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Read What You Sign: Avoiding Misleading Appraisal Reports

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Adding a "Statement of Limiting Conditions and Appraisers Certifications" from Form 1004B to a Worldwide ERC®

Summary Appraisal Report can be confusing for all parties

viewing an appraisal and even may be considered misleading. Martin advises appraisers to take care in their work, particularly regarding the differences between anticipated sales price and market value.



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By Donald J. Martin, SCRP, RAA, GAA

Out of habit (and a bad one at that), some appraisers include either the two-page "Statement of Limiting Conditions and Appraisers Certifications" from Form 1004B from June 1993 or the newer form from March 2005 on the 2003 version of the Worldwide ERC® Summary Appraisal Report. To include either one is wrong, as they often confuse and mislead both the intended and unintended users of the report. Producing a misleading appraisal report is a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) competency rule, the current version of which can be found [online in the USPAP 2008-09 at the Appraisal Foundation](#). The "Statement of Limiting Conditions and Appraisers Certifications" from June 1993 and its newer replacement from March 2005 are designed for types of appraisals other than relocation.

I like to think that most appraisers are trying to produce appraisals that reflect the intended use, intended user, and an appropriate scope of work. Appraisers are required under USPAP to sign the "Statement of Limiting Conditions and Appraisers Certifications" to evidence the appraiser's compliance with USPAP and his or her obligations to the client. In addition, the statement provides information to both the intended user and unintended users of the report including the definition of value, the scope of work, basic guidelines, and various limitations of the appraisal.

Defining Value

USPAP requires that every appraisal performed have a definition of value, but among items that differ in the Worldwide ERC® Summary Appraisal Report and other types of appraisal reports is the definition of value. The Worldwide ERC® Summary Appraisal Report includes a definition of anticipated sales price, which differs from the definitions of value found in other forms, including the definition of market value.

The basic differences between these two definitions of value can be refined to two basic considerations. The definition of anticipated sales price normally used for all relocation appraisals specifies a difference associated with market time and adds the use of forecasting. The marketing time in the Worldwide ERC® Summary Appraisal Report specifies "a reasonable marketing period, not to exceed 120 days and commencing on the date of appraisal (inspection), is allowed for exposure in the open market...."

Other types of appraisals regard marketing time as "a reasonable time [that] is allowed for exposure in the open market." For "market value," this reasonable time in some cases could be far more than 120 days.

Because of the requirement to provide a value in a Worldwide ERC® appraisal not to exceed 120 days, forecasting comes heavily into play when normal marketing time is projected to exceed that time period. In all cases for the Worldwide ERC® Summary Appraisal Report, forecasting is considered—in most cases when the normal marketing period is less than 120 days, the amount of forecasting is normally zero. In cases where the marketing period is likely to be more than 120 days, there is an identical dollar adjustment made to all sales comparables.

In the current market that much of the country is experiencing where marketing times often are well in excess of 120 days, forecasting often is applied, with reductions of 5 to 10 percent—sometimes even more. Forecasting is the process of analyzing historical trends and current market factors as a basis for anticipating marketing trends. A forecasting adjustment is applied to reflect any effect these trends will have on the subject property's marketing time and sales price.

Even though the appraiser has correctly applied forecasting into the Worldwide ERC® Summary Appraisal Report and may have otherwise done a phenomenal appraisal

report, when there is a conflict in the information the appraiser provides, such as the definition of value, his or her credibility is at great risk. As forecasting is not an element of market value yet still applied, the whole process becomes suspect to the transferee.

Here Comes Trouble

When an appraiser attaches a "Statement of Limiting Conditions and Appraisers Certifications" to a Worldwide ERC® Summary Appraisal Report that includes a definition of market value, this can confuse the reader of the report. What are you conveying to the reader?

Many times, the transferee has an opportunity to review and provide commentary for appeal. When a basic error is made, this provides the transferees—particularly those who are more knowledgeable—a means to appeal and object to the process. The credibility to the entire process and specifically to the appraiser that performs the assignment is at risk.

In reference to the definition of value required in every appraisal report, appraisers should understand and be aware of client requirements. In many requests, relocation clients provide a request for a marketing time of 90 days or less, or 90 to 120 days. Others want 180 days while some altogether remove the requirement for a specific marketing period.

When the client orders a Worldwide ERC® Summary Appraisal Report and the marketing period requested differs from that normally required for the anticipated sales price, the appraiser must provide an amended definition to avoid providing a misleading appraisal report. The appraiser should offer a revised definition of value, or at least explain exactly what is being amended and make it clear so that the reader of the report will understand what has been done. It is not enough for the information simply to be in the work file when the report itself has the wrong definition offered without an explanation.

For those appraisers who conduct other types of appraisals than the Worldwide ERC® Summary Appraisal Report (and that likely would be most appraisers), this can be applied to mortgage appraisals and other types of appraisals, as well.

In today's market, there is high demand for "liquidation appraisals." If a client requests a liquidation appraisal, did he or she offer a definition of what he or she meant? Normally, in a liquidation appraisal, a client asks for a marketing period that is drastically less than normal, often far less than 120 days. The definition of value for a liquidation appraisal typically is neither market value nor anticipated sales price; hence the appraiser must include the definition of value in the particular assignment in question.

When a homeowner, real estate agent, attorney, or other party requests an appraisal, you must ask what the intended use is of the appraisal. The client may not want to know market value as typically defined for mortgage use, but for a specified period of time, which may be short. When the definition of value in the "Statement of Limiting Conditions and Appraisers Certifications" offers a definition, you must amend it. If there is no definition at all, you must provide one.

Read What You Sign

In addition to the difference in the definition of value, the newer appraisal report from March 2005—normally used for mortgage purposes—contains language specific for use with mortgage lending. That is one more source of confusion to the reader of the report if used for the Worldwide ERC® Summary Appraisal Report.

The Worldwide ERC® guidelines are different than those for mortgage lending, including the requirement to "not accept an appraisal assignment if there is a conflict of interest" such as if the appraiser has "recently appraised the house for another party... without informing the client and obtaining the client's prior consent." Other reports do not contain such language and USPAP does not prohibit appraising the same property for another client.

What is the moral of the story here? Read what you are signing. Simply doing a good job and having the "right answer" is not enough. Not only should you read what you are attesting you are in compliance with, but you also must be cognizant of the current version of USPAP and the Worldwide ERC® Relocation Appraisal Guide.

While becoming certified with Worldwide ERC®, receiving the CRP® designation, and taking your USPAP update certainly are all positive steps toward the goals of compliance and competence, it may not be nearly enough. I cannot recommend strongly enough keeping both the Worldwide ERC® Relocation Appraisal Guide and the current edition of USPAP near your desk as reference tools. Both should be read cover to cover at least annually.

In an effort to make USPAP accessible to anyone who has Internet connectivity, the Appraisal Foundation provides free access to the current full version of USPAP on its website. There is no viable excuse for not reading it; the commonplace mistakes many are making show why study is necessary. While USPAP says, "Competency does not require perfection," we should still be striving for it. To not do so gives the intended user and/or the unintended user the ability to pick apart your credibility and question whether or not you have provided a misleading appraisal report.

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