



REVISIONS TO USPAP AND ADVISORY OPINIONS

The ASB formally adopted the 2006 USPAP on October 28, 2005 based on testimony presented at public meetings, responses to three Concept Papers, six Exposure Drafts and extensive deliberation by the ASB over a two-year period. The effective date of the 2006 USPAP is **July 1, 2006**.

KEY CHANGES IN USPAP AND ADVISORY OPINIONS

CONCEPTUAL CHANGE: USPAP now identifies a minimum set of standards that apply in all appraisal, appraisal review and appraisal consulting assignments. While this conceptual shift required significant revisions to USPAP, these revisions did not change the appraiser's obligations in the development process.

The importance of problem identification and the scope of work determination in the appraisal process are emphasized in the new SCOPE OF WORK RULE. The appropriate scope of work (type and extent of research and analyses) continues to be based on what is required to produce credible assignment results. The scope of work appropriate for a given assignment under the 2005 USPAP continues to be appropriate under the 2006 USPAP. The changes for 2006 do not permit a scope of work that was not appropriate under the 2005 USPAP. The requirement to report the scope of work takes on greater significance because intended users rely on this disclosure to understand the type and extent of research and analyses performed in the assignment, rather than relying on the simply (and potentially misleading) labels, Complete Appraisal and Limited Appraisal.

ITEMS REMOVED: The DEPARTURE RULE and associated defined terms (Complete Appraisal,

Limited Appraisal, Binding Requirement and Specific Requirement) were removed. Statement 7, *Permitted Departure from Specific Requirements in Real Property and Personal Property Appraisal Assignments*, and Advisory Opinion 15, *Using the DEPARTURE RULE in Developing a Limited Appraisal*, were retired. These actions were taken to resolve misunderstandings related to departure, enhance public trust in appraisal practice and improve USPAP clarity.

The scope of work decision drives the full range of activities in the development process. In contrast, the DEPARTURE RULE only applied to portions of the development process governed by Specific Requirements. Having two overlapping processes caused confusion.

Further, departure addressed only a single dimension of appraisal development (the **application** of a specific requirement) while scope of work addressed both the **application** and **extent** of development. For example, development of an approach may have been excluded by invoking

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departure, but the scope of work analysis addressed both the decision to develop an approach and the determination of the appropriate technique and what constitutes appropriate and sufficient data and analyses to support the conclusion.

In communicating assignment results, the emphasis of the DEPARTURE RULE on the use of associated labels (Complete Appraisal and Limited Appraisal) was potentially misleading and may have been insufficient for intended users to make informed decisions.

The DEPARTURE RULE requirement for client agreement “that the performance of a limited appraisal service would be appropriate” has been removed. The SCOPE OF WORK RULE acknowledges that appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work. Further, the Rule states that communication with the client is required to establish most of the information necessary for problem identification. Finally, the requirement to develop credible assignment results in the context of the intended use links the appropriate scope of work to the use or uses of the assignment results as identified by the client. Thus, the role of the client in shaping the full range of the appraiser’s scope of work decision is recognized, but the need for client approval of the narrow band of items addressed by the DEPARTURE RULE has been removed.

Advisory Opinion 8, *Market Value vs. Fair Value in Real Property Appraisals*, was retired. Since this Advisory Opinion was created and revised, the Financial Accounting Standards Board (FASB) has issued additional Statement of Financial Accounting Standards that requires use of the “fair value” type of value. Additionally, FASB has proposed clarification of its definition of fair value. For these reasons, the ASB retired AO-8 with the possibility of issuing a revision after FASB finalizes its Statement of Financial Accounting Standards addressing the definition of fair value.

For the full text of the ASB’s Summary of Actions, visit the Appraisal Foundation’s website at <http://www.appraisalfoundation.org/s appraisal/bi n.asp?CID=60&DID=747&DOC=FILE.PDF>.



THE APPRAISAL FOUNDATION IS MOVING!
PLEASE MAKE A NOTE OF THE NEW ADDRESS:
1155 15TH ST., N.W., SUITE 1111
WASHINGTON, DC 20005
THE PHONE & FAX NUMBERS REMAIN THE SAME AT (202)
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(202) 347-7727 (FAX)

TRAINEE TROUBLE: WHO'S TRAINING WHO?

*by David Brauner, Editor
Working RE Magazine*

While the villain in last issue’s story “Identity Theft-Appraiser Style” happens to be a trainee, employee dishonesty is not the only reason appraisers refuse to take on trainees. Veteran appraisers wanting to give back to the profession by mentoring also report that the system is getting in their way.

By now, issues that discourage mentors are familiar: employee dishonesty, training the competition, potential liability—fear of the unknown. The result is an alarming number of trainees who can not find a mentor and concern about the future of a profession that can't or won't train new blood.

Not discussed as often is another stumbling block that relates directly to the bottom line: mentors say they can not afford the time and resources required to train a newbie that is not able to be productive for many long months.

While the laws in each state are unique, many require mentors to accompany trainees on all assignments during the beginning stages of their field training (typically 2,000 hours). Most seasoned appraisers do not oppose the requirement, knowing better than anyone how green newly-minted trainees can be. But the financial burden the current system creates can be a deal breaker for even the most well-meaning mentors.

