



# NORTH CAROLINA APPRAISAL BOARD

# APPRAISER REPORT

Volume 11

Winter 2001

Number 1

## STAFF UPDATE



*Elizabeth M. Caudill*

Elizabeth M. Caudill has joined the Appraisal Board staff as the new Appraiser Clerk. A native of Asheville, Mrs. Caudill graduated *Cum Laude* from Salem College with a bachelor's degree in American Studies and a double minor in History and Art History.

Before joining the Board staff, Mrs. Caudill was associated with North Carolina State University in Raleigh where she worked as an editorial assistant. In her new position, she will be responsible primarily for providing support to the Board's Legal Counsel and for maintenance of the licensee files. □

## SCHEDULE UPDATE

In an effort to improve access to the Board's Open Forum, the May 10-11 Board Meeting will be in Duck, N.C. Please contact the Board office for details. □

## DRIVE-BY POLICY A Slight Modification

The North Carolina Appraisal Board recently revisited and modified its policy with respect to an appraiser's ability to perform an appraisal in North Carolina without the benefit of an interior and complete exterior inspection of the subject property. This action was taken due to some lingering misunderstandings of the Board's 1997 policy.

Advisory Opinion AO-2 of the Uniform Standards of Professional Appraisal Practice (USPAP) says that, "It is the appraiser's responsibility to determine if adequate information is available about the subject real estate to develop a real property appraisal that conforms with USPAP. An appraiser cannot rationally develop an appraisal if adequate information on the subject real estate is not available. Consequently, where physical characteristics information is not available through an opportunity for a complete inspection or from reliable third-party sources, an appraiser has the duty to obtain the necessary information to develop the appraisal before continuing or to withdraw from the assignment."

The Board's policy statement as modified says:

*The Board will allow appraisals with exterior-only or drive-by type property inspections that comply with the USPAP requirements. If an appraiser's exterior inspection of the property does not provide sufficient information about the subject property to perform the appraisal, the appraiser must also inspect the interior of the property. It is the responsibility of each appraiser to decide if the scope of the appraisal assignment can be performed without an interior inspection of the property and still meet the USPAP requirements.*

This wording reflects two slight changes from the Board's policy statement that was established in 1997. The changes are: (1) the specific references to particular Fannie Mae and Freddie Mac forms have been deleted, and (2) a statement found in materials distributed by Fannie Mae has been added as the second sentence of the policy statement. The purpose of the first change is to delete the particular form numbers so the Board would not be required to change its policy statement if the form numbers change or if new forms are added. The purpose of the second change is to let appraisers know that an exterior-only inspection may not be possible in every situation and to give appraisers some guidance in determining when such an inspection is appropriate. This guidance comes from and is discussed in more detail in Fannie Mae Announcement LLO7-96 that can be obtained by calling Fannie Mae's Documents on Call Service at 1-800-303-1037 and requesting document number 9018.

Appraisers electing to perform drive-by appraisals are encouraged to read and follow the requirements of USPAP and the guidance contained in Fannie Mae's announcement. □

# APPRAISERREPORT

Published as a service to appraisers to promote a better understanding of the Law, Rules and Regulations, and proficiency in ethical appraisal practice. The articles published herein shall not be reprinted or reproduced in any other publication, without specific reference being made to their original publication in the **North Carolina Appraisal Board Appraisereport**.

## NORTH CAROLINA APPRAISAL BOARD

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Michael F. Easley, Governor

### APPRAISAL BOARD MEMBERS

J. Vance Thompson  
Chairman .....Elkin  
Henry E. Faircloth  
Vice-Chairman .....Salemberg  
Charles G. Bass .....Raleigh  
Bart Bryson .....Hendersonville  
Bruce W. DesChamps .....Wilmington  
Jack O. Horton .....Elizabeth City  
E. Ossie Smith .....Oxford

### STAFF

Mel Black, *Executive Director*  
Roberta A. Ouellette, *Legal Counsel*  
John K. Weaver, *Deputy Director*  
Matthew W. Green, *Investigator*  
Donald T. Rodgers, *Investigator*  
Lynn P. Crawford, *Appraiser Secretary*  
Kim N. Giannattasio, *Administrative Assistant*  
Elizabeth M. Caudill, *Appraiser Clerk*

### APPRAISER COUNT (As of March 1, 2001)

Trainees .....	1056
Licensed Residential .....	227
Certified Residential.....	1589
Certified General.....	856
Total Number .....	3728

### APPRAISER EXAMINATION RESULTS

November, December, 2000 & January 2001

Examination	Total	Passed	Failed
Trainees	54	43	11
Licensed Residential	3	3	0
Certified Residential	21	16	5
Certified General	9	7	2

Examinations are administered by a national testing service. For information, please contact the North Carolina Appraisal Board in writing at Post Office Box 20500, Raleigh, North Carolina 27619-0500.

# Chairman's Comments on Rulemaking and Open Forum



J. Vance Thompson

As many of you know, a petition was filed last year asking the Board to commence rulemaking proceedings to adopt a proposed rule. That rule would have required the Board's investigators to perform a Standard 3 review on all appraisal related complaints, and to make a determination of value if the investigator finds the appraisal report lacked credibility or was misleading in any manner.

The Board granted the rulemaking petition and began the rulemaking process. A public hearing was held in October 2000. Many people took the time to make comments either before or during the public hearing or to attend the hearing. The Board carefully considered all comments and discussed whether or not to adopt the rule as proposed. At its December 2000 meeting, the Board voted not to adopt the rule.

As a result of the comments received in the rulemaking process, the Board decided to examine its disciplinary process from start to finish. I appointed a committee to carry out this task, and this committee began its work in January. The committee will consider the comments made in the rulemaking process described above, including when a Standard 3 review may be appropriate as part of an investigation. A report from the committee is expected this spring.

