

# APPRAISING IN THE NEW MILLENNIUM

Due Diligence & Scope of Work

## THIRD EDITION



- *USPAP's Scope of Work Rule*
  - *Scope of Work Report Writing Case Studies*
  - *Lending & the SOW Rule*
- *Supplemental Appraisal Standards for Federally Regulated lenders*
  - *Scope of work and AVMS*

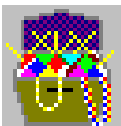
# APPRAISING IN THE NEW MILLENNIUM

## Due Diligence & Scope of Work

*THIRD EDITION (effective 1/1/08)*

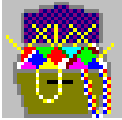
This is a living document changing with the rapid dissemination of information on the subject of *Scope of Work* put out by the Appraisal Standards Board, and articles on related appraisal methodology.

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*The computer program “USL Documenter II” is available in conjunction with this book. It guides and aides the appraiser in better documenting his/her report; including the scope of work reporting and disclosures.*



This book has been created by Automated Valuation Technologies, Inc. (AVT). The purpose of AVT is to fill the voids in appraisal practice that result from the rapidly changing appraisal environment.

Appraisers often find themselves engaged in new activities which, quite frankly, they are not prepared to deal with. This is both unfortunate and unacceptable. It is unfortunate because appraisers are not fully effective in carrying out their duties. It is unacceptable because it compromises the vital role appraisers perform in the safekeeping of their country's greatest wealth: real property.

***AVT operates under the belief that there is no substitute for the "Neighborhood Appraiser." Their knowledge of the local market is unique and cannot be duplicated by remote computer analysis. These local appraisers are hardworking and dependable. Without question, these gritty individuals will carry out their duties as long as they have the knowledge and equipment to do so.***

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## FOREWARD

### A PLACE IN TIME

In this new millennium appraisers find themselves not only in a new time, but in a new environment as well. This places new and different expectations on the real property appraiser. Appraisers are responsible for the ramifications their opinions and conclusions have on the consumers they serve. The value of the appraisal is becoming measurable so the cost of our services must be less than the benefits we provide. Here appraisers must evolve from form-fillers and template masters to problem solvers. The purpose of Due Diligence & Scope of Work, Third Edition is threefold: first, to identify and explain these new surroundings so that the appraiser can regain his/her bearings; second, to develop concepts and theories; and third, to provide a practical means of putting this knowledge to work in an appraisal practice. The first and second require knowing what to do; the third requires having the skills and tools to do it.

*The significant problems we face cannot be solved at the same level of thinking we were at when we created them.*

*-Albert Einstein*

Make no mistake about it, the profession has changed. Appraisal practice is more complicated, competitive, critical, and demanding than ever. The rate of change of services offered and methodologies in the appraisal industry has exceeded the rate of adaptation of most appraisers. As the users of the *traditional* Uniform Residential Appraisal Report (URAR) for mortgage lending continues to test alternatives collateral assessment products, many appraisers are providing new and different services without understanding what the users of appraisals, the Uniform Standards of Professional Appraisal Practice (USPAP), supplemental standards, or local laws expect of them. This practice of operating in the dark and hoping for the best is a state of chrysalis that places the appraisal profession, and appraisers, in a most vulnerable position.

The appraiser's growth and evolution in response to the changing environment is no longer optional. Appraisers must have the fortitude to transform their potential into competence and expertise. Much like a butterfly emerging from a cocoon, appraisers are discovering that not only have they emerged into a new environment, they themselves are quite different as well. They are finding that adaptation to change is becoming more natural. Preparing for the challenges ahead is just another part of their job. This was written for this new breed of appraiser. It provides some of the basic knowledge and tools that are necessary for the appraiser to perform his/her job professionally in the new millennium.

Be forewarned that much of the knowledge and tools required to succeed in this new environment do not yet exist in the appraisal "body of knowledge." This book is not a rehashing of old principles and ideas, but a presentation of several new concepts and tools resulting from an analysis of the new challenges and problems appraisers are facing. Over 30 definitions that are unique and specific to the understanding of this material are presented. These definitions and terms are prefaced with the infinity sign " $\infty$ " so that the reader can differentiate between them and the knowledge that currently exists. These new concepts and tools as presented are rudimentary and will need to be expanded and improved upon by the profession in the future.

