2005 USPAP EFFECTIVE DATE EXTENDED

September 9, 2005
Washington, D.C.--The Appraisal Standards Board (ASB) of The Appraisal Foundation announced today information regarding the effective date of the 2005 edition of the Uniform Standards of Professional Appraisal Practice (USPAP) and the release and effective dates of the 2006 edition of USPAP. There is a change from the recent practice of one-year effective dates that began January 1 and ended December 31.

The Board stated that the 2005 USPAP will remain in effect until at least June 30, 2006.

There are a significant number of proposed edits to USPAP, primarily related to the Scope of Work project. The ASB will take final action on the proposed edits at its public meeting on October 28, 2005 in Washington, DC. If the edits are adopted, the ASB recognizes that the marketplace will need time to adjust to the changes. Therefore, the Board anticipates the following:

- The 2006 USPAP, 2006 National USPAP Courses and related publications will be released in the first quarter of 2006; and,
- The effective date of the 2006 USPAP is expected to begin July 1, 2006 and extend through December 31, 2007.

"This publication schedule will allow for a greater transition period for appraisers, clients, education providers and appraisal regulators, especially given the Scope of Work changes to USPAP," said Carla Glass, ASB Chair.

The 2006 renewals will be mailed to appraisers the last week of February. Keep in mind that your 14 hours of education must have been completed ON OR AFTER July 1, 2005. Due to the numerous changes proposed for the 2006 USPAP, appraisers may want to plan on taking the update course once it begins teaching with the 2006 edition.

WHOSE BRIGHT IDEA WAS THIS ANYWAY?

When ever there is a regulation change that affects the requirements to either secure or maintain an appraiser license/certification in Kansas, there is always the question "Whose bright idea was this anyway?"

Such as changes like the move from the 15-hour USPAP to the 7-hour USPAP Update for renewals, the 2-year expiration date on tests, the proposed 2008 criteria or just the changes to USPAP itself.

This whole appraisal regulatory business was created by a federal mandate (now 12 U.S.C. 3331-3351). Under the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), the Appraiser Qualifications Board (AQB) establishes the minimum qualifying and continuing education, experience and examination requirements for real property appraisers to obtain and maintain a state certification. The AQB is composed of at least five (5) practicing appraisers who are appointed by the Appraisal Foundation’s Board of Trustees for three-year terms.

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So, our job is as the “implementor”, not “creator” of those requirements. Because of the differences between the various state’s laws and constitutions, the AQB doesn’t detail the implementation. That is left to each individual jurisdictional authority or board.

Every three years, at a minimum, the Appraisal Subcommittee comes to town to review the board’s operations, policies, laws and regulations. Finalizing this “audit” is an outline of our deficiencies and “suggestions” for improvement, which the Board does its best to comply with.

For the most part, the results of Kansas’ audits have been commendation for its appraiser program. However, in 2005 the Subcommittee noted that Kansas statute (K.S.A. 58-4109(f)) allowed a test was valid for a period of five years, where an AQB interpretation stated that a test was valid for no more than two years. In an effort to bring Kansas statute into compliance with the AQB, section 20 of Senate Bill 215 deleted subsection (f) of K.S.A. 58-4109. The Board then adopted amendments to K.A.R. 117-2-3, 3-3, and 4-3, each of which relates to the required examination, limiting the test to two years. However, the fallout from these changes has affected a number of Kansas appraisers, both certified and licensed. A good number of our provisional “trainees” now find themselves being required to retest prior to submitting their experience to qualify for their state license, and four of our existing certified appraisers were required to retake their examination. While understandably upset over the necessity to retest, the Board considers itself very fortunate that these appraisers have worked with the staff to meet this requirement of the Appraisal Subcommittee.

Our suggestion to all appraisers is that if you are concerned about the changes in appraiser criteria or USPAP, log on to the Appraisal Foundation’s website at http://www.appraisalfoundation.org and start reading and responding to the proposed changes before they become law.