EXPERIENCE SCHOOLS

One solution, offered by appraiser Larry Christensen during public comments at an Appraiser Qualifications Board Meeting (AQB) earlier this year, is to enable schools to provide at least part of the required field training hours so graduates can hit the ground running when they join an appraisal firm

This would relieve some of the financial burden from mentors who want to follow the rules, and make it easier for trainees to find an office where they can complete their experience hours and really learn their trade. Many trainees, still wet behind the ears and faced with limited choices, unwittingly wind up at “appraisal mills” that have little or no concern for providing proper supervision and training. And most appraisers agree it’s hard to pick up good habits after the fact.

ALL IN FAVOR

An informal show of hands among state regulators present in the audience at the AQB meeting indicates that most would not be opposed to allowing

partial credit for field hours earned in an “experience school” setting, as long as the coursework passes muster.

Christensen said he enjoys training and is happy to give back, but today’s competitive marketplace does not allow him to spend time and money on a trainee who is not producing.

“We believe in paying our trainees a living wage,” Christensen said. “South Carolina is on a point system which works out to be about 75 appraisals during which time the trainee is not contributing to the business. So they are really being paid to learn instead of the other way around—we being paid to teach. It would work much better if trainees came to us qualified and ready to work.”

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MOLD: WHAT APPRAISERS SHOULD KNOW

by Michael V. Sanders, MAI, SRA

The following originally appeared in the Third Quarter 2005 issue of Valuation Insights & Perspectives. Copyright 2005. Appraisal Institute. All rights reserved.

Biological pollutants are often associated with poor indoor air quality and can include animal dander, dust mites, fungi, bacteria and pollen. Mold in particular has rapidly become a significant real estate issue, considered problematic because of possible structural deterioration and potential health impacts to building occupants. While the public’s awareness of mold has been heightened over the past decade as a result of landmark lawsuits and sensational media coverage, there is little evidence that mold is more prevalent now than in the past, with references to mold dating back to biblical times.

WHAT IS MOLD?

Molds are simple fungi (such as dry rot, mildew, yeasts, plant rusts, smuts and mushrooms), which require an organic food source high in cellulose and sufficient moisture to sustain growth. Unfortunately, organic matter containing cellulose is a component of many common building materials, including wood, drywall, insulation, ceiling tiles, carpet and textiles. Fungal growth is sometimes observed on nonorganic materials as well – ceramic tile, stone, grout, caulking and metal. Substrate degradation and metabolic by-products often produce characteristic musty odors associated with the growth of mold, sometimes resulting in

the production of compounds with toxic properties (mycotoxins).

In contrast to some other contaminants, molds are naturally found almost everywhere in the environment, both indoors and outdoors, thus identifying a mold “problem” is often difficult, requiring the services of a properly qualified and trained professional. Air sampling that compares indoor and outdoor types and concentrations of various mold species is common practice in determining the existence of an indoor air-quality problem. Hand-held moisture meters are often used to measure the moisture content of materials, and psychrometers to measure humidity; surface sampling of potentially contaminated areas is also common. Air and surface samples are typically sent to accredited laboratories for analysis, and reports identify the types and quantities of various fungal species found.

Mold growth on building materials most often occurs in conjunction with excessive and/or persistent moisture conditions, including flooding, high humidity, plumbing leaks or water intrusion through the building envelope. Inadequate ventilation is frequently a contributing factor. Mold is often blamed on defective construction and/or improper maintenance. Some observers also note that structures built since the energy crisis of the 1970s are more airtight, possibly contributing to mold, sick-building syndrome and other problems associated with indoor air quality. The appearance of mold can vary from small dots to continuous sheets of mold colonies; colors and textures can also vary widely. Conditions supporting mold growth sometime foster bacterial contamination as well, particularly from sewage leaks and spills.

GOVERNMENT’S ROLE

Laws governing disclosure of mold vary by state. The last federal legislation relating to mold safety, The United States Toxic Mold Safety and Protection Act (H.R. 1268), was introduced in early 2003, but never passed committee status. Attempts to define threshold limits or standards relating to mold exposure have generally been unsuccessful, with uniform standards considered impractical due to the broad range of fungal species, geographic differences, seasonal variations, varied human responses and lack of conclusive data regarding health impacts. Standard mold disclosures in real estate contracts are becoming common, as are mold exclusions or caps on coverage in insurance policies, with widespread litigation relating to water intrusion and mold claims.

Mold damage is similar to many other physical conditions requiring repair. Repair and restoration costs, however, are extremely project-dependent

and more difficult to generalize than many other conditions requiring repair. Contaminated materials must be either cleaned or replaced, and large remediation projects often involve specialized contractors, protective clothing and construction of elaborate containment systems to prevent migration of mold spores to other parts of the structure. Voluntary guidelines drafted by the federal government regarding indoor air quality contain suggested remediation standards for residential (<http://www.epa.gov/iaq/molds/moldguide.html>) and commercial and institutional (http://www.epa.gov/iaq/molds/mold_remediation.html) properties.

High-profile court cases and the attendant media coverage have unquestionably increased the awareness of mold issues by the public, consumer groups and the legal and scientific communities over the past decade. Perhaps most notable was a \$32 million award by a Texas jury in 2001 in *Ballard v. Fire Insurance Exchange*, a residential insurance case involving water damage and mold. On appeal, this was later reduced to \$4 million. Heightened reactions associated with such publicity, similar to responses associated with other potentially dangerous materials – asbestos, radon gas, formaldehyde insulation and lead-based paint – normally subside as additional information becomes known.