Another result from the public hearing was the institution of an Open Forum at Appraisal Board meetings. The first such forum was held in January and was very successful. We hope that all appraisers feel welcome to come to our Board meetings, express your opinions during the Open Forum, and stay to watch the Board at work. □

## KENTUCKY - Newest Reciprocal State

North Carolina has entered into a formal reciprocity agreement with the Commonwealth of Kentucky. This agreement was effective in late December 2000 and streamlines the application and renewal processes in one jurisdiction for appraisers residing in the other. This agreement does not include trainees.

With this agreement, North Carolina now has reciprocity with ten states and commonwealths. They are:

Alabama	New Hampshire
California	Oregon
Georgia	South Carolina
Kentucky	Washington
Louisiana	West Virginia

# Approved Continuing Education Courses

(As of February 20, 2001)

Listed below are the courses approved for appraiser continuing education credit as of date shown above. Course sponsors are listed alphabetically with their approved courses. Shown parenthetically beside each course title are sets of numbers [for example: (15/10)]. The first number indicates the number of actual classroom hours and the second number indicates the number of approved continuing education credit hours. You must contact the course sponsor at the address or telephone number provided to obtain information regarding course schedules and locations.

## ALAMANCE CC

P.O. Box 8000  
Graham, NC 27253 (336)578-2002

Appraising Small Residential Income Prop (10/10)  
Construction Methods I: Print Reading (5/5)  
Construction Methods II: Fndtns & Msnry (5/5)  
Ethical Principles of Appraisal I (4/4)  
Intro to Commercial Real Estate (4/4)  
New Exstg Res Cds Affing RE Appr (10/10)  
Real Estate Finance (4/4)

## ALBEMARLE APPR & RE ACADEMY

605 E. Main St.  
Elizabeth City, NC 27909 (919)335-5030

How to Read an Appraisal (4/4)  
USPAP (10/10)

## ALLSTATE HOME INSPECTION TRAINING INSTITUTE

Rt. 1, Box 130  
Randolph Center, VT 05061 (800)245-9932

Environmental Awareness Seminar (8/8)  
FHA Test Preparation (8/8)  
Introduction to Home Inspection (8/8)  
USPAP Refresher (8/8)

## AM SOC FARM MANGRS & RURAL APPR

950 S. Cherry St., Suite 508  
Denver, CO 80222 (303)758-3513

A-12 (II) Nat USPAP (15/15)  
A-12 Part I ASFMRA Code of Ethics (7/7)  
Adv Appraisal Review A-35 (49/30)  
Advanced Resource Appraisal A-34 (30/30)  
Appraising Natural Resources (8/8)  
Appraising Rural Res Prop (8/8)  
Appraising Rural Res Prop (16/14.5)  
Conservation Easement (16/16)  
Fed Lnd Exchg & Acqstn: App (18.5/18.5)  
Fractional Interests (16/16)  
Highest & Best Use A-29 (15/15)  
Rural Business Valuation Sem (16/16)  
Timber & Timberland Value (16/16)  
Uniform Agriculture App Report (15/15)

## AMERICAN SOCIETY OF APPR (THE)

535 Herndon Parkway, Suite 150  
Herndon, VA 22070 (703)478-2228

SE100: National USPAP (15/14)

## AM SOCIETY OF APPRAISERS NC CHAPTER

605 NC Highway 54 West  
Chapel Hill, NC 27516 (919)967-3338

SE100 USPAP (15/15)

## AMERICAN SCHOOL OF RE APPR

P.O. Box 275  
Cherryville, NC 28021 (704)435-1111

Current Issues & Prob Solving (14/14)  
Today's Analysis of Res Appr (10/10)  
USPAP (15/15)

## APPRAISAL FOUNDATION/ASB

1029 Vermont Ave. NW, Suite 900  
Washington, DC 20005 (202)347-7722

USPAP Update (7/7)

## APPRAISAL INSTITUTE

c/o AMA, 950 S. Cherry Street, Suite 508  
Denver, CO 80246 (303)758-3513

320 General Applications (39/30)  
410 National USPAP (16/16)  
430C Stndrds of Prof Prctc - Part C (15/15)  
500 Adv Res Form & Narrative Wrt (40/30)

520 High & Best Use & Mkt Analysis (40/30)  
530 Adv Sales Comp & Cost Approach (40/30)  
600 Inc Val of Small Mixed-Use Prop (15/15)  
610 Cost Val of Small Mixed-Use Prop (15/15)  
620 Sales Comp Val Sm Mixed-Use Prop (15/15)  
705 Ltgn Appr: Splzld Topics (16/16)  
710 Condemnation Appr: Basic Prin & Apps (15/15)  
720 Condemnation Appr: Adv Topics & Apps (15/15)  
Appraisal of Local Retail Prop (7/7)  
Appr Rev Sem-General (7/7)  
Appr Rev Sem-Single Fam Res (7/7)  
Appraisal of Non-Conforming Uses (7/7)  
Appraising Manufactured Housing (7/7)  
Case Studies in Com Hghst & Bst use (7/7)  
Case Studies in Res Hghst & Bst use (7/7)  
Convincing Residential Appr. (4/4)  
FHA Appr Insp From Ground Up (7/7)  
Gen Demo Appr Rpt Writing Sem (14/14)  
HUD Rent Comparability Stud (4/4)  
Partial Interest Valuation-Divided (7/7)  
Partial Interest Valuation - Undivided (7/7)  
RE Fraud: Appr's Responsibilities & L (7/7)  
Real Estate Disclosure (7/7)  
Reits & Role of the RE Pro (7/7)  
Res Demo Appr Rpt Writing Sem (14/14)  
Rgrssn Anlys for Appr: Concepts & Apps (7/7)  
Residential Design & Functional Utility (7/7)  
Residential Consulting (7/7)  
Serving the Client (5/5)  
Small Hotel/Motel Valuation (7/7)  
State of the Profession (4/4)  
The FHA and the Appraisal Process (7/7)  
Understanding and Testing DCF Val (4/4)  
Val of Detrimental Conditions in RE (7/7)

