

**IMPORTANT NEWS REGARDING LEGAL APPRAISAL PRACTICES  
AUGUST 16, 2004  
FROM: APPRAISAL ONE, INC.**

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In 2003 and continuing into 2004, the Uniform Standards of Professional Appraisal Practice, commonly known as USPAP, and banking regulators have been working together to reform several areas of appraisal practices as they pertain to mortgages. Because of the number of calls we receive from clients regarding matters that are directly affected by said reforms, and in an effort to maintain Appraisal One's good standing with its clients throughout the U.S., it became apparent that a public relations message to its clients based upon Appraisal One's knowledge and research of the reforms might be helpful to the clients of Appraisal One, Inc.

In this effort, Appraisal One, Inc. has had several phone interviews with a representative of USPAP in Washington, D.C.; has James Girardot, President of Appraisal One, Inc. and two staff appraisers attend USPAP 2004 Update seminars; has reviewed FannieMae guidelines; has reviewed regulations of national banking regulatory entities and invested in a full review and legal opinion by Appraisal One, Inc.'s legal counsel located in Seattle, WA. The following are matters that require addressing by all of us so that we can continue to maintain a mutually successful working relationship.

(Please keep in mind that Appraisal One, Inc. is not offering this message as a confirmation of its own belief in or agreement with the use of the terms that will be discussed. If anybody or any lender has any contention with or takes exception to any of the following, they would be encouraged to communicate directly with USPAP or the respective federal banking authority.)

1. RECERTIFICATION OF VALUE. The term "Recertification of Value" is a misnomer from historic application to 2004 reality. Historically, if a lender needed an update of value of a property, that is, a document that at least said that the conclusion of value of a property from a prior appraisal has not declined, it was common to call and say, "I need a recertification of value on such-and-such property."

Per USPAP, "a Recertification of Value is performed to confirm whether or not the conditions of a prior appraisal have been met. In other words, if the appraisal had been completed on a "subject to" basis, a "Recertification of Value" is ordered by a lender in order to instruct the appraiser to revisit the appraised property to see that whatever items that caused the appraisal to be completed on a "subject to" basis have been completed.

2. UPDATE OF APPRAISAL. Accepting the definition of "Recertification of Value" as explained above, there remain those cases in which an appraiser has completed an appraisal for a lender and, subsequent to the effective date of the appraisal and for whatever reason the lender requires one, a lender actually does want an update of value. Per USPAP, this request is now called an "Update of the Appraisal"; it is not an extension of the original appraisal nor is it a reconfirmation of the originally appraised value.

An "UPDATE" of an appraisal is a new assignment in which a lender "seeks a more current value or analysis of a property that was the subject of a prior appraisal." As a new appraisal assignment, per USPAP, an "UPDATE" is "a valuation service provided as a consequence of an agreement between an appraiser and a client."

The development of a current value by the appraiser must be in accordance with the Standards of USPAP that were applicable to the original appraisal assignment. In this perspective, if the appraiser completed the original appraisal for the same lender that is now ordering an "UPDATE"—now known as a NEW assignment—the appraiser can save some time by "incorporating by reference" portions of the original appraisal. However, if the appraisal was completed by a different appraiser for a different lender, the appraiser receiving the "NEW ASSIGNMENT" to provide an "UPDATE" has to follow USPAP standards regarding new appraisal assignments.

There are several formats for completing an "APPRAISAL UPDATE" depending on whether the lender ordering the update a) wants to use the effective date of the original appraisal, b) needs a re-inspection of the subject property by the appraiser in order to create a new effective date, c) needs a format of reporting in which the appraiser has neither re-inspected the subject property—interior or exterior—nor inspected and/or photographed pictures of new comparable sales, d) needs either an interior or an exterior inspection of the subject and/or the sales and/or e) is the original lender.

With the above definitions of "RECERTIFICATION OF VALUE" and "APPRAISAL UPDATE, a lender needs to be clear whether the lender is ordering a "Recertification of Value"—in essence, the form that is commonly known as a "442"—or an revaluation of the value of the subject property, which is a new assignment and is legally named an "UPDATE" by federal regulation.

3. RELEASE AND REASSIGNMENT OF APPRAISAL: Supplement 21—May 2004, Page 2, Commercial Bank Examination Manual: . . . "institutions may not use 'readdressed appraisals'—appraisal reports that are altered by the appraiser to replace any references to the original client with the institution's name. Altering an appraisal report in a manner that conceals the original client or intended users of the appraisal is misleading and violates the agencies' appraisal regulations and the Uniform Standards Of Professional Appraisal Practice (USPAP). (See SR-03-18.)

USPAP AO-26: "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.

"Simply changing the client name on the report cannot change or replace the original appraiser-client relationship that was established with Client A. Therefore, this action is misleading."

FACT: An appraisal cannot be retyped into the name of another lender even if the original lender provides a here-to-fore document commonly known as a "release," which "release" historically was intended to give permission to an appraiser to retype the appraisal into the new lender's name.

The new lender's request for a valuation of the subject property is a new assignment; the new assignment can be handled either through an order for an update or a completely new appraisal request with the lender establishing the effective date and the scope of the work to be completed by the appraiser.

USPAP AO-27: "It should be noted that the value conclusion could easily be different if the effective date or the scope of work changed in any manner. It should also be noted that USPAP requires the appraiser to provide an unbiased opinion of value to each client. . . .

"This constitutes a second assignment, a new client and a new agreement between a client and an appraiser."

4. ALTERNATIVE: Per the Federal Reserve, Electronic Code of Federal Regulations: e-CFR:

“(b) Fee Appraisers. (1) If an appraisal is prepared by a fee appraiser, the appraiser shall be engaged directly by the regulated institution or its agent, and have no direct or indirect interest, financial or otherwise, in the property or the transaction.

“(2) A regulated institution also may accept an appraisal that was prepared by an appraiser engaged directly by another financial services institution, if:

“(i) The appraiser has no direct or indirect interest, financial or otherwise, in the property or the transaction; and

“(ii) The regulated institution determines that the appraisal conforms to the requirements of this subpart and is otherwise acceptable.”

#### 5. SUMMARY:

1) A “Recertification of Value” is a 442; this document has only to do with verifying that work on a subject property has been completed in accordance with the original appraisal.

2) An “Appraisal Update” is a request from a lender for a valuation of a property; it is a new appraisal assignment. An “Appraisal Update” can be ordered by any lender, can be completed by any appraiser and can include the effective date and scope of work requested by the lender.

3) A “Letter of Release,” a “Re-assignment of an Appraisal” and a “Retype of an Appraisal” no longer exist.

4) A lender does have the right to use an appraisal that was completed by an appraiser for another lender as long as the new lender accepts the appraisal in its written form.