VALUATION ISSUES

Appraisers should exercise extreme caution in identifying surface staining or other irregularities as mold without an expert opinion, which normally requires specialized expertise and testing procedures. Appraisers should be particularly careful not to fall victim to some of the hype surrounding mold, for example, by identifying black stains as “toxic mold.” The term “toxic mold” was originated by the media, without scientific basis. *Stachybotrys chartarum* is a usually black mold sometimes referred to as “toxic mold,” though other mold species can have a similar appearance. Laboratory testing is required to definitively identify a mold species. Observed conditions should be noted, however, including prior moisture or water intrusion, dampness, staining or discoloration of surface materials and unusual odors. Such conditions do not necessarily indicate the presence of mold but may warrant further investigation.

From a valuation standpoint, mold contamination is properly analyzed within the context of the Detrimental Conditions (DC) Matrix, with consideration of impacts on cost, use and risk during the assessment, repair and ongoing stages of the DC lifecycle, according to Randall Bell, MAI, in his book *Real Estate Damages: An Analysis of Detrimental Conditions* (Appraisal Institute, 1999).

Identification and assessment of a mold problem and estimates relative to remediation and/or restoration costs are clearly outside the expertise of most appraisers, although loss-of-use claims may necessitate estimates of fair rental value or the value of comparable housing for a specified period of time.

Perhaps the most debated aspect of mold on property value is the impact of disclosing a current or prior mold problem. As with most conditions requiring repair, the buyer of a damaged property will normally ask the seller to make appropriate repairs, or will discount the price of a property based on the scope of estimated repairs. Project incentive may also be an issue, if supported by the market. Lenders may require mold remediation prior to loan closure or, alternatively, might withhold funds to cover estimated remediation costs. The ability to obtain insurance in the wake of a mold disclosure is a controversial issue, with unconfirmed reports that water-loss claims have been used as the basis for denial of coverage. Market resistance (stigma) is often cited in lawsuits alleging water damage and mold, though such allegations must be properly supported by relevant market data. Stigma damage is far from being automatic. Case studies have indicated that properties once affected by water damage and/or mold have subsequently sold at full value in a post-repair condition.

FURTHER READING

- U. S. Environmental Protection Agency, <http://www.epa.gov/iaq/molds/moldresources.html>
- Centers for Disease Control and Prevention, <http://www.cdc.gov/nceh/airpollution/mold/>
- Liability Insurance Administration's 2002 claim Alert on mold, http://www.liability.com/claim_alert.asp

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EXPERIENCE SUPERVISION REGULATIONS TO TAKE EFFECT JULY 1, 2007

Effective July 1, 2007, K.A.R. 117-2-2a, 117-3-2a, 117-4-2a and 117-5-2a will go into effect. These regulations deal exclusively with experience supervision for each of the four appraiser li-

cense/certification types available. Some of the requirements of K.A.R. 117-2-2a, 117-3-2a, 117-4-2a and 117-5-2a are:

- **ALL EXPERIENCE** submitted to meet the requirements of any license/certification must have been supervised;
- supervisor must be certified and in good standing;
- supervisor must have been certified for a minimum of two years;
- no more than three applicants may be supervised at one time; and
- supervisor must inspect a minimum of the first 25 properties and continue to inspect until satisfied applicant is competent.



Just a reminder that all appraisers originally licensed prior to July 1, 2005, will be required to meet the 14 hours of continuing education in order to renew their 2006 license/certification. For more information see page 12.

FRAUD OR INCOMPETENCE: YOU MAKE THE CALL

*by David Brauner, Editor
Working RE Magazine*

Fraud or incompetence? According to Larry Disney, Executive Director, Kentucky Real Estate Appraisers Board, that is a question that regulators across the nation are grappling with as they sort through the growing number of complaints against appraisers. The answers are not always clear cut.

When recent sales used as comps turn out to be "flips" with inflated values, for example. Changes reflected in the new Fannie forms are specifically geared to make "innocent mistakes" less likely and to hold appraisers more accountable (so be careful). Since most appraisers who bend the rules do so just to keep orders flowing (and not to get rich quick), one question Disney believes worth asking is: "Is this really worth my license?"

FRAUD/COMPLAINTS SOAR

"Based on my observations in the Kentucky office for appraiser regulation, and conversations with other state appraiser regulatory officials, it appears that complaint case filings are increasing in

mortgage lending appraisal assignments," Disney said. "The complaints typically are categorized into three areas, 1) ethics, 2) competency, and 3) negligence. Upon investigation we discovered in Kentucky that the problem areas are linked or attributed to 1) real property appraiser education course content, 2) deficiency in training by a supervising appraiser, and 3) pressure from clients to 'hit' a target value. Item three (3) appears to be the area with the highest frequency of complaints in the past three years," he said.

This is supported by the U.S. Department of Justice Federal Bureau of Investigation, Criminal Investigative Division publication titled "Financial Crimes Report to the Public," (May 2005). The report lists the number of mortgage fraud cases pending as 436 for 2003, 534 for 2004, and 642 through the second quarter of 2005. During the same period the numbers of mortgage fraud convictions and/or pretrial diversions listed 256 for 2003, 172 for 2004 and 95 through the second quarter of 2005.

