

The 2006 Revisions to Uniform Standards of Professional Appraisal Practice

June 22, 2006

Purpose

The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (FRB), Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), and National Credit Union Administration (NCUA) (collectively, the agencies) are issuing this statement to notify regulated institutions that the Appraisal Standards Board (ASB) has issued the 2006 version of the Uniform Standards of Professional Appraisal Practice (USPAP) and the attached *2006 USPAP and Scope of Work* document.¹ The 2006 USPAP, effective on July 1, 2006, replaces the 2005 USPAP and incorporates extensive revisions to appraisal standards. A regulated institution must ensure that appraisals supporting federally related transactions² adhere to USPAP as well as the other minimum appraisal standards contained in the agencies' appraisal regulations. Therefore, regulated institutions should be familiar with the 2006 USPAP and consider the ramifications of the revisions to their appraisal practices.

Revisions to USPAP

The 2006 USPAP incorporates certain prominent revisions. These revisions include a new Scope of Work Rule and the deletion of the Departure Rule and associated terminology, such as "binding" and "specific" requirements and "complete" and "limited" appraisals. The Scope of Work Rule clarifies the standards for the type and extent of research and analysis performed by the appraiser in an appraisal assignment.

In adopting the 2006 revisions, the ASB has indicated that the appraisal process has not changed and that the concepts in the Scope of Work Rule are not new to USPAP. However, there is greater emphasis on the appraiser's process of problem identification and development of an appropriate scope of work.

Consistent with the 2006 USPAP, an appraiser must determine an appropriate scope of work that should be performed to produce "credible assignment results." According to the *USPAP Advisory Opinion 29*, credible assignment results depend on the scope of work meeting or exceeding both (1) the expectations of parties who are regularly intended users for similar assignments; and (2) what an appraiser's peers' actions would be in performing the same or a similar assignment.

Further, the appraisal report must contain sufficient disclosure to allow intended users to understand the scope of work performed. Since the 2006 USPAP reporting options remain unchanged, appraisers may continue to label appraisal reports as self-contained, summary, or restricted use.

Compliance with Appraisal Regulations

While an appraiser is responsible for establishing the scope of work under the 2006 USPAP, regulated institutions are responsible for complying with the agencies' appraisal regulations. Besides conforming to USPAP, the agencies' appraisal regulations require that appraisals supporting federally related transactions must:

- Be written and contain sufficient information and analysis to support the regulated institution's decision to engage in the transaction.
- Analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units.
- Be based upon the definition of market value in the regulation.
- Be performed by a state licensed or certified appraiser in accordance with the regulatory requirements.

From the appraiser's perspective, these regulatory appraisal requirements are "supplemental standards" to USPAP. If an appraiser knowingly fails to comply with supplemental standards, the appraiser is in violation of the USPAP Ethics Rule.

When ordering appraisals, a regulated institution should convey to an appraiser that these supplemental standards remain applicable. The agencies also continue to encourage regulated institutions to use an engagement letter in ordering an appraisal to facilitate communications with the appraiser and to document the expectations of each party to the appraisal assignment. To determine an appraisal's acceptability, a regulated institution should review the report to assess the adequacy of the appraiser's scope of work given the intended use of the appraisal. In accepting an appraisal report, the regulated institution must determine that the appraisal report contains sufficient information and analysis to support the credit decision.

Regulated institutions are reminded to consider an appraiser's competency for a given appraisal assignment. Further, regulated institutions should not allow lower cost or reduced delivery time to compromise the determination of an appropriate scope of work for appraisals supporting federally related transactions.

Attachment: [2006 USPAP and Scope of Work - PDF 730k](#) ([PDF Help](#))

¹ The 2006 USPAP and other ASB documents are available on the Appraisal Foundation Web site at www.appraisalfoundation.org/s_appraisal/sec.asp?CID=3&DID=3.

² Under the agencies' appraisal regulations, a federally related transaction includes any real estate-related financial transaction that an agency or any regulated institution engages in or contracts for and that requires the services of an appraiser. Refer to OCC: 12 CFR 34, C; FRB: 12 CFR 225.61-67; FDIC: 12 CFR 323; OTS: 12 CFR 564; and NCUA: 12 CFR 722.