## **ABOUT THE AUTHOR**

*David A. Braun, MAI, SRA*, has been an appraiser in the Greater Knoxville area, since 1976. He was born in St. Louis Missouri, and later moved to Knoxville, Tennessee. He is a 1976 graduate of the University of Tennessee with a Bachelor's of Science degree in business administration. David received the Appraisal Institute's SRA in 1980 and MAI in 1999. David has been appraising most types of properties since 1976. He is also a licensed real estate broker with sales and management experience.

David is President of Braun & Associates, Inc. He founded the company in 1983 in Maryville, Tennessee. Braun & Associates, Inc. is a medium-sized appraisal firm with 12 employees and handles most types of assignments and property types. He is also president and founder of Automated Valuation Technologies, Inc. (AVT). AVT produces unique appraisal seminars and software for the practicing appraiser.

David has had "how to" articles published in the Real Estate Valuation Magazine, The Working RE Magazine, and presented white papers on appraisal topics. He has twice served as President of his local Chapter of the Society of Real Estate Appraisers (now a part of the Appraisal Institute). He has served on the Appraisal Institute's Instructor Subcommittee at a National level. David is currently an approved Appraisal Institute Instructor and is certified by the Appraisal Foundation as a USPAP Instructor.

David has been a pioneer in developing and reporting the scope of work. He developed and taught the first scope of work seminar, and was the first to use a computer program to aid in the development and reporting of the scope of work. The program "USL Documenter II" is available in conjunction with this book. In an effort to share the knowledge he gained, he wrote the First and Second Editions of this book, which was published on the Internet and made available free of charge. David has made presentations to the Federal Financial Institutions Examination Council (FFIEC), and to the Association of Appraiser Regulatory Officials (AARO) on the topic of scope of work.

## **ACKNOWLEDGEMENTS**

This book is built on an accumulation of work accomplished and put forth by the appraisal profession. Thanks go to each person who has contributed to the improvement of the appraisal profession. Many have contributed by sacrificing their time, energy, and money. They may have served a professional organization at the local, regional, or national level. Some have accepted positions that offer monetary compensation, such as the Appraisal Standards Board, or State Appraisal Commissions. These positions never pay enough for the time lost with their families and businesses. Others may have shared their knowledge in the classroom, a book, or in an article. Some have contributed by the professional example they have set in their daily work. No matter how large or small their efforts, they collectively reverberate into a hum that can be felt, if not heard. This energy perpetuates itself into each new generation of appraisers. These people have provided the common appraiser not only with the means to make a good living, but also with the ability to contribute to their societies, thus inspiring a great feeling of accomplishment and self-worth. Significant improvement in the appraisal profession can be accomplished only by working together.

I wish to thank **Jack Bailey, MAI, SRA** for reviewing and editing this writing. Jack received a B.S. in Business Administration/Real Estate and Urban Development from the University of Tennessee. Jack has been appraising since 1984, and his practice has involved appraising a wide variety of commercial properties in numerous areas around the country. He has written and taught appraisal seminars for continuing education.

**Working RE Magazine** has been instrumental in advertising and distributing the First and Second Editions. Thanks to them thousands of “.pdf” copies of the First Edition were downloaded at no charge to the appraiser. Making the First Edition the most extensive and distributed material on the scope of work. There has been a charge for the Second Edition, and the Third Edition is the first to be distributed in a bound format.

**The Appraisers Research Foundation (TARF)** contributed to the funding of this project. Their commitment was based on the basic concept of the general content, but the final work has not been reviewed by TARF. While the Officers of TARF agree with the importance and timeliness of this subject matter, they do not necessarily agree with the viewpoints and contents of the material presented. I want to thank the officers of TARF (Sherwood Darlington, MAI, SRA- President; Tim Leberman, SRPA- Vice President; and Joseph Stanfield, MAI, SRA- Secretary) not only for funding this project, but for their support of other projects as well. Their continued support of individuals and their ideas is an important cog in the overall advancement of the profession. TARF offers support to appraisers who are researching or developing appraisal topics. Visit [www.appraiserresearch.org](http://www.appraiserresearch.org) for additional information about TARF.