Based on the information and the findings in cases before the Kentucky Board, Disney says it is apparent that the number of complaints originating from financial institutions and review appraisers has also been increasing steadily for the past three years. The interesting part of the complaint puzzle is the type of activity that is alleged and, in many cases, proven to have occurred, he said.

"In one case it was discovered a property was purchased for \$25,000. Within a very short time, without any repairs or modernizations, the same property allegedly sold for \$100,000 and appraised for \$90,000. There was no support for the value opinion and no support from the comparable properties in the market area of the subject property. The same lender and appraiser were involved in many similar occurrences—multiple, back-to-back transfers of the same property, each time at a significantly higher dollar amount," Disney said.

SCAM ALERT

According to Disney, appraisers should beware of the following scam, which is growing in popularity. A property is listed for sale. A buyer's agent contacts the seller's agent and informs him/her that the buyer will pay the list price but has no money for a down payment. The deal can work, they say, if the seller agrees to an unrecorded second mortgage or a seller-paid concession "outside" closing for the amount equaling the desired down payment. The selling agent is advised that the property must be withdrawn from the Multiple Listing Service at the lower price and re-listed immediately for a higher price to include the necessary

down payment. When questioned about this practice the selling agent is told, "Don't worry, we have a lender and an appraiser who understands what to do and we can make this happen."

According to Disney, this scenario happens all the time. "Appraisers and agents should be aware that the above act or any act of willful deceit to assist in obtaining a loan secured by a federally-regulated financial institution is considered bank fraud and carries the possibility of a \$1,000,000 fine and 30-years imprisonment."

IDENTITY THEFT WITH A TWIST

According to Disney, the Kentucky Board has witnessed an increase in stolen appraiser identity in the past 24 months also. Appraisers complete assignments and submit reports to lender clients, as usual. At some point in the future a suspicious activity report is issued and the appraiser submits a copy of his/her work file and report for review. It is then discovered that there are significant differences between the appraiser's file-copy of the report and the one submitted by the regulatory official.

"The differences are typically in two areas: the sales prices of the properties listed for comparison and the value opinion. The appraiser submitted the original report electronically, including a digital signature. The copy with the higher comp sales and value opinion has the same digital signature, and the appraisal report forms contain identical header and footer information including firm and appraiser names, license number, etc. At this point, the appraiser is forced to prove that he/she did not submit the work that appears fraudulent. Until that proof is found and documented, the stigma looms for the appraiser. He or she might be removed from lender lists and never be placed back on those lists again," Disney said.

At the SoCal NAIFA conference in 2004, a surprisingly high percentage of appraisers indicated having firsthand experience with fraud—having their signature stolen and affixed to appraisals they didn't complete. Greg Harding, Supervising Property Appraiser Investigator for the Office of Real Estate Appraisers (OREA) said at that time, "I am stunned at how many forgeries I see."

Lewis Allen, IFA, Chief Appraiser, Option One Mortgage, said AVMs make it easier to uncover gross misrepresentations or fraud in appraisal reports under review. He corroborates that when reports are red-flagged for possible fraud, increasingly the appraiser-authors are denying that the report is theirs or that it is the same report they submitted. "Appraiser identity theft is becoming an increasing problem nationwide," Allen said. "A

technology solution might be to expand the National Registry, managed by the Appraisal Subcommittee, to require appraisers to record their appraisals for mortgages into the database, along with a few fields for identification and fraud prevention. Then the lender can check the database to ensure that the appraiser did the appraisal and the final value has not been altered."

WHEN LTV IS MIA

Other problems are loans that allow property owners to borrow more money than the market value of the property. Many of these loans require appraisers to "stretch" value to offset as much of the difference as possible. "Typically this requires the appraiser to travel outside the market area to select sales that are not comparable to the subject property location or relevant improvement characteristics," Disney said. "Often these assignments are initially order as 'pre-comps' from multiple appraisers until eventually one is found to support the 'target' value. The Kentucky Board has discovered approximately 95 percent of complaints originate from assignments of one-four unit residential properties. This is consistent with the increase in mortgage fraud, which occurs most in residential mortgage loans."

SAGE ADVICE FOR STAYING OUT OF TROUBLE

In an increasing number of cases brought before the Kentucky Board, Disney finds that credentialed appraisers are duped into performing these acts or are so busy and concerned with meeting unreasonable time constraints that they fail to perform due diligence in carrying out the assignments. The best advice to offer anyone today, he says, is to slow down and take the time to perform the scope of work necessary for the assignment.

"Make certain you have taken steps to be competent in the property and appraisal type. Make sure you are knowledgeable of the market area in which you are appraising, that you have access to the necessary data and information to assist in developing the opinion of value and that you pledge to 'just say no' when asked to commit any act or omit any information necessary for competing a credible assignment. Make certain you understand the identity of the client, other intended users and the assignment conditions that may be required, i.e., supplemental standards, contract conditions, etc., and that your assignment results are not misleading," he said.

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USPAP Q & A

DISCLOSURE OF THE CLIENT IN A PRIOR ASSIGNMENT

Q. As a condition of engagement, I have been asked to disclose the name of the client for any prior appraisals I have completed on the subject property. Is making this disclosure a violation of USPAP?

A. A definitive answer cannot be provided without examining the circumstances.

The Confidentiality section of the ETHICS RULE states, in part:

An appraiser must protect the confidential nature of the appraiser-client relationship.

