

7-Hour USPAP Course Answers to In the Real World Illustrations

Overview

The answers to the *In the Real World (ITRW)* Illustrations are provided in the same order as identified in each Section, in each Part by topic. For example, Section 1, Part 1, Topic: Appraisal Review, Illustration 1, FAQ-200. When the answer has been taken from the *Frequently Asked Questions (FAQs)* publication, it is labeled FAQ; when the answer is from an Advisory Opinion (AO), it is labeled AO; when it is from a current USPAP monthly *Questions and Answers (Q&As)*, it is identified as USPAP Q&A, and if the illustration has been developed for the question, the USPAP reference will be noted such as SR for Standards Rule(s).

Section 1, Part 1

No illustrations

Section 1, Part 2

Topic: Appraisal Review

ITRW 1: FAQ-200, “Reviewer Disagrees with Value Conclusion”

ITRW 2: FAQ-201, “Reviewer Concurs with Value Conclusion”

Topic: When USPAP Applies

ITRW 1: AO-21, Illustration 5

ITRW 2: AO-21, Illustration 1

ITRW 3: FAQ-218, “Valuation Services Involving Advocacy”

ITRW 4: AO-21, Illustration 3

Section 1, Part 3

Topic: ETHICS RULE, Conduct

ITRW 1: FAQ-79, “Engaged Directly by the Homeowner;” AO-25, “Clarification of the Client in a Federally Related Transaction”

ITRW 2: FAQ-20, “Unacceptable Assignment Conditions – Nondisclosure of Facts”

ITRW 3: FAQ-14, “Conflicts of Interest”

ITRW 4: FAQ-15, “Using a Flawed Appraisal Report”

Topic: ETHICS RULE, Management

ITRW 1: FAQ-30, “Discounted Appraisal Fees”

ITRW 2: FAQ-25, “Reducing Appraisal Fees When Transactions Fail to Close”

ITRW 3: FAQ-34, “Appraisal Fee Paid at Close of Financing Transaction”

ITRW 4: FAQ-31, “Disclosure of Referral Fees”

Topic: ETHICS RULE, Confidentiality

ITRW 1: FAQ-39, “Sample Appraisals and the ETHICS RULE”

Topic: ETHICS RULE, Record Keeping

ITRW 1: FAQ-57, “Electronic Workfile Storage”

ITRW 2: FAQ-49, “Photocopies of Appraisal Reports in Workfiles”

ITRW 3: FAQ 54, “Trainee Has Access to Workfiles”

Topic: Ethical Obligations

ITRW 1: Yes. In this case the appraiser had knowledge of relevant information but chose instead to rely on information that the appraiser knew to be false. This is a violation of the Appraiser's Certification wherein the appraiser certifies that to his or her best *knowledge and belief the statements of fact contained in the report are true and correct*.

ITRW 2: No, this is not correct. The Disclosure Obligations section of the SCOPE OF WORK RULE says, *The report must contain sufficient information to allow intended users to understand the scope of work performed*.

The Comment further explains the obligation and there are specific Standards Rules that require disclosure of the scope of work performed in the assignment.

ITRW 3: FAQ-178, "Reporting Work Not Done in an Assignment"

ITRW 4: FAQ-197, "Developing an Unnecessary Approach;" AO-28, "Scope of Work Decision, Performance, and Disclosure"

ITRW 5: FAQ-145, "Subject Property Sales History and Property Flipping"

ITRW 6: USPAP Q&A, 05/07 #2, "Significant Appraisal Assistance"

ITRW 7: FAQ-161, "Reporting Significant Real Property Appraisal Assistance;" AO-31, "Assignments Involving More than One Appraiser"

ITRW 8: FAQ-162, "Disagree with Supervisor on Value Conclusion"

Section 2, Part 4

Topic: Advisory Opinion 31, Assignments Involving More Than One Appraiser

ITRW 1: AO-31, Illustration 1

ITRW 2: AO-31, Illustration 2

ITRW 3: AO-31, Illustration 3

ITRW 4: AO-31, Illustration 4

ITRW 5: AO-31, Illustration 5

ITRW 6: AO-31, Illustration 6

Topic: Advisory Opinion 32, Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments

