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Organizing Reports for Focus and Understanding

By Jo Crescent, ASA ARM

Abstract: This article addresses the practical issue of organization in appraisal review reports, including discussion of introduction, conclusion, and how to group critical issues of the work under review (WUR) and use headings to guide the reader through the review analysis. Some examples from actual appraisal review reports are included.



Organizing the Appraisal Review Report

Like a road map, a well-laid out appraisal review report leads the intended user or other reader's of the report through the findings and analysis of the review environment to arrive at the desired goal: an understanding of the credibility of the work under review. USPAP explicitly states that "Standard 4 [Appraisal Review, Reporting] does not dictate the form, format, or style of appraisal review reports" and that "the substantive content of a report determines its compliance." USPAP does, however, place an extraordinary emphasis on the responsibility of providing a report that is understandable to the intended user(s), and many appraisal review reports are confusing. We've all seen review reports that read more like a check list or mash-up of facts and observations than a carefully considered presentation of the review analysis.

Let's consider how organization of those facts and observations—whether tightly focused on compliance with particular USPAP Rules or Standards or addressing the broader issue of CAARRs—might more effectively inform and educate a reader of an appraisal review report.

Introducing the User to the Review Analysis

Ideally, the review report will begin with a concise introduction. This may be a cover letter, but because a cover letter may not be considered part of the report, try discarding the traditional transmission letter—which is not required by USPAP. Instead, introduce the report with a few informative paragraphs, focus the user's attention on the two or three top problems with the WUR. This introduction will help to guide the user through the report. Here's an example:

Important areas of the WUR are incomplete, confusing or misleading. In particular, the WUR does not state the intended use, leading to lack of confidence in the definition of value used, and it does not provide adequate discussion of the analysis and research used for several key areas, including the 3 critical pieces of cost approach methodology: cost data, trend data and depreciation analysis.

Because the WUR fails to comply with several areas of USPAP including the Ethics Rule, the Competency Rule, and the Scope of Work Rule, as well as Standard Rules 7 & 8, which are relevant to the specifics of Personal Property Appraisal, the work under review is not credible for its intended use in decisions relating to settlement of a family law dispute.

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This appraisal review report points out specifics of non-compliance and discusses the importance compliance with USPAP Standards in creating credibility of appraisal reports. Discussion of minor considerations incidental to the overall credibility of the report, such as inappropriate vocabulary (i.e., “estimated Replacement Value” and “Summary report”) are not addressed in this review report.

The user / reader now enters the review report environment with a heightened awareness, alert for your explanations of how the USPAP Standards neglected in the WUR are important to the credibility of an appraisal report. What happens next?

Providing More Background

While the user / reader may be eager to plunge into the unfolding of WUR problems, this could be a good spot in the report to lay a solid foundation for the analysis to come. Take this opportunity to cite any rules or standards referenced in the upcoming narrative so that users have an opportunity to draw their own conclusions as to how the rules and standards guide your analysis. This is also a convenient place to provide USPAP-required information for an appraisal review such as identification of the WUR, appraiser’s name, WUR report date, and explanation of the scope of work, along with the relevant appraisal standards for the WUR , and USPAP Standards 3 and 4 (which regulate appraisal review development and reporting). The correct signed certification page could also be placed here.

A Note on IVS

An appraisal report that claims to be in compliance with IVS, USPAP, SSVS etc cannot be judged against the USPAP Development and Reporting Standards for its specific discipline. It can, however, be reviewed by an ASA ARM. In such a case, the review report should clearly that because IVS review standards are limited, the review is guided by USPAP appraisal review standards for completeness, accuracy, adequacy, relevance, and reasonableness as listed in Standard Rule 3.

Addressing Material Issues in the WUR

Lead with the most critical issue and address the others in order of importance. In writing sections, put the most important information in the first sentence. This is not the time for a long lead up to the punchline. The more efficiently the problems are presented, the more useful the report will be to the user. Looking back at the report I submitted for my ARM designation, I notice that the Material Issues section starts with the lack of a signed certification. Yes, it’s a USPAP requirement but the most important issue to an intended user or a judge or jury would probably be that this WUR—which used cost approach to arrive at the opinion of value—provided no explanation of the three critical pieces of cost approach methodology. This issue was further detailed in the review report with questions about the validity of cost data, the choice of a proper trending index, and the calculation of depreciation factors, including the determination of normal useful life.

Groupings and Subheads

ASA's ARM POV classes teach the syllogistic writing process taught in law schools: IRAC and CRAC. IRAC (Issue, Rule, Analysis, Conclusion) and CRAC (Conclusion, Rule, Analysis, Conclusion) are useful in developing and presenting analysis and can be particularly useful for the appraisal review process, providing a straightforward structural guide that assists the intended user in easily following the review analysis.

Because these methodologies depend upon including the particulars of the Rule or Standard into the corresponding sections of analysis, where the connection is clear to the user, consider grouping areas of general concern, using subheads to address specifics. For instance, if most of the issues in a report fall under the Scope of Work Rule or a reporting Standard (2,4,6,8, 10), grouping those issues together may allow a single presentation of the Rule or Standard rather than inserting it for each issue, although specific Standards Rules should be included as appropriate.

