appraisal disciplines. Keep your USPAP handy.

Part 10.

STANDARDS 4–10

I. STANDARD 4, Real Property Appraisal Consulting, Development

A. STANDARD 4 addresses the development requirements of a real property appraisal consulting assignment. STANDARD 4 requires the real property appraiser to

1. Identify the problem to be solved
2. Determine the scope of work necessary to solve the problem
3. Correctly complete research and analyses necessary to produce credible results

B. Reminders

1. Under this Standard, the purpose of a real property appraisal consulting assignment is always to develop without advocacy an analysis, recommendation, or opinion where at least one opinion of value is a component of the analysis leading to the assignment results
2. In some assignments, the opinion of value may originate from a source other than the real property consulting appraiser. In other assignments, the real property consulting appraiser may develop the opinion of value as a step in the analyses leading to the assignment results.
3. An opinion of value or an opinion as to the quality of another appraiser's work cannot be the purpose of a real property appraisal consulting assignment. Misrepresenting the purpose of the assignment performed under this Standard is a violation of the ETHICS RULE.
4. The ETHICS RULE and COMPETENCY RULE apply to the appraiser performing a real property appraisal consulting assignment
5. Except when required by law, regulation, agreement or choice, this real property appraisal consulting Standard does not apply to services provided by an appraiser acting under the standards of other professions or business activities

C. Key points on Standards Rules

1. Standards Rule 4-1
 - a. Similar to Standards Rule 1-1
 - b. Addresses obligations of the appraiser similar to STANDARD 1
2. Standards Rule 4-2
 - a. Parallels Standards Rule 1-2 in that it outlines the process to be undertaken in a real property appraisal consulting assignment
2. Appraiser must ensure that any opinion of value used in a real property appraisal consulting assignment was developed in compliance with STANDARD 1

In the Real World

A client asks an appraiser to review a real property appraisal report that was prepared by another appraiser. The client only wants an opinion about the quality of the original appraisal report and does not want the appraiser to develop a separate value opinion. May the client's request be treated as a real property appraisal consulting assignment under STANDARDS 4 and 5?

II. STANDARD 5, Real Property Appraisal Consulting, Reporting

- A. STANDARD 5 addresses the content and level of information required in communicating the results of a real property appraisal consulting assignment

- B. Reminders
 - 1. An appraiser must explain logically and convincingly the reasoning that leads to his or her conclusions
 - 2. The flow of information must be orderly and progressive
 - 3. The appropriate level of information necessary in the report is dependent on the intended use and intended users
 - 4. The level of information detail in the report must be sufficient to enable the client and other intended users of the report to understand the real property appraisal consulting assignment results and not be misled
 - 5. STANDARD 5 does not dictate the form, format, or style of real property appraisal consulting reports. These are functions of the needs of intended users and appraisers. The substantive content of a report determines its compliance.

- C. Standards Rule 5-1 is similar to Standards Rule 2-1
 - 1. In both cases, appraisers are required to report assignment results so that intended users can understand them and not be misled
 - 2. The Comment to Standards Rule 5-1(c) requires that real property appraisal consulting reports be sufficiently comprehensive so that an intended user can understand the problem addressed and the analyses and then follow the reasoning through each step of the analytical process. The Comment also requires that the data, analyses assumptions, and conclusions are logical and adequately supported throughout the report.

D. Standards Rule 5-2 closely parallels Standards Rule 2-2, combining minimum levels of stating and summarizing information. Standards Rule 5-2(g) describes the requirements for reporting value opinions within real property appraisal consulting reports.

If the value opinion used in the appraisal consulting assignment was not performed by the consulting appraiser, the appraisal consulting report must include

1. The information required in Standards Rule 3-2, **or**
2. A statement of the appraisal review results of that value opinion, plus a reference to appraisal review documentation in the appraiser's workfile, **or**
3. A statement supporting the use of the appraisal as an extraordinary assumption

E. If the consulting appraiser develops the value opinion, the report must include information required to comply with Standards Rule 2-2 (a) or (b)(ii) through (x). Standards Rule 2-2(c)(ii) through (x) is also permitted if the client is the only intended user of the assignment results.

F. Standards Rule 5-3 sets forth the content requirements for signed certifications within written real property appraisal consulting reports. The certification is similar to that of Standards Rule 2-3.

G. Standards Rule 5-4 addresses the requirements for an oral real property appraisal consulting report, which are generally the same as those in Standards Rule 2-4

USPAP in Action No. 15



A real estate developer contacts a certified general appraiser and asks him to develop opinions as to the current market value of five different unit types that are being considered for a new development. In addition, the developer wants the appraiser to perform a study to determine what mix of unit types would yield the fastest projected absorption rate. Which Standards apply?