There are some situations in which the appraiser cannot disclose the name of a prior client and still protect the confidential nature of the appraiser-client relationship:

- A client may tell the appraiser to not disclose the fact that he or she appraised a particular property for that client. In that case, the name of the client becomes confidential information (as defined in USPAP) and it is clear that the appraiser cannot comply with the request for disclosure of the client's name.
- There are other cases that simply require judgment on the part of the appraiser to determine whether disclosing the prior client's name would or would not *protect the confidential nature of the appraiser-client relationship*.

An appraiser who is asked to identify the client in a prior assignment may be able to protect the confidential nature of the appraiser-client relationship by identifying the client by type rather than name. Identifying the client by type describes the client with a generalization (for example: financial institution or accountant). However, there may be circumstances in which disclosing the identity of the client by type would actually disclose the name of the client (for example: property owner, trustee). In such a case, naming the client "by type" would not be a solution.

If disclosure of the client's identity is a condition of a potential new assignment, and the appraiser cannot disclose the client's identity and still protect the confidential nature of the appraiser-client relationship, then the appraiser must turn down the new assignment.

An appraiser must consider the circumstances when forming a response to a request to disclose the name of the client from a prior assignment.

STATUS OF THE 2006 EDITION OF USPAP

The Appraisal Standards Board has received questions about the status of the 2006 USPAP. This month's Q&A is dedicated to responding to these questions.

Q. When will the 2006 Edition of USPAP be available?

A. The ASB held a public meeting on October 28, 2005 in Washington, D.C. At this meeting, the Board voted on the adoption of proposed modifications to USPAP as presented in the Exposure Draft released in July 2005.

The changes approved at the October meeting were incorporated into the 2006 USPAP, which is planned for publication in late January 2006.

Q. Should appraisers start using the 2006 USPAP in January 2006?

A. No. The current 2005 edition of USPAP is effective until June 30, 2006.

Although the 2006 USPAP will be available for review in January 2006, the ASB recognizes that the marketplace will need time to adjust to the changes. The 2006 USPAP will become effective on July 1, 2006.

Q. Why is the ASB changing the usual annual USPAP schedule?

A. Since the Appraisal Standards Board began the process of considering changes to the 2005 USPAP, it has moved cautiously because of the degree of change and number of proposed edits. The ASB believes that providing a five month period between the publication and effective date will allow appraisers, the users of appraisal services, and regulators an opportunity to study and understand the 2006 USPAP. This meant that the traditional schedule for USPAP had to be modified.

Q. How long will the 2006 USPAP be effective?

A. The 2006 USPAP will likely remain effective through the end of 2007 (i.e., for 18 months). The ASB anticipates converting to a two-year USPAP publication cycle in 2008.

Q. How can I learn more about the 2006 USPAP?

A. Until the ASB votes on the proposed changes at its October 28, 2005 public meeting, interested parties can refer to the concept papers and Exposure Draft materials posted on The Appraisal Foundation website at www.appraisalfoundation.org.

Before the end of the year, the ASB will make materials available to describe the adopted changes to USPAP. The ASB will publish a series of informational brochures that answer questions that are likely to be of interest to specific groups. The ASB is considering brochures to address the specific concerns of such groups as residential appraisers, commercial appraisers, personal property appraisers, business appraisers, residential lenders, commercial lenders, and regulators. These materials are being developed as a supplement, and not a substitute, for a thorough examination of the 2006 USPAP.

CHANGES IN THE 2006 EDITION OF USPAP

The 2006 USPAP will be published in late January 2006 and become effective July 1, 2006. Appraisers, regulators and users of appraisals have begun asking about the changes. This month's questions are in response to these inquiries.

Q. What are the major changes in the 2006 USPAP?

A. The DEPARTURE RULE has been removed and the new SCOPE OF WORK RULE has been added. The terms "Limited Appraisal," "Complete Appraisal," "Binding Requirement," and "Specific Requirement" have also been removed from USPAP.

The SCOPE OF WORK RULE has no development requirements that differ from those in the 2005 USPAP; however, the identification of the appraisal problem to be solved and the development of an appropriate scope of work to solve that problem have been given greater emphasis in the 2006 USPAP.

For more information, the ASB Summary of Actions (issued 10/28/05) is available on the Foundations website. (www.appraisalfoundation.org)

Q. Should appraisers start using the 2006 USPAP in January 2006?

A. No. The current 2005 edition of USPAP is effective until June 30, 2006.

Although the 2006 USPAP will be published and available in late January 2006, it will not become effective until July 1, 2006. The ASB recognizes

that the marketplace will need time to adjust to the changes and this five-month period between publication and the effective date should allow for that.

Q. Does the SCOPE OF WORK RULE introduce any new reporting requirements to USPAP?

A. While the SCOPE OF WORK RULE requires the appraiser to report the scope of work performed in the assignment, this requirement has been in USPAP for many years. The relevant portion of the Rule states:

Disclosure Obligations

The report must contain sufficient information to allow intended users to understand the scope of work performed.

Comment: Proper disclosure is required because clients and other intended users rely on the assignment results. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

The requirement to report the scope of work takes on greater significance because intended users rely on this disclosure to understand the type and extent of research and analyses performed in the assignment, rather than relying on the simple (and potentially misleading) labels, Complete Appraisal and Limited Appraisal.

