

Appraising in the New Millennium-Due Diligence & Scope of Work- Book and Software Review.

Most appraisers have furthered their understanding of the significant changes in USPAP with the emphasis on Scope of Work by taking additional CE credits that cover in more detail the appraiser's new obligation to understand and implement these changes. Appraisers have also become more liability-conscious due to some of the onerous conditions included in the new Fannie Mae forms introduced in 2005 and 2006. Given the press of business, most appraisers have not taken a comprehensive approach to implementing these changes by systematically reporting the various steps of the Scope of Work process or addressing liability issues. Appraisers have taken a hodgepodge of suggestions and integrated them into reports. Recently introduced, there is a neat software program that automates the process of reporting the details of Scope of Work as well as complying with Supplemental Standards. It also addresses some important liability issues as well. Priced at \$99.00, this software represents a significant breakthrough in the overall reporting process. A companion document by the same author entitled "Appraising in the New Millennium" (Second Edition) is also available at a cost of \$49.00. This 193 page document comprehensively details in a refreshingly new way the appraisal process with particular emphasis on USPAP's Scope of Work Rule and the overall due diligence process that must be followed to fulfill its requirements. This document is more than a dry appraisal treatise covering a limited phase of the appraisal process. It is, in fact, a thinking appraiser's guide to the current appraisal business environment and appraisal process universe. Several new concepts and tools are introduced along with 30 new definitions that are critical to understanding today's appraisal process.

The software is called The USL II Documenter II version 2.0 software. The USL Documenter Application Software addresses USPAP, Supplemental Standards, and Liability Management. USL is an acronym taken from these topics. The "U" represents USPAP; the "S" represents Supplemental Standards and the "L" represents Liability management. According to the information on the website," It is the author's belief that almost every appraiser can immediately improve his/her reporting with use of the USL Documenter. This program is for both residential and commercial use. This program is designed to aid the appraiser in all aspects of documenting an appraisal Report. It will compile all of the documentation including the Limiting Conditions, Assumptions, Scope of Work, Certification, etc; or it can produce only a few items to shore up a standard Report form like the new URAR. It can produce an entire Restricted Use Report or simply supplement your forms software package or commercial template."

Origins

The author of "Appraising in the Millennium" and the USL Software is David Braun. MAI, SRA. Braun has been involved in real estate appraising since 1976. He is president of Braun & Associates located in Maryville, Tennessee, an appraisal firm with 13 employees. The firm serves the Greater Knoxville area. He has a Bachelor of Science degree from the University of Tennessee. He is an approved Appraisal Institute Instructor and certified by the Appraisal Foundation to teach the Uniform Standards of Professional Appraisal Practice. David Braun is also president and founder of Automated Valuation Technologies, Inc. a producer of appraisal

seminars and software. Braun took an early interest in the challenge of documenting Scope of Work steps by developing a computerized Scope of Work checklist of possible appraisal tasks. In 2002 this program, then done on a MS Excel spreadsheet, was expanded to include most USPAP compliance issues. In addition, the program included items already addressed on most standardized forms. Instead of a checklist, the program evolved into a system that addressed the specific requirements of an appraisal assignment with applicable phrases that could be added, deleted or modified. Outgrowing the MS Excel platform in 2005, the USL Documenter II software program was developed to run on any Windows platform. Initially both the first versions of Documenter and the companion book were given away with a reported 13,000 copies distributed. When Braun developed the USL Documenter version II for sale, the book was updated to the second edition and also offered for sale.

Book Contents

The companion book, “Appraising in the New Millennium”, contains 193 pages. The book contains a foreword and introduction plus information about the author and the author’s acknowledgements. The emphasis of the book is developing and communicating an opinion of the Scope of Work. The author notes this is only one step in the Appraisal Planning Process that consists of diagnosing the problem, developing a solution, assesses the due diligence, forming an opinion of the Scope of Work and finally reporting the Scope of Work. The book proceeds logically defining the various influences on Scope of Work decisions such as client input, professional standards, lawsuit prevention, intended user, intended use and others. There are 11 chapters in the book. Chapter 1 introduces the changing business environment with special emphasis on the recent emergence of risk-base portfolio management models that allow variations in the amount of due diligence based on perceived loan risk. The author candidly reminds appraisers of market forces going back to Adam Smith that shape the appraiser’s business environment. Changes in due diligence can result in different degrees of reliability that may not be understood by the general public who often assumes misguidedly that any appraisal provides some assurances and protection to the borrower. The author points out a critical statement made by the Appraisal Standard Board (ASB) that provides guidance in today’s appraisal environment. “Of all the judgments and decisions that an appraiser makes in the course of an assignment, the scope of work decision is the by far the most critical.”

