



Appraisal Institute®

Professionals Providing Real Estate Solutions



How to Conduct Valuation/Appraisal in the U.S.

August 21, 2015

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2015 Appraisal Institute President



What does the Appraisal Institute Do?

- Headquartered in Chicago
- World's leading organization of professional real estate appraisers
- Predecessor organized in 1932
- Fostering and promoting highest standards of practice

Appraisal Institute's Mission

- To advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide

Designations

- MAI
- SRA
- AI-GRS
- AI-RRS



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What is the Role of the Appraiser?

Principles of an Appraiser

- Impartial and unbiased
- Required to be independent, objective
- Loss of license or civil/criminal penalties

Independence

- Control over process
- Independence founding principle
- Do not advocate for any party

Strategic Initiatives

- AI Board of Directors approved 3 major strategic initiatives
 - Standards of Valuation Practice
 - Expanded delivery of AI education
 - New certification organization – International Center for Valuation Certification

AI Standards of Valuation Practice

- AI Board of Directors adopted the Standards of Valuation Practice in August 2014
- Collected comments on three exposure drafts of SVP prior to adoption
- Could serve as alternative when current national or other standards not required
- Would not supplant USPAP or other standards



Appraisal Institute International Efforts

What Is AI's Global Presence?

- Nearly 60 countries on 6 continents
- Bilateral agreements
- Meeting attendance
- International Board member

What are AI's Global Education Efforts?

- AI textbook
- Master's degree program
- International education

Professional Ethics and Standards

AI Code of Professional Ethics & Standards of Professional Appraisal Practice

- Unbiased opinions of value
- Code of Professional Ethics
- Standards of Professional Appraisal Practice
- Guide Notes

Standards of Valuation Practice (SVP) – SVP A and A-1

- SVP Standard A – An appraisal must be credible
- SVP Standard A-1 - Competency
- Methods and techniques
- Error of omission
- Series of errors

SVP A-2: Problem Identification

- SVP Standard A-2
- Problem Identification
- Intended users
- Intended use
- Type and definition of value
- Effective date
- Subject property
- Special assumptions
- Conditions

SVP A-3 Scope of Work and A-4 Application of Methodology

- SVP Standard A-3
- Scope of Work
- SVP Standard A-4
- Application of Methodology

SVP B Credibility of review appraisals and B-1 Competency

- SVP Standard B – A review must be credible
- SVP Standard B-1 Competency

SVP B-2: Problem Identification

- SVP Standard B-2
- Competency
- Client and intended users
- Intended use
- Review objective
- Work under review
- Special assumptions
- Conditions

SVP B-3 Scope of Work, SVP B-4 Application of Methodology

- SVP Standard B-3
- Scope of Work
- SVP Standard B-4
- Application of Methodology

SVP C- Reporting - Appraisal and Review Reports and C-1

- SVP Standard C – A Report must be clear and not misleading
- SVP Standard C-1 Not misleading in context of intended use

SVP C-2 and SVP C-2(a) Appraisal Report Content

- SVP Standard C-2 – sufficient information
- SVP Standard C-2(a)
- Signed certification statement
- Present or prospective interest
- Appraisal assistance
- Client identity
- Identity of intended users
- Report's intended user

SVP C-2(a) cont.

- Subject property
- Property interest
- Type of value
- Effective date
- Report date

SVP C-2(a) cont.

- Scope of work
- Methods and techniques
- Assistance provided
- Opinions and conclusions
- Special assumptions

SV C-2(b) Review Report Content

- SVP C-2(b)
- Signed certification statement
- Present or prospective interest
- Review assistance
- Reviewer's client
- Intended users
- Intended use of report

SVP C-2(b) cont.

- Review objective
- Identity of the work
- Effective date
- Scope of work
- Opinion of value

SVP C-2b) cont. and C-2(c)

- Review assistance
- Special assumptions
- Opinions and conclusions
- SVP C-2 (c) - Oral reports

SVP C-3: Certification

- SVP Standard C-3
- Report statement
- Signed by valuer(s)

Uniform Standards of Professional Appraisal Practice

Purpose of USPAP

- Public trust
- Appraisal Standards Board
- Ethical and performance obligations

When USPAP Rules Apply

- Assignments
- Appraiser requirements
- Individual compliance
- Appraiser obligations

When USPAP Rules Apply

- Competent and impartial
- Ethics Rule
- Data and analysis
- Competency Rule and Jurisdictional Exception Rule
- Scope of Work Rule
- Opinions of other appraiser's work
- Component of a larger assignment