III. STANDARD 6, Mass Appraisal, Development and Reporting

- A. STANDARD 6 applies to all mass appraisals of real or personal property regardless of the purpose or use of such appraisals
- B. The basic requirements for developing **and** reporting a mass appraisal are presented in STANDARD 6. In this regard, it is similar to STANDARD 3, which also covers both the development **and** reporting of an appraisal review. Standards Rules 6-1 through 6-7 describe the development process, and Standards Rules 6-8 and 6-9 deal with communicating the results.
- C. *Mass appraisal* as defined by USPAP is the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing. A mass appraisal includes
 1. Identifying properties to be appraised
 2. Defining market area of consistent behavior that applies to properties
 3. Identifying characteristics (supply and demand) that affect the creation of value in that market area
 4. Developing a model structure that reflects the relationship among the characteristics affecting value in the market area
 5. Calibrating the model structure to determine the contribution of the individual characteristics affecting value
 6. Applying the conclusions reflected in the model to the characteristics of the property(ies) being appraised
 7. Reviewing the mass appraisal results
- D. Reminders
 1. The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD 6 because ad valorem tax administration is subject to various laws (includes state, county, and municipal)
 2. The reporting of jurisdictional exceptions applicable to public mass appraisals prepared for ad valorem taxation do not apply to mass appraisals prepared for other purposes

- E. Key points, Standards Rule 6-1
 - 1. Similar to Standards Rule 1-1
 - 2. Addresses obligations of appraiser similar to STANDARD 1
- F. Standards Rule 6-2 parallels Standards Rule 1-2 in that it outlines the process to be undertaken in a mass appraisal assignment. The list of requirements is longer in Standards Rule 6-2
- G. Standards Rule 6-3(a) is similar to Standards Rule 1-3; however, Standards Rule 6-3(b) is specific to appraising personal property. The Rule indicates that personal property has several measurable marketplaces requiring the appraiser to define and analyze the appropriate market consistent with the type and definition of value. The Comment cautions that the appraiser must recognize that there are distinct levels of trade and each may generate its own data. For example, a property may have a different value at a wholesale level of trade, a retail level of trade, or under various auction conditions. The appraiser must analyze the subject property within the correct market context.
- H. Standards Rule 6-4 discusses the appropriate procedures and market information required as well as employing recognized techniques for specifying property valuation models and for calibrating mass appraisal models. The Comment to Standards Rule 6-4(a) indicates these efforts usually include the development of standardized data collection forms, procedures and training materials that are used uniformly on the universe of properties under consideration.
- I. Standards Rules 6-5 and 6-6 are similar to Standards Rule 1-4
- J. Standards Rule 6-7 is similar to Standards Rule 1-6 and discusses reconciliation
- K. Standards Rule 6-8 deals with reporting the results of a mass appraisal assignment. Standards Rule 6-8(a) through (c) is similar in intent to Standards Rule 2-1. The rest of the Rule is similar to Standards Rule 2-2, although there are no reporting options. Similar topics are addressed.
- L. Standards Rules 6-9 specifies the certification required for all written mass appraisal reports and is similar to Standards Rule 2-3. The Comment to this Rule indicates the certification is not intended to disturb an elected or appointed assessor's work plans or oaths of office.

USPAP in Action No. 16



The chief appraiser for a city assessor's office prepares the annual values for all the commercial and industrial properties. A state statute requires that the properties be appraised as if in fee simple. An owner of several multi-tenant properties in the city is appalled when he receives his assessment notices. He has owned the properties for over ten years, and some of his leases date back to the time he purchased the buildings. The owner calls the appraiser and learns the properties are being valued at market rent levels despite the fact that if he wanted to sell the buildings, the purchaser would have to honor the existing lease contracts. The owner's complaint filed with the city manager states the appraiser is not using the appropriate valuation methodologies and techniques for valuing his leased fee interest. Did the appraiser violate USPAP by valuing the properties using market rent levels rather than contract rents?

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IV. STANDARD 7, Personal Property Appraisal, Development

- A. STANDARD 7 addresses the development requirements for a personal property appraisal assignment
- B. *Personal property* as defined by USPAP is identifiable tangible objects that are considered by the general public as being “personal.” For example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment are all tangible property that is not classified as real estate.
- C. Most of STANDARD 7 is very similar to STANDARD 1 with regard to topics covered, the order in which the topics are presented, and the specific handling of most topics
- D. Major differences between STANDARD 7 and STANDARD 1
 - 1. The Comment to Standards Rule 7-2 (c)(iv) focuses on opinions of value *in a specified market or at a specified market level* rather than the use of the definition of *market value* common in real property appraisals. In the appraisal of personal property, the particular market into which an item might be sold and the level of that market, can have a significant impact on the value conclusion. The term *market value* is not as commonly used in personal property as it is in real property.
 - 2. Standards Rule 7-3 focuses on special considerations of the specific measurable marketplaces (examples of marketplaces include retail, wholesale and auction) that are important in the appraisal of personal property. The introductory sentence is different in that market value is not included.
 - 3. Standards Rule 7-5 requires the analysis of prior sales that *occurred within a reasonable and applicable time period, given the intended use and the type of property involved*. This is different from Standards Rule 1-5 that requires a minimum history of three years prior to the effective date of the appraisal.

