

# ARM E-Journal™



**OFFICIAL PUBLICATION**

ASA Appraisal Review &  
Management Discipline

## FEATURED ARTICLES

***The Appraisal Foundation  
Takes Action to Build Trust,  
Stamp Out Bias***

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***Lenders Review: Liquidation  
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## Inside this Issue



This month's issue offers articles from a broad range of well-known ASA members and guests. As you may be aware, the 2024 USPAP includes a new section on Discrimination in the Ethics Rule, and we are pleased to include a special article regarding Public Trust and Bias from David Bunton, President of The Appraisal Foundation. Additionally,

you'll appreciate articles discussing review of liquidation value appraisals for collateral lending, IVSC and updates to the International Valuation Standards, the process of resolving appraisal differences with mediation, and how AI might influence authorship of appraisal reports, along with columns from ARM officers and ASA Strategic Partnership Officer John D. Russell.

As usual, we want to welcome new members into the growing Appraisal Review and Management fold. Welcome and congratulations to Jeffrey Tarbell, ASA, ARM! Jeffrey earned his initial BV designation in 1995. We're delighted to have him in ARM.

We put the Spotlight on Terri Lastovka, ASA, ARM. Terri is an instrumental force (one of many) in bringing the ARM Committee together, a dedicated volunteer

in the efforts of the ASA International Conference, a regular contributor to the *ARM E-Journal*<sup>™</sup>, and a Principles of Valuation (POV) instructor. Presently, Terri serves the ARM Committee as Vice Chair and will be the next ARM Discipline Committee Chair, at the end of term for Matthew Kaufman, ASA, ARM.

Welcome also to Ronald Prat, ASA, ARM, IIAS, as our new ARM Education Chair. Ron has a designation in Real Property, Ad Valorem/Mass Appraisal, and is a member of the Association of Machinery and Equipment Appraisers. Ron has previously served ASA on the Real Property Committee and in officer positions for his local chapter.

Please read all the bios of your ARM colleagues in this edition of the E-Journal and feel free to reach out with your thoughts, ideas, and suggestions. One benefit of ARM is the connections we can make with each other, creating broader and more productive networks for ourselves and for the overall advancement of the appraisal profession.

*Charles Dixon*

Charles Dixon, ASA, ARM  
ARM E-Journal<sup>™</sup> Co-Editor

*Richard Conti*

Richard Conti, ASA, ARM  
ARM E-Journal<sup>™</sup> Co-Editor

**Subcommittee Co-Chair  
and ARM E-Journal™ Co-  
Editor / Reviewer**  
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## Letter from ARM Chair



I am delighted to extend a formal invitation to the esteemed *2024 ASA International Conference*, a flagship event poised to unfold in my home city of Portland, Oregon. With its 86th edition scheduled

from September 15-17, this conference promises a noteworthy gathering at the prestigious Hilton Portland Downtown.

The conference stands as a beacon in the professional landscape, recognized globally for its excellence in fostering the development of valuation professionals. Renowned for its high-caliber professional development sessions, the event showcases insights from industry leaders on cutting-edge trends. Moreover, it offers invaluable networking opportunities and features exhibitions by service providers. Against the backdrop of Portland, celebrated for its diverse culinary offerings, cultural richness, and outdoor pursuits, this promises to be an unparalleled experience.

Our dedicated team within the Appraisal Review & Management Discipline is meticulously curating a comprehensive lineup of specialized professional development sessions. Tailored to meet the diverse needs of appraisers across various disciplines and specialties, these sessions provide a unique platform for skill enhancement, service expansion, and the cultivation of essential connections with fellow professionals. Whether seeking client

referrals or technical advice, this conference facilitates meaningful interactions.

Whether you opt for the immersive in-person experience or choose the flexibility of online participation, we encourage you to reserve the dates on your calendar. The conference's website and registration portal are anticipated to go live in March 2024, ensuring a seamless and efficient registration process for your convenience.

For more detailed information and timely updates, please visit our official conference website at [appraisers.org/ASAIC24](https://appraisers.org/ASAIC24) or contact us directly at (800) 272-8258.

In addition to this, we invite you to explore the special [location spotlight video](#) for the conference. Gain valuable insights from local members, including myself, as we share perspectives on the unique attributes that make Portland an ideal backdrop for this exceptional gathering.

We look forward to the honor of your presence at the heart of Portland. Your participation will undoubtedly contribute to the richness of this gathering, making it a memorable and impactful event for all involved.