Q. Am I required to have a separate section in my reports describing my scope of work?

A. No. USPAP does not dictate where information must be included in reports, and the description of the scope of work performed is no exception.

The SCOPE OF WORK RULE states:

The report must contain sufficient information to allow intended users to understand the scope of work performed.

The scope of work performed may be described in one section, or throughout the report.

Q. Have the reporting labels been deleted from USPAP starting with the 2006 edition?

A. No. "Self-Contained Report," "Summary Report" and "Restricted Use Appraisal Report" are still the report options for real and personal property appraisals, and "Appraisal Report" and "Restricted Use Appraisal Report" are still the report options for a business or intangible asset appraisal.

FANNIE MAE UPDATE REPORT FORM 1004D

Q. I have been asked to provide an update of a previous appraisal assignment and to report the results on Fannie Mae form 1004D. The form asks me to check “yes” or “no” in response to the question “Has the subject’s market value declined since the original appraisal date?”

(a) Does this constitute a new appraisal of the property?

(b) How much of my analysis must I include in the report?

A. (a) Yes. This is a new appraisal with a new effective date. Additional guidance can be found in Advisory Opinion 3, *Update of a Prior Assignment*.

(b) Form 1004D is labeled as a Summary Appraisal Report. Therefore, the appraiser must provide a summary of the analysis conducted in the assignment.

The analysis will vary from assignment to assignment, so the information required in the report will also vary. In some cases it might be possible to summarize the analysis using the three lines provided on the form itself. If the space provided is insufficient, then the appraiser must supplement the form.

THE COST APPROACH AND FANNIE MAE FORM 1004

Q. The new Fannie Mae Form 1004 indicates that Fannie Mae does not require completion of the cost approach. Is it acceptable to simply omit the cost approach when using this appraisal report form?

A. The appraisal report form on which an appraisal is reported does not dictate the scope of work performed.

The appraiser must identify the appraisal problem and determine the proper scope of work. If the cost approach is required for credible assignment results, then it must be developed and the results must be included in the appraisal report.

If the cost approach is not required for credible assignment results, the appraiser may elect not to complete the cost approach. If it is omitted, the report must explain the omission.

Whether or not the cost approach is necessary is a decision that must be made by the appraiser based on the intended use, intended user, and other assignment elements.

CITING THE SOURCE OF THE VALUE DEFINITION AND FANNIE MAE FORM 1004

Q. USPAP requires an appraisal report to include a citation of the source of the value definition used for the appraisal. Is this information adequately addressed on the new Fannie Mae Form 1004?

A. Yes. On the new Fannie Mae Form 1004, the value definition is pre-printed on the form, and there are several references indicating that Fannie Mae is the source for the form. No additional citation is required.

ENGAGED DIRECTLY BY THE HOMEOWNER

Q. I was contacted by homeowners who want me to perform an appraisal of their home to be used for a loan at a federally regulated financial institution. What are my responsibilities in this potential assignment?

A. It is an appraiser’s responsibility to disclose to the homeowners that a lender or its agent is required by Title XI of FIRREA to directly engage the services of an appraiser in a federally related transaction. If the homeowners still want to engage you, your disclosure allows you to accept the assignment.

Additional information can be found in Advisory Opinion 25, *Clarification of the Client in a Federally Related Transaction*.

READDRESS OR TRANSFER

Q. Is it acceptable to readdress or transfer a completed appraisal report?

A. No. Once a report has been prepared for a named client or clients, the appraiser cannot ‘readdress’ (transfer) the report to another party. Simply changing the client name on the report cannot change or replace the original appraiser-client relationship. Therefore, this action is misleading.

However, you can consider the request as a new assignment. In so doing, you may establish a new appraiser-client relationship and appraise the property for this new client.

Additional information can be found in Advisory Opinion 26, *Readdressing (Transferring) a Report to Another Party*. Important considerations, such as the handling of confidential information and other factors, are addressed in Advisory Opinion 27, *Appraising the Same Property for a New Client*.

RECERTIFICATION OF VALUE

Q. I heard that recertifications of value are no longer permitted. Is this true?

A. No, that is not true. However, there is confusion surrounding this question the term 'Recertification of Value' or 'Update of Value' only used by some clients in place of the term 'Update.'

Appraisers may perform a 'Recertification of Value' to confirm whether or not the conditions of a prior appraisal have been met. However, if a client wants to know whether the *value* of a property has changed (or remained the same) since a prior appraisal, this is an 'Update.'

Regardless of the label used, an appraisal of a property that was the subject of a prior assignment is not an extension of the prior assignment – it is a new appraisal assignment. Information about an appraiser's obligations in this situation can be found in Advisory Opinion 3, *Update of a Prior Assignment*.

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. The ASB USPAP Q&A is issued to inform appraisers, regulators, and users of appraisal services of the ASB responses to questions raised by regulators and individuals; to illustrate the applicability of the Uniform Standards of Professional Appraisal Practice (USPAP) in specific situations; and to offer advice from the ASB for the resolution of appraisal issues and problems.



Q & A ON THE SCOPE OF WORK PROJECT

For more information on the Scope of Work Project, refer to the concept papers and Exposure Draft materials posted by the Appraisal Standards Board (ASB) on The Appraisal Foundation website (www.appraisalfoundation.org).