V. STANDARD 8, Personal Property Appraisal, Reporting

- A. STANDARD 8 addresses the content and level of information required in communicating the results of a personal property appraisal assignment
- B. Most of STANDARD 8 mirrors STANDARD 2 with regard to the topics covered, the order in which the topics are presented, and the specific handling of most topics

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 by name or type; 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 may not be understood properly without additional information in the appraiser's workfile;
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 information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. summarize information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;	iii. state information sufficient to identify the 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 type and definition of value and cite the source of the definition;	v. state the type and definition of value and cite the source of the definition;	v. state the type of value, and cite the source of its definition;
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 the scope of work used to develop the appraisal;	vii. summarize the scope of work used to develop the appraisal;	vii. state the scope of work used to develop the appraisal;
viii. describe the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained;	viii. state the appraisal methods and techniques employed, state the value opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of the sales comparison approach, cost approach, or income approach must be explained;
ix. state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, describe the support and rationale for that opinion;	ix. state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;	ix. state, as appropriate to the class of personal property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, state that opinion;
x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and	x. clearly and conspicuously state all extraordinary assumptions and hypothetical conditions; and state that their use might have affected the assignment results; and
xi. include a signed certification in accordance with Standards Rule 8-3.	xi. include a signed certification in accordance with Standards Rule 8-3.	xi. include a signed certification in accordance with Standards Rule 8-3.
Comments have not been included in this chart		

- C. The only differences relate to the sections of STANDARD 2 that focus on market value issues, which are replaced in STANDARD 8 with discussion of marketplaces
- D. Relevant Advisory Opinions include AO-11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2* and AO-12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*

USPAP in Action No. 17



The owner/operator of an antique shop advertises that she offers appraisal services. An attorney has asked her to perform an appraisal of personal property for estate taxes, explaining that the estate was left to an only son. She accepts the assignment.

After inspecting the furniture, glassware, china, silver and other household contents, the appraiser completed the appraisal. In the report, she provided a short cover letter that simply stated she had performed the appraisal, identified the total marketable cash value, made an offer to buy the estate at the value given and included her signature. Attached were thirteen pages of inventory with short descriptions and individual values for each property.

Did the appraiser comply with USPAP?

Use the space on the following page to take notes as you work through the problem.

VI. STANDARD 9, Business Appraisal, Development

- A. STANDARD 9 addresses the development requirements for an appraisal of an interest in a business enterprise or intangible asset
- B. Three USPAP definitions should be reviewed
 - 1. Business Enterprise – *an entity pursuing an economic activity*
 - 2. Business Equity – *the interests, benefits, and rights inherent in the ownership of a business enterprise or a part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests, cooperatives, sole proprietorships, options, and warrants)*
 - 3. Intangible Property (Intangible Assets) – *non-physical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment*
- C. Most of STANDARD 9 is very similar to STANDARD 1 with regard to topics covered, the order in which the topics are presented and the specific handling of most topics although less so than STANDARD 7
- D. Major Differences between STANDARD 9 and STANDARD 1
 - 1. Standards Rule 9-2 differs from Standards Rule 1-2(c) in that the term “standard” is used rather than “type” of value, and the premise of value is referenced (see Standards Rule 9-2(c))
 - 2. Another difference in Standards Rule 9-2 is the list of information needed to identify the subject property. The list includes things such as ownership percentage interest, accompanying elements of control and marketability. Whether or not the subject interest is a controlling or non-controlling interest of the business enterprise and its degree of marketability are major influences on value.

3. Standards Rule 9-3 is specific to business enterprise appraisal
 - a. The Comment to Standards Rule 9-3 indicates that the appraiser must recognize that continued operation of a business is not always the best premise of value, because liquidation of all or part of the enterprise may result in a higher value
 - b. This typically applies only when the interest being appraised is in a position to cause liquidation
 - c. If liquidation is the appropriate premise of value, the scope of work may include an appraisal of real property or tangible personal property. If so, competency in real property appraisal (STANDARD 1) and/or personal property appraisal (STANDARD 7) is required.
4. Standards Rule 9-4 states that an appraiser must include in the analysis, when necessary for credible assignment results, data regarding past sale of capital stock or other ownership interests in the business enterprise being appraised. No specific time period is given for the study of these prior sales.

