

CRN Presentation – Review



Collateral Risk Network

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In The Beginning – FIRREA, Title XI



1989- Appraisal Requirements

Subchapter 1110. Functions Relating to Appraisal Standards....

(1) be performed in accordance with USPAP

2010- Appraisal Review Requirements

(3) “that such appraisals shall be subject to appropriate review for compliance with USPAP.” *

* Dodd-Frank, Sec 1473 (e) Appraisal Reviews and Complex Appraisals, amending FIRREA Sec. 1110 (C)(3)

2010 Interagency Appraisal & Evaluation Guidelines



I. Section IV, Appraisal & Evaluation Program

1. Provide for Independence of the persons ordering, performing and **reviewing** appraisals or evaluations.
3. Ensure that appraisals comply with the Agencies appraisal regulations and are consistent with supervisory guidance.
4. Ensure that appraisals and evaluations contain sufficient information to support the credit decision

2010 Interagency Appraisal & Evaluation Guidelines



5. Provide for the receipt and **review** of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
6. Implement internal controls that promote compliance with these program standards, including those related to **monitoring third party arrangements.**

2010 Interagency Appraisal & Evaluation Guidelines



Title XVI, Third Party Arrangements

1 An Institution that engages a third party to perform certain collateral valuation functions on its behalf is responsible for understanding and managing the risks associated with the arrangements.

2 An Institution should have internal controls for identify, monitoring, and managing the risks associated with using a third party arrangement for valuation services, including compliance, legal, reputational, and operational risks.

2010 Interagency Appraisal & Evaluation Guidelines



Title XVI, Third Party Arrangements

3 Consistent with Safe and Sound Practices, an institution should have a written contract that clearly defines the expectations and obligations of both the financial institution and the third party, including that the third party will perform its services in compliance with the Agencies' appraisal regulations and consistent with supervisory guidance.

2010 Interagency Appraisal & Evaluation Guidelines



II. Section VIII, Minimum Appraisal Standards

1. Several references to USPAP, including

a. Be written

b. Contain sufficient information and analysis to support the institution's decision to engage in the transaction.

2010 Interagency Appraisal & Evaluation Guidelines



II. Section VIII, Minimum Appraisal Standards

1. Several references to USPAP, including

- c. Be cautious in limiting the scope of work of the appraiser's inspection, research, or other information used to determine the property's condition and relevant market factors, which could affect the credibility of the appraisal.**

2010 Interagency Appraisal & Evaluation Guidelines



Section XV, Reviewing Appraisals and Evaluations

1. As part of the credit approval process and prior to a final credit decision, an institution should **review** appraisals and evaluations to ensure that they comply with the Agencies' appraisal regulations and are consistent with supervisory guidance and its own internal policies.

2010 Interagency Appraisal & Evaluation Guidelines



2. Reviewer Qualifications

- b. Reviewers should be capable of assessing whether the appraisal or evaluation contains sufficient information and analysis to support the institution's decision to engage in the transaction.

2010 Interagency Appraisal & Evaluation Guidelines



3. **Depth of Review**

a. **Risk-Focused Approach**

- a. Differentiate between **high and low risk transactions** so that the **review is commensurate with the risk**
- b. Depth of review should be sufficient to **ensure the methods, assumptions, data sources, and conclusions are reasonable, well-supported, and appropriate for the transaction, property and market.**

Appraisal Subcommittee (ASC)



Policy Statement Revisions 6/1/2013

“Review” is referenced in Policy Statement 1

**Policy Statement 1 - Statutes, Regulations,
Policies and Procedures Governing State
Programs**

F. Appraisal Standards – (References Title XI)

“and be subject to appropriate review for compliance with USPAP.

Appraisal Subcommittee (ASC)



Clarification As To What Constitutes An Appraisal

Financial Institutions Appraisal Regulations define Appraisal and further state....

“An appraiser performing an appraisal review which includes the reviewer providing his or her own opinion of value constitutes an appraisal.”

“Under these same regulations an appraisal review that does not include the reviewer providing his or her own opinion of value does not constitute an appraisal.”

USPAP Advisory Opinion 20



AO-20, A Review Assignment That Does Not Include the Reviewer's Own Opinion of Value.

2012-2013 USPAP Page A-58 -

Illustrations of the Language in an Appraisal Review Report **WITHOUT** an Opinion of Value.