## ASHEVILLE-BUNCOMBE TECH CC

340 Victoria Rd.  
Asheville, NC 28801 (828)254-1921

USPAP (10/10)  
PDH RE - Basic Surveying (5/5)  
Res Bldg Code Changes in NC (5/5)  
The UDO: Rgltn RE Use & Dev (4/4)  
USPAP 2000 (15/15)

## CAROLINA MOUNTAIN LAND CONSERVANCY

P.O. Box 2822  
Hendersonville, NC 28793 (828)697-5777

Conservation Easements (6.25/6.25)

## CENTRAL PIEDMONT COMMUNITY COLLEGE

P.O. Box 35009  
Charlotte, NC 28235 (704)330-6493

Challenging the Appraisal (4/4)  
Maximizing Value (4/4)

## COLLEGE OF THE ALBEMARLE

P.O. Box 2327  
Elizabeth City, NC 27906-2327 (252)335-0821

Res Sales Comp Approach & EF (14/14)  
The Tough Ones: Complex Residential Prop (14/14)  
The Uniform Standards Today (14/14)

## COMMERCIAL INVESTMENT RE INST

430 N Michigan Ave 8th Floor  
Chicago, IL 60611-4092 (312)321-4473

CI101 Fin Analysis Comm Inves (30/30)  
CI102 Market Analysis Com I (30/30)  
CI103 Lease Analysis Comm Inv (30/30)  
CI104 Invest Analysis Comm In (30/30)

## DAN MOHR RE SCHOOLS

1400 Battleground Ave., Suite 150  
Greensboro, NC 27408 (336)274-9994

Depreciation Workshop (7/7)  
Envrnmntl Hazards-Res Prop (7/7)

Extraction of Data from Market Res (7/7)  
HP 12C Course (7/7)  
Intro to Residential Construction (30/30)  
Res Appr & Conv Undrwrng Guide (7/7)  
Residential Construction Seminar (14/14)  
Rules & Regs FHA/HUD Rqrmnt (14/14)  
The Narrative Appraisal Report (7/7)  
Using Streamlined Appr Rpt Forms (7/7)  
USPAP 2001 (15/15)

## DARRELL K. HIGNITE

300-B West Arlington Boulevard  
Greenville, NC 27834 (252)756-7288

2055 & 2065 Appraisal Reports (4/4)  
Marketing Appraisals in 2000+ (5/5)  
USPAP (5/5)

## DENNIS BADGER & ASSOC., INC.

P.O. Box 23220  
Lexington, KY 40523 (859)252-3445

Mfg Housing Appr as Appls to RE (7/7)

## DUKE UNIVERSITY

A108B LSR/Box 90328  
Durham, NC 27708 (919)684-2135

Forest Appraisal (36/30)

## EDGECOMBE CC

225 Tarboro Street  
Rocky Mount, NC 27801 (252)446-0436

Appr Mfg, Mod & Mobile (A) (7/7)  
Appr Mfg, Mod & Mobile (B) (7/7)  
Narrative Appr Report Writing (14/14)  
Prin & Tech Val 2-4 Units Res Prop (14/14)  
RE Finance for Appraisers (14/14)  
Rural Valuation Seminar (14/14)  
Single Fam Res App (14/14)  
Standards of Professional Practice (15/15)

## ELLIOTT & COMPANY APPRAISERS

7-C Oak Branch Drive  
Greensboro, NC 27407 (336)854-3075

Sharpening Your Appraisal Skills (14/14)

## ERICK LITTLE & CO.

P.O. Box 4267  
Cary, NC 27519 (919)460-8823

Appraising Modular, Land/Home Pk (7/7)  
Appraising Mobile, Mfg, Modul (7/7)  
Forms, Drive By, FHA, Fannie Mae (7/7)  
New FHA Reqmnts, Fannie Mae & VA (14/14)  
Special Appr-Eminent Domain (7/7)  
Uniform Standards for 1999 (7/7)

## FREDDIE F. STELL APPRAISAL SCHOOL

2121 Guess Road  
Durham, NC 27705 (919)416-1117

Fannie Mae Underwriting Guidelines (7/7)  
FMNA Gdlns Rural/Com Lndng/USPAP (7/7)  
Res/Invstmnt/Com/Indstl Forms (10.5/10.5)  
The Site Inspection (7.5/7.5)

## HALL INSTITUTE

PO Box 52214  
Raleigh, NC 27612-0214 (919)481-2080

Researching and Buying Raw Land (4/4)

## HISTORIC PRESERVATION CONSULTING

22 Pan Will Road  
Mineral Bluff, GA 30559 (706)492-7234

Marketing & Appraising Historic Property (14/14)

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# Approved Continuing Education Courses