VII. STANDARD 10, Business Appraisal, Reporting

- A. STANDARD 10 addresses the content and level of information required in communicating the results of an appraisal of an interest in a business enterprise or intangible asset
- B. Most of STANDARD 10 is similar STANDARD 2. The topics covered, the order in which the topics are presented, and the specific handling of most topics are similar, although less so than for STANDARD 8.
- C. Key differences
 1. STANDARD 10 has only two reporting options: the Appraisal Report and the Restricted Use Appraisal Report. The requirements for the Appraisal Report match the extent of discussion required for the Summary Appraisal Report in STANDARD 2.
 2. Therefore, STANDARD 10 contains no option that is equivalent to the Self-Contained Appraisal Report identified in STANDARD 2

3. STANDARD 10 does not contain any special discussion related to market value. Nor does it contain the discussion of highest and best use because this concept typically is not found in business enterprise and intangible asset appraisals.
4. There is one difference in the certification language. This Standards Rule contains no reference to a personal inspection of the property, as one cannot inspect intangible assets.

a) Appraisal Report	b) 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, by name or type; 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 may not be understood properly without additional information in the appraiser's workfile;
ii. state the intended use of the appraisal;	ii. state the intended use of the appraisal;
iii. summarize information sufficient to identify the business or intangible asset and the interest appraised;	iii. state information sufficient to identify the business or intangible asset and the interest appraised;
iv. state the extent to which the interest appraised contains elements of ownership control, including the basis for that determination;	iv. state the extent to which the interest appraised contains elements of ownership control, including the basis for that determination;
v. state the extent to which the interest appraised lacks elements of marketability and/or liquidity, including the basis for that determination;	v. state the extent to which the interest appraised lacks elements of marketability and/or liquidity, including the basis for that determination;
vi. state the standard (type) and definition of value and the premise of value and cite the source of the definition;	vi. state the standard (type) of value and the premise of value, and cite the source of its definition;
vii. state the effective date of the appraisal and the date of the report;	vii. state the effective date of the appraisal and the date of the report;
viii. summarize the scope of work used to develop the appraisal;	viii. state the scope of work used to develop the appraisal;
ix. summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions; exclusion of the market approach, asset-based (cost) approach, or income approach must be explained;	ix. state the appraisal procedures followed, state the value opinion(s) and conclusion(s) reached, and reference the workfile; exclusion of the market approach, asset-based (cost) approach, or income approach must be explained;
x. clearly and conspicuously: <ul style="list-style-type: none"> • state all extraordinary assumptions and hypothetical conditions; and • state that their use might have affected the assignment results; and 	x. clearly and conspicuously: <ul style="list-style-type: none"> • state all extraordinary assumptions and hypothetical conditions; and • state that their use might have affected the assignment results; and
xi. include a signed certification in accordance with Standards Rule 10-3.	xi. include a signed certification in accordance with Standards Rule 10-3.

USPAP in Action No. 18



An appraiser has been asked for a value based only on “rules of thumb” used in a specific industry. The client intends to rely on the value as a “guideline valuation” for a buy-sell agreement. What should the appraiser do?

In the Real World

A company has recently redeemed a retired director's stock. However, no mention of any prior transaction in company stock is made in a later appraisal. You are reviewing the appraisal report and wonder why no mention of the prior transaction was made, especially since the prior transaction was conducted at a price of more than double the appraisal conclusion. Upon further analysis, you find that the prior transaction seems to be overpriced, and the appraisal results seem appropriate. Did the appraiser comply with USPAP?

Part 10.

Review

Learning Objectives

Now that you have completed Part 10, you should be able to

- ☑ Recognize the similarities between STANDARDS 1 and 2 and STANDARDS 4 through 10
- ☑ Recognize the differences between STANDARDS 1 and 2 and STANDARDS 4 through 10
- ☑ Recognize definitions appropriate to each of these Standards
- ☑ Apply concepts of each Standard to a variety of situations through *USPAP in Action* discussion problems

Terms and Concepts to Remember

- Appraisal Consulting
- Appraisal Report
- Business Enterprise
- Intangible Asset
- Mass Appraisal
- Mass Appraisal Model
- Personal Property
- JURISDICTIONAL EXCEPTION RULE

REVIEW QUIZ

Complete the missing term(s) in problems 1 through 5.

1. The two reporting options in business appraisals are _____ Reports and Restricted Use Appraisal reports.

2. The purpose of a real property _____ assignment is to develop without advocacy an analysis, recommendation, or opinion where at least one opinion of value is a component of the analysis leading to the assignment results.

3. _____ is the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing.

4. The reporting options for a personal property appraisal report are
 - _____
 - _____
 - _____

5. The term _____ rather than market value is used in valuing the interest of business or intangible assets.

Note: There are five more quiz questions on the following page.

REVIEW QUIZ – continued

Check the appropriate box for questions 6 through 10.