Best regards,

*Matthew Kaufman*

**Matthew Kaufman, ASA, ARM**  
**ARM Chair**



# Meet Your ARM Committee

**1. Matthew Kaufman, ASA, ARM**  
Chair



**2. Terri Lastovka, ASA, ARM**  
Vice Chair  
ARM Publication Reviewer



**3. Melanie Modica, ASA, ARM**  
Secretary/Treasurer  
ARM Marketing Subcommittee Chair  
ARM Board of Examiners Reviewer  
ARM Publication Reviewer  
2020 ASA Woman Appraiser of the Year



**4. J. Mark Penny, FASA, IA, ARM**  
Past Chair



**5. Barry Shea, ASA, ARM, IFA**  
Member At-Large  
Deputy Chair, IES Coalition  
ARM Publication Reviewer



**6. Charles Dixon, ASA, ARM**  
Member At-Large  
ARM E-Journal™ Co-Editor



**7. Faisal Hoodbhoy, ASA, ARM**  
Member At-Large



**8. Raymond Rath, FASA, CEIV, IA, ARM**  
Member At-Large  
ARM Publication Reviewer



**9. Richard Conti, ASA, ARM**  
Member At-Large  
ARM E-Journal™ Co-Editor



**10. Ronald Prat, ASA, ARM, IFAS**  
ARM Education Subcommittee Chair



## Letter from ARM Governor



I am thrilled and deeply honored to have been elected as the first ARM representative to the ASA Board of Governors. This achievement is more than a personal milestone. An ARM representative is a collective success, made possible by the dedication of numerous volunteers who paved the way before me. As the first ARM governor, I recognize that this position is a testament to the efforts of many outstanding individuals.

Since the ASA was founded, the Board of Governors has undergone many transformations. The most recent transformation is adopting the policy governance model. This transition has reshaped the dynamics of our interactions with both staff and members, and it's an ongoing journey. The policy governance model is a dynamic, evolving process, and I am excited to contribute to its continued development.

I am particularly grateful for the opportunity to lead the Disciplines Working Group (DWG), a crucial initiative spearheaded by President Garrett Schwartz. Garrett wanted someone with experience working across all disciplines which led him to select the ARM Governor for this role.

The DWG aims to strategically assess the value proposition of each ASA discipline in comparison to single-discipline Valuation Professional Organizations (VPOs). The group is focusing on enhancing ASA's

value proposition, differentiating it from VPOs, identifying the strengths of each discipline within ASA, and determining any necessary differences in discipline support. Additionally, the group will analyze current offerings and practices, seeking opportunities for improvement, and ultimately provide recommendations to the Board of Governors based on their research and analysis. This initiative positions ASA to leverage its unique strengths in the competitive landscape.

The approach of the DWG builds upon the groundwork laid by Richard Conti, Chair of the International Marketing Committee and ARM committee member. Rick's collaboration with all disciplines to formulate a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) for each discipline has provided a solid foundation for our work. The collaborative effort of the DWG reflects the strength and diversity within our ASA community.

As we move forward, I am optimistic about the positive impact we can achieve together. Thank you for entrusting me with this responsibility, and I look forward to working collaboratively with you all to shape the future of our society.

*Jack Young*

*Jack Young, ASA, ARM  
ARM Governor*

## New Year—New Learning Opportunities



### Happy New Year to all!

As your new Educational Chair for the ARM discipline, I am very excited to participate in the ARM discipline and look forward to helping our committee members develop educational opportunities for all of ASA to participate and prosper.

### Upcoming Classes

ARM is offering two virtual *Principles of Valuation (POV)* classes coming soon.

#### **AR203 Managing Multifaceted Assignments**

This class will be held March 21-April 5, 2024, from 10:00 AM - 6:00 PM EDT. Students will learn to apply the methodology for managing multifaceted appraisal assignments, including coordinating, supervising and directing a group of professionals.

#### **AR204 Appraisal Review and management Application**

This class will be held May 21-24, 2024, from 10:00 AM - 6:00 PM EDT. Students will learn to master the application of the appraisal review paradigm, methods of reviewing non-compliant reports, and record-keeping requirements, as well as gain a working understanding of what an appraisal review report should include.

Visit the [ASA ARM Education](#) web page to learn more and register for a class or explore an on-demand recordings, such as [AR115](#), a discussion of using expert placement firms to get more business.

### Upcoming Conferences

Save the date! ARM will be offering a full line up of appraisal review and management sessions at the *2024 ASA International Conference* to be held September 15-17, 2024 in Portland, OR and virtual. Registration and website scheduled to launch in early March. Don't miss the profession's main event. View a special [location spotlight video](#) featuring local ASA members sharing their favorite parts of their home city: Portland, OR, including ARM Discipline Chair, Matthew Kaufman, ASA, ARM.