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<b>IAAO</b> 130 East Randolph Street, Suite 850 Chicago, IL 60601 (312)819-6100	<b>MOULTRIE B WATTS</b> P.O. Box 447 Cary, NC 27512 (919)851-2100	<b>RALEIGH REGIONAL ASSOCIATION OF REALTORS</b> 111 Realtors Way Cary, NC 27513 (919)654-5400
101 Fund of Real Prop Appr (30/30) 102 Inc Approach to Valuation (30/30) 252 Val Prop Aff Environmental Con (15/15) 311 Res Modeling Concepts (30/30) 312 Comm/Ind Modeling Concepts (30/30) 400 Assessment Administration (30/30) 500 Assessment of Personal Prop (30/30) 600 Prin & Tech of Cadastral Mapping (30/15) App of Res Modeling Concepts (30/30) Applications of Mass Appr Fund (30/30) Appraisal of Land (30/30) Dev Capitalization Rates (7/7) Fundamentals of Mass Appraisal (30/30) Preparation for Litigation (7/7)	FHA 2000 (14/14)  <b>NAIFA</b> 7501 Murdoch Avenue St. Louis, MO 63119 (314)781-6688	Appr Process & Val of Residential Prop (4/4) Calculating Square Footage in Residential Prop (3.5/3.5) Residential Construction (4/4)
<b>INSTITUTE OF GOVERNMENT</b> 223 Knapp Building, CB#3330 Chapel Hill, NC 27599-3330 (919)966-4372  Standards of Practice & Pro Ethics (18.5/18.5)	1031 Like Kind Exchange (4/4) 11.8 Calc Gross Liv Area Using (7/7) 2.0 Financial Analysis Inc Property (15/15) 2000 Roadmap Seminar (4/4) 4.0 Marshall & Swift Valuation Guides (15/15) 4.1 Marshall & Swift Res Cost M (8/8) 5.0 Pro Standards of Practice (15/15) Basic Farm, Ranch & Rural Seminar (4/4) Blue Print Reading Seminar (4/4) Bridging the Gap Between Lend & (4/4) Calc Gross Living Area Using ANSI (4/4) Commercial Report Writing (15/15) Condemnation/Expert Witness (4/4) Environmental Concerns Seminar (4/4) Historic Appraising Seminar (4/4) Home Inspections: Common De (4/4) HUD Review Update (4/4) Internet & Appr Practice Seminar (4/4) Intro to Auto Val Mod Tech Seminar (4/4) Preparing Your Listing for F (4/4) Reading Financial Statement (4/4) Relocation Sem (4/4) Residential Report Writing (15/15) Valuing Undivided Interest (4/4)	<b>RANDOLPH CC</b> P.O. Box 1009 Asheboro, NC 27204 (336)629-1471  Timber Appraisal Overview (10.5/10.5)
<b>INTERNATIONAL RIGHT OF WAY ASSOCIATION</b> 13650 S. Vermont Avenue, Suite 220 Torrance, CA 90502-1144 (213)538-0233	<b>NAMA/LINCOLN GRADUATE CENTER</b> P.O. Box 12528 San Antonio, TX 78212 (800)531-5333	<b>SCHOOL OF REAL ESTATE APPRAISING</b> 62 N. Chapel Street #204 Newark, DE 19711 (302)368-2855  Guide to Relocation Appr (7/7) Review of USPAP (7/7)
103 Ethics & Right of Way Profession (8/8) 402 Intro to Inc Approach to Val (8/8) 403 Easement Valuation (8/8) 801 Land Titles (10/10)	<b>NAMA/LINCOLN GRADUATE CENTER</b> Environmental Site Assessment (15/15) HUD Appraisal Standards Update (7/7) Manufactured Housing Appraisal (15/15) Principles of Property Inspection (20/20) Principles of Appraisal Review (15/15) Real Estate Environmental Screening (7/7) Residential Environmental Screening (7/7) Residential Appraisal Review (7/7) Standards of Prof Appraisal Practice (15/15) USPAP Update (7/7)	<b>SOUTHEASTERN CC</b> P.O. Box 151 Whiteville, NC 28472 (910)642-7141  Applied Sales Comp Approach (10/10) Mathematics of Finance (14/14) Rural Valuation Seminar (10.5/10.5)
<b>JACK A UNDERDOWN INC</b> 920 N. Bridge Street Elkin, NC 28621 (336)835-2256  Mastering the HP-12C (10/10)	<b>NC RE EDUCATION FOUNDATION (NCAR)</b> 2901 Seawell Road Greensboro, NC 27406 (800)443-9956  Legal Issues in Real Estate (7/7) Residential Construction (7/7) Residential RE as an Investment (7/7) Tax Planning for the RE Agent (7/7)	<b>STACEY P. ANFINDSEN</b> 1145-E Executive Circle Cary, NC 27511 (919)460-7993  Appr Process and Val of Residential Prop (4/4)
<b>JOHNSTON CC</b> P.O. Box 2350 Smithfield, NC 27577 (919)934-3051  Appraisal 2000 (14/14) USPAP 2000 (14/14)	<b>NCDOT (ATTN: B CRIST)</b> 629-B Peters Creek Parkway Winston-Salem, NC 27103 (336)761-2310	<b>SURRY CC</b> P.O. Box 304 Dobson, NC 27017 (910)386-8121  Appr/Math Using HP12-C (15/15) USPAP 2000 (15/15)
<b>LENOIR CC</b> P.O. Box 188 Kinston, NC 28502-9946 (252)527-6223	Appr Review for Fed Aid Hwy Part A (14/14) Appr Review for Fed Aid Hwy Part B (14/14) Appr Foundation USPAP Update (3.5/3.5) Appr Guide & Legal Principle (10/10) Dist App for Manu Hous/Cons (7/7) Highest & Best Use (3.5/3.5) Matched Pairs & Market Extra (3.5/3.5) Most Common Errors Appraisers Make (7/7) NCDOT Seminar I - '99 (7/7) NCDOT Seminar II - '99 (7/7) Reviewing Appraiser's Seminar (14/14) Rural Appraising - Why a Problem (7/7) Six Appraisal Reporting Options (3.5/3.5) The After Value Appraisal (7/7)	<b>TRIANGLE APPRAISAL &amp; RE SCHOOL</b> 4525 Falls of Neuse Road Raleigh, NC 27609 (919)876-9596  Overview of FNMA (14/14)
Appr Mfg, Mod, & Mobile (A) (7/7) Appr Mfg, Mod, & Mobile (B) (7/7) Challenging the Appraisal (4/4) Manufactured, Modular & Mobile (4/4) Maximizing Value (4/4) Pricing Complex Properties (4/4) Pricing Sm Inc Properties (4/4) Prin/Tech Val 2-4 Unit Res (14/14) USPAP & NC Rules & Regs for Appr (15/15)	<b>NCSU SOIL SCIENCE DEPT</b> Campus Box 7619 Raleigh, NC 27695 (919)513-1678	<b>TRI-COUNTY CC</b> 2300 Highway 64 East Murphy, NC 28906 (828)837-6810  The Inspection: On-Site Experience (14/14)
<b>M CURTIS WEST</b> P.O. Box 947 Zebulon, NC 27597 (919)217-8040  Inc Cap Approach - Pst, Pres, Fut (10.5/10.5) Property Tax Values & Appeals (6/6)	Basics of On-Site Sewage (6/6) Getting the Dirt on Soils (6/6) On-Site System Tech Refresh (6/6) Wells & Septic Systems (4/4)	<b>WAKE TECH CC</b> 9101 Fayetteville Road Raleigh, NC 27603-5696 (919)772-0551  Appr Mfg, Modular, & Mobile Part A (7/7) Appr Mfg, Modular, & Mobile Part B (7/7) Challenging the Appraisal (4/4) Manufactured, Modular, & M (4/4) Maximizing Value (4/4) Pricing Complex Properties (4/4) Pricing Small Income Properties (4/4)
<b>MCKISSOCK DATA SYSTEMS</b> P.O. Box 1673 Warren, PA 16365 (814)723-6979	Applied Income Capitalization (14/14) Income Cap Techniques (8/8)	<b>WENDELL HAHN &amp; ASSOCIATES</b> PO Box 5313 Columbia, SC 29250 (803)779-4721  Computers 2001 (7/7) FHA Guidelines 2001(7/7) The Modern Appr Office - Part A (7/7) The Modern Appr Office - Part B (7/7) USPAP 2001 (14/14)
Automated Valuation Model (7/7) Factory-Built Housing (14/14) Info Tech & the Appraiser (7/7) Intro to Narrative Appr Report Wrt (7/7) Intro to Review Appraisal (7/7) RE Fraud & Appr's Role (7/7) The Appr as Expert Witness (7/7) USPAP (14/14) Vacant Land Appraisal (7/7)	<b>YVONNE C. SHARP &amp; ASSOCIATES</b> 66 River Oak Court Temple, GA 30179 (770)562-1999  The Inspection (14/14)	<b>WESTERN PIEDMONT CC</b> 1001 Buckemont Ave. Morganton, NC 28655 (828)438-6104  USPAP & NC Rules & Regs for Appr (15/15)
<b>MINGLE SCHOOL OF RE</b> P.O. Box 35511 Charlotte, NC 28235 (704)372-2984  Basic House Construction (4/4) Commercial RE Development (10/10) Commercial RE Property Management (10/10) Environmental Impact on Res RE (4/4) NC Appr Act, Board Rules & USPAP #2 (15/15) NC Appr Act, Board Rules & USPAP #3 (4/4)		<b>WILLIAMS APPRAISERS ED CENTER</b> PO Box 33786 Raleigh, NC 27636 (919)424-1900  Applied Income Capitalization (14/14) Income Cap Techniques (8/8)