“ The following are examples of language that might be used in an appraisal review report that does not express an opinion of value and thus **does not constitute evidence of an appraisal by the reviewer.**”

USPAP Advisory Opinion 20



- “the value opinion stated in the appraisal report is (or is not) adequately supported”
- “the value conclusion is (or is not) appropriate and reasonable given the data and analyses presented”
- “the value opinion stated in the report under review was (or was not) developed in compliance with applicable standards and requirements”
- “the content, analyses, and conclusions stated in the report under review are (or are not) in compliance with applicable standards and requirements”

USPAP Advisory Opinion 20



- “I reject the value conclusion as lacking credibility due to the errors and/or inconsistencies found”
- “the value conclusion is not appropriate due to (for example) a significant math error in the Sales
- Comparison Approach—if calculated properly, the value conclusion would change to \$XXX;
- however, the reader is cautioned that this solely represents a recalculation and not a different
- opinion of value by the reviewer”
- “I accept (or approve) the appraisal report for use by XYZ bank (or agency).”

USPAP



Standard 3

Developing a credible Opinion of the quality of another appraiser's work that was formed as part of an

- Appraisal
- Appraisal Review
- Real Property Appraisal Consulting Assignment *

* Standards 4 & 5 Retiring 1/1/2014

USPAP



Standard 3

Also addresses the content and level of information required in a report that communicates the results of an appraisal review assignment. *

Reviewer – Refers to an appraiser performing an appraisal review. *

* 2012-2013 USPAP page U-31

USPAP



Standards Rule 3-3

Reviewer Must Develop an Opinion as to Whether:

- The analyses are appropriate;
- The opinions and conclusions are credible;
- The report is appropriate and not misleading.

Unless the scope of the assignment includes the reviewer developing his or her own opinion of value, there is no reference to value in a Standard 3 review.

USPAP



Standard 3

When the scope of work does include the reviewer developing his or her own opinion of value, the reviewer must comply with the Standard applicable to the development of that opinion.

SR 1, 6, 7 & 9 - Product of an Appraisal

SR 3 – Product of an Appraisal Review

**SR 4 – Product of an Appraisal Consulting
Assignment.**

USPAP



Standard 3

The above requirements apply whether the reviewer's own opinion:

Concurs with the opinions and conclusions

Or

Differs from the opinions and conclusions

USPAP



Standard 3 – Competency

SR3-1(a)

Reviewer must have the

- **Knowledge and**
- **Experience**

Necessary to identify and perform the scope of work necessary to produce credible assignment results.

USPAP



Standard 3 – Competency

SR3-1(a) Comment:

Reviewer must have the

- **Knowledge and**
- **Experience**

Necessary to

- **identify and**
- **perform**

the scope of work necessary to produce credible assignment results.

USPAP



Standard 3 – Competency

SR3-1(a) Comment:

Aspects of competency may include without limitation,

- **Familiarity with the specific type of property or asset**
- **Market**
- **Geographic Area**
- **Analytic Method**
- **Applicable Law, Regulations and Guidelines.**

Review Deficiencies



The following observations were provided by our esteemed CRN member Calvin Moye.

Scope:

Deficiencies are noted in some Commercial banks (\$550 million to \$4 billion)

- **Review process does not include scope of the review or provide conclusions**
- **A series of questions(particularly subjective) with yes/no answers is not sufficient to determine the scope of the review.**

Review Deficiencies



A review should include at least 4 things:

- 1. Does it “substantially comply with USPAP?”**
 - 1. Compliance with USPAP has nothing to do with the value.**
- 2. Does the report “substantially” comply with the regulator’s guidelines and regulations?**
- 3. Does the information and procedures in the report appear valid?**
- 4. Does the final value make sense?**

Review Deficiencies



Making judgments about the size of adjustments and the appropriateness of comparables (or capitalization rates) is not prudent appraisal review practice – unless the reviewer has firsthand knowledge that is comparable to, or superior to the appraiser.

Perhaps education should include covering the need for reasoning instead of checklist completion.