### Call for Specialty Webinars

ARM members who would like to recommend a specialty or technical appraisal review and management related webinar please call or e-mail me at 248-568-5100 or [ronprat@silverpilencorp.com](mailto:ronprat@silverpilencorp.com). Recommendations on topics and presenters are welcome!

*Ronald Prat*

*Ronald Prat, ASA, ARM, IFAS  
ARM Education Subcommittee Chair*

## Welcome Our Latest ASA ARM Member



**Jeffrey S. Tarbell, ASA, ARM**

Jeff has been an ASA member since 1990. He earned his initial designation in Business Valuation in 1995 and his ARM designation in 2023. He has nearly 35 years of experience providing valuation and financial opinions relating to private and publicly traded companies.

He is the former chair of ASA's Business Valuation Committee and is currently a member of the Board of Governors and a frequent ASA instructor. In his spare time, he is a senior member of the Financial and Valuation Advisory business of Houlihan Lokey. With a focus on litigation support and expert witness testimony, Jeff frequently reviews business valuation reports—making good use of his new ARM.

Jeff lives near Portland, Oregon and looks forward to welcoming you to his hometown for the *2024 International ASA Conference* in September. View a special [location spotlight video](#) where Jeff shares his favorite part of his home city.

[Connect with Jeff today!](#)





## Terri Lastovka, ASA, ARM



Terri joined ASA in 1998 and received her ASA designation in Business Valuation in 2004. She received her additional designation of ARM in 2017 and was promptly recruited to the ARM Discipline Committee. It did not take long for Terri to become immersed

in the ARM Discipline activities and she has served the ARM Committee in many ways, currently as Vice Chair. Next up—ARM Discipline Committee Chair!

She presented for ARM at the International Conference and in 2019 became the ARM Discipline International Conference Chairperson ... still doing that and loving it 5 years later. Terri is a regular contributor to the *ARM E-Journal*<sup>™</sup> and an ARM POV Instructor for AR202—Appraisal Litigation Services.

Terri believes that ARM is an exciting place to be. The number of ASA members who have attained their ARM designation has increased by over 40% since 2018. New educational opportunities are being created all the time. The ARM designation is becoming a highly sought after credential. The new faces being met and the new friendships being made are exceptional.

When Terri breaks away, her favorite places to be are skiing on a calm body of water or chasing friends down a steep but groomed mountain (preferably in the Alps). The mountains are beautiful whether it be in the heat of the summer or the dead of the winter. And then there is Koda, who has been an integral part of her life every moment since Terri rescued him from the local pound at 3 years old. He even gets invited to client meetings. Clients have said more than a few times “He is so calming.”

[Connect with Terri today!](#)



# Unlocking Networking Excellence: ASACoconnect ARM Members Group



In a dynamic era where connectivity is key, ASA is thrilled to have a revolutionary online community platform, ASACoconnect, that is reshaping the

way members engage and collaborate. ASACoconnect includes exclusive community spaces designed to foster professional growth, knowledge exchange, and meaningful connections for each of the different disciplines including one specifically for ARM designated members.

The buzz around ASACoconnect is growing, with a number of ASA members, from seasoned listserv veterans to enthusiastic newcomers, embracing this innovative platform. Why the enthusiasm? The Members Group offers a myriad of opportunities, making it the go-to hub for technical queries, seeking professional advice, networking, and sharing valuable experiences.

## Embracing the Future of Networking

Members are experiencing a paradigm shift in networking dynamics as they navigate the user-friendly interface of ASACoconnect. This online community not only connects like-minded professionals but also opens doors to a wealth of networking possibilities that transcend traditional boundaries.

## Seize the Opportunity

Participating in the ASACoconnect Appraisal Review Management Members Group is a gateway to expanding your practice or advancing your career. It stands as one of ASA's most invaluable member benefits with the capability of building a member online community, providing a space where expertise meets collaboration.

Connecting is a breeze! Simply log in, compose your message, and send it to the group. Receive and comment on messages as you immerse yourself in a community of professionals eager to share insights and support one another.

We understand that adapting to new technology can be challenging but, fear not! The ASA team is here to guide you through every step of this exciting journey. For everything you need to know about ASACoconnect and all its offerings, visit <https://bit.ly/484AFvk>. Have questions or need assistance? Reach out to us at [asainfo@appraisers.org](mailto:asainfo@appraisers.org) or call (800) 272-8258.