# USPAP Q & A

## Question #1:

I am a certified general appraiser whose practice includes both residential and commercial appraisal assignments. Recently it has become very common for my “clients” to require me to pick up the check for the appraisal fee from the borrower. This takes place in both residential and commercial assignments. Since I am being paid directly by borrower, does he become the client?

## Answer:

No, USPAP defines the client as; “*The party or parties who engage an appraiser (by employment or contract) in a specific assignment.*”

*Comment: The client identified by the appraiser in an appraisal, appraisal review, or consulting assignment (or in the assignment workfile) is the party or parties with whom the appraiser has an appraiser-client relationship in the related assignment, and may be an individual, group, or entity.*

The act of the borrower or any other entity paying the appraiser does not make them the client under USPAP. However, state laws could take precedence over USPAP in this situation. Therefore, you should contact the pertinent jurisdictions to ensure that USPAP is not in conflict.

## Question #2:

I understand that the Appraisal Standards Board adopted a new Statement for the 2001 edition of USPAP that places additional Supplemental Standards upon the appraiser. Is this true?

## Answer:

No, Statement No. 10 (SMT-10), *Assignments for Use by a Federally Insured Depository Institution in a Federally Related Transaction*, in the 2001 USPAP does not introduce new requirements for appraisers who do this type of work. Rather, the Statement provides clarification, interpretation, explanation, and elaboration on how supplemental standards issued by Title XI-related regulatory agencies cited in the Statement affect an appraiser’s obligations in specific types of appraisal assignments.

Statement No. 10 (SMT-10) was developed in response to input from the Inter

Agency Work Group (IAWG), composed of representatives from the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Board (FRB), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS). Based on field and examination experience, the IAWG brought to the ASB’s attention instances of non-compliance when appraisers were performing assignments for use by federally insured depository institutions in federally related transactions. The IAWG requested the ASB’s clarification, interpretation, explanation, and elaboration of USPAP to reaffirm an appraiser’s USPAP obligations when performing such assignments.