INTRODUCTION

The Appraisal Standards Board's Scope of Work Project is an examination of the proper role of the scope of work and departure concepts in the appraisal process. The ASB's study included a public hearing dedicated to the topic and numerous ASB work sessions. The ASB issued two concept papers in 2003 and two Exposure Drafts in 2004 on the Scope of Work Project. An Exposure Draft was issued in February 2005 and additional Exposure Drafts are anticipated. (All publications are available on the website of The Appraisal Foundation.) Public comments were received in response to all publications. Those comments heavily influenced subsequent work.

Q. What is the Scope of Work?

A. Scope of work is the type and extent of research and analyses in an assignment. Scope of work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

In simple terms, the scope of work is the work an appraiser performs to develop assignment results. This is not a new concept. However, changing demands have increased the need for appraisers to understand the flexibility that exists in providing appraisal services.

Q. What is the Scope of Work Project?

A. The Scope of Work Project is an examination of the proper roles of the scope of work and departure concepts in the appraisal process. The goals of the project are to:

- improve the clarity of USPAP,
- improve the enforceability of USPAP,
- further promote and enhance public trust in appraisal practice, and
- further the goal of having core standards that change less frequently.

The benefits of the proposed edits to USPAP are resolution of misunderstandings related to departure, enhanced public trust in appraisal practice, and improved USPAP clarity.

Q. Why propose a change regarding the scope of work and departure concepts in USPAP?

A. The scope of work decision drives the full range of activities in the development process. In contrast, the DEPARTURE RULE only applies to portions of the development process governed by Specific Requirements. Having two overlapping processes causes confusion.

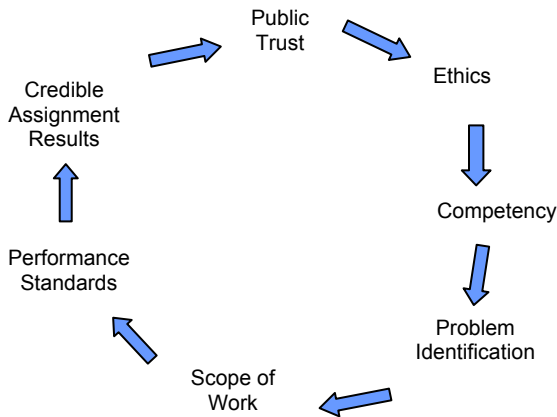
Moreover, departure addresses only a single dimension of appraisal development (the **application** of a specific requirement) while scope of work addresses both the **application** and **extent** of development. For example, development of an approach may be excluded by invoking departure, but the scope of work analysis addresses both the decision to develop an approach and the determination of the appropriate technique and what constitutes appropriate and sufficient data and analyses to support the conclusion.

In communicating assignment results, the emphasis of the DEPARTURE RULE on the use of associated labels (“Complete” and “Limited”) is potentially misleading and may be insufficient for intended users to make informed decisions.

Q. What changes are proposed?

A. The major conceptual change is eliminating the DEPARTURE RULE, and introducing a SCOPE OF WORK RULE that recognizes the importance of problem identification and the scope of work determination in the appraisal process. There are numerous related edits, but this is the main focus.

The PREAMBLE states that the primary goal of USPAP is *to promote and maintain a high level of public trust in appraisal practice*. The objectives of the ETHICS RULE and COMPETENCY RULE form the basis of public trust and credibility. Problem identification provides the basis for determining the scope of work necessary to develop credible assignment results. The Standards Rules provide specific performance requirements for the development of credible assignment results. The illustration below shows the place of problem identification and scope of work in supporting the goal of public trust.



Q. What is the effect of these changes?

A. The basic structure of USPAP will be altered. Rather than a starting set of “maximum” performance standards and allowing something less (via departure), there will be an identified minimum set of standards that apply in all appraisal, appraisal review and appraisal consulting assignments. While this conceptual shift will require revisions to the USPAP document, these revisions will not change the requirements of the development process. The scope of work (type

and extent of research and analyses) will continue to be based on what is required to produce credible assignment results. The existing requirement to report the scope of work will take on greater prominence because intended users will rely on this disclosure to understand the type and extent of research and analyses performed in the assignment, rather than relying on the simple (and potentially misleading) labels, “Complete Appraisal” and “Limited Appraisal.”

Q. If the proposed changes are primarily conceptual, what will be the most visible change?

A. The most visible change in appraisal practice will be discontinued use of the terms “Complete” and “Limited” to describe the appraisal process.

The scope of work that is appropriate under the current USPAP for a given assignment will continue to be appropriate if the proposed revisions are adopted. The proposed revisions will not permit a scope of work that is not appropriate under the current USPAP.

Q. When will the proposed changes be made?

A. The Appraisal Standards Board is moving cautiously because of the degree of change and number of edits that will result if the proposed changes are adopted. This means that the normal production schedule for USPAP will be altered.

One or two additional Exposure Drafts are anticipated during 2005, with any applicable changes to USPAP becoming effective no sooner than mid-2006. The plan is for the current 2005 edition of USPAP to remain effective until mid-2006.

The Appraisal Standards Board expects that the marketplace will need time to adjust to the proposed changes; thus, the next edition of USPAP is expected to be published by January 2006, at least six months ahead of its effective date. The 2006 edition of USPAP will likely remain effective through all of 2007 (i.e. for 18 months).