Embrace the future of networking with ASACoconnect—where connections are made, knowledge is shared, and professional growth knows no bounds.

*John D. Russell*

*John D. Russell, JD*  
Strategic Partnership Officer



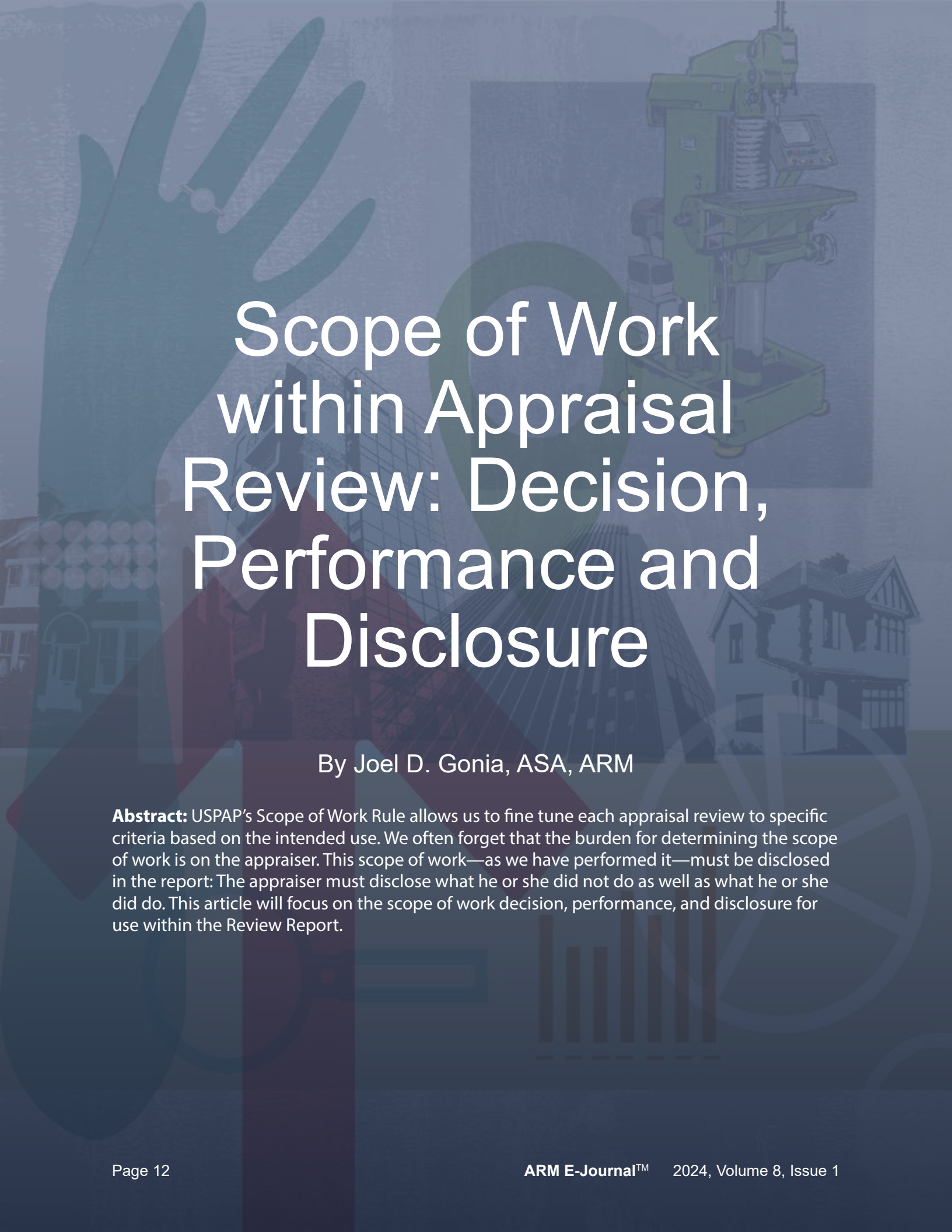
# Better Manage Client's Risk Through Appraisal Review

Nobody understands the value and risks of your client's assets better than ASA. Which is why more appraisers, assessors, CPAs, bankers, attorneys, departments of governments or other users of appraisal services are turning to ASA for appraisal review support. ASA offers three pathways to mastering this critical differentiator. From a comprehensive credentialing or specialty designation program for practitioners to a certificate of completion program for allied professionals, ASA offers the advanced ARM training, credentialing and membership opportunities you need now!

