

APPRAISER GUIDANCE CONCERNING DESKTOP APPRAISAL ORDERS

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A new desktop appraisal product was released in February 2010. Although the Board does not approve or prohibit specific forms or software used to deliver appraisal results, the Board does have several concerns about this type of assignment.

An assignment is an agreement between an appraiser and a client for a valuation service. Once an appraiser accepts an assignment, USPAP applies to the appraiser's actions. Even if an appraiser ends up not completing the assignment or does not get paid, the appraiser must still comply with USPAP. If an appraisal report is created and sent to the client, a workfile must be produced and maintained. USPAP requires that the work file must contain enough information to produce a summary appraisal report from the workfile contents.

This is a valuation service regarding the subject property that would have to be disclosed under the 2010 change to the Conduct Section of the Ethics Rule of USPAP, even if no report was transmitted and/or no payment was received. According to the instructions for this product, if an appraiser accepts an assignment to do this type of appraisal but subsequently discovers that the subject property does not meet minimum requirements, the appraiser will not get paid. This is referred to as a "no-hit". Since an assignment that results in a "no-hit" may not be tracked in invoicing software, the assignment would have to be entered into some other type of tracking software to make sure one complied with the new disclosure requirement in USPAP.

The Scope of Work Rule of USPAP states that the appraiser, not the client, must determine the scope of work necessary to develop credible assignment results. In addition, the Scope of Work rule states that "An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use." There are several assignment conditions in this product that are referred to as "appraisal report minimum requirements". Some may be unacceptable.

This product requires appraisers to use MLS as the primary data source. In many areas of our state, MLS is not available or is unreliable. A better source of data might be the county tax office or a private data collection system. The product also requires that appraisers must use a minimum of three closed comparable sales and a comparable listing and/or pending sale. At least two of the comparable sales must be less than 120 days old, and at least two must be located within one mile of the subject. The GLA of the comparable sales must be within 20% of the GLA of the subject. Appraisals of condominiums with more than 15 units must include at least two comparable sales from the development within the last 12 months and at least one comparable listing and/or pending sale from the development. Condominiums with 15 units or less must include at least one comparable sale from the development within the past 12 months and, when available, a comparable listing or pending sale from the development. This product does not allow the appraiser to use the best data available and may well limit the amount of work performed to such an extent as to violate the Scope of Work Rule.

Of major concern is the assignment condition that the appraiser will not receive a fee if the appraiser cannot meet all the product requirements. As noted above, this is referred to as a "no hit." "No-hits" are produced when the appraiser cannot produce a credible value due to insufficient subject data, the subject is an ineligible property type, the appraiser cannot meet all of the minimum report requirements, the subject is zoned commercial/industrial, or the subject is not at its highest and best use.

It appears that the assignment conditions may violate the Management Section of the Ethics Rule. For example, if the appraiser searches for comps but discovers there have been none within the last 120 days, the appraiser will not get paid. If the subject is located in a transitional area and the highest and best use would be as an interim or commercial use, it is a "no-hit" and there is no fee. The fee for the assignment is contingent on a predetermined result - the reporting of comps that meet certain criteria, or a finding that the subject meets the product requirements. This type of assignment may result in the loss of objectivity. An appraiser may be tempted to use sales that he or she would not otherwise use, or to simply concur that the current use is the highest and best use, in order to receive a fee. The fact that an appraisal may not be completed (a "no-hit") is irrelevant. The Ethics Rule prohibits accepting such an assignment.

There are appraisal products on the market now that allow or even require the appraiser to choose comparable sales from a database maintained by the software vender or client. Most of the comps in those systems are data mined from other appraisal reports. These services are not connected directly to a local MLS system. Sometimes an employee of the software company may contact local real estate brokers to obtain comparable sales. If an appraiser uses this database for sales, the database must be

listed as the source for comparable sales, with MLS or another source used for verification of those sales. In addition, if the appraiser is given comparable sales by the client or vendor, the appraiser must disclose that he or she received significant assistance in choosing comparable sales.

Some of these products give an appraiser a discount if the appraiser voluntarily “contributes” appraisal reports to the software database so that subject and comparable information can be mined. Keep in mind that doing so is a violation of the Confidentiality Section of the Ethics Rule of USPAP, as assignment results are also communicated to the database.

A final note – the low fee paid for this assignment does not in any way lessen the appraiser’s legal requirement to comply with USPAP.