



THE APPRAISAL FOUNDATION

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Standards and Appraiser Qualifications

APPRAISAL STANDARDS BOARD

**APPRAISAL STANDARDS BOARD
SUMMARY OF ACTIONS RELATED TO PROPOSED CHANGES
June 8, 2007**

Background

On June 8, 2007, the Appraisal Standards Board (ASB) approved and adopted modifications to the 2006 edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP). These changes to USPAP were the result of two exposure drafts, issued on December 15, 2006 (First Exposure Draft) and March 5, 2007 (Second Exposure Draft). The changes will be incorporated in the 2008-2009 edition of USPAP and associated guidance with an effective date of January 1, 2008 to December 31, 2009. The first Exposure Draft was presented in eight sections, as follows:

- Proposed Deletion of the SUPPLEMENTAL STANDARDS RULE and Edits to the Definition of Supplemental Standards
- Proposed Retirement of STATEMENT 10, *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction* and Development of a New Advisory Opinion
- Proposed Edits Related to Advocacy
- Proposed Edits to the Report Certification Requirements
- Proposed Edits Related to Highest and Best Use in STANDARD 7, *Personal Property Appraisal, Development*; STANDARD 8, *Personal Property Appraisal, Reporting*; and STANDARD 6, *Mass Appraisal Development and Reporting*
- Proposed Edits to Reconciliation and Reporting Requirements
- Proposed Advisory Opinion, *Assignments Involving More than One Appraiser* and Proposed Retirement of Advisory Opinion 5, *Assistance in the Preparation of an Appraisal*
- Proposed Advisory Opinion, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*

The Second Exposure Draft was presented in eight sections, which included two changes from the First Exposure Draft:

- Proposed Deletion of the Definition of Supplemental Standards

- Proposed Advisory Opinion, *Appraisals for Use by a Federally Regulated Financial Institution*

The Board received written comments from interested parties on the two Exposure Drafts and heard oral comments at public meetings on February 2, 2007, April 13, 2007, and June 8, 2007.

The goal of the *Uniform Standards of Professional Appraisal Practice* is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. All potential changes and additions to USPAP are evaluated in light of this goal. The adopted changes improve understanding and enforcement of USPAP, thereby furthering the goal of promoting and maintaining public trust in appraisal practice.

In reviewing comments received on the exposure drafts, the ASB's primary focus is the reasoning and insight presented in the comments, rather than the source or authorship. While a numerical count of comment letters may be taken, the ASB does not weigh the numerical count as a determining factor in its final decisions. The ASB is guided by the quality, relevancy, and accuracy of the points made, and not their frequency.

Following is a topic-by-topic summary of the actions taken by the Board and the rationale for those decisions.

SUPPLEMENTAL STANDARDS RULE and the Definition of Supplemental Standards

Action:

The Board adopted the deletion of the SUPPLEMENTAL STANDARDS RULE, and the deletion of the definition of "Supplemental Standards" as proposed in the Second Exposure Draft. In addition, the proposed associated changes to the SCOPE OF WORK RULE, the Conduct section of the ETHICS RULE, and the COMPETENCY RULE were approved.

Rationale:

Appraisers must recognize and adhere to applicable assignment conditions to satisfy the USPAP obligations to provide ethical and competent services. The edits do not change the requirements when performing assignments subject to laws, regulations, or guidelines that constitute ethical and competent appraisal practice.

Deletion of the SUPPLEMENTAL STANDARDS RULE

The ASB's consideration of the role of this Rule started because of the difficulty appraisers and others were experiencing in identifying Supplemental Standards. It was believed that this identification was diverting attention from other USPAP requirements that create an appraiser's obligation to comply with applicable assignment conditions.

The duty for the appraiser to comply with applicable assignment conditions is embedded in the obligations for ethics and competency. Further, the SCOPE OF WORK RULE requires appraisers to identify the problem to be solved, which includes identification of assignment conditions. In communicating assignment results, the requirement that reports be meaningful and not misleading creates an obligation to comply with applicable laws, regulations and guidelines. In sum, the other requirements of USPAP eliminate the need for the SUPPLEMENTAL STANDARDS RULE.

With this change, USPAP continues to require adherence to those assignment conditions that are necessary for proper development and reporting. The appraiser's identification of the intended use and intended users drives the applicable assignment conditions.