In compliance with the Appraisal Qualifications Board’s guidelines for continuing education, the Board sent notice of audit to 252 appraisers following the 2005 renewal. Of these, 8 were presented to the Board for action for, (a) failure to respond or (b) making a false or misleading statement on a renewal application. The items listed below are just some of the concerns the Board has noted from the audit:

• Each appraiser is required to maintain an education file with copies of their certificates of completion for a period of five (5) years. K.A.R. 117-6-1(d) states: “It shall be the appraiser’s responsibility to keep track of that individual’s continuing education credit. At the time of renewal of a license or certificate, the appraiser shall provide verification of completion of continuing education by affidavit to the board. (1) The affidavit shall contain a statement of continuing education courses completed by the appraiser. (2) The appraiser shall list all courses completed on the affidavit. (3) The appraiser shall retain all course completion certificates for five years and shall make the certificates available to the board for review upon request.” (emphasis added)

Far too many of the appraiser’s audited this year reported that they either could not locate their certificates or had never received one. An education provider is required by regulation to provide a certificate of completion within seven (7) days of course completion [K.A.R. 117-6-3(k)]. However, responsibility lies with the appraiser to contact the provider if no certificate is forthcoming.

• The seven (7) hour USPAP Update course is required of all appraisers once during each two year education cycle. Education cycles run from odd year to odd year, i.e. July 1, 2005 to June 30, 2007; July 1, 2007 through June 30, 2009. Therefore, the USPAP Update course must be completed either for the 2006 or 2007 renewal.

The 15-hour tested USPAP course cannot be substituted.

• The course completion date is the date which is shown on the certificate of completion. Several appraisers, who took internet courses, logged them as having been completed once they have taken the exam, only to find that the education provider required additional action to finalize the course and their completion date was anywhere from 1 day to 3 months past the date logged. This can be construed as making a false or misleading statement. Until you have received your certificate of completion, particularly on internet courses do not make any assumptions. When logging your courses, take the information directly from the certificate of completion.

The Board will always encourage its appraisers to begin taking their continuing education early to avoid the last minute hunt for hours. A listing of the approved providers and their courses can be downloaded from the Board’s website at http://www.kansas.gov/kreab, under Education.
In 2001, the Board began having appraisers report their continuing education at renewal by completing and signing an affidavit, as opposed to submitting certificates of completion. In May of 2002, Kansas regulation, K.A.R. 117-6-1, was amended to require that an appraiser be responsible for tracking their continuing education and maintaining those education records for a period of five years, while making them accessible to the Board upon request.

And yet every year as the time for renewal draws near, the Board receives numerous calls from appraisers asking how many hours they have on record, how many hours do they need or have they taken the USPAP Update course. Each and every appraiser, whether licensed, certified or a trainee, should have a file of every appraisal course completed within the last five years.

Based on the number of calls directed to the Board with regard to the 2005 renewal education audit, too many of our appraisers are not maintaining these records with any accuracy. The following are some recommendations, not requirements, for maintaining your continuing, as well as qualifying, education records:

**QUALIFYING OR PRE-LICENSE EDUCATION**

- Copies of these certificates must be submitted with your application. Attach a copy of the application to the originals and place them in your education file. Should you choose to “upgrade” to a higher classification, some of those hours may still be used and you will again be required to submit your evidence of completion.

**CONTINUING EDUCATION**

- File your certificates chronologically. When you have prepared your renewal application, make a copy and attach it to the certificates logged on the form.
- If you are audited, maintain a copy of the completed audit form and all certificates submitted in answer to it. When you receive your “audit completion” notification, file this with it as well.
- When you have completed a course, if the certificate is not given to you on completion, calendar it. K.A.R. 117-6-3((k) requires that a provider issue a certificate of completion to each student within seven (7) days. Don’t wait until you have received an audit notice to contact the provider for a missing certificate.

**BACKGROUND**

In 1989 the President of the United States signed FIRREA into law. The Act’s Title XI created fundamental changes to the way appraisals are ordered by and performed for federally regulated institutions. One of Title XI’s key objectives is to ensure that appraisals conducted for federally related transactions are done in accordance with uniform standards by individuals whose competence has been demonstrated. Another critical point is to ensure that the ordering and reviewing of appraisals within a bank takes place away from the hands, eyes and control of those in loan production.