International Valuation Standards

IVS Overview

- Purpose of valuations
- Assignment procedures
- IVSC Standards Board

IVS Specifics

- IVS Framework
- IVS General Standards
- IVS Asset Standards

IVS Valuation Applications

- Common purposes for valuations
- Internationally applicable regulations
- Commonly accepted requirements
- Valuation procedures

U.S. Mortgage Crisis

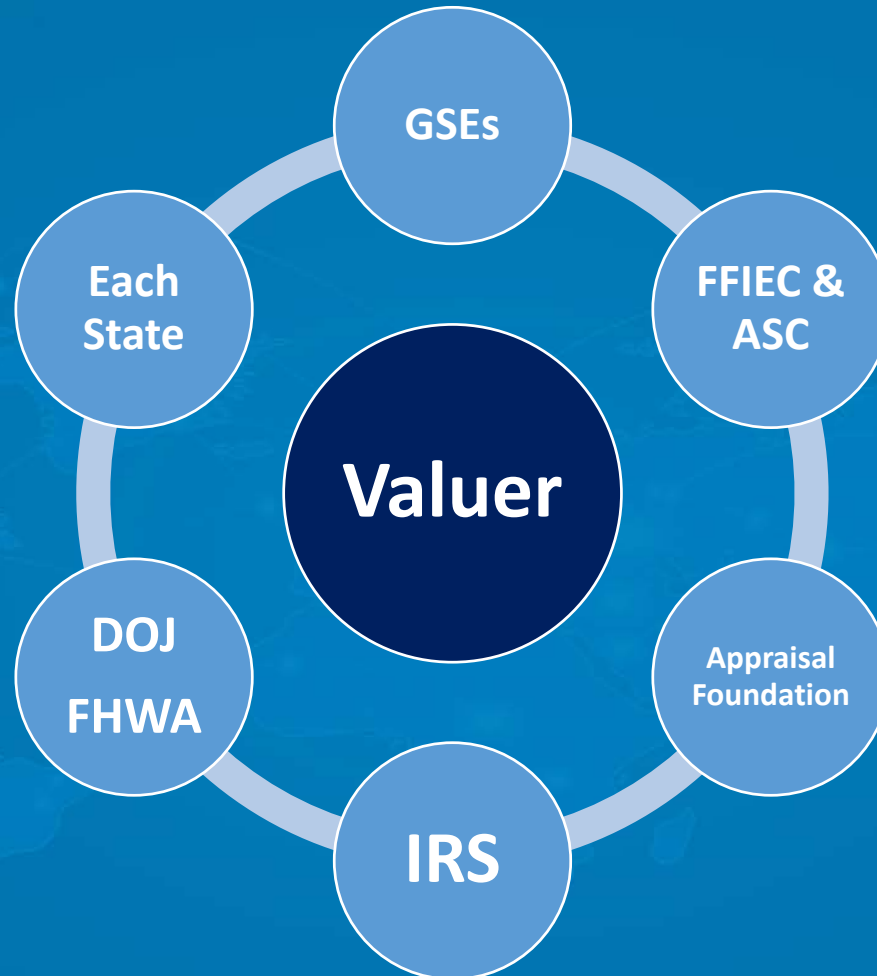
U.S. Bank Regulatory Structure

- Federal Reserve Bank
- Federal Deposit Insurance Corporation
- Department of Housing and Urban Development
- National Credit Union Administration
- Office of Housing and Urban Development
- Federal Housing Finance Agency
- Consumer Financial Protection Bureau
- Federal Financial Institutions Examinations Council

Government Sponsored Enterprises (GSEs)

- Federal National Mortgage Association (Fannie Mae)
- Federal Home Loan Mortgage Corporation (Freddie Mac) (1970)
- Others

Appraisal Regulatory Compliance



The Rise of Appraisal Management Companies



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- Appraisal Management Companies:
- An intermediary between valuer and credit department
- Concept is to reduce pressure
- Cost Plus model
- Flat Fee model

Conflicts of Interest

- Residential Real Estate
 - Pressure from person hiring appraiser
 - Borrowers
 - Loan officers, mortgage brokers
 - Real estate brokers

Conflicts of Interest

- Commercial Real Estate:
 - Some similarities to residential
 - Lending institutions had appraisal departments
 - Typically were more “eyes” on project

Federal Regulations

- FIRREA
- Independence required
- Bank examinations expected
- Federal bank regulatory agencies staff cuts