Assignments of this type include supplemental standards specific to an institution’s intended use of the assignment results, which have a direct effect on an appraiser’s scope of work. Statement No. 10 (SMT-10) addresses general USPAP applicability and compliance questions, and specific instances of non-compliance with USPAP requirements that are applicable in such an assignment. Further, this Statement explains and elaborates on what an appraiser’s ethical and competency obligations are when accepting assignments involving the agencies’ appraisal regulations and guidelines that, in some cases, supplement USPAP requirements.

Specific questions regarding regulatory compliance or requirements should be addressed directly to the appropriate agency.

## Question #3:

I am a manager for an appraisal management company that performs commercial and residential appraisals in various parts of the country. Our company acts as the agent for our clients who consist of numerous regional and national lenders. In that capacity, we take in appraisal orders from our clients and order those appraisals from fee appraisers on our approved list of appraisers. We also perform Standard 3 compliant reviews on those appraisals. We forward the appraisal and review reports to our client. Are we required to keep a file of the appraisal reviews in compliance with the Record Keeping section of the Ethics Rule?

## Answer:

Yes, the Record Keeping section of the

ETHICS RULE in USPAP requires that:

*An appraiser must prepare a workfile for each assignment. The workfile must include the name of the client and identity, by name or type, of any other intended users; true copies of any written reports,...*

Further, it is important to note that the requirement under USPAP is for the **appraiser** to retain a copy of:

*the workfile for a period of at least five (5) years after preparation or at least two (2) years after final disposition of any judicial proceeding in which testimony was given, whichever period expires last...*

Therefore, it is incumbent upon the appraiser, not his or her employer, to ensure that a copy of the workfile is available for the time periods stipulated above.

## Question #4:

Can a violation of a Supplemental Standard be an Ethics Violation?

## Answer:

As explained below, in some instances “Yes” and in other instances “No. Supplemental Standards are requirements issued (i.e., published) by such bodies as client groups, governmental entities, and/or professional appraisal organizations as a reasonable means to augment USPAP. USPAP defines Supplemental Standards as: *An assignment performance requirement that adds to the requirements in USPAP.*

If an appraiser and client ascertain that a given set of supplemental standards, in addition to USPAP, apply to an assignment, and the appraiser agrees to abide by those supplemental standards; but then fails to comply, the appraiser has violated the Supplemental Standards Rule in USPAP.

*Upon agreeing to perform an assignment that includes acceptable supplemental standards, an appraiser is obligated to competently satisfy those supplemental standards, as well as applicable USPAP requirements.*

If the reason for non-compliance with an agreed upon supplemental standard was an error in judgment or a lack of diligence on the part of the appraiser, then the violation is covered by the Competency Rule.

*Continued on page 6*

# USPAP Q & A

Continued from page 5

The *COMPETENCY RULE* requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently.

If the reason for non-compliance is deliberate failure to comply with the agreed upon supplemental standards, then the violation is an ethical issue and is covered by the revised Ethics Rule effective 1-1-2001.

An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards agreed to by the appraiser in accepting the assignment.

## Question #5:

What is that "Privacy Notice" in the 2001 edition of USPAP about, and how am I to figure out what to do in response to the law and regulation it references?

## Answer:

The Privacy Notice that appears in the Key Features at the front of the 2001 edition and as a footnote to the definition of *Confidential Information*, the Confidentiality section of the ETHICS RULE, and in Statement 5 is about federal legislation (i.e., the Gramm-Leach-Bliley Act, November 1999), and new privacy regulations published by financial institution regulatory agencies (e.g., OTS, OCC, FDIC, and FRB) and by the Federal Trade Commission (FTC).

Those law and regulatory actions may affect an appraiser's obligations when handling information received from a client that is a lender, or from that client's customer or a consumer as a loan applicant, or directly from a consumer.

The ASB recognizes that the way in which USPAP currently addresses an appraiser's confidentiality-related obligations might not be consistent with the requirements in the law and regulations referenced above.

First, when confronted with a situation in an assignment where a part of USPAP conflicts with law or regulation in that assignment, the JURISDICTIONAL EXCEPTION RULE applies as a savings clause to permit setting the conflicting part of USPAP aside and complete the work in compliance with the remainder of USPAP.

Second, the ASB is in the process of publishing a Concept Paper on

*Confidentiality as it Relates to USPAP.*

The purpose of that Concept Paper is to gather comments from the broad range of parties who will be affected by the law and regulation in their day-to-day business. The Concept Paper is not an exposure draft, but is a part of the exposure draft development process. Copies of the Concept Paper are available on The Appraisal Foundation website. The above referenced agencies regulations are available on their respective websites.

## Question #6

I've been told I have to have a complete legal description for the subject property of every appraisal I perform. Is this required by USPAP?

## Answer:

No, USPAP does not require a complete legal description for the subject property, since it is recognized that it is not always possible to do so. However, the reporting standards for real property, personal property and business appraisals do have similar minimum identification requirements.

In the reporting standards for real property, SR 2-2(a)(iii), for example, it states the appraiser must present:

*"information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment;*

*Comment: The real estate involved in the appraisal can be specified, for example, by a legal description, address, map reference, copy of a survey or map, property sketch and/or photographs or the like. The information can include a property sketch and photographs in addition to written comments about the legal, physical, and economic attributes of the real estate relevant to the purpose and intended use of the appraisal.*

Similar requirements for sufficient identification of real property subjects are also contained in SR 2-2(b)(iii) and (c)(iii).

For personal property and business or intangible assets, the requirements include similar language to present "information sufficient to identify" the property or assets (refer to SR 8-2(a), (b) and (c)(iii) for personal property and to SR 10-2(a) and (b)(iii) for business appraisals). □

# FORMS

Recently the Appraisal Board staff has received many inquiries regarding various forms sent to them by clients, especially appraisal management companies. One form asks the appraiser to estimate a range of value, rather than a specific value. Another asks for a value relationship, such as "not less than the previous appraised value" or "is worth at least as much as the assessed value." A range of value or a value relationship is still a value, and results in an appraisal.