Awareness of FIRREA in the lending community seems to be at an all-time high, as federal regulators seek to actively enforce regulations focused in part on further separating those who order appraisals from those in loan production. This has been done mainly via two subsequent publications: the Interagency Appraisal and Evaluation Guidelines, published in October 1994, and the October 2003 guidelines, Independent Appraisal and Evaluation Functions. Therefore, it follows that compliance is also at an all-time high. Or does it?

For a three-week period in June 2005, we contacted approximately 90 bank review appraisers and credit officers via e-mail and telephone. The sample was nationwide, although the response ratio was greatest in the Southeast. Although this endeavor was less than scientific, it did provide some interesting results. Moreover, while the sample size was too small to be considered statistically valid, the shocking similarity in responses we got on many questions from a wide variety of lenders does suggest that the results are meaningful.

This is a snapshot of what they said.

**HOW COMMON ARE VIOLATIONS?**

Although opinions varied on this particular question, the majority of respondents seemed to think that vio-
lations were quite common but not at their bank. At first blush, this may seem to suggest an unwillingness to air dirty laundry; and maybe that’s a part of it. Another possibility is that review appraisers and credit officers at banks who play by the rules may simply have been more willing to participate in this study than their counterparts at less “compliance-conscious” institutions. Either way, the number of specific examples shared with us regarding serious violations is compelling evidence to suggest that violations are ongoing.

Why would compliance be an issue at the height of regulatory scrutiny? Isn’t the current emphasis by regulators making an impact? “Based on changes in community banking and the lack of experienced loan officers, I believe that FIRREA exceptions are becoming more common,” reports Brad Day, Senior Credit Officer with Quantum National Bank. Along similar lines, a high-level review appraiser at a large national bank who did not want to be identified, added, “FIRREA is a broad act subject to much interpretation. The OCC, OTC, FDIC and other agencies try to provide clarity from time to time. In some cases, interpretations are allowed to develop by default at the local bank level in the absence of OCC guidance.” This review appraiser may be on to something. Some of the “violations” shared with us during this study were things that did not in fact violate FIRREA, at least not according to our interpretation.

WHAT ARE THE MOST COMMON VIOLATIONS?
A high ratio of respondents cited these violations as most common:
• Use of outdated appraisals
• Business loans to be repaid with income from real estate/abundance of caution abuses
• Loan production people ordering the appraisal
• Borrowers choosing the appraiser/appraisals being “readdressed” to make it look like the appraisal had actually been ordered by the bank
• No “as is” value estimate provided in the appraisal

That last one seemed a bit surprising to us, since requiring an “as is” value is not only one of the more well-known requirements (so we thought), it would also seem to be one of the most easily detectable points of noncompliance. Upon following up, we found that appraisals not addressing the property in its “as is” condition at all is not very common; however, “as is” can apparently be interpreted in different ways. For example, some credit officers contend that reporting a value “as is, subject to rezoning” (and with no reporting of a value subject to current zoning) is nearly as common now as it was pre-FIRREA.

A point of contention that has recently come into the spotlight in many markets is the “as is” value of an apartment property to be converted to condominiums. Many lenders require the appraiser to value the property as apartments in addition to the proposed condominium use. According to bankers responding to our survey, however, some lenders look to significantly slash appraisal costs by instructing the appraiser to define the “as is” value as the value as proposed less the cost of conversion.

WHAT ARE THE MOST SERIOUS VIOLATIONS?
According to Dwayne Myrick, vice president of risk management at Flag Bank and former OCC Examiner, the most serious violation at banks with which his completes is “The lack of an appraisal at all…and you would not believe how common this is.” Many of Myrick’s colleagues agreed with this observation, and some went on to speculate that the practice of waiving the appraisal requirement was even more common at smaller banks. Each of the lenders that expressed this opinion was from a larger bank; we could not capture a consensus of opinions from smaller lenders on this issue since very few representatives of smaller banks were willing to participate in this survey. In defense of smaller institutions, our research did indicate that in recent months many smaller banks have hired chief appraisers and begun to implement and enforce compliance procedures found at larger institutions.