	TRUE	FALSE
6. An appraiser performing a real property appraisal consulting assignment must not personally develop the opinion of value in the appraisal consulting assignment.	<input type="checkbox"/>	<input type="checkbox"/>
7. There are no specific reporting options for real property appraisal consulting reports.	<input type="checkbox"/>	<input type="checkbox"/>
8. STANDARD 6 applies to all mass appraisals of real or personal property, regardless of the purpose or use of such appraisals.	<input type="checkbox"/>	<input type="checkbox"/>
9. An appraiser must recognize that there are distinct levels of trade in personal property, and each may have different comparable data.	<input type="checkbox"/>	<input type="checkbox"/>
10. Liquidation must always be considered in valuing a business enterprise.	<input type="checkbox"/>	<input type="checkbox"/>

Your instructor will review the above questions in class so you can check your responses.

Part 11.

Preview

Statements and Advisory Opinions

Part 11 covers the remaining Statements on Appraisal Standards and briefly reviews the remaining Advisory Opinions. Remember from Part 1, Advisory Opinions are **not** a part of USPAP but are other communications published by the ASB. This session will move a bit faster than some of the others, as we have already reviewed various Statements and Advisory Opinions in prior sessions.

Lesson Objectives

The objectives for Part 11 are slightly different from those of the other sessions.

Participants will

- Differentiate between Statements on Appraisal Standards and Advisory Opinions
- Discuss remaining Statements on Appraisal Standards and briefly review Advisory Opinions not already covered

Learning Tips

This session will provide a broad overview of USPAP Statements and Advisory Opinions not already covered in Parts 7 through 10.

Afterwards, time is allotted for an instructor-led course review to prepare you for the course exam. Please keep your USPAP open, as we will be using it for our discussion of Statements and Advisory Opinions as well as for the course review.

Part 11.

Statements and Advisory Opinions

I. Statements on Appraisal Standards

- A. Statements have the full weight of a Standards Rule and can be adopted by the ASB only after public exposure and comment
- B. Statements are specifically for the purpose of clarification, interpretation, explanation, or elaboration of USPAP
- C. There are 10 Statements, four of which have been retired. We have discussed most of the Statements as we moved through the course.

The Statements are

- SMT 1, *Appraisal Review* (**retired**)
- SMT 2, *Discounted Cash Flow Analysis* (Statement was listed under STANDARD 1 but was not discussed. Statement is also relevant to STANDARD 7.)
- SMT 3, *Retrospective Value Opinions* (Statement was discussed in Part 7, STANDARD 1. It is also relevant to STANDARDS 2, 7 and 8, and 9 and 10, as it covers both development and reporting.)
- SMT 4, *Prospective Value Opinions* (Statement was discussed in Part 7, STANDARD 1. Again, it is also relevant to STANDARDS 2, 7 and 8, and 9 and 10, as it covers both development and reporting.)
- SMT 5, *Confidentiality Section of the ETHICS RULE* (**retired**)
- SMT 6, *Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions* (Statement was listed in Part 7, STANDARD 1. It is also relevant to STANDARDS 2 and STANDARDS 7 and 8, as it covers both development and reporting.)

- SMT 7, *Permitted Departure from Specific Requirements and Real Property and Personal Property Appraisal Assignments (retired)*
- SMT 8, *Electronic Transmission of Reports (retired)*
- SMT 9, *Identification of Intended Use and Intended Users* (Statement was discussed in Part 7; it is also relevant to STANDARDS 1 and 2, 7 and 8, and 9 and 10, as it covers both development and reporting.)
- SMT 10, *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction* (Statement was discussed in Part 6, SUPPLEMENTAL STANDARDS RULE)

II. Advisory Opinions

- A. Advisory Opinions do not establish new standards or interpret existing standards
- B. Advisory Opinions are issued by the ASB
- C. 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
- D. Advisory Opinions do not have the full weight of a Standards Rule and can be approved by the ASB without exposure and comment
- E. The Advisory Opinions are

Note: Advisory Opinions not previously discussed are underscored.

- AO-1, *Sales History* (STANDARD 1)
- AO-2, *Inspection of Subject Property* (STANDARDS 1 through 8)
- AO-3, *Update of a Prior Appraisal*
- AO-4, *Standards Rule 1-5(b)* (STANDARD 1)
- AO-5, *Assistance in the Preparation of an Appraisal* (ETHICS RULE and STANDARDS 1 through 10)