For example, a main section on Standards Rules 7 and 8 might provide an overview such as

Standards Rules 7 & 8 provide standards for development (7) and reporting (8) of personal property appraisals. An appraisal report's consistency in meeting those Standards provides insight into the knowledge and experience the Competency Rule expects of an adequately completed appraisal assignment.

This main section could be followed with a sub-section on the lack of minimum content that includes Standards Rule 8-1 and 8-2 (viii).

Alternatively, an appraisal review report could present an overall heading such as "Incomplete, Confusing, or Misleading Content" with a citation of the appropriate Standards Rule (8-1, for example) and then present each instance as a sub-headed section without further reference to that Rule.

When introducing a group of issues, the intended users will find it helpful to be offered a brief introduction into the areas of non-compliance about to be addressed. A sentence or two directly following the section heading will provide your readers a jumping off place into the specifics you provide:

Several areas of the WUR reduce its credibility. The WUR is based upon an incomplete and incorrect scope of work, ignores state regulations particular to the subject assets being appraised, uses questionable methodology in arriving at an opinion of value, and provides incomplete certification.

Helpful Headings

Most reports will not need more than three or four heading levels; fewer can sometimes be more effective. All headings must indicate a change in information and direct the user to what is coming next in the report. Avoid confusing or unclear headlines. Don't be like one review report writer who under the heading "Approaches to Value Not Used" included the sales comparison approach (which was used) and didn't mention the cost approach at all.

Explaining the Issues

A report limited to listing the issues of the WUR and referencing related Standards or Rules will probably fail to educate the user. Many reports would be easier to understand

with a few more words—explanations that adequately and clearly explain how the Rules and Standards help protect the user and validate the opinion of value. Don't assume that the user will make the necessary connection between what the WUR neglected and how that reflects on its credibility. Take the space necessary to explain why a problem is a problem, discussing the rule or best practice that addresses the particular issue: Don't just say, as one review report did, "This conclusion may be conclusory, with minimal analysis and explanation, and lacking adequate support."

Whether an appraisal review report is strictly addressing compliance with particular USPAP Rules or Standards or addressing the broader issue of CAARRs, the user will benefit from understanding which specific USPAP Standards have been neglected & how or which of the CAARR qualities are lacking in the WUR's discussion of methodology and analysis. In short, when addressing a specific issue, link it directly and clearly to a particular Standard or CAARR, and explain why the rule is important to the intended user.

For each issue, be clear that the report references only the WUR and not the appraiser who wrote it.

Concluding WUR Credibility

Make a strong concluding statement, restating and encapsulating the critical issues of the WUR. Remember that introduction? Share language between these two sections to reinforce and remind the user of the issues addressed, any discrepancies between the WUR and what one should expect from a credible appraisal report, given the appraisal industry's accepted standard of care as presented in USPAP, IVS, CUSPAP, SSVS, and so on. The report might also

rely on other industrywide appraisal resources., such as Valuing Machinery and Equipment for equipment appraisals, Mandatory Performance publications from the Corporate and Intangibles Valuation Organization for business valuations, or the Appraisal Institute's The Appraisal of Real Estate for real property appraisals.

If the WUR should not be considered credible, state that clearly and summarize the reasons for your conclusion. Consider re-stating the important USPAP references. Here is an example:

While the WUR includes numerous irregularities in regard to USPAP standards, the critical issue for its credibility is inadequate disclosure.

In demonstrating that the required research and analysis was performed and in clearly stating the appraisal problem, the report fails to provide complete, adequate, and reasonable discussion and explanation. USPAP Standards 7 and 8, which guide the specifics of Personal Property Appraisal Development and Reporting, specifically address the need for this information to support the opinion of value.

USPAP Standard 8, which provides the reporting standards for personal property appraisal, states in Standards Rule 8-1 that "The content of an Appraisal Report must be appropriate for the intended use of the appraisal and, at a minimum ...provide sufficient information to indicate that the appraiser complied with the requirements of STANDARD 7"

These reporting requirements are intended to ensure that any appraisal

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report will provide sufficient evidence and logic to support the opinion of value. The WUR does not provide that information and thus its opinion of value cannot be considered credible or worthy of belief.

Finishing the Report

A strong, clear, and supported conclusion provides the user with a sense of closure and understanding. The review analysis has been introduced; a foundation of information on appraisal standards provided; the issues grouped into clearly titled sections and connected to the pertinent standards, whose benefit to the user has been plainly

explained. Respected and accepted resources have been quoted and cited. Having been led carefully through an organized analysis of the WUR, any reader (intended user, judge or jury) should feel confident in the appraisal review report's evidence and diagnosis.

About the Author

Jo Crescent, ASA, is a partner and office manager at NorCal Valuation Inc. In addition to her ARM designation, she has taken several ASA Machinery and Equipment courses. She is content editor for the MTS journal and provided content editing for the current edition of *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*, published by the Machinery & Technical Specialties Committee of ASA.