Other serious violations where there was strong consensus are listed below, some of which are similar to the above-listed most common violations, since they are also perceived to be the most serious.
• Real estate loans being made without appraisals
• Appraisers “hitting their numbers” in order to gain repeat business
• Borrowers choosing the appraiser/appraisals being “readdressed” to make it look like the appraisal had actually been ordered by the bank
• No “as is” value estimate provided in the appraisal
• Subdivision appraisals reflecting the aggregate retail price of the lots with no discounting to reflect a bulk value

An example of a particularly striking violation shared with us by a high-level credit officer at a regional bank is that written letters of engagement by loan officers were found to contain the loan amount, the loan-to-value ratio - and even the required appraisal amount. These engagement letters were in writing and even included in the addenda of the appraisal reports themselves.

THE BUSINESS SIDE OF COMPLIANCE
We posed the question, “Do you believe that other banks in your market that do not enforce FIRREA have a competitive advantage in this regard?” The answer: a resounding “Yes!” Whether that’s true or not is uncertain, but that certainly does seem to be
the perception. We were inundated with stories of loan officers reporting to credit officers that the competition is lowering the cost to the borrower by not requiring appraisals. However, since our survey did not include loan officers, these reports were third-hand at best. Moreover, no specific incidences were cited, suggesting at least the possibility that some of these incidents could have been more anecdotal than factual. Still, while we did not uncover specific examples, the consistency with which respondents reported that their bank loses business to competitors that illegally waive appraisal requirements should not be ignored.

OUTLOOK
The future is uncertain, but there are reasons for optimism. Mitch Smith, MAI, vice president at Wachovia Corporation, shared with us that many of the appraisal staffs at larger institutions have begun communicating with each other in an effort to raise the industry’s overall level of understanding and compliance. Others reported that those violators that are turned in to regulatory authorities are being dealt with seriously. Some smaller banks, which were identified as frequent violators by many of their big bank counterparts, are beginning to implement and enforce many of the compliance procedures found at larger institutions. One observation that reflects this trend is that while the general response level to our survey was low at smaller banks, the credit officers from smaller banks that did participate were clearly among the most informed on this topic. Another reason for cautious optimism is that numerous banks of all sizes have recently installed “firewalls” between appraisal review and loan-production functions.

Bradley R. Carter, MAI, CREE, CCIM, and Dori D’Esposito Bower are principals in Greystone Valuation Services, Inc., an Atlanta-based real estate appraisal and counseling firm.

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- Summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser’s signed and dated certification; and
- All other data, information and documentation necessary to support the appraiser’s opinion and conclusion and to show compliance with the Rule and all other applicable Standards, or references to the location(s) of such other documentation.

The appraiser’s assignment workfile serves several purposes. As in many other professions, the discipline of the enforcement by public agencies and peer review, together with one’s self-discipline and dedication of effort, serves to ensure performance of assignments in compliance with profession standards. In addition to facilitating enforcement, a workfile aids the appraiser in handling questions from the client or an intended user subsequent to the date of report.

An appraiser’s assignment workfile preserves evidence of the appraiser’s compliance with USPAP and other information as may be required to support the appraiser’s opinions, conclusions, and in the case of any appraisal consulting assignment, recommendations.

DISCLOSURE OF THE CLIENT IN A PRIOR ASSIGNMENT

Source: North Carolina Appraiser Report, August, 2005

There have been several dramatic changes to the Uniform Residential Appraisal Report Form (URAR) that will shortly be taking effect. One of those changes is that the form will ask whether you, as the appraiser, have previously appraised the subject property for another client, and to state the name of that prior client. Supplying this information is generally permitted under USPAP. You must, however, continue to protect the confidential nature of your original appraiser-client relationship. Some clients will ask you to keep confidential the fact that you appraised the property for them. In this circumstance, you may be able to satisfy your current client by identifying your former client by type, rather than by name. For example, you could say that you previously appraised the property for a lender, or for a court. You could not, under those circumstances, say that you appraised the property for the property owner or for the trustee on the deed of trust, as that would allow the current client to find out the name of your prior client. If your current client will not agree to allow you to identify the prior client by type, this would be an unacceptable assignment condition and you would have to turn down the assignment.