Deletion of the Definition of Supplemental Standards

In the ASB's review of the issue and in collecting information, it became apparent that the majority of appraisers, users of appraisal services, and enforcement officials recognized that Supplemental Standards include laws and regulations. Appraisers must comply with laws and regulations because of the nature of law itself, not because of USPAP. Thus, continued use of Supplemental Standards as a defined term was unnecessary.

Government Sponsored Enterprises (GSEs) provide guidelines that are not laws or regulations. GSEs include such entities as Fannie Mae, Freddie Mac, and Farmer Mac. The deletion of the Supplemental Standards definition removes specific recognition of GSEs as a source of assignment conditions. However, the edits do not change: 1) the necessity for an appraiser acting in compliance with USPAP to follow GSE guidelines where applicable; and 2) the enforcement of USPAP, including those items necessary for competent performance and meaningful reporting. The appraisal guidelines of GSEs will remain part of proper development and reporting when they are applicable to a given assignment.

Edits to the SCOPE OF WORK RULE:

This Rule has been edited 1) to replace the term "Supplemental Standards" with "laws and regulations," and 2) to add descriptions of "laws" and "regulations" based on the Black's Law Dictionary definitions of those terms. This change highlights and focuses the SCOPE OF WORK RULE on assignment conditions that have legal force.

ETHICS RULE Modification

The Conduct section of the ETHICS RULE identifies the need for an agreement between the client and appraiser when accepting an assignment when supplemental standards apply. However, the SCOPE OF WORK RULE states that it is the appraiser's responsibility to identify the problem to be solved. Therefore, this language in the ETHICS RULE has been deleted.

COMPETENCY RULE Addition

The SCOPE OF WORK RULE requires the appraiser to identify assignment conditions, such as laws and regulations, which are applicable in an assignment. Laws and regulations may apply to actions of the appraiser, or may apply to how an appraisal must be completed. Text was added to the COMPETENCY RULE to recognize these facts.

Appropriate conforming edits have been made throughout USPAP and guidance material.

STATEMENT 10, *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction* and Advisory Opinion 30, *Appraisals for Use by a Federally Regulated Financial Institution*

Action:

As proposed in the Second Exposure Draft, STATEMENT 10, *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction* was retired. A new Advisory Opinion 30, *Appraisals for Use by a Federally Regulated Financial Institution* was created to offer advice regarding application of USPAP in assignments for use by a federally regulated financial institution.

Rationale:

The retirement of STATEMENT 10 was prompted by the fact that it did not distinguish between laws (such as FIRREA), regulations and guidelines, such as the Interagency Appraisal and Evaluation Guidelines. Further, the format and complexity of STATEMENT 10 were obstacles to its understanding and effective enforcement. Substantial editing of STATEMENT 10 would not have resulted in increased understanding.

Advisory Opinion 30, *Appraisals for Use by a Federally Regulated Financial Institution* is intended to replace the advice in STATEMENT 10 in a more direct and clear style to improve understanding and enforceability. Additionally, the new Advisory Opinion clearly separates USPAP requirements from the agencies' appraisal regulations and guidelines.

The main theme of Advisory Opinion 30 is that adherence to the applicable laws, regulations, and guidelines of the federal financial institution regulatory agencies is required for proper appraisal development and reporting.

ETHICS RULE and Definition of Advocacy

Action:

The Board adopted the edits to the Conduct section of the ETHICS RULE related to advocacy and deleted the definition of the term "Advocacy" as proposed in the Second Exposure Draft.

Rationale:

The edits to the ETHICS RULE make clear that advocating the cause or interest of any party or issue contradicts the requirement for independence. The edits to the ETHICS RULE render the definition of “advocacy” unnecessary because the term is used with its common English meaning. The edits do not diminish the prohibition against advocacy in appraisal practice; advocacy remains unacceptable.

Report Certification Requirements

Action:

The Board adopted revisions to report certification requirements related to the signing appraiser’s reliance on work done by others who do not sign the certification. Changes were made to Standards Rule 2-3, Standards Rule 3-3, Standards Rule 5-3, Standards Rule 6-9, Standards Rule 8-3, and Standards Rule 10-3.

Rationale:

The revisions clarify an appraiser’s obligations when relying on work done by both appraisers and others who do not sign the certification.

The changes removed the requirement that the signing appraiser have a reasonable basis to believe that work done by others was credible from Standards Rule 2-3, Standards Rule 3-3, Standards Rule 5-3, Standards Rule 6-9, and Standards Rule 8-3. This change was supported by the argument that the signing appraiser may not be qualified to determine whether the work provided by the other appraiser is credible. Further, the appraiser who certifies the work “done by others” is credible may be providing a misleading representation to the intended user.