Some of the forms contain language stating that it is not an appraisal. The Appraisers Act makes it clear that an appraisal is "an analysis, opinion, or conclusion as the value of identified real estate or specified interests therein performed for compensation or other valuable consideration." No matter what disclaimers are used, if a value is given for a specific piece of property it is an appraisal.

At least one form Board staff has looked at does not require the appraiser to sign the report or certification. This is a direct violation of USPAP Rule 2-3, which requires appraisers to sign the certification, and Appraisal Board Rule 57A .0405, which requires appraisers to sign the report and affix a seal. Appraisal Board Rules are supplemental standards as defined in USPAP; they add additional requirements for appraisal reports, and appraisal reports must be done in compliance with Board rules.

Statement on Appraisal Standards No. 7 (SMT-7), which is part of USPAP and therefore binding on appraisers, discusses various types of reporting options for appraisers and how they relate to Standards Rule 2. For example, SMT-7 explains that an Evaluation of Real Property Collateral, which is used by some financial institutions, is a limited appraisal that must be reported in one of the three reporting options. The Letter Opinion of Value does not comply with USPAP and has been replaced with the Restricted Report.

The Appraisal Board does not approve or endorse any form. Appraisers are responsible for deciding whether a form complies with USPAP, and should review Standards Rule 2 and Statement 7 for guidance if necessary.

In addition, some appraisers may be of the opinion that all they need to do to complete an appraisal assignment is to fill out the form. They may not be complying with all the requirements of Standards Rule 1. Appraisers should be aware that no matter how they choose to report their opinion of value, they must comply with Standard 1 when developing the appraisal and Standard 2 when reporting the appraisal. This includes, among others, highest and best use, easements and encumbrances and sales and listing history.

The format of the form and the types of blanks to fill in do not determine USPAP compliance. Any form can be completed in a manner that does not meet USPAP, and any form, along with an addendum, can be completed in a manner that does meet USPAP. When in doubt, rely on your professional ability to follow Standard 2 to dictate how you report your assignment results. □

# DISCIPLINARY ACTIONS

**Charles V. Brooks, Jr. (Mooreville)** - By consent, the Board suspended Mr. Brooks' residential license for a period of one month. The suspension is stayed until May 1, 2001. If Mr. Brooks takes a standards (USPAP) course by that date, the suspension will be inactive. The Board found that Mr. Brooks and a trainee appraised a home located in Charlotte, NC. The subject property had 3,808 square feet and a flat roof. Two of the three sales used in the sales comparison analysis were approximately 800 square feet smaller than the subject property. None of the sales used had a flat roof and no adjustment was made for difference in design/appeal. There were sales available that were more comparable to the subject property than those used by Mr. Brooks in the appraisal report that would have indicated a lower appraised value.

**Kimberly Bunnells (Wilmington)** - By consent, the Board reprimanded Ms. Bunnells and ordered her to take a standards (USPAP) course and a sales comparison course by May 1, 2001. If she fails to take the courses as agreed, the reprimand will be vacated and a one month suspension will be activated on that date. The Board found that Ms. Bunnells, a registered trainee, appraised a single-family residence located in Goldsboro, NC for \$175,000 while working under the supervision of a state-certified residential real estate appraiser. Although the subject property was 19 years old on the effective date of the appraisal, all three comparable sales were 1 year old. The comparable sales were all from superior areas. There were more similar comparable sales available on the effective date of the appraisal that were not considered. At the time this appraisal was performed, Respondent had only 7 weeks of field experience as a trainee.

**Tracee Chance (Charlotte)** - By consent, the Board suspended Ms. Chance's trainee registration for a period of one month. The suspension is stayed until May 1, 2001. If Ms. Chance takes a standards (USPAP) course by that date, the suspension will be inactive. The Board found that Ms. Chance, working under the supervision of a state-licensed real estate appraiser, appraised a home located in Charlotte, NC. The subject property had 3,808 square feet and a flat roof. Two of the three sales used in the sales comparison analysis were approximately 800 square feet smaller than the subject property. None of the sales used had a flat roof and no adjustment was made for difference in design/appeal. There were sales available that were more comparable to the subject property than those used in the appraisal report that would have indicated a lower appraised value.

**Charles Coker (Pinetops)** - By consent, Mr. Coker voluntarily surrendered his residential certificate. The Board dismissed the charges against him.

**Clifford Reaves (Wilmington)** - By consent, the Board suspended Mr. Reaves' residential certification for a period of one month. The suspension was stayed until April 1, 2001. If Mr. Reaves takes a sales comparison course by this date, the suspension will be inactive. The Board found that a trainee working under the supervision of Mr. Reaves appraised a single-family residence located in Goldsboro, NC. Although the subject property was 19 years old on the effective date of the appraisal, all three comparable sales were 1 year old. The comparable sales are all from superior areas. There were more similar comparable sales available on the effective date of the appraisal that were not considered.

**Kenneth Richardson (Lumberton)** - By consent, the Board suspended Mr. Richardson's general certification for a period of three months. The suspension was stayed until February 2001. Mr. Richardson also agreed to take a course in standards (USPAP), and a narrative report writing course by March 1, 2001. If he takes the courses as agreed, only the first month of the suspension will be active. The Board found that Mr. Richardson appraised a tract of vacant land located in Fayetteville, NC in April 1999, finding an appraised value of \$796,000. The property was under contract at the time of the appraisal for \$575,000, yet this fact was not mentioned in the appraisal report. Mr. Richardson also appraised a tract of land located in Winston-Salem, NC in March 1999, finding an appraised value of \$1,319,000. The property was under contract at the time of the appraisal for \$620,000, yet Mr. Richardson did not mention the sales contract in the appraisal report. This property had sold for \$100,000 four months prior to the appraisal, but the sales history of the subject was not mentioned in the appraisal report. That sale was not an arms length transaction. Both appraisals were done for the same client. Mr. Richardson used a restricted report to communicate the results of the assignments, but on both reports, he failed to include the appropriate use restriction. In both reports, Mr. Richardson's client instructed him to use a 10% cap rate, which he did. There was no data in the workfiles to support this cap rate, although Mr. Richardson believed it to be an accurate rate based on prior appraisal work he had done.