- AO-6, *The Appraisal Review Function* (**retired**)
- AO-7, *Marketing Time Opinions* (SUPPLEMENTAL STANDARDS RULE, STANDARDS 2, 6, and 8)
- AO-8, *Market Value vs. Fair Value in Real Property Appraisals* (**retired**)
- AO-9, *The Appraisal of Real Property That May Be Impacted by Environmental Contamination*
- AO-10, *The Appraiser-Client Relationship* (**retired**)
- AO-11, *Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2*
- AO-12, *Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2*
- AO-13, *Performing Evaluations of Real Property Collateral to Conform with USPAP*
- AO-14, *Appraisals for Subsidized Housing*
- AO-15, *Using the DEPARTURE RULE in Developing a Limited Appraisal* (**retired**)
- AO-16, *Fair Housing Laws and Appraisal Report Content*
- AO-17, *Appraisals of Real Property with Proposed Improvements* (STANDARD 1)
- AO-18, *Use of an Automated Valuation Model*
- AO-19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments* (STANDARD 1)
- AO-20, *An Appraisal Review Assignment That Includes the Reviewer's Own Opinion of Value* (STANDARD 3)
- AO-21, *USPAP Compliance* (ETHICS RULE)

- AO-22, *Scope of Work in Market Value Appraisal Assignments, Real Property* (STANDARDS 1, 2, and 6)
- AO-23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment* (STANDARDS 1 and 6; and SMT-10 under section E-5)
- AO-24, *Normal Course of Business* (STANDARDS 1 and 7)
- AO-25, *Clarification of the Client in a Federally Related Transaction*
- AO-26, *Readdressing (Transferring) a Report to Another Party*
- AO-27, *Appraising the Same Property for a New Client*
- AO-28, *Scope of Work Decision, Performance, and Disclosure* (SCOPE OF WORK RULE and STANDARDS 1 through 10)
- AO-29, *An Acceptable Scope of Work* (SCOPE OF WORK RULE and STANDARDS 1 through 10)

Part 11.

Review

Learning Objectives

Now that you have completed Part 11, you should be able to

- ☑ Differentiate between Statements on Appraisal Standards and Advisory Opinions
- ☑ Discuss remaining Statements on Appraisal Standards and briefly review Advisory Opinions not already covered

Terms and Concepts to Remember

- Advisory Opinions
- Statements

Section Practice Test

The following multiple-choice questions apply to all sections of the course.

1. The PREAMBLE of USPAP states that the Standards are
 - A. only for appraisers.
 - B. for appraisers and users of appraisal services.
 - C. limited to state certified or licensed appraisers.
 - D. only for users of appraisal services.

2. USPAP is enforced by
 - A. The Appraisal Foundation.
 - B. the Appraisal Standards Board.
 - C. the Appraisal Subcommittee, through Congress.
 - D. state regulatory agencies.

3. USPAP is developed, interpreted, and amended by the
 - A. Appraisal Standards Board.
 - B. Appraisal Subcommittee.
 - C. Appraiser Qualifications Board.
 - D. state regulatory agencies.

4. USPAP Advisory Opinions are issued to
 - A. revise existing standards.
 - B. establish new standards.
 - C. illustrate the applicability of appraisal standards.
 - D. interpret existing standards.

5. Appraisal practice includes only
 - A. valuation services performed by an individual acting as an appraiser.
 - B. appraisal, appraisal review and appraisal consulting.
 - C. market value appraisals.
 - D. work completed by licensed or certified appraisers.

6. Which of the following best describes the Statements on Appraisal Standards?
- A. They offer advice, but do not carry the same weight as the Standards Rules.
 - B. They have the full weight of a Standards Rule and can be adopted by the ASB only after exposure and comment.
 - C. They do not establish new standards or interpret existing standards, but are issued to illustrate the applicability of appraisal standards in specific situations.
 - D. They are an integral part of the Uniform Standards and are extensions of the Standards Rules.
7. If for the purposes of comparison an appraiser assumes a condition to be true that is known to be false, this is an example of
- A. an extraordinary assumption.
 - B. an assumption.
 - C. a limiting condition.
 - D. a hypothetical condition.
8. The purpose of the JURISDICTIONAL EXCEPTION RULE is to
- A. illustrate the applicability of appraisal standards.
 - B. preserve the balance of USPAP when a portion is contrary to law or public policy.
 - C. allow for cooperation with other professional appraisers.
 - D. place additional requirements on the appraiser.
9. Confidential information under USPAP is information the appraiser
- A. receives from the client, is identified by the client as confidential, and is not available from other sources.
 - B. receives from another client.
 - C. receives from the client and is identified as confidential but is available from other sources.
 - D. receives from the listing real estate agent.
10. The type and extent of research and analysis in an assignment defines the
- A. market analysis.
 - B. assignment conditions.
 - C. scope of work.
 - D. property and market area inspections.

11. The scope of work is acceptable when it
 - A. is agreed to by the client.
 - B. is subject to Fannie Mae requirements.
 - C. is different from what an appraiser's peers actions would be in performing the same type assignment.
 - D. meets or exceeds the expectations of parties who are regularly intended users for similar assignments.

