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Setting the Standard for Public Trust: the 2004 USPAP and the 2003 Complete Appraisal Summary Report from Worldwide ERC®

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The Uniform Standards of Appraisal Practice (USPAP) are intended to help create uniformity in appraising practices and forms, provide for training for appraisers, and increase trust and confidence of appraising in the public eye. Martin discusses USPAP in general, appraisal training, and the ERC® Complete Appraisal Summary Report.

By Donald J. Martin, SCRIP, RAA, GAA

Until the creation of the Uniform Standards of Appraisal Practice (USPAP), appraisers were being led in different directions by different professional organizations, societies, clients, and government agencies. In many cases, these different entities were leading in much the same direction; but occasionally, they were leading in opposing and conflicting directions. In other areas, there were no requirements that appraisers were required to adhere to, and the vast majority of appraisers were not educated or tested on the standards.

USPAP provided each of these entities an opportunity to provide input. Today, as USPAP continues to evolve, public, private, and government entities and individuals are welcome to provide comments toward proposed changes and existing standards each year.

The savings and loan bailout of the 1980s, and the contribution of some inadequacies found in appraisals, contributed to the underlying problems of some failed thrift institutions. With the creation of USPAP, nearly all appraisers and users of appraisal services had a single source of reference from which appraisal services could be determined to be in compliance. Without having this single source as the underlying standard for all appraisers in federally-related transactions, there would be much disarray and confusion.

There are still some differences between states and requirements established by the "Supplemental Standards Rule" (see page 15 USPAP 2004 or www.appraisalfoundation.org/html/USPAP2004/supplemental.htm). By using the Supplemental Standards rule in USPAP, government agencies, government sponsored enterprises, and other entities that establish public policy are able to publish requirements that can add or augment USPAP, but cannot diminish the purpose, intent, or content thereof. The Supplemental Standards rule enables different entities to require appraisers to add information that may be unique to the purpose of the appraisal, or may be unique to different markets.

The Beginning

Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 provided the recognition for widespread public acceptance of USPAP. Federal financial institutions and regulatory agencies were authorized by Congress to reference USPAP in their regulations. The Appraisal Subcommittee (as authorized by Congress) of the Federal Financial Institutions Examination Council has the authority to ensure that the states and the Appraisal Foundation meet the requirements that the states use certifying appraisers and the standards of professional practice to which appraisers are held by the states (the USPAP).

From 1989 through the early 1990s, USPAP was adopted by the Executive Branch, the Office of Management and Budget, and other federal agencies. At the same time, large private organizations including FNMA, Freddie Mac, Farmer Mac, and Worldwide ERC® referred to USPAP. The policies of these organizations were integrated to adopt standards reflective of USPAP.

Uniformity and Trust

Each year since its inception, USPAP has continued to evolve as a living document. It is important to recognize that among the main objectives of USPAP was a commitment to foster greater trust and confidence in professional appraisal practices.

Keeping this in mind, it helps underscore the need to understand and comply with USPAP. With a better understanding of USPAP and a consistent application by appraisal practitioners, appraisers and users of appraisal services can obtain greater trust and confidence.

Through continuing education and the conveyance of those skills obtained through education, appraisers will be, and are becoming, better skilled as a group to convey uniformity. While prior to 2003, a USPAP examination and continuing education by all licensed or certified appraisers was required, there were still major gaps in its understanding. Other than requiring instructors to teach the same edition of USPAP, there was no consistent means of educating instructors in formalized USPAP training, and each educational group that taught USPAP was allowed to do so without having specific training mandated.

As of January 1, 2003, all education for USPAP was required to be taught by an AQB (Appraiser Qualifications Board) Certified USPAP instructor. This was a major step in an effort to ensure a more consistent understanding of USPAP. As of June 15, 2004, there were 478 appraisers in the United States approved to teach USPAP to roughly 95,000 appraisers in the United States. All of the appraisers that applied to become AQB Certified USPAP instructors are required to have a minimum of seven years experience as a real estate appraiser, have taught at least 35 hours of approved appraisal instruction in the past five years, and be in good standing professionally for the last five years.

Because of the complexity and ongoing changes of USPAP, approved AQB USPAP instructors are required to undergo additional training for certification every two years. In turn, these instructors will be able to convey their training to the appraisers who must complete seven hours of continuing education every two years by an AQB Certified USPAP instructor.

Appraisal Reports

Among the complex issues are the different types of "labels" used for appraisal reports. The 2003 Worldwide ERC® Appraisal Report is labeled as a "Complete Appraisal Summary Report." This labeling is often misunderstood by many appraisers because of the complexity of the definition of what constitutes a "Complete Appraisal" as compared to a "Limited Appraisal," and what constitutes a "Summary Report" as compared to a "Restricted Report." Many appraisers feel that because the ERC® appraisal report does not require a "Highest and Best Use Analysis, Cost Approach, or Income Approach," as required on other appraisal report forms, that there is a departure from USPAP that occurs. If a departure from USPAP occurs, then the appraisal becomes "Limited."

