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Transferring Appraisals: Helping Lenders and Brokers Understand How Standards and Rules Intersect

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Although appraisers and lenders work closely together, the Appraisal Institute believes that there is still some confusion in the marketplace over when, if and how appraisals can be transferred.

According to the Appraisal Standards Board's Advisory Opinion 26, after an assignment has been completed and the report has been delivered, appraisers are sometimes asked to readdress (transfer) the report to another party. The Uniform Standards of Professional Appraisal Practice states that once a report has been prepared for a named client(s), and any other identified intended users and for an identified intended use the appraiser cannot readdress (transfer) the report to another party.



To illustrate this point, take the example of an appraiser being engaged by Client A to appraise a property. The appraiser delivered the appraisal report to Client A. The client has decided not to pursue the transaction that generated the need for the appraisal report. The appraiser is then contacted by Client B who requests that the original report be readdressed by replacing Client A's name with Client B's name in the report. This is unacceptable, according to USPAP's Advisory Opinion 26. Simply changing the client name on the report cannot change or replace the original appraiser-client relationship that was established with Client A.

When an appraiser identifies the client, other intended users and intended use at the beginning of an appraisal assignment, the appraiser thereby obligates him/herself to meet the needs of those parties for that use. The appraiser's scope of work must be appropriate for that intended use, and the level of detail in the appraisal report must be sufficient to enable the client and other intended users to understand that report. If a report is simply transferred to another party, that report might not be appropriate for that party's use. An appraiser is hired to provide a professional opinion of value for a particular circumstance, not to prepare a report that can be used by anyone for any purpose.

The ASB addresses another common issue in its Advisory Opinion 27; appraisers who have previously appraised a property are asked by a different party to appraise the same property. In some instances this request is made shortly after the first appraisal; in others, it could be months or years later. According to USPAP, accepting the assignment from the subsequent prospective client is not prohibited provided appropriate disclosure is made to the client prior to being engaged, and any existing confidential information is handled properly. If a prior assignment included any confidential information, its disclosure to a different client or intended user without the prior client's permission would violate the Ethics Rule if the information were still classified as confidential information.

Litigation appraisals are also addressed by Advisory Opinion 27. Sometimes appraisers perform appraisals for a client involved in litigation and then are asked to appraise the same property for the opposing party. This is not prohibited by USPAP assuming that appropriate disclosure is made to the client and confidential information is handled correctly.

Seven assignment elements set the parameters for the assignment and define the problem to be solved. The identification of these seven elements comprise a significant portion of Standard 1 in USPAP. The valuation process begins with establishing:

- ▶ Client;
- ▶ Other intended users;
- ▶ Intended use;
- ▶ Purpose (type of value, in an appraisal assignment);
- ▶ Effective date (date of value)
- ▶ Relevant property characteristics; and
- ▶ Assignment conditions.

If any one of the assignment elements change, the appraiser needs to stop and re-think the assignment. Many clients and appraisers incorrectly assume that a brand new report will be required, which isn't the case. Appraisers need to carefully explain the new details to the client to avoid any surprises.

With regard to updating a prior assignment, updates are commonly misunderstood by both appraisers and their clients. For many clients, "update" means faster and cheaper. This is not necessarily the case.

In an update, the effective date of value in the new assignment is different from the effective date of value in the prior assignment, so the appraiser will need to consider market data and changes in market conditions that have transpired since the prior assignment.

In the past, loan originators have requested that appraisers update appraisals prepared for other institutions for free. Needless to say, there is additional liability created for the appraiser when performing work for a new client. Appraisers will likely charge commensurately for the additional time, expense and liability to perform an appraisal update service, which is essentially a new assignment.

Let's consider a couple of other examples where lenders might have misconceptions about the valuation process.

- ▶ Client B asks the appraiser for a reliance letter regarding an appraisal that was prepared for Client A. The appraiser cannot accept this request.
- ▶ A letter giving a party permission to rely on an appraisal is not appropriate. This would amount to adding intended users after the fact. USPAP requires that intended users be identified at the time of the assignment, not after it's completed. If Client B wants to rely on the appraiser's opinion of value, they should hire the appraiser for a new assignment.
- ▶ Client B asks the appraiser for a copy of the appraisal report that was prepared for Client A.
- ▶ The appraiser can give Client B a copy of Client A's report only if authorized to do so by Client A. Giving Client B a copy does not make Client B a client or an intended user. If after obtaining Client A's authorization the appraiser gives Client B a copy, the appraiser should inform Client A of this.

It is important for lenders and appraisers to note that there are a couple of new USPAP requirements that mandate certain actions on the part of the appraiser:

- ▶ Tell the potential client (prior to accepting the assignment) if s/he has been involved in any service relating to the property in the past three years; and
- ▶ Include the following statement, edited appropriately, in the certification to the report:

"I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment."

While it's important for lenders and brokers to be more familiar with the rules and standards that appraisers must follow, it's also worth exploring Fannie Mae and Freddie Mac's rules relative to accepting **original appraisals**, via the following examples. This is further covered in the [Interagency Appraisal and Evaluation Guidelines](#).

- ▶ A mortgage broker submits a loan to Lender A, who orders an appraisal. The broker later decides to submit the loan to Lender B because Lender B offers better terms, or for another reason. Assuming the mortgage broker has no control over, or involvement in the appraisal assignment, may the appraisal obtained by Lender A be used by Lender B?
- ▶ Yes. A lender may accept an appraisal from a different lender if that appraisal complies with Appraiser Independence Requirements. In this scenario, since Lender A is the original lender, Lender A must be named as the client on the appraisal report.
- ▶ Can lenders accept appraisals transferred from another lender?
- ▶ A lender may accept an appraisal from a different lender if the appraisal is obtained in a manner consistent with AIR, and the lender receiving the transferred appraisal determines that the appraisal conforms to its own requirements and is otherwise acceptable.
- ▶ Can lenders accept an appraisal from an AMC specifically authorized by a different lender to act on its behalf?
- ▶ Yes. If the lender receiving the transferred appraisal determines the appraisal was obtained in a manner consistent with AIR that the appraisal conforms to the lender's requirements and is otherwise acceptable.
- ▶ May an appraiser update an appraisal for another lender?
- ▶ Yes. An appraiser is permitted to perform an update of an appraisal for another lender.
- ▶ What documentation is required during an appraisal transfer to demonstrate that the lender transferring the appraisal to another lender is complying with AIR?
- ▶ Each lender must develop its own documentation requirements to ensure compliance with AIR, based on its business model and processes.
- ▶ AIR allows Lender B to originate a loan using an appraisal transferred by Lender A. Lender B determines with written assurances that the appraisal was obtained in a manner consistent with AIR. This conforms to Lender B's requirements for appraisals and is otherwise acceptable. Will Freddie Mac hold Lender B liable for remedies if it is discovered after the transfer that Lender A did not obtain the appraisal in a manner consistent with AIR?
- ▶ Yes. As with all other representation and warranties under the Guide, Freddie Mac will hold Lender B, the lender who sold the loan to Freddie Mac, fully responsible for any violations of AIR and the Guide's requirements.

Appraisers and lenders have the opportunity to collaborate on a regular basis, and with a greater degree of appreciation for the standards and rules that govern appraisers' actions, these working relationships will only be enhanced to the benefit of both parties.



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