ITRW 1: AO-32, Illustration 1

ITRW 2: AO-32, Illustration 2

ITRW 3: AO-32, Illustration 4

Section 3, Part 5

Topic: Common USPAP Violations and Hot Topics

ITRW 1: COMPETENCY RULE, SCOPE OF WORK RULE, ETHICS RULE, SR 1-1(a), SR 2-1(b)

ITRW 2: FAQ-75, "Readdressing with Lender Release;" AO-27, "Obtaining a Release"

ITRW 3: AO-27, Illustration A "Litigation"

ITRW 4: FAQ-80, "Client Approval for Future Assignments"

ITRW 5: FAQ-16, “Value Opinions That Equal Contract Prices”

ITRW 6: FAQ-138, “Appraising a Property Not in “As Is” Condition”

ITRW 7: FAQ-137, “Value As If Completed”

ITRW 8: FAQ-140, “Definition of Extraordinary Assumption”

ITRW 9: *Yes. Advocacy is prohibited both in the ETHICS RULE and in the appraiser’s certification when one is acting as an appraiser and the client’s expectation of that action is as an appraiser. Disclosure of advocacy or bias does not make it acceptable.*

ITRW 10: FAQ-60, “Minimum Workfile Retention”

ITRW 11: FAQ-51, “Purging Workfiles at a Client’s Request”

Section 3, Part 5

Hot Topics: Case Study

Key to Terms Used:

CR:	COMPETENCY RULE
AO:	Advisory Opinion
SOW or SOWR:	SCOPE OF WORK RULE
FAQ:	Frequently Asked Question
SR:	Standards Rule(s)

Background Questions

1. Three key assignment elements from STANDARD 1 are listed. Fill-in-the-blanks with an associated answer for each from the information provided. Why is such information important to receive before accepting an assignment?

Intended User	Mortgage Broker (no, not the Funding Source; that is the client of the Mortgage Broker) _____
Intended Use	Evaluate the collateral for a mortgage finance transaction (lending) decision _____
Definition and source of value	Market Value _____
Why is this information important?	Without these three assignment elements it is not possible to 1) have an assignment and 2) complete an assignment unless it is clear who your client is, the use of the report, and the definition of value to determine the research and analysis necessary to provide credible assignment results that are meaningful and not misleading to the intended user (client). _____

2. Are there other assignment elements identified or not identified from the information? Can the appraiser continue forward with the assignment without such information? If yes or no, specifically identify your USPAP support.

List Other Assignment Elements:	_____
Other Intended Users	None were identified. SR 1-2 (a) _____
Effective Date (and Date of the Report)	No specific dates are used in the case study to avoid it becoming outdated. The effective date is current; date of report is not known except it is 72 hours after the inspection. SR 1-2 (d) and 2-2 (b)(vi) _____
Source of the Definition of Value	To attempt to avoid discussing form type reports, we do not identify any specific source. However, it is noted that the funding source is a state or federally regulated financial institution. Therefore the source of the definition would be, at minimum, the funding source's regulatory agency, such as OCC, OTS, FDIC, FRB, etc. We do not want the class to discuss the definition of value noted on a form report, such as URAR 1004, except to note it is that secondary market sources own definition of value. SR 1-2 (c) _____
Interest Appraised	Not known but can be assumed to be fee simple considering no indication of lease fee or leasehold information has been identified at this point. SR 1-2 (e)(ii) _____

<p>Relevant Characteristics of the Subject Property:</p>	<p>At this point minimal information has been provided and is incomplete.</p> <p>SR 1-2 (e)</p> <hr/>
<p>Assignment Conditions</p>	<p>Issues such as extraordinary assumptions, hypothetical conditions, assumptions, limiting conditions are associated with the intended user and intended use (mortgage broker will sell the loan package to a state or federally regulated financial institution to make an evaluation about the collateral for a loan).</p> <p>The assignment conditions that go with this type of client and specific assignment conditions that may be additionally applied are not identified. The focus needs to concentrate on USPAP and not with residential form reports, specific client requirements, etc. That level of detail for the case study would be speculative and not educational; avoid such conversations. Generically, if the assignment is for a mortgage entity, the appraiser needs to recognize this fact and inquire about additional assignment conditions. Students should be reminded of the prior discussion concerning the new AO-30, <i>Appraisals for Use By a Federally Regulated Financial Institution</i>.</p> <p>SR 1-2(f) and (g)</p> <hr/>
<p>Scope of Work Decision</p>	<p>At this point the appraiser has the three assignment elements to make a determination (without further knowledge or research) how the appraisal assignment will proceed in the development stage. Although having any or all of these additional assignment elements initially is important, the appraiser can proceed without the full extent of that information, which can be gathered as the assignment continues.</p> <p>SR 1-2(h); SOWR</p> <hr/>