Although the preparation of the ERC® appraisal report requires that the appraiser not complete a cost approach, an income approach, or a highest and best use analysis, USPAP tells us that an appraisal is a "Complete Appraisal" when its use in an assignment is not both "*applicable and necessary.*" The "*elimination of an approach to value constitutes departure only when that approach is typically used in developing the value opinion,*" as is the case in most ERC® appraisals. Departure, therefore, is *not* invoked in an ERC® appraisal report, because it is typical practice not to do a highest and best use analysis, cost approach, or income approach, and is not necessary in order to render a credible opinion of value as defined within the report. At the present time, FNMA is in the process of producing new appraisal forms including the 1004/URAR that was "pre-released" in May 2004 for comment and testing. The new 1004/URAR form does not require a cost or an income approach and, for the same reason as the ERC® appraisal form, the new 1004/URAR form is a "Complete Appraisal."

According to USPAP, typical practice for a given assignment is measured by:

- ⌘ the expectations of the participants in the market for appraisal services; and
- ⌘ what an appraiser's peers' actions would be in performing the same or a similar assignment.

Among the requirements for a "Summary" report, the appraiser per USPAP 2004 must do the following:

- ⌘ "summarize information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;"
- ⌘ "summarize sufficient information to disclose to the client and any intended users of the appraisal the scope of work used to develop the appraisal;" and
- ⌘ "summarize the information analyzed, the appraisal procedures followed, and the reasoning that supports the analyses, opinions, and conclusions."

The key word is "summarize," rather than explain and describe in sufficient detail, as would be required in the "self-contained" report or simply stated in the restricted report. While there are other requirements of each of these three styles of reporting, it is because of the summarization above that particularly differentiates the Summary

report.

Correct Terminology

Adding to the confusion is the interchanging of "Anticipated Sales Price" versus market value and fair market value that do not apply when performing the 2003 ERC® Summary Appraisal Report. Because the definition of "Anticipated Sales Price" is different, these terms should not be interchanged and, more important, the transferee should not be led to believe that the ERC® Summary Appraisal Report is used to determine the "market value" when, in fact, it does not. Among several important concepts is the inclusion of chattel or personal property in the "anticipated sales price," and its exclusion in the "market value," because personal property is not real estate and the market value normally only includes real estate. Another difference is that the required marketing times not exceed 120 days and that forecasting be used if appropriate; neither of which are used in "market value" but are used in the "anticipated sales price."

Some appraisers and users of appraisal services have complained that the labels and definitions have little, if any, meaning in actual practice. Appraisers and users of appraisal services need to continue to be aware of these differences and use them accordingly as required by USPAP and by their license agreement in their respective states. To eliminate the labeling and definitions altogether would breed chaos. By the use of these labels and definitions in USPAP, these labels and definitions help to provide a basis by which nearly all appraisers and appraisal services can be judged to be adequate or inadequate. This type of labeling in part enables the user of the report to reference USPAP and better understand how the report must comply. Those who feel they have a better way are invited to provide comment to the Appraisal Standards Board and those comments may better shape standards as USPAP and the ERC® Summary Appraisal Report continue to evolve.

The current ERC® appraisal form reflects the current interpretation by ERC® members to reflect changes as they have occurred within USPAP. As USPAP and the needs of the relocation industry continue to change and evolve, so, too, can it be expected that the ERC® appraisal form will continue to evolve. When the ERC® form was first created in 1985, a significant portion of the form mirrored the 1004/URAR form at the time, and after a half dozen revisions of the ERC® appraisal form, it still does.

The new FNMA 1004/URAR has received the largest revision in more than 20 years. Similar to the ERC® appraisal form, the new 1004/URAR form has had the cost and income approaches eliminated, but unlike the ERC® appraisal form, the description of the subject property is relatively vague at best and the physical property description is treated as a non-issue. Most appraisers are viewing this particular change with a minimal property description on the new 1004/URAR form as a recipe for disaster. The new FNMA 1004/URAR form as proposed includes a requirement to add the grantor (seller) and grantee (buyer) in the sales history of each comparable for three years and the subject property for three years.

Over the past years, the ERC® appraisal form and the URAR form have been diverging. As to whether the ERC® appraisal will mirror some or all of these new changes, or continue to diverge, remains to be seen. The ERC® appraisal form is the premier form of all standardized forms currently available for appraising single-family homes in that the description of the subject property and analysis of the market significantly exceeds that of the URAR appraisal form.

One thing that seems to be certain with USPAP and the forms appraisers use is that they will continue to change. If the past 20 years or so have been an example, change will continue to come at a faster rate. It is incumbent on both appraisers and users of appraisal services to understand these changes as they occur to better represent the transferee and the public. By being in tune with the changes of USPAP and revisions of the ERC® appraisal form, one of the main objectives of USPAP can be obtained, which is a commitment to foster greater trust and confidence in professional appraisal practice.

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