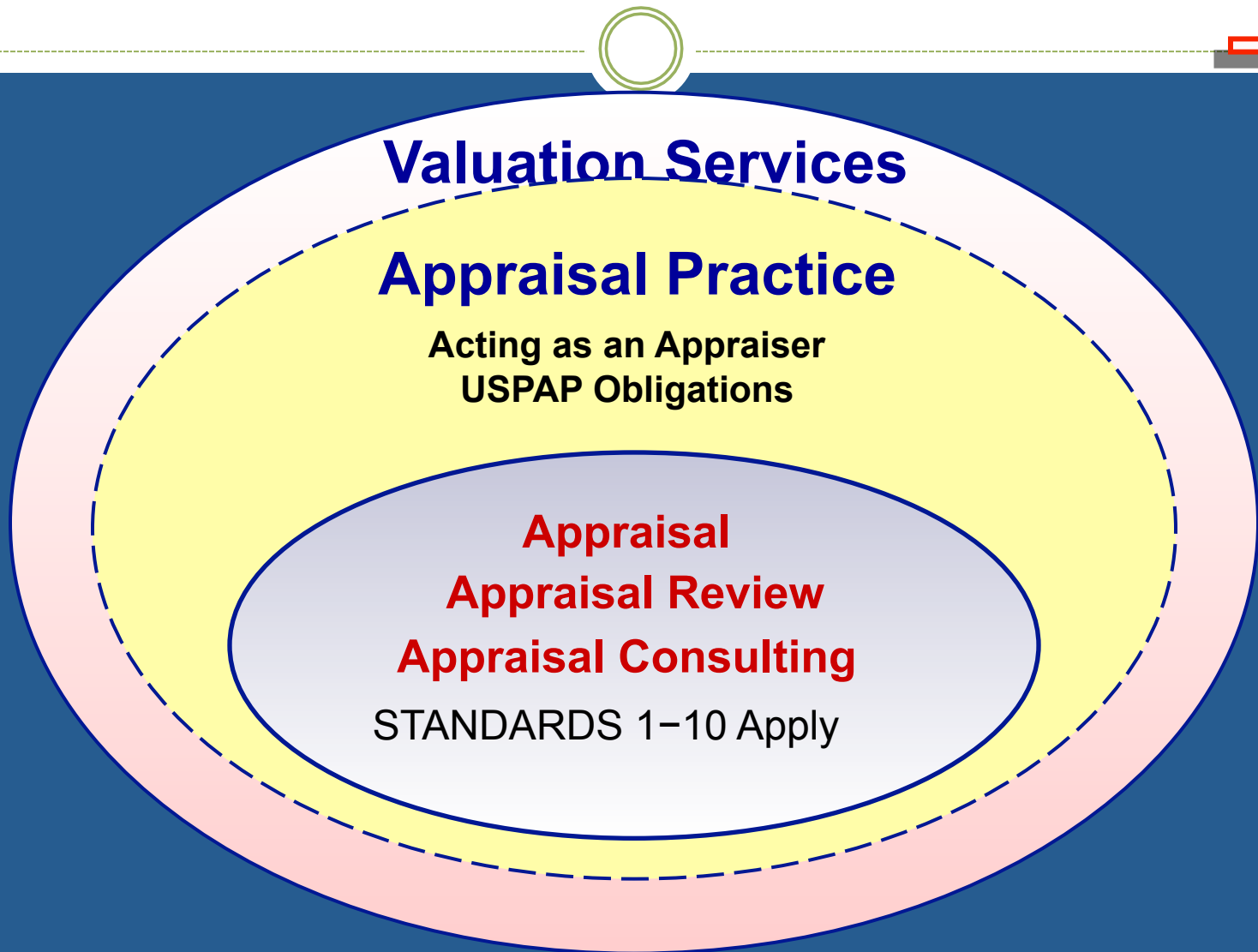
USPAP Applies - But Not Standard 3



Appraisal Practice but not Standard 3 Review

- Assignment to “review” a BPO
- Completed by a licensed or certified appraiser:
- Falls within Appraisal Practice

Appraisal Practice and USPAP



Appraisal Practice and USPAP



**2012-2013 USPAP, FAQ 293, Page F-144
Provides excellent guidance.**

- **Assignment is not part of an appraisal review**
- **Because acting as an appraiser, these apply:**
- **Definitions**
- **The Preamble**
- **Ethics Rule**
- **Competency Rule**
- **Jurisdictional Exception Rule**

Appraisal Practice and USPAP



John Brennan 6/10 response to Joan's inquiry:

Yes, an appraiser can review a BPO. However, it would not be an *appraisal review* assignment and as such, would not require compliance with STANDARD 3.

But the appraiser would still have to comply with the other applicable sections of USPAP (noted in the last paragraph of the FAQ).

Appraisal Practice and USPAP



Scope of Work Recommendations

First we examine what the assignment IS and IS NOT
NOT:

- NOT a review assignment

IS:

- An assignment within Appraisal Practice
 - Compliance with Ethics Rule, Competency Rule,
 - Scope of Work Rule, Preamble

Appraisal Practice and USPAP



Scope of Work Recommendations

Analyzing a Broker Price Opinion (BPO)

- **Typically contains data elements, no analysis**
 - **State factual observations regarding data**
 - **Observations re:**
 - **Selection of Sales and Listing Data**
 - **Similarity of Data to Subject Property**
 - **Distance to Subject Property**
 - **Recent Nature of Data**

Appraisal Practice and USPAP



Scope of Work Recommendations

Analyzing a Broker Price Opinion (BPO)

- Correlate Data to Price Opinion / Value Opinion
- Confirm state regulations relating to BPOs
 - Allowed by Statute?
 - Prohibited for anything other than Listing/Sale Transaction ?

Appraisal Practice and USPAP



Scope of Work

- Does it include Appraiser Developing His / Her Own Opinion of Value:
- Must be developed in compliance with Standard 1
- Must be communicated in compliance with Standard 2

Advice:

Be very careful what is being asked of the appraiser in completing these requests especially developing a point value or range.

The End