Question to Consider in Section 1

1. List the specific market and property data USPAP problems you found after comparing the appraiser's notes with the investigator's notes? Cite specific USPAP support for each problem.

USPAP Problems	USPAP Support
No sales history	SR 1-5, AO 1, FAQ121
No analysis of current agreement of sale	SR 1-5, AO 1
No consideration of prior listing	FAQ-152
No Homeowner's Association	SR 1-2; SOWR; relevant characteristic
Unsupported market trends and consideration of Highest & Best Use	SR 1-3
Limited knowledge of market area, subject property, economics of area	CR, AO 22
Additional support for answers include:	AO 4, FAQ 122, FAQ 141

Questions to Consider in Section 2

1. How does one obtain geographic competency per USPAP if the appraiser lacks it initially? Does USPAP require an appraiser to be competent at the time the assignment is accepted? Cite specific USPAP support for all answers.

List Competency Steps	USPAP Problems	USPAP Support
1. Disclose lack of knowledge.	Before	CR
2. Take all steps necessary or appropriate to complete assignment competently.	During	
3. Describe lack of knowledge and steps taken to complete the assignment competently and disclose these actions in the report.	During and at completion	

2. Has the appraiser met the USPAP obligations for proving his geographic competency, yes or no? Cite specific USPAP support for the answer.

Yes or No?	USPAP Support
No Limited time spent in area; didn't seek affiliation with a qualified local appraiser (one of the suggestions from the COMPETENCY RULE). Didn't understand the nuisances of the local market, resulting in poor sale selection and unsupported adjustments.	CR

3. Does USPAP require specific data sources to be used in an assignment, yes or no?
Cite any USPAP support that relates to the use of data sources in an assignment.

Yes or No?	USPAP Support for the Use of Data Sources
No	<u>Problem Identification</u> section of SOWR; CR <u>Comment</u> ; DEFINITION: credible.

Additional answers: AO-29, *An Acceptable Scope of Work*, specifically An Appraiser's Peers; FAQ 61

4. Cite specific USPAP support that requires the appraiser to complete due diligence in one's research and analysis?

USPAP Support
1-1 (b), 1-1 (c), <u>Comment</u> , 1-4 (a)

Question to Consider in Section 3

1. List the specific cost approach USPAP problems you found after comparing the appraiser's notes with the investigator's notes? Cite specific USPAP support for each problem.

USPAP Problems	USPAP Support	Comments
No site value support	SR 1-4 (b)(i)	
Cost figures from builder/owner without analysis or judgment as to reasonableness	SR 1-4 (b)(ii)	May be bias
No workfile support for how conclusions were reached	ETHICS RULE <u>Record Keeping</u> ; FAQ 47	

Question to Consider in Section 4

- List specific facts (evidence) and conclusions by the review appraiser that do not support the original appraiser's report facts and conclusions. Cite specific USPAP obligations that were not adhered to by the appraiser for each evidence or conclusion identified.

Review Facts/Conclusions	USPAP Support
<u>Market conditions</u> – prices declining not increasing (all sales used occurred over 18 months ago).	1-2 (e) and 1-3 (trends) and 2-2 (b)(iii)
<u>Neighborhood</u> – golf course sites command premium prices – 10% better; no adjustments were made for differences in original report and all sales were located on golf courses.	SR 2-2 (b)(viii)
<u>Sales Data</u> – sales used by review appraiser more recent, more similar. Original report contained sales comparison approach with unsupported or no adjustments for relevant differences.	SR 1-4 (a); SR 2-2 (b)(viii); Missed relevant data (CR)
<u>Reconciliation</u> – original appraisal report conclusion from sales comparison approach was not credible and no actual reconciliation was completed. Value conclusion in original report is not credible.	SR 1-6; SOWR; AO 29; and FAQ 123

Question to Consider in Section 5

- List the specific reconciliation USPAP problems you found after comparing the appraiser's notes with the investigator's notes? Cite specific USPAP support for each problem.

