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## Appraisal Reviews and Managing Trouble

One of my objectives for writing the MV Supplement is to empower local officials to become effective users of appraisal services. So this month, we'll talk about reviewing appraisals and managing troublesome situations involving appraisers and appraisal reports.

### Compliance is local

Enforcement of floodplain management ordinances and building codes is how communities implement the NFIP. The task of the floodplain administrator is most effective if the ordinance language avoids confusion and identifies the best appraisal method. I recommend that communities:

- Define market value to be the Actual Cash Value (ACV) estimated by independent professional appraisers (starting with the estimate of what it would cost to replace or replicate the building in-kind, not to current code, then depreciating that cost to account for age, wear and tear, and neglect).
- Avoid ordinance language that promotes multiple appraisals of the same property.
- Develop an in-house policy or procedure for making SI/SD determinations and be sure to include conducting reviews of appraisal reports.
- Refer to the Substantial Improvement/ Substantial Damage Desk Reference (FEMA P-758), especially Section 4.5, Determining Market Value, as guidance for appraisers that specifies assignment requirements.

If you wonder why ACV is the best appraisal method, look up the several Market Value Supplements published since the first one in the November 2020 *Insider* (see link in text box).

**Resources for Floodplain Administrators and Appraisers.** I've gathered the Market Value Supplements and other handy resources on my company's web page "50% Rule Appraisal Assignments," [50 Percent Rule Appraisal Assignments - Carroll And Carroll](#).

### Get out the word

Make it a practice to share with appraisers, contractors, and architects copies of:

- The specifics about market value and SI/SD in your ordinance or building code.
- The local official's Appraisal Review Checklist (available at the link above). There are two versions, a general checklist and one specifically for ACV appraisals.
- *The Appraisal Journal Article* entitled "The 50% FEMA Rule Appraisal," authored by Patricia Staebler, SRA (available at the link above).
- Any other information you want appraisers to know before they begin their work.

## **Sorting Appraisers**

State-certified appraisers all receive training, but they are not all experts in cost/depreciation analyses. Few appraisers understand the special requirements of making appraisals to support SI/SD determinations. Appraisers working outside their comfort zone are likely to feel insecure and might not be good listeners. However, most appraisers really do want to do the right thing.

Floodplain administrators might sort appraisers into three groups:

Group 1: Those who have already demonstrated competence and professionalism.

Group 2: Those who apparently want to do the right thing but are not yet fully versed in the details of appraisals for SI/SD purposes.

Group 3: Those about whom there are grave doubts based on previous submissions.

The object is to keep and promote those in the first group, nurture and improve those in the second, and avoid those in the third group.

## **Powerful relationships**

The client (a property owner, contractor, architect, etc.) has the most leverage over an appraiser because the client pays the appraisal fee, the client might use the appraiser's services another time, and the client might tell others about the appraiser. Floodplain administrators have leverage over the permit applicant, who is often the appraiser's client. The user of appraisal services (in this case the floodplain administrator) is the decider of whether an appraisal report is reliable and acceptable for SI/SD determination purposes.

## **Handing appraisal report deficiencies**

As in all discussions among professionals, we should be diplomatic and impersonal. Pay attention to the results recorded on the Review Checklist and any apparent deficiencies. When evaluating appraisal reports, don't focus on the value conclusion. The value conclusion is a direct consequence of the appraisal effective date, the definition of value, assignment conditions imposed by a client or intended user, the set of facts about the building, and the application of appraisal methodology. So, the value conclusion can be wrong if the assignment elements and conditions were misunderstood, if the "facts" are in error, or if appraisal methods were misapplied. Floodplain administrators should focus on the appraisal report deficiencies revealed by application of the Checklist.

Here is an approach that will be effective:

1. Cooperate with your supervisor to outline a policy for SI/SD determinations based on effective appraisal review.
2. Use the appropriate version of the Review Checklist. The Uniform Standards of Professional Appraisal Practice (USPAP) change about every two years, so be sure you're using the current version of the Checklist.
3. If the appraisal report is good but needs only a minor change (like identifying the floodplain administrator as an intended user), call the appraiser, compliment the good work, and ask for the minor revision. Keep this appraiser firmly in Group 1.

4. If appraisal review reveals multiple report deficiencies that might be cured by revisions, or a lack of documentation that might be cured with supplementation, call the appraiser and request "clarification" to make the report acceptable. Focus on specific items revealed by the Checklist. Follow up by email with a blank copy of the Checklist, and maybe a copy of the Fall 2017 *The Appraisal Journal* article. If the appraiser listens and complies, this is a Group 2 appraiser.
5. If an appraiser refuses to listen, is uncooperative, or if the appraisal report is deeply flawed and unacceptable, contact the permit applicant informing of the intention to reject the report. Send the applicant a blank copy of the Checklist, a copy of the Fall 2017 *The Appraisal Journal* article, and maybe excerpts from Section 4.5 of the SI/SD Desk Reference. Require that the appraisal report be corrected. Refer to the specific USPAP requirements listed on the back page of the Checklist. Let the appraiser's client decide whether this appraiser can be rehabilitated.
6. If the appraiser does not make satisfactory revisions, reject the report.
7. When appraisal reports are clearly fraudulent and dishonest, reject the report and refuse to accept additional work from appraisers whose work places them firmly in Group 3.

Your objective should be to help appraisers understand what this specialized area of appraisal practice is about. Cull out the bad eggs and encourage appraisers who try to do good work. In the end, that will help you and your community properly enforce your floodplain management regulations and building codes.

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