

## **UPDATES AND RECERTS AND NEW ASSIGNMENTS...OH MY! What you need to know as a licensed appraiser!**

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by TJ McCarthy

With regulatory changes flying around the appraisal profession at an alarming rate, it sometimes seems like we are living in the Land of OZ.

The latest edition of the Uniform Standards of Professional Appraisal Practice, (USPAP) included many revisions and additions this year. One of the major changes was the rewrite of Advisory Opinion AO-3, UPDATE OF A PRIOR ASSIGNMENT. The Office of Banks and Real Estate has received many calls from licensed appraisers regarding this advisory opinion.

### **Prior to the 2003 USPAP, AO-3 defined an update as follows:**

*“An update is an extension of an original Complete or Limited Appraisal and report relied on by a client for a prior business decision. The practice of requiring periodic updates is a reasonable portfolio management technique for financial institutions in monitoring asset quality and for certain other uses.”*

### **It continued...**

*“In the update, the appraiser addresses any changes in the market conditions and the status of the subject property since the effective date of the original appraisal or prior update, then analyzes the effect of these changes in arriving at a current value opinion for the property.”*

Part of the problem was that updates were being performed by appraisers in various ways with little to no consistency throughout the profession. Sometimes the client was asking for an updated value opinion and other times they just wanted the appraiser to provide documentation that there was no current market evidence to suggest that the original value opinion had declined since the date of the original report. Either way, the appraiser was performing an assignment that required a value conclusion. For this very reason, the Appraisal Standards Board decided to redefine the appraisers role and responsibility when performing an update in the 2003 USPAP.

### **The New 2003 USPAP, AO-3 defines an Update and a Recertification as follows:**

#### ***Clarification of Nomenclature***

Various nomenclature has been developed by clients and client groups for certain appraisal assignments, including “updates” and “recertifications”. While such terms may be convenient for use in a business setting, they do not necessarily impart the same meaning in every situation.

The term “*Update*” is often used by clients when they are seeking a *current appraisal* of a property that was the subject of a prior assignment.

The term “*Recertification of Value*” has been used to define many different services appraisers perform for clients over the years. An appraiser working in downstate Illinois may define this term totally different than an appraiser working in Chicago or Rockford. Advisory Opinion AO-3 clears up the confusion over this widely used term by defining it as follows: “A *Recertification of Value is performed to confirm whether or not the conditions of a prior appraisal have been met*”. If an appraisal was performed “subject to” a condition, then the client might require a “Recertification of Value” from the appraiser to determine if that condition has been met.

One example of a “Recertification of Value” is a “Final Inspection”. When an appraiser is asked to complete a “Final Inspection,” the appraiser is confirming that conditions established in an assignment have, or have not, been met. A “Recertification of Value” does not change the effective date of the value opinion, it simply recertifies that all conditions have been met and the “Opinion of Market Value” is no longer subject to those conditions.

If a client uses this term in an assignment request that includes an updated value opinion, it is not a “*Recertification of Value*”, it is a **NEW APPRAISAL ASSIGNMENT!!!**

### *A New Assignment*

Regardless of the terminology used, when a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an extension of that prior assignment that was already completed – it is simply a *new assignment*. An “assignment” is defined in USPAP as:

a valuation service provided as a consequence of an agreement between an appraiser and a client

The same USPAP requirements apply when appraising or analyzing a property that was the subject of a prior assignment. There are no restrictions on who the appraiser is in such a circumstance, who the client is, what length of time may have elapsed between the prior and current assignments, or whether the characteristics of the subject property are unchanged or significantly different than in the prior assignment.

Important in this definition is the concept that the new assignment is not an extension of the prior assignment. This does not mean that data or addenda from the prior assignment cannot be incorporated in the new assignment. AO-3 suggests that rather than duplicating steps in the appraisal process, the appraiser can elect to incorporate some of the previous assignment (those items that the appraiser concludes are credible and in compliance with the applicable development Standard) into the new assignment through the use of an extraordinary assumption.