***Get started today!***

***For more information visit [www.appraisers.org/ARM](http://www.appraisers.org/ARM),  
or contact [asainfo@appraisers.org](mailto:asainfo@appraisers.org) or (800) 272-8258.***





# Scope of Work within Appraisal Review: Decision, Performance and Disclosure

By Joel D. Gonia, ASA, ARM

**Abstract:** USPAP's Scope of Work Rule allows us to fine tune each appraisal review to specific criteria based on the intended use. We often forget that the burden for determining the scope of work is on the appraiser. This scope of work—as we have performed it—must be disclosed in the report: The appraiser must disclose what he or she did not do as well as what he or she did do. This article will focus on the scope of work decision, performance, and disclosure for use within the Review Report.





## **An Appropriate Scope of Work**

The review process allows for broad flexibility in how the review is performed.

USPAP provides minimum requirements with limited explanation and discussion. Review Appraisers are encouraged to supplement/expand this process based on their unique application, knowledge, and expertise. We are attempting to ensure, as part of the overall review process, that the level of detail within the original report is sufficient for the intended user to understand the methodologies employed to reach the stated value conclusions.

So right off we begin to understand the importance of an appropriate scope of work. Within my practice I address the assignment elements initially within the proposal process—I determine the scope and then seek clarification and eventual authorization from the client! If the client prefers another scope, we move on to Draft 2 and further discussion until all parties can agree.

Many scope of work discussions lie with limiting assignment conditions and the extent of liability (or responsibility) the client is willing to accept. With MTS appraisals, often the original appraiser was not required to personally observe the subject property, so who provided the estimate of operating condition? Or where did the descriptive data originate? To what

extent is the data reliable? As a review appraiser, you got to know! You should not guess what the original appraiser was tasked to do or what is now required of you, as the review appraiser. Thank God for a detailed scope of work!

## **Opinion of Value**

Remember that the review appraiser is only required to provide an opinion of value if that service is specifically requested. Otherwise, we are only reporting on the quality of work and if the reported value conclusion is supported, or not. Should you receive a request to provide your own (independent) opinion of value, please remember to fully disclose this additional unique service within the scope of work for the review assignment.

## **Decision**

It is our responsibility as the review appraiser to identify the appropriate scope of work based on the intended use. Is it an administrative review for internal procedures? Is it to be used externally within financial reporting per SEC requirements? Who are the intended users who will review the review appraisal? Is the reviewer to include an opinion of value? These are all scope of work elements to be disclosed within the review report. If not, a reader may be misled and not fully understand the intended use.

The foundation for our appraisal review, including the development and reporting

## Scope of Work within Appraisal Review

requirements, are contained within USPAP. For reviews, as for all appraisals, we must identify the problem to be solved to determine the appropriate scope of work. Assignment elements that must be defined and analyzed for appraisal reviews include:

- client and other intended users;
- intended use of the appraisal review opinions and conclusions;
- type and definition of value;
- effective date if an opinion of value is desired;
- subject of the assignment and its relevant characteristics; and
- assignment condition

Once properly determined, the appraisal scope of work must be disclosed to clients and other intended users who rely on the assignment results.

I typically receive two types of appraisal review requests: (1) Is the original report credible, in compliance with USPAP and other applicable codes, regulations, and standards; and (2) Do I agree with the values? The first is rather straightforward. However, the second requires me to further clarify with the client, if they wish me to provide a separate opinion of value. Both of these can be provided within the same report. I prefer to enter into a separate contract agreement and issue a separate report, but this is not required by USPAP. Remember that although an appraisal report will have an effective date, an appraisal review report does not—unless it also provides an opinion of value.

## Performance

The review appraiser must be competent to adequately perform the assignment based on conditions set forth within the scope of work. The appraisal review report includes a

quality of work statement regarding whether the content, analyses, and conclusions stated in the report under review are (or are not) in compliance with applicable standards and requirements, and if the value conclusions are accepted or rejected. If the scope of work includes a separate opinion of value, the review appraiser must have the necessary knowledge and experience to complete the appraisal, even if on a limited or restricted basis. If it does not, the review appraiser should be at a minimum familiar with the methodologies typically used to appraise the subject.