The ASB anticipates converting to a two-year USPAP publication cycle in 2008. **All dates are tentative and the ASB will revise this schedule if appropriate.**

Q. What can an appraiser do to prepare for upcoming potential changes?

A. The Scope of Work Project will not introduce any major new requirements into USPAP. The requirement to determine and disclose the scope of work is an existing requirement of USPAP (for a real property appraisal example, see SR 1-2(f) and SR 2-2 (b)(vii) in the 2005 USPAP). Appraisers already possess the knowledge and skills needed to complete assignments under the proposed scope of work rule.

Appraisers who recently attended the National USPAP Update Course received training on the scope of work concept.

Appraisers can review their procedures, correspondence, and reports for use of terms that are proposed for removal, such as "Complete," "Limited," and "departure."

Appraisers can also start dialogues with clients about the proposed changes. The education of clients will ease the transition if the proposed changes are adopted.

The ASB will also be providing additional information for the use of both appraisers and users of appraisal services.



OKLAHOMA RECIPROCITY

On January 26, 2006, the Kansas Real Estate Appraisal Board entered into a new reciprocity agreement with the state of Oklahoma. The agreement allows for reciprocity on the General and Residential certified classifications only. Kansas residents interested in obtaining an Oklahoma certification should contact the Oklahoma Real Estate Appraiser Board, PO Box 53408, Oklahoma City, OK 73152-3408, (402) 521-6636 (phone) or e-mail them at reab@insurance.state.ok.us. Oklahoma residents interested in obtaining their Residential or General certified classification in Kansas can download the application from the Board's website at <http://www.kansas.gov/kreab>, then click on Licensing and scroll down the page to the Appraiser's Licensed/Certified in Another State and download the Application for Reciprocity.



DISCIPLINARY ACTIONS

WILLIAM J. CALDWELL, L-2036, OVERLAND PARK COMPLAINT #442

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8).

ACTION: A Consent Order was entered into February 3, 2006, with the following terms and conditions: That Caldwell will take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; that Caldwell take and pass the examination of a minimum 15-hour report writing course on or prior to June 30, 2006; that Caldwell cease and desist from all supervision of appraisers/trainees for a period of six (6) months following completion of the above shown education; and that Caldwell pay \$280 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.

ROBERT L. LANGFORD, L-1332, PITTSBURG COMPLAINT #460

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8)

ACTION: A Consent Order was entered into on February 22, 2006, with the following terms and conditions: That Langford take and pass the 15-hour USPAP course on or prior to June 30, 2006; that Langford take and pass a minimum 24-hour sales comparison course on or prior to June 30, 2006; and that Langford pay \$480 to cover the cost of the review associated with this complaint.

JAMES R. LESKY, R-418, LENEXA COMPLAINT #425

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8).

ACTION: An Order of Censure was issued by the Board effective November 4, 2005.

WILLIAM JAMES MILLER, G-507, DODGE CITY COMPLAINT #435

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8).

ACTION: A Consent Order was entered into on February 13, 2006, with the following terms and conditions: That Miller take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; that Miller take and pass the examination of a minimum 30-hour income capitalization course on or prior to June 30, 2006; that

Miller cease and desist from all supervision of all appraisers/trainees for a period of 2 years from the date of the Order; and that Miller pay a fine of \$500 within 30 days from the date of the Order.

**ROBERT L. NEWSOME, G-782, KANSAS CITY, MO
COMPLAINT #359 & 363**

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8).

ACTION: A Consent Order was entered into on November 5, 2005, with the following terms and conditions: That Newsome take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; that Newsome take a minimum 7-hour appraisal review course on or prior to June 30, 2006; and that Newsome pay \$500 to cover the cost of the review associated with these complaints within 30 days from the date of the Order.

**JASON PARSONS (L-2001) KANSAS CITY, MO
COMPLAINT #446**

VIOLATIONS: K.S.A. 58-4121, 58-4118(a)(6), (7) and (8).

ACTION: A Consent Order was entered into on February 24, 2006 with the following terms and conditions: That Parsons take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; that Parsons take and pass the examination of a minimum 15-hour report writing course on or prior to June 30, 2006; that Parsons cease and desist from all supervision of appraisers/trainees for a period of six (6) months following completion of the education; and that Parsons pay \$120 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.



2006 RENEWAL

Renewal applications for 2006 will mail to all appraisers within the next few weeks. Things to keep in mind:

- To be considered "on-time", renewals must be postmarked no later than May 31, 2006. Renewals received after that date are subject to a \$50 late fee.
- Continuing education must have been completed on or after July 1, 2005.
- Continuing education must be completed prior to submitting the renewal.

- **DO NOT** send copies of your certificates of completion with your renewal. The Board does not maintain education records.
- Please **do not** attach printouts from your organization in lieu of completing the education log. **Do not** include education taken prior to July 1, 2005.
- As this is the first year of the current education cycle (07/01/05 to 06/30/2007), education in excess of the 14 hours needed may be carried over to your 2007 renewal.
- The 7-hour USPAP Update course may be taken for either the 2006 or 2007 renewal.
- The 15-hour, tested, USPAP course **will not** meet the USPAP requirement for renewal.

**LICENSED/CERTIFIED APPRAISERS
AS OF FEBRUARY 22, 2006**

Certified General.....	426
Certified Residential.....	362
State Licensed	395
Provisional (Trainee).....	120
Total	1,303

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