## **INTRODUCTION**

Forming an opinion of the scope of work (SOW) is just one step of the “Appraisal Planning Process.” The information assembled in the Appraisal Planning Process is necessary to make the scope of work decision. In order to become proficient in making the scope of work decision, it is necessary to break this process into many individual steps. This leads to a “Which came first the chicken or the egg?” situation. The scope of work decision cannot be made without planning the entire appraisal, and the planning of the appraisal cannot be performed without making the scope of work decision. In order to present the material in a simple and understandable way, the whole process is segregated into individual steps. The subject of this book is the entire “Appraisal Planning Process.” The following chart illustrates the appraisal planning process:

### **PLANNING THE APPRAISAL**

**I. Diagnose the Problem**



**II. Develop a Solution**



**III. Assess the Due Diligence**

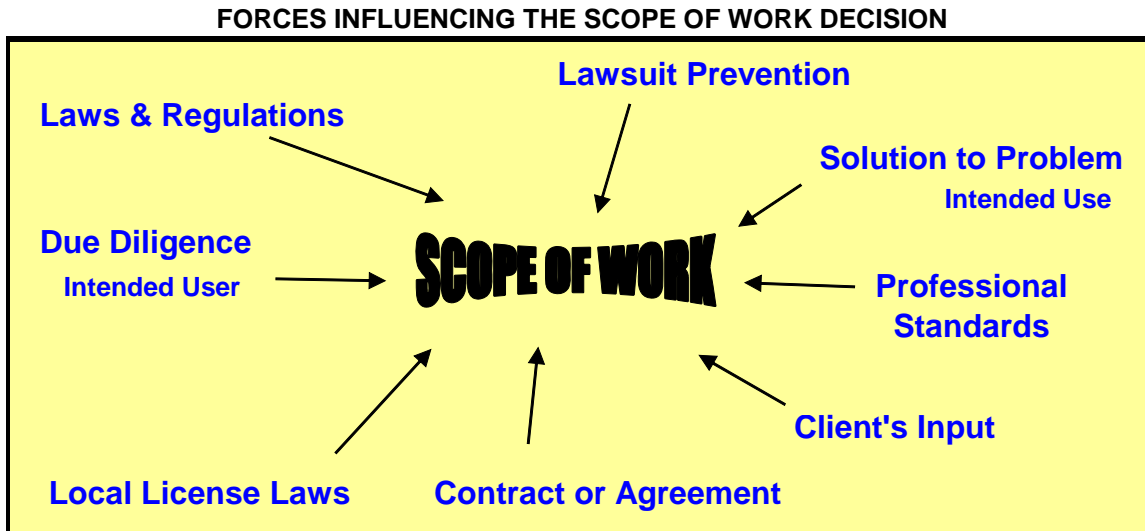


**IV. Form an Opinion of the SOW**



**V. Communicate the SOW**

It is important to understand that the scope of work is driven by several forces. A few of these are illustrated in the following chart:



Chapter 1 focuses on some of the events that have profoundly affected the appraisal business. The groundwork for *Planning the Appraisal* is laid by discussing three of the major driving forces of the scope of work. “Professional Appraisal Standards” are discussed in Chapter 2, “Civil Laws and Liability Management” are discussed in Chapter 3, and “Supplemental Standards and Agreements” are discussed in Chapter 4. The various Steps of the Appraisal Planning Process are covered in the following Chapters: Steps I and II are covered in Chapter 5, Step III is covered in Chapter 6, and Step IV is covered in Chapters 7 and 8. Step V is covered in Chapter 9. Chapter 10 covers many issues relevant to the lending community and the new Scope of Work Rule. Chapter 11 discussed why Automated Valuation Models should disclose their associated scope of work. Chapter 12 is a general conclusion to the book.

Six case studies are presented and used as practical examples throughout the book. The first four involve residential properties, and the second two involve commercial properties. They illustrate how to diagnose and develop a solution in Chapter 5, analyze due diligence in Chapter 6, illustrate the effect on varying the scope of work in Chapter 7, serve as practical examples of reporting the scope of work in Chapter 9, and presents information specific to lenders in Chapter 10.