Proper identification of the problem to be solved is required for compliance with the Competency Rule, which states:

An appraiser must determine, prior to agreeing to perform an assignment, that he or she can perform the assignment competently. Competency requires (1) the ability to properly identify the problem to be addressed; (2) the knowledge and experience to complete the assignment competently; and (3) recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.”<sup>1</sup>

For this reason, very few review appraisers are competent to appraise multiple types of assets. An appraiser who is experienced in commercial real estate typically isn't familiar with the unique methodologies used to appraise metalworking machine tools. Nor is the business appraiser familiar with the gems and fine art markets, and so on. It is not enough to understand that multiple approaches to value are used, you must understand how to correctly employ

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<sup>1</sup> USPAP: 2020-2021 Uniform Standards of Professional Appraisal Practice, The Appraisal Foundation, Competency Rule, p 11. The 2020-2021 edition of USPAP is effective through December 31, 2023.

each to the market for subject assets. Additionally, very few appraisers have a good understanding of USPAP beyond their primary appraisal practice. The American Society of Appraisers encourages its membership to only provide appraisal services within their personal expertise. Additionally, considering a potential lawsuit, it is good common sense.

I cannot emphasize strongly enough to support your opinions within the review, particularly when you disagree with the value conclusion. Don't assume the intended user knows USPAP, or any part of valuation theory—You need to provide exact references to support your opinion. Also, do not provide services beyond the stated scope of work, even if you really want to! Yes, sometimes we may think the reported value is incorrect (due to previous experience, certain knowledge, or actual analysis) but you may create all kinds of liability for yourself if you report on something not anticipated within your agreed scope of work.

For consideration on a practical basis, be professional with your language and writing style. Your client and/or intended users of your appraisal review assignment may have an established rapport with the original appraiser. Should you include negative comments without sufficient documentation, your language may discredit your assignment. Remember, you are reviewing the report not the appraiser.

## Assignment Conditions

Assignment conditions are the essential ingredients within the scope of work. It's where you hang your hat, so consider them as your default for performance tasks. You simply do not extend beyond the stated conditions, unless of course assignment results are not credible, and require further

modification to the scope of work. For example, if the original subject data is in question and there is not a provision to gain confidence, you cannot perform the review unless the scope is modified to allow additional effort. This occurs frequently when the original appraiser was asked to complete a desktop appraisal.

In some cases, you may conclude within your review that the appraisal is not credible due to the lack of data. If you have been asked to provide an opinion of value, you can include data collection or inspection as part of your assignment conditions. You may request a modification to your scope of work at any time in which conditions or information are discovered during the assignment that will further assist in solving the identified problem.

## Disclosure

In developing an appraisal review assignment, an appraiser acting as a reviewer must identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses to produce a credible appraisal review.<sup>2</sup> Consistent with the reviewer's scope of work, the reviewer is required to develop an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the analysis (and/or the report) in the work under review given law, regulations, or intended user requirements applicable to the work under review.<sup>3</sup> Because an intended user's reliance on an appraisal review may be affected by the scope of work, the appraisal review report must enable them

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<sup>2</sup> The Appraisal Foundation, "Uniform Standard of Professional Appraisal Practice 2020 – 2023 Edition" (Jan 2020): Competency Rule, page 11. Print

<sup>3</sup> Ibid. Std 3-3(a & b Comment), page 27

*“Many scope of work discussions lie with limiting assignment conditions and the extent of liability (or responsibility) the client is willing to accept.”*



to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and may also include disclosure of research and analyses not performed.<sup>4</sup>

It is equally important to state what we did not do, or have not been requested to do, as well as what we did do. These disclosures help to eliminate questions that may arise regarding the extent of the review and services provided.

Additionally, any limitations, restrictions or assumptions should be disclosed within the scope of work. As an example, if you are asked to provide a separate opinion of value and the original bundle of assets under review includes multiple assets, you may be requested to only appraise a sampling of assets, and report your conclusion as compared to the original appraisal.

Disclosure of the extent of research and analyses performed to develop your conclusion of value is important as well, particularly if you use different data than the original appraisal. The disclosure requirements apply to the scope of work performed rather than the work initially planned.

Appraisal reviewers have broad flexibility and responsibility to decide the extent of disclosure within the report. It is a judgment call based on the intended use, intended users, complexity of the subject property, and many other factors unique to each assignment. Ultimately our goal is to produce credible assignment results. We rely on an appropriate scope of work to allow proper procedure and performance of valuation standards.

## Considerations for the Scope of Work

Appraisers should consider these few suggestions regarding scope of work for appraisal review assignments:

- Discuss and identify assignment conditions upfront within the proposal process.
- Disclose you are not providing a separate opinion of value, unless that service has been specifically requested *in addition* to the review.
- Receive authorization of identified scope of work prior to accepting the assignment.
- Include agreed scope of work assignment conditions within Contract for Services or Engagement Letter.
- Request a modification to the scope of work when necessary to produce credible results.
- Within the appraisal review report, consider locating the scope of work discussion toward the front of the report, either immediately after the Letter of Transmittal or Executive Summary or after the Table of Contents.
- Support your conclusions!
- Be professional in all correspondence.