Language was added clarifying that the signing appraiser(s) must not rely on the work of others if that appraiser has a reason to doubt that the work is credible. This edit was supported by the appraiser’s obligation to preserve public trust. The appraiser is responsible for the scope of work, including decisions to rely on the work done by others. The decision to rely on work done by others is governed by the same due diligence requirements that apply to judging the appropriate extent of research and analysis, namely that an acceptable scope of work satisfies the requirements of the Acceptability section of the SCOPE OF WORK RULE.

Highest and Best Use in STANDARD 7, *Personal Property Appraisal, Development*; STANDARD 8, *Personal Property Appraisal, Reporting*; and STANDARD 6, *Mass Appraisal Development and Reporting*

Action:

As proposed in the Second Exposure Draft, the Board adopted revisions to Standards Rules 7-3(a), 8-2(a)(ix), 6-3(b), and 6-8(n) related to the requirements to identify and report the highest and best use.

Rationale:

Personal property appraisal recognizes the concept that alternative property uses can affect value, but not all personal property appraisers use the term “highest and best use” to describe this analysis. Although it may not be stated as such, the analysis of highest and best use in a personal property context (including a mass appraisal of personal property) is addressed in terms of the most appropriate market or market level. To better reflect the conventions of the personal property appraisal discipline, changes were made to the personal property standards to remove the term “highest and best use.” The edit does not change the substance of the requirement, but better aligns the language with terminology more commonly used in personal property appraisal.

The term “highest and best use” was not removed from the accompanying Comment to those Standards Rules because it provides a useful explanation for appraisers and the users of appraisal services who do recognize the terminology.

Reconciliation and Reporting Requirements

Action:

The Board adopted the revisions to the requirements for reconciliation of the approaches in Standards Rule 1-6(b), Standards Rule 6-7(a), Standards Rule 7-6(b), and Standards Rule 9-5(b) as proposed in the Second Exposure Draft.

Rationale:

To increase clarity and consistency, edits were made to the requirements for reconciliation of the approaches used to arrive at the value.

Action:

The Board adopted the deletion of the Comment to Standards Rule 1-6 and Standards Rule 7-6.

Rationale:

There are many connections between the “development” standards and the “reporting” standards. There is no specific reason why the reconciliation Rules should point out links to reporting when other equally significant connections are not similarly identified. Therefore, the references to the reporting standards in these two Standards Rules were deleted.

Action:

The Board adopted shortening the term “property use conditions” to “property” in Standards Rules 2-2(a)(vi), 2-2 (b)(vi), & 2-2(c)(vi), Standards Rule 6-8(g), and Standards Rules 8-2(a)(vi), 8-2(b)(vi), & 8-2(c)(vi).

Rationale:

This change was made because the phrase “property use conditions” was unclear and unnecessarily complex.

Action:

The Board adopted the deletion of the portion of the Comment to Standards Rules 2-2(a)(vi) & 2-2(b)(vi), Standards Rule 6-8(g), and Standards Rules 8-2(a)(vi) & 8-2(b)(vi) requiring reiteration of the report date and effective date of the appraisal.

Rationale:

In communicating assignment results, the appraiser is already required to identify the report date and effective date of the appraisal in a manner that is meaningful and not misleading. For this reason the referenced paragraphs were deleted as unnecessary and potentially confusing.

Advisory Opinion 5, Assistance in the Preparation of an Appraisal and Advisory Opinion 31, Assignments Involving More than One Appraiser

Action:

As proposed in the Second Exposure Draft, the Board adopted the retirement of Advisory Opinion 5, *Assistance in the Preparation of an Appraisal*. The Board also adopted proposed Advisory Opinion 31, *Assignments Involving More than One Appraiser* to offer advice on record keeping, signature and certification requirements in assignments that involve more than one appraiser.

Rationale:

This action was intended to update and expand the guidance related to assignments involving more than one appraiser.

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

Action:

The Board also adopted Advisory Opinion 32, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments* as proposed in the Second Exposure Draft.

Rationale:

The ASB developed the Advisory Opinion to illustrate the application of USPAP in assignments performed by appraisers for ad valorem taxation. The purpose of the Advisory Opinion is to provide guidance to appraisers in ad valorem property tax appraisal assignments.