CONTENTS OF A WORKFILE: USPAP ETHICS RULE

Source: The Master Appraiser, May 2005

An appraiser must prepare a workfile for each appraisal, appraisal review, or appraisal consulting assignment. The Record Keeping section of the ETHICS RULE states:

The workfile must include:
- The name of the client and the identity, by name or type, of any other intended users;
- True copies of any written reports, documented on any type of media;
- Summaries of any oral reports or testimony, or a transcript of testimony, including the appraiser’s signed and dated certification; and
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A prior client may also have specifically requested that you not disclose to anyone in the future that you ever appraised the property. In that circumstance, you cannot tell your present client that you have appraised the property in the past. You would have to tell your present client that you cannot disclose the information to them, and that if they required you to do so as an assignment condition, you would have to turn down the assignment.

In any circumstance, regardless what your former client may have instructed you and regardless of what your current client wants, as the appraiser you must always use your best professional judgment to decide whether providing this information would fail to protect the confidential nature of the appraiser-client relationship you have with your former client.

On October 9, 2005, accessKansas.org, the official Web site of the state of Kansas, will become Kansas.gov. While the name and look will change, the services, support and the people behind them will remain the same. Kansas.gov is a name/URL that will be easier for users to remember and more clearly identifies the State of Kansas web site.

“Our goal is to provide a user-friendly gateway for citizens to access government services,” Tracy Smith, Kansas.gov general manager, said. “Kansas.gov is the most recent step in the continued progression of Kansas eGovernment.”

Kansas.gov will have a fresh new look to demonstrate the beauty and progressiveness of Kansas. The State web site will also be reorganized to make it easier for citizens, businesses and visitors to find the information and services they need. The redesigned home page will include a democracy section to give users quick access to information and contacts for State government, links to State agencies’ news, commonly used services and subscriber information.

Several businesses subscribe to accessKansas for simplified billing of online fee services, activity tracking and access to all services the State web portal provides. The change to Kansas.gov will not affect subscriptions to accessKansas/INK. Subscription status and usernames will remain the same as will the subscription agreement.

The State web portal is a service of the Information Network of Kansas (INK). INK was created by an act of the Kansas State Legislature (K.S.A. 74-9302) in 1990 to provide Kansans equal electronic access to state, county, local and other public information.

After October 9, the accessKansas.org URLs will redirect users to Kansas.gov. Many of the links to specific services and applications will remain the same. If one of your bookmarks does not take you to the usual location, please use the navigation on the Kansas.gov home page to find the information/service you need and update your bookmark.

With this change, the Kansas Real Estate Appraisal Board’s web site address will change to http://www.kansas.gov/kreab.

**USPAP Q & A**

**REVIEW REPORT ON THREE APPRAISAL REPORTS**

*Q.* I have been asked to review three appraisal reports and to report my findings in one appraisal review report. Does USPAP permit this?

*A.* Yes. A single appraisal review assignment can include the review of several appraisal reports, with the assignment results presented in one appraisal review report. Similarly, a single appraisal report can provide assignment results for an appraisal that includes several properties.

**DON’T ACCEPT UNLESS YOU CAN APPRAISE FOR...**

*Q.* I received an appraisal order that says: “If you can’t appraise the property for $xxx,000, you must not accept the appraisal assignment.” How should I respond to this appraisal order?

*A.* Accepting such an assignment would violate the Management section of the ETHICS RULE, which states, in part:

*It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an assignment, that is contingent on any of the following:*

1. the reporting of a predetermined result (e.g., opinion of value);
2. a direction in assignment results that favors the cause of the client;
3. the amount of a value opinion;
4. the attainment of a stipulated result; or
5. the occurrence of a subsequent event directly related to the appraiser’s opinions and specific to the assignment’s purpose. (Bold added for emphasis)

You could respond to this request with the following statement: “I cannot accept the assignment with this condition because it violates professional ethics. You should be aware that I must develop the appraisal before I will know the results. I can only accept the
Standards Rules 2-2(a)(v) and 2-2(b)(v) address the type and definition of value used in an assignment. The Comments to these Standards Rules state, in part: "Stating the definition of value also requires any comments needed to clearly indicate to intended users how the definition is being applied."