Chapter 2 addresses Professional Appraisal Standards and succinctly directs the reader’s attention to understanding the relevant USPAP sections on Scope of Work. In this chapter, the author develops the concept of the general public as a stakeholder in the appraisal process referring not only to USPAP but to a larger more encompassing “Professional Appraisal Standards.” These standards are defined by the author as: “Assurances to the general public that professional appraisers will provide services that are credible for a particular assignment.” Simply put, the author makes the case that appraisers are in the assurance business and appraisers render assurance services that center on credible output that is specific to the service provided. Implicit in this definition is the idea that people use assurance services when they have to make decisions. The services are intended to improve the information used in the decision process. Presumably, better information should lead to better decisions. The American Heritage Dictionary defines assurance as “The act of assuring, a statement or indication that inspires confidence, a guarantee or pledge and freedom from doubt, certainty.” Appraisal services, then,

are sought for the very content of the signed certification in appraisal reports. Secondly, the author in a very understandable way explains that USPAP set the minimum standards of appraisal work but represents the highest standards of ethics. “No matter how little the appraiser does, he/she will have met the fundamental goal of USPAP if he/she has provided the information that contributes to the solution of the intended user’s problem.” Thirdly, this chapter highlights a disconnect that often occurs between the goals of USPAP, State Commissioners, the individual appraiser, and the appraisal profession as a whole. The author stresses that State Commissions must not interpret USPAP as the maximum standards. They must come to understand that: “While the appraiser’s work must be credible, it must also be cost effective.” Finally the author summarizes USPAP’s New Scope of Work Rule offering “Five Tests for Compliance with USPAP Standard Rules.” These include: 1. That the opinions and conclusions contribute to the solution of the intended user’s problem. 2. That the requirements found in USPAP Standard Rule 1 are performed. 3. That the minimum reporting requirements in Standard Rule 2 of USPAP are met. 4. That the appraisal is consistent with what the appraiser’s peers would produce, and meet the expectations of the intended users. 5. That the work is done in compliance with any applicable supplemental standards.

Chapter 3 covers lawsuit prevention and liability management. Here the author persuasively cautions the appraiser to understand that an appraisal has a greater constituency than the announced intended users. Again, the author reminds that the appraiser is faced with unintended stakeholders. He defines these unintended stakeholders as the: “Third Party: Any person or entity, other than the stated client or intended user that has access to an appraisal report.” This chapter alone is decidedly the highlight of the entire document. From a list of good business practices that reduce liability risk to a unique discussion of the relationship of efficiency to profits, the author presents material critical to understanding liability management. Braun notes that an effective product or service is “One that will accomplish the task or purpose it was designed for: In appraising, this is a credible appraisal.”

Chapter 4 covers Supplemental Standards, Contracts & Agreements and Client Input. Chapter 5 offers check lists and information relevant to diagnosing the problem and determining a solution. The author uses a case study method in this chapter citing 6 well thought out instructive examples. Chapter 6 covers the due diligence necessary to the intended user as one of forces influencing the Scope of Work Decision. In this chapter, the author makes the case that the appraiser must fully appreciate the intended users risk tolerance. Chapter 7 is the meat of the document and covers Scope of Work and the implications of varying the Scope of Work summarizing at the end of the chapter the costing out the appraisal components. Chapter 8 introduces the logical framework in which a Scope of Work Decision is made. Chapter 9 moves on the reporting requirements and communicating the Scope of Work decision. Again the case method is used to illustrate by example with 4 residential case studies and 2 commercial case studies. Chapter 10 contains a discussion of the impact of the Scope of Work Rule on the lending community. The author makes the case that the appraiser must become the educator to the lender. Braun has developed a series of tables that rate the transaction risk level in five steps from minimal to high for differing transaction types from a simple desk top evaluation to complex property or loan. The author in the document gives permission for these tables to be used and published. This chapter also contains sample order forms and sample engagement letters. Chapter 11 offers a summary and general conclusions with several addendum following.