**Richard Ricozzi (Charlotte)** - Following a hearing, the Board authorized legal counsel to enter into a consent agreement with Mr. Ricozzi that suspends Mr. Ricozzi's residential certification for a period of two years. The first 60 days of the suspension will be active, and the remainder will be stayed until June 30, 2001. Mr. Ricozzi will complete a standards (USPAP) course and an R-3 course by June 30, 2001. If the courses are not completed by that date, the remaining term of the suspension will become active. Mr. Ricozzi also agrees that he will supervise no more trainees. The Board found that a trainee working under the supervision of Mr. Ricozzi appraised five properties located in Albemarle and New London, NC. On the effective date of the appraisals, the subjects were listed for sale, yet this fact was not mentioned in the appraisal reports. There were other errors on the appraisal reports that Mr. Ricozzi failed to notice. The sales dates on most of the comparable sales used by the trainee in the appraisal reports were incorrect. There were other comparable sales available to the trainee that could have supported a lower appraised value for the subject property. Mr. Ricozzi did not inspect any of the subject properties in these appraisals. On all five appraisal reports, the trainee failed to verify his comparable sale data. Mr. Ricozzi failed to adequately supervise the trainee.

**Richard Simmons (Charlotte)** - By consent, the Board suspended Mr. Simmons' certification for a period of three months. The suspension is stayed until March 1, 2001. Mr. Simmons also agreed to take a course in standards (USPAP), and a residential appraisal course by March 1, 2001. If he fails to take the courses as agreed, the suspension will be activated on that date. The Board found that Mr. Simmons Respondent appraised a single-family residence located in Charlotte, NC in August 2000, finding an appraised value of \$90,000. The property had been sold two months prior to the appraisal for \$20,000, yet Mr. Simmons did not consider and analyze the sale. The subject property had received significant repairs and renovations since that sale. The subject property contained 1077 square feet. The comparable sales used by Mr. Simmons were 403 SF, 145 SF and 617 SF larger respectively than the subject. Mr. Simmons misstated the distances of two of his sales and the age of one sale. There were sales available that were more comparable to the subject property and were located in the subject neighborhood. Those sales ranged from \$65,000 to 73,900. □



# Assumptions, Extraordinary Assumptions and Hypothetical Conditions - What's the Difference?

Appraisers are often asked to appraise properties where they may not be able to verify every fact in an appraisal report. In order to complete the assignment, appraisers may make certain assumptions about the property. USPAP defines an assumption as "that which is taken to be true." A typical assumption might be that all mechanical, electrical and plumbing systems are in working order. Since the property is occupied, the appraiser is pretty sure that this is the case, but has not actually tested each and every electrical outlet. To make an assumption in this circumstance is reasonable, as the appraiser has no reason to doubt those conditions.

In some circumstances, the appraiser may be uncertain about some characteristic of the subject property that is necessary for the analysis. In that case, the appraiser may utilize an extraordinary assumption to complete the appraisal assignment. USPAP defines an extraordinary assumption as "an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions." The comment to this definition states "Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of data used in an analysis." The concept of the extraordinary assumption,

and its definition, were added to USPAP in the 1999 edition, which was effective March 31, 1999.

An extraordinary assumption would be appropriate in a situation where, for example, the subject property is residential but currently vacant. If the utilities have been turned off, the appraiser cannot check to see if the plumbing or electrical systems work. If these systems do not work, it would have a significant effect of the appraiser's opinions and conclusions. The appraiser can make an extraordinary assumption that these systems are functional and proceed with the assignment.

A hypothetical condition is used in situations where the appraiser knows some condition is false, but the assignment calls for the appraiser to appraise a subject based on that condition. USPAP defines a hypothetical condition as "that which is contrary to what exists, but is supposed for the purpose of analysis." The comment in USPAP states, "Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property or about conditions external to the property, such as market conditions or trends, or the integrity of data used in an analysis."

For example, appraisers are often asked to appraise a piece of land on which a home will be built. Since the appraiser knows that the home is not yet built, he cannot appraise it subject to an extraordi-

nary assumption. He can, however, appraise it subject to a hypothetical condition. As another example, a client may ask the appraiser to appraise the subject as though it were zoned commercial, when in fact it is currently zoned residential. The difference in zoning will probably result in a different highest and best use. The appraiser knows the property is not zoned commercial, so he can use only a hypothetical condition. A hypothetical condition is a false condition. The appraiser must be careful to explain what facts are false and what conditions were used in the hypothetical. For a new single-family residence, that can mean including a copy of the plans and specifications used by the appraiser in the assignment.

USPAP has special reporting requirements when an appraiser uses an extraordinary assumption or hypothetical condition. Rules 2-2(a)(viii), (b)(viii) and (c)(viii) each say the appraisal report must, "state all assumptions, hypothetical conditions, and limiting conditions that affected the analyses, opinions, and conclusions." The comment to these rules states, "Typical or ordinary assumptions and limiting conditions may be grouped together in an identified section of the report. An extraordinary assumption or hypothetical condition must be disclosed in conjunction with statements of each opinion or conclusion that was affected." □

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