In cases of sudden market change, it would be necessary to specifically disclose such things as how the appraisal has addressed the motivation of buyers and sellers, supply and demand, the conditions of the sale (e.g. exposure in a competitive market), etc.

As noted in STANDARD 2, the content of all real property appraisal reports, "...must be consistent with the intended use of the appraisal..." In the case of a rapidly changing market, the report must have enough information to allow intended users to understand the market conditions and to use that information in their decision making.

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.

**IMPROVEMENT ONLY APPRAISAL**

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**Q.** In a real estate appraisal, is it permissible to appraise only the improvements?

**A.** Yes. Standards Rule 1-2(e)(v) states that the subject of an assignment may be a physical segment of a property.

The subject of a real property appraisal is not required to include all of the physical parts of an identified parcel or tract of real estate. The subject of a real property appraisal can be all or any part of an improved or unimproved parcel or tract of identified real estate. For example, the subject of a real property appraisal could be a part of the land, the improvements on or to the land, or some other configuration within a parcel or tract of identified real estate.

Use of a hypothetical condition or extraordinary assumption is not necessary in the specific case of appraising the building component of an improved property, although one or both may be necessary in other specific cases.

**SUDDEN MARKET CHANGES RELATED TO CATASTROPHIC EVENTS**

**Q.** I live and work just outside the area recently devastated by Hurricane Katrina. My market area is experiencing sudden changes in supply and demand, and real estate sales prices have climbed rapidly. Does USPAP provide advice to real estate appraisers on how to handle sudden market changes brought about by such catastrophic events?

**A.** Although USPAP does not directly address the appraisal issues associated with catastrophic events, the following passages may be especially important in appraisals involving properties in markets that are changing rapidly, for any reason. Standards Rule 1-2(e) requires an appraiser to identify economic attributes relevant to the subject property. Standards Rule 1-3(a) specifically requires analysis of supply and demand.

For Self-Contained and Summary Appraisal Reports, USPAP requires disclosure of "economic property characteristics relevant to the assignment." Market conditions (including sudden market changes related to catastrophic events) are "economic property characteristics," and so should be identified in the development of an appraisal and disclosed in the appraisal report.
15-hour USPAP on or prior to June 30, 2006; that Sizemore take and pass the examination of a minimum 15-hour Sales Comparison course on or prior to June 30, 2006; that Sizemore cease all supervision for a period of six (6) months following completion of the above referenced education; and that Sizemore pay $320 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.

DONALD L. STEWART (R-942), FORT SCOTT
COMPLAINT #429

Violations: K.S.A. 58-4121, 58-4118(a)(6), 58-4118(a)(7), and 58-4118(a)(8).
Action: A Consent Order was entered into on August 22, 2005, with the following terms and conditions: That Stewart take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; and that Stewart pay $480 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.

Jeffrey D. North (R-1476), Kansas City, MO
Complaint #421

Violations: K.S.A. 58-4121, 58-4118(a)(6), 58-4118(a)(7), and 58-4118(a)(8).
Action: A Consent Order was entered into on August 26, 2005, with the following terms and conditions: That North take and pass the examination of the 15-hour USPAP course on or prior to June 30, 2006; and that North pay $480 to cover the cost of the review associated with this complaint within 30 days from the date of the Order.

A listing of approved providers and their courses may be accessed from the Board’s web site at http://www.kansas.gov/kreab, then click on Education.

Keep in mind that any appraiser whose original date of licensure was prior to July 1, 2005, must log 14 hours of approved continuing education in order to renew.

July 1, 2005 was the beginning of the current education cycle. Each appraiser will have to complete the 7-hour USPAP Update course once during this two-year cycle. In other words, you may take the USPAP Update either for your 2006 or your 2007 renewal. Due to the numerous changes proposed for the 2006 USPAP, it might be a good idea to plan on taking it once the course begins teaching with the 2006 edition.