Addendum A is an outline of planning the Appraisal. B summarizes 2006 USPAP and Scope of Work and Addendum C lists Federal Banking Regulations.

David Braun is a keen observer of the appraisal profession and has evidently followed the evolution of the Scope of Work Rule in the year to year published version of USPAP with unusual insight. Braun has prepared a unique summary that addresses the challenge of the Scope of Work Rule and liability management as well. Although the author presents some very useful tables and effective examples of engagement letters etc, the real usefulness of this document lies in the ably presented reasoning and logic that allows the reader to adopt a mindset to more effectively meet the demands of the new appraisal business environment.

The big question regarding “Appraising in the New Millennium” and the USL software is how the author can stay up to date. The next version of USPAP is about to tackle Supplementary Standards for instance. In an interview about the USL Documenter, the author commented. “I will probably have to update the Documenter every time that a new USPAP goes into effect. I don’t know how existing customers will get an upgrade that depends on how many units are sold at that time. The more units I have sold the more I can do for customers.” “Appraising in the New Millennium” is delivered in PDF form. With 193 pages, I recommend taking a minute to learn printing out a two sided document and putting it in a three hole binder.

The USL Documenter II Software-How it works

The Documenter II Software is delivered on a disk and is easily installed in its own directory. Overall, it serves as a comprehensive checklist that allows the user to communicate his/her decisions about the Scope of Work and other issues pertinent to an individual report. The program comes complete with a set of well written comments pertinent to a variety of appraisal reports. The USL Document Wizard starts out with a basic list of options that require a check mark. Users can define whether they want the results in bulleted form or numbered list. The output is limited to one font. The font has to be adjusted once the report is transferred into the appraisal document. Up to two appraisers can be included in the final summary of comments and digital signatures can be included. The report can be categorized as providing a value opinion, a site value, market rent or an “other” category. If the value opinion is checked, the next inquiry asks about the three approaches of value. The program then, addresses not only what is done but what is not done in some cases. Verbiage is provided to explain why, for instance an approach is not used. When highlighting the check mark, the program offers tips and clarification of the specific item.

In the process of defining the decisions that have been made in the appraisal planning process, the program prompts for answers to a set of questions. The first set asks about the report classification as to whether the report will be a summary, self contained or restricted use report. The next set of questions deals with the user and the supplemental standard type. The verbiage can be confined to users who are in the secondary market or use the new Fannie Mae forms. A FHA report is an option as well as an evaluation report geared to that type of lender. The next set defines whether the end product is to be used in a narrative report or a standardized report. In the next screen basic questions such as whether or not there are hypothetical conditions or extraordinary assumptions. After addressing these basic questions the main body of the report is

brought up. The text may be edited and is highlighted in three different ways. Red text denotes issues that the Report Wizard signals as needing to be addressed by the user. Gray text sets out issues that may be addressed and black text are automatically included in the program.

Customizing

The flexibility of the program is its main feature. Each entry can be edited or written from scratch. To enter a new phrase, the user double clicks on the line in the Documenter where they want to add a comment. When the "Phrase Builder" opens, the user clicks on the "Add button." Next it will ask for a key word and then it will allow you to type in the common phrase. Once the report is finished; it can be copied and pasted into the report.

Overall the program provides a comprehensive set of responses. There is little support for the verbiage required for some frequent uses such as appraisal reviews, relocation reports and some specific concerns limited to REO properties. Comments are easily added for specific uses, however. One other advantage of the program is that it can generate a complete stand alone Restricted Use report.

Both the Second Edition of Appraising in the New Millennium and the USL Appraisal Report Documenting Software are available from the main website of Working RE Magazine website: <http://www.workingre.com/> Appraising in the New Millennium is sold in PDF format for \$49.00 and may be downloaded the same day. The USL Appraisal Report Documenting Software is available on disk for \$99.00 and is mailed within one week of order. There is no discount for buying both products. No information is currently available about the upgrade process. There is no refund policy. A guide may be downloaded that the author recommends reading before purchasing.