USPAP Problems	USPAP Support
The actual report contained no reconciliation at all. Two approaches were used, but no information was provided on the exclusion of the cost approach. No discussion of the applicability or relevance of the methods was provided.	SR 1-6 (a) and (b)

Questions to Consider in Section 6

1. List specific USPAP problems with the appraiser's reasoning relating to the assignment's time constraints?

USPAP Problems	USPAP Support
Appraiser is unfamiliar with area	CR
Didn't have time to contact another appraiser and missed relevant data	SR 1-1 (b) and (c)
Used information from a source directly involved in transaction	SOWR; SR 1-1 (a), (b); and <u>Conduct</u> section of the ETHICS RULE

2. Was it acceptable for the appraiser not to disclose the prior MLS listing of the subject property, per USPAP? Cite specific USPAP support for your answer.

Yes or No	USPAP Support
No	SR 1-1 (b); SR 1-5 (a); AO-1; FAQ 151; and FAQ 152

3. Are “price,” “cost,” and “value” the same definition in USPAP? Is it reasonable to believe that the “contract price” is assumed to be the same as “value” or “worth?” Cite specific USPAP support for your answer.

Yes or No	Definition	USPAP Support
No	PRICE: <i>fact (amount asked, offered, or paid)</i> COST: <i>amount required to create, produce, or obtain a property</i> VALUE: <i>opinion of worth (monetary relationship between properties and those who buy, sell, or use)</i>	DEFINITIONS

4. Are there any other USPAP issues (cite specific USPAP support for each) in the reconciliation your group discussed and the class did not? Please bring these points up during the class discussion.

Open discussion – no set answers; however, class discussion must include SR 1-6:

- (a) *reconcile the quality and quantity of data available and analyzed within the approaches used; and*
- (b) *reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the value conclusion(s).*

Question to Consider in Section 7

1. List any specific USPAP record keeping violations based on the information provided about the workfile.

Discuss the following FAQs to clarify the use of electronic means to generate and maintain a workfile: *FAQ 49, FAQ 55, and FAQ 57*

USPAP Violation(s):

ETHICS RULE, Record Keeping section ...*all other data, information and documentation necessary to support the appraiser’s opinions and conclusions and to show compliance with this Rule and all other applicable Standards, or references to the location(s) of such other documentation.*

Workfile and report both lacked: documentation to support the appraiser’s opinions and conclusions for the site value in the cost approach; the adjustments and conclusions in the sales comparison approach are contradictory with the review appraiser’s information; final opinion of value is broad, uses significantly dated comparables and these facts are not well addressed or explained.

Question to Consider in Conclusion of Case Study

1. In final, of all the USPAP violations your group overall identified list at least two violations that are the most damaging to the appraiser’s defense of the appraisal report’s final opinion of value. Specify why.

Most Damaging USPAP Violations	Support Why
Open-ended discussion could include: <ul style="list-style-type: none"> ▪ <u>Conduct</u> and <u>Management</u> sections of the ETHICS RULE (specifically concerning fraud, “value conclusion favoring the cause of the client, the outcome”) ▪ CR ▪ SOWR 	

Section 3, Part 6
Topic: Real World Issues

ITRW 1: FAQ-71, “Appraisal Management Company as Authorized Agent for a Client”

ITRW 2: FAQ-72, “Client Cannot Be Identified;” SMT-9, “Identification of Intended Use and Intended Users”

ITRW 3: FAQ-66, “Appropriate Sources for Jurisdictional Exception”

ITRW 4: FAQ-209, “Inspection of Subject Property”

ITRW 5: FAQ-219, “Purpose of an Appraisal Consulting Assignment” (with some modifications)

ITRW 6: FAQ-126, “Update of an Appraisal Completed by Another Appraiser”

ITRW 7: FAQ-95, “Client Specifies Scope of Work;” FAQ-94, “Responsibility for the Scope of Work Decision”

ITRW 8: FAQ-50, “Workfiles for Appraisal Review Assignments”