Too Little, Too Late

- Guidelines issued too late
- Did not prevent conflicts of interest
- More guidelines added
- Damage done

Lawsuits

- National mortgage lender
- \$325 million fine
- Automated appraiser selection
- Fannie Mae/Freddie Mac
- No mortgage brokers ordered appraisals
- No steering to particular appraisers
- Loan sellers maintain independent appraisals

Reasons for Mortgage Crisis

- Faulty appraisals not cause of mortgage crisis
- Sloppy underwriting
- Packaging and selling of bad loans
- Flawed ratings



The Current U.S. Environment

The Bad News

- Fraud ongoing problem
- Some lessons have been learned, but many things remain the same
- Ex. Some mortgage brokers now own appraisal management companies
- Many highly qualified appraisers choose not to do mortgage appraisal work

The Good News

- U.S. Congress responded with generally positive reforms
- Appraisal coercion added to Truth in Lending Act
- Appraisal disclosure to consumers three days before closing of loan
- Requirements for customary and reasonable fees to appraisers
- Appraisal fraud less than 1 percent
- Appraiser fraud plummets



What Europe Can Learn From U.S.

Monitoring

- Monitor activities of lenders, as well as appraisers
- Enforce existing laws and requirements
- Promote professionalism and hiring competent appraisers

Paradox of Licensing

- On one hand, licensing brings everyone to a common bar
- On the other, that bar has a tendency to become a standard
- Promote your credentials and programs as the standard



Questions?



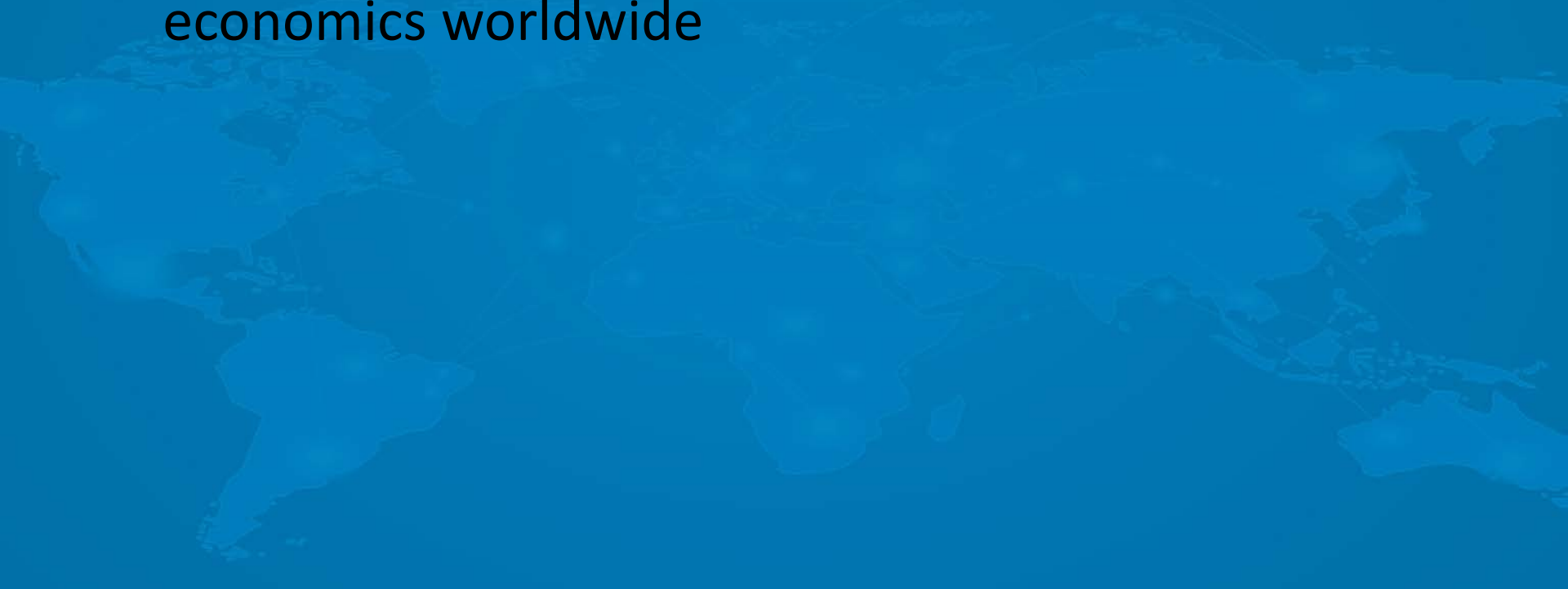
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