I encourage you to read the entire *USPAP Scope of Work Rule*, accompanying *Advisory Opinions* and discussion regarding appraisal review and scope of work. This knowledge will assist in preparing review reports that are understood and not misleading, including communicating the research and analyses used to develop your quality of work statement and value conclusion.

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<sup>4</sup> Ibid. Std 4-2(g), page 30

### Readings in USPAP 2020–2023

- Competency Rule, page 11
- Scope of Work Rule, page 13
- Advisory Opinion 28, *Scope of Work Decision, Performance and Disclosure*, page 136
- Advisory Opinion 29, *An Acceptable Scope of Work*, page 140
- FAQ: *Appraisal Development—Scope of Work Issues*, page 258

### About the Author

Joel Gonia, ASA, ARM, is one of the few appraisers to spend his entire career within the valuation industry—35 years and counting. He is accredited as MTS (1989) and ARM (2016). As the Senior Review Appraiser at KATS Machinery & Equipment Appraisals, LLC, Joel is responsible for all work performed by the firm, including value accuracy and consistency, USPAP compliance, internal policies and procedures, and continuing education. KATS provides valuation and consulting services for financial reporting, commercial lending, insurance, tax and litigation purposes.



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***Get started today!***

***For more information visit [www.appraisers.org/ARM](http://www.appraisers.org/ARM),  
or contact [asainfo@appraisers.org](mailto:asainfo@appraisers.org) or (800) 272-8258.***



# The Appraisal Foundation Takes Action to Build Trust, Stamp Out Bias

By David Bunton

**Abstract:** Over the last three years, the appraisal profession has been having serious conversations about valuation bias and the threat it poses to public trust. At The Appraisal Foundation, public trust is our mission, and even one instance of appraisal bias or discrimination hurts the trust that the public places in appraisers. This article presents the efforts of our boards to ensure that the standards and qualifications that real property appraisers must adhere to are strong and leave no room for an appraiser to discriminate.





As a result of these conversations, The Appraisal Standards Board (ASB) has quickly turned their focus to the Ethics Rule. After hearing from stakeholders that this rule needed a second look,

the ASB started a comprehensive review of the Ethics Rule. This process included bringing in a leading fair housing law firm, Relman Colfax, to assist in the analysis. Relman Colfax's years of experience and expertise in fair housing guided the board as they worked to propose and eventually adopt an updated Ethics Rule.

Over the course of five exposure drafts, the ASB heard from stakeholders across the profession including appraisers, users of appraisal services, consumers, and regulators. Gathering and considering all this feedback strengthened what the ASB adopted as the new version of the Ethics Rule. The extensive process also helped lead to several other changes to USPAP, and the adoption of a new edition of the Uniform Standards of Professional Appraisal Practice (USPAP), which goes into effect on January 1, 2024. As the new Ethics Rule has gone into effect, the ASB continues to gather public feedback to see if any additional guidance is needed to better equip appraisers to understand their nondiscrimination requirements stated in the Ethics Rule.

As the ASB was carrying out their work on the appraisal standards, the Appraiser

Qualifications Board (AQB) was also busy determining the best way to address fair housing education requirements for appraisers. In September 2022, the AQB held a forum about valuation bias and fair housing education, to hear directly from stakeholders if the criteria requirements related to fair housing education should be modified. After hearing from regulators, appraiser membership organizations, and fair housing groups, it was clear that there was resounding support for a new requirement for appraisers to have a standalone valuation bias and fair housing laws and regulation course be a part of their education requirements.

This forum led to two exposure drafts from the AQB proposing adding fair housing and valuation bias education as a standalone course, and that is a required component of both a real property appraiser's qualifying and continuing education. As the ASB did, the AQB consulted with Relman Colfax throughout this process and gathered feedback from a wide range of stakeholders. The AQB adopted a new edition of the Real Property Appraiser Qualification Criteria in 2023, and it will go into effect on January 1, 2026. As with all editions of the Criteria, states can begin implementing these new requirements now if they should choose.