## **AO-3 offers direction to the appraiser for reporting requirements when performing an update:**

### **Reporting Requirements**

For all assignments, the results must be reported in accordance with the requirements of STANDARDS 2, 3, 5, 6, 8, or 10, as applicable. The new report is not required to have the same level of detail as the original report – i.e. a different reporting option may be used. However, the new report must contain sufficient information to be meaningful and not misleading to the intended users. There are three ways that the reporting requirements can be satisfied for these types of assignments:

1. Provide a new report that contains all the necessary information/analysis to satisfy the applicable reporting requirements, **without incorporation** of the prior report by either attachment or reference.
2. Provide a new report that **incorporates by attachment** specified information/analysis from the prior report so that, in combination, the attached portions and the new information/analysis added satisfies the applicable reporting requirements.
3. Provide a new report that **incorporates by reference** specified information/analysis from the prior report so that, in combination, the referenced portions and the new information/analysis added satisfies the applicable reporting requirements. ***This option can only be used if the original appraiser's firm and original intended users are involved***, since the prior report was issued from that appraiser to those intended users, assuring they have access to a copy. When this incorporation by reference option is used, the following items from that prior report must be specifically identified in the new report to avoid being misleading:
  - subject property
  - client and any other intended users
  - intended use
  - appraiser(s)
  - effective date of value or assignment results
  - date of report, and
  - interest(s) appraised

When information is being extended to the report by use of an extraordinary assumption, the requirements in USPAP for use of an extraordinary assumption must be met.

**The following are some of the frequently asked questions the Office of Banks and Real Estate has received from appraisers regarding changes to AO-3.**

**Question 1:**

I recently received an assignment for an update of an appraisal. The original appraisal was reported on a commonly used single-family residential report form. Must I use this same form to report the results of the update assignment?

**Response:**

No. Using the same form as the original report is not required. The update is a new appraisal assignment, and it may be reported in any format that is acceptable for the intended use and complies with the applicable reporting Standard (STANDARD 2 for a real property assignment). The report must contain sufficient information to be meaningful and not misleading to the intended users, but it is not required to have the same level of detail as the original report.

**Question 2:**

If I have to do a whole new appraisal and a new report, what is the benefit of doing an “UPDATE”?

**Response:**

You have to keep in mind that there is no requirement that the scope of work for the “update” appraisal be the same as the original appraisal, and there is no requirement for the “update” report to have the same detail as the original report. An appraiser may be able to incorporate much of the earlier analysis into the analysis for the “update.” Likewise, an appraiser may meet some of the reporting requirements by incorporating all or part of the original report. In many cases this incorporation can be done by reference.

**Question 3:**

I was recently asked to update an appraisal performed by another appraiser who works for a different appraisal company. Can I prepare an update if the original appraisal was performed by another appraiser?

**Response:**

Yes. Advisory Opinion 3 provides advice on how such an assignment can be performed in conformance with USPAP.

**Question 4:**

The terms “recertification of value” and “appraisal update” are often used interchangeably. Do they have the same meaning?

**Response:**

No, these terms do not have the same meaning.

An “Update” is a new appraisal assignment involving a property that was previously appraised. An Update is subject to the same USPAP requirements as any other appraisal assignment.

A “Recertification of Value” is performed to confirm *whether or not the conditions of a prior assignment have been met*. One example of a “Recertification of Value” is a “Final Inspection.” When an appraiser is asked to complete a “Final Inspection,” the appraiser is confirming that conditions established in an assignment have, or have not, been met.

“Final inspections” are commonly used in the case of proposed construction where an appraisal is completed subject to completion per plans and specifications.

**Question 5:**

In the past, USPAP provided three conditions that had to be met before an appraiser could do an update. These have been removed from the 2003 edition. Why were they removed?

**Response:**

Previous versions of USPAP dictated that one could only do an update if:

1. The original appraiser and client were involved,
2. The real estate had undergone no significant change, and
3. The time period between the original appraisal and the “update” was not unreasonably long.

These conditions were removed for several reasons. First, and foremost, within USPAP there was no basis for these requirements. In effect, AO-3 was creating new Standards Rules. This is not a proper role for an Advisory Opinion.

Secondly, the ASB decided that the requirements were not practical in many instances. The original appraiser might not be available. Also, sometimes the very reason an update is needed is because there has been a change in the property. Finally, what is a “reasonable time period” in one instance might not be reasonable in another.

**We recommend all appraisers read Advisory Opinion AO-3 in the latest edition of USPAP. Special attention should be given to the section regarding incorporating portions of previous appraisals and/or appraisal reports. Updates can be provided in a more efficient manner with a greater understanding of this advisory opinion.**