12. A review appraiser must develop an opinion regarding
 - A. the appraiser's knowledge of USPAP.
 - B. the completeness of the work under review.
 - C. the appraiser's qualifications to complete the assignment.
 - D. the ethical character of the appraiser.

13. The Standards Rules obligating appraisers to be aware of, understand, and correctly employ recognized methods and techniques necessary to produce credible assignment results are
 - A. not applicable to real property.
 - B. not applicable to personal property.
 - C. applicable only to real property.
 - D. applicable to all of the appraisal disciplines.

14. The client is the only intended user for
 - A. Oral Appraisal Reports.
 - B. Market Value Appraisal Reports.
 - C. Restricted Use Appraisal Reports.
 - D. Self-Contained Appraisal Reports.

15. Compared to a value opinion expressed in a Summary Appraisal Report, a value opinion expressed in a Restricted Use Appraisal Report is
 - A. equally credible.
 - B. more reliable.
 - C. less reliable.
 - D. less credible.

16. Which of the following reports require a signed certification?
- A. Only real property and appraisal review reports
 - B. Only real property appraisal reports
 - C. All reports except mass appraisal
 - D. All written reports covered in USPAP
17. Levels of trade is a market reference in
- A. business appraisal.
 - B. personal property appraising.
 - C. real property appraising.
 - D. real property consulting.
18. A written business appraisal report must be prepared in accordance with which of the following options?
- A. Self-Contained Appraisal Report or Summary Appraisal Report
 - B. Summary Appraisal Report or Restricted Use Appraisal Report
 - C. Appraisal Report or Restricted Use Appraisal Report
 - D. Self-Contained Appraisal Report or Restricted Use Appraisal Report
19. The mass appraisal standard applies to the
- A. development and reporting of mass appraisals of real or personal property.
 - B. development and reporting of automated valuation models only.
 - C. development and reporting of residential real estate only.
 - D. development and reporting of mass appraisals for ad valorem tax purposes only.
20. When appraising personal property, the appraiser must analyze prior sales of the subject over what time period?
- A. One year
 - B. Three years
 - C. Five years
 - D. A reasonable and applicable time

APPENDIX

Executive Summary of the 2008 Real Property Appraiser Qualification Criteria

As a result of a three-year endeavor that included numerous public meetings around the country and six exposure drafts, the Appraiser Qualifications Board (AQB) adopted revisions to the *Real Property Appraiser Qualification Criteria* in February 2004.

Knowing the possible impact the changes to the Criteria could have on regulators, educational providers, and practitioners, the AQB wanted to ensure ample lead time for implementation. Accordingly, the effective date for implementation of the new *Criteria* was set as January 1, 2008, almost four years after adoption.

Key Components of the Criteria and How They Are Changing

The major components of the *Criteria* are qualifying education, experience, examination, and continuing education. It is perhaps easiest to first cover what is not changing.

Continuing Education

The continuing education requirement of the equivalent of fourteen class hours each year remains unchanged. In addition, the requirement that individuals must successfully complete the *7-Hour National USPAP Update Course* or its equivalent every two calendar years as part of the overall fourteen class hour requirement remains in effect.

Examination

All individuals seeking to become a State Licensed, State Certified Residential or State Certified General appraiser must successfully pass an examination administered by the jurisdiction awarding the credential. The examination requirements have not changed; although, it should be noted that the AQB is in the process of developing new Uniform State Appraiser Examinations, which will be implemented concurrently with the effective date of the new *Criteria*.

What is **changing**:

Experience

There is only one change regarding experience. At the present time, the experience requirement for the Licensed Residential Real Property Appraiser Classification is 2,000 hours. Effective January 1, 2008, the experience requirement for that classification will be 2,000 hours in no fewer than 12 months.

Qualifying Education

The most significant changes in the new *Criteria* relate to qualifying education. The changes fall into the following categories:

1. There are college-level course requirements for the Certified Residential and Certified General classifications;
2. The required number of classroom hours in appraisal education has increased significantly in all three licensure classifications; and

3. There are minimum classroom hours of coverage requirements for specific topic areas, which are known as modules.

College Course Requirements

For the first time, there are now college-level course requirements for the certified classifications.

Certified Residential: Associates degree or higher; in any field of study; or, in lieu of the required degree, twenty-one (21) semester credit hours covering the following subject matter courses: English Composition; Principles of Economics (Micro or Macro); Finance; Algebra, Geometry or, higher mathematics; Statistics; Introduction to Computers: Word Processing/ Spreadsheets; and Business or Real Estate Law.

Certified General: Bachelors degree or higher; in any field of study; or, in lieu of the required degree, thirty (30) semester credit hours covering the following subject matter courses: English Composition; Principles of Economics (Micro and Macro); Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers: Word Processing/ Spreadsheets; Business or Real Estate Law; and two (2) elective courses in accounting, geography, agricultural economics, business management, or real estate.

Classroom Hours

In addition to the college-level course requirements, the appraisal education classroom hour requirement has increased for the State Licensed, State Certified Residential and State Certified General classifications. The Trainee classification remains unchanged at 75 classroom hours. The number of appraisal education classroom hours to become a State Licensed appraiser has increased from 90 hours to 150 hours; Certified Residential has increased from 120 hours to 200 hours; and, Certified General classification has increased from 180 hours to 300 hours.

Required Core Curriculum

At the present time, individuals seeking to become an appraiser may select courses covering material that appears on a topic list in the current *Criteria*. Because there is no guidance regarding the amount of coverage (classroom hours) for each topic, there have been considerable inconsistencies in the education received by appraisers holding similar state credentials. The emphasis has been on the total number of classroom hours, rather than on the amount of coverage in specific topics.

There is now a Required Core Curriculum for each appraiser classification. Examples of Required Core Curriculum modules include Basic Appraisal Principles, Basic Appraisal Procedures, Residential Market Analysis and Highest and Best Use, and the National USPAP Course.

Accompanying the listing of modules is the specific number of classroom hours for each module. **It is important to note that these modules are subject matter areas and not necessarily the names of courses.**

The AQB has issued a Guide Note to assist in understanding the expected content coverage expected under each module.

The AQB has developed the following two options for state appraiser regulators to implement the *Criteria* changes:

‘Firm Date’ Scenario: Any credential issued by a state appraiser regulatory body on or after January 1, 2008, must be in compliance with all components of the new *AQB Real Property Appraiser Qualification Criteria*.

Under this scenario, it would not matter when an applicant completed his or her education, examination and experience; if the credential is issued after January 1, 2008, the applicant must meet the requirements for **all components** of the new *Criteria*.

‘Segmented’ Scenario: The requirements are broken down into three segments (or components): Education, Experience, and Examination. An applicant would have to meet the *Criteria* in effect at the time he or she completes a particular component or segment. Any component completed prior to January 1, 2008, would satisfy the current *Criteria*, while any component not completed by January 1, 2008, would have to conform to the new *Criteria*.

For example, an applicant for a Certified General credential completes all of the currently required 180 hours of qualifying education and passes the state’s Certified General examination in 2007, but does not possess the required 30 months and 3,000 hours of experience. Since the applicant completed the education and examination components prior to January 1, 2008, he or she would be deemed to have satisfied those components. Therefore, the only component which the applicant would have to satisfy under the new *Criteria* would be experience (which, in this case, is no different than the current *Criteria*).

IMPORTANT CHANGES TO APPRAISER QUALIFICATIONS

On February 20, 2004, the Appraiser Qualifications Board of The Appraisal Foundation adopted changes to the *Real Property Appraiser Qualification Criteria* that will become effective on January 1, 2008. These changes represent the minimum national requirements that each state must implement for individuals applying for a real estate appraiser license or certification as of January 1, 2008. The changes include increased required education, which is summarized as follows:

Category	Current Requirements ¹	1/1/08 Requirements ^{1,3}	1/1/08 College-Level Course Requirements ²
License	90 hours	150 hours	None
Certified Residential	120 hours	200 hours	Associate degree or higher. In lieu of the required degree, Twenty-one (21) semester credit hours covering the following subject matter courses: English Composition; Principles of Economics (Micro or Macro); Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers – Word Processing/ Spreadsheets; and Business or Real Estate Law.
Certified General	180 hours	300 hours	Bachelors degree or higher. In lieu of the required degree Thirty (30) semester credit hours covering the following subject matter courses: English Composition; Micro Economics; Macro Economics; Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers – Word Processing/Spreadsheets; Business or Real Estate Law; and two (2) elective courses in accounting, geography; ag-economics; business management; or real estate.

¹ Hours required include completion of the 15-hour National USPAP Course (or its equivalent).

² Hours required include specific core curriculum courses and hours – please see the Real Property Appraiser Qualification Criteria for details.

³ College-level courses and degrees must be obtained from an accredited college or university.

Please note that individual states may adopt requirements more stringent than the national requirements, and may opt to impose those requirements prior to January 1, 2008. Therefore, applicants for a real estate appraisal license or certification should always check with their state for individual requirements.

Copies of the Real Property Appraiser Qualification Criteria (contains the current and 2008 Criteria) as well as guidance such as A Guide for Understanding the 2008 Criteria are available from The Appraisal Foundation. Visit our Web site at www.appraisalfoundation.org to download a copy of these brochures. Questions regarding the national requirements can be directed to The Appraisal Foundation, The Appraiser Qualifications Board, 1155 15th Street, NW, Suite 1111, Washington, DC 20005, or via phone at 202.624.3068 or 202.624.3044.