The Board of Trustees has also taken action, establishing the Council to Advance Residential Equity (CARE) to complement the Foundation's other two advisory councils. CARE is made up of nonprofit organizations

## *The Appraisal Foundation Takes Action to Build Trust, Stamp Out Bias*

with a mission of fair housing, civil rights and consumer advocacy. The first ten organizations to join the council held their inaugural in person meetings in 2023 and look forward to establishing regular meetings in 2024. Like the Foundation's other councils, CARE is charged with providing advice to the standards and qualifications boards, but from the unique lens of the consumer. We look forward to their valuable contributions to our organization.

This is just the beginning of the work The Appraisal Foundation is undertaking to build public trust in the arena of valuation bias. Even one instance of appraisal bias and discrimination is one too many, and we will continue to listen to stakeholders to ensure that the appraisal profession is one that every American can place their trust in.

Appraisers play a critical role in the housing industry of the greatest economy in the world, and we do not take that responsibility lightly. If you would like to get involved in our work, we welcome you to the table. Please visit our website and check out our Get Involved page to learn more about how you can work with The Appraisal Foundation to build public trust in this important profession.

### **About the Author**

David Bunton is president and chief operating officer of The Appraisal Foundation since 1990, responsible for overall organizational leadership. Prior to joining The Appraisal Foundation, David served as a staff member for twelve years in the U.S. House of Representatives and the United States Senate.





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# Lenders Review: Liquidation Appraisals for Financing

By Charles Dixon, ASA, ARM

**Abstract:** Lenders who regularly review appraisals for collateral loans are looking for specific issues, such as adequate and reasonable support for market analysis, including support for cost approach when used, and discussions of how the lives used—normal and remaining useful lives in particular—influenced and supported the opinion of value. This article addresses the importance of scope of work in appraisals for financing at liquidation values and for those with fair rental calculations, and end of lease or residual values (residual forecasting). This article was guided by interviews with many of my clients in the Commercial Bank Finance and Equipment Leasing profession who generously contributed their time and insight.





## What Issues Do Lenders See?

What are some of the issues that bankers, leasing agents, and other reviewers see with

liquidation appraisals provided to them? Lack of support is the most common issue brought up, especially the lack of support for market analysis or for cost approach. Rarely did the finance professionals mention issues relating to the income approach, even though the income approach is a viable approach in many situations. Another related and important issue for financial professionals is inadequate discussion of normal useful lives (NUL) and remaining useful lives (RUL) and the process by which appraisal reports conveyed and supported the opinions.

## Scope of Work

A good understanding of the scope of work (SoW) is the key to solving the appraisal problem and the start of the assignment. USPAP defines scope of work as *the type and extent of research and analyses in an appraisal or appraisal review assignment.*<sup>1</sup>

The assignment review process (verbal or written understanding) between lender and appraiser is most important. Both the

Association of Machinery and Equipment Appraisers (AMEA) and the Equipment Appraisers of North America (EANA) require all assignment agreements to be (must be) in writing. The EANA states that the agreement must be "... approved and signed by all contracting parties before the assignment starts." The Principals of Appraisal Practice and Code of Ethics (ASA, v111820), Article 4.6 states, "It is good practice to have a written contract between the appraiser and client, covering objectives and scope of work, time of delivery and amount of fees. In certain circumstances..."

## Understanding the Appraisal Problem

What is the appraisal problem to be solved? Is this a minor assignment with few and "typical" assets or a more complex assignment with special purpose assets, an oil refinery, chemical plant, pharmaceutical plant, or other? Are there special parameters or assignment conditions (such as the ability to inspect the assets) which will determine the How, What, Where, and When of the appraisal problem?

Often overlooked, not discussed, or just taken for granted, is a deeper look into the appraisal problem to be solved and the SoW necessary to solve it. For example: an appraiser provided with a lender's request for proposal and scope of work, may understand that the lender requires an opinion of orderly liquidation value (OLV). Within the lender-provided definition of value may be a requirement relating to a

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<sup>1</sup> USPAP: 2020-2021 Uniform Standards of Professional Appraisal Practice, The Appraisal Foundation, p. 5. The 2020-2021 edition of USPAP is effective through December 31, 2023.

specific marketing time.<sup>2</sup> Possibly, this is a standard line in all requests for proposal letters from that lender (assignment condition, possibly boilerplate?). Some definitions of value sourced by others use marketing time terminology such as “typically 120 days” or a “120-day market value.” The appraiser, experienced with this type of asset(s), may have other ideas about the marketing period due to the type of asset it is. As a special purpose asset, will a brief period of time potentially limit the recovery amount and hence have a negative effect on the opinion of value?

### *Expected Level of Inspection*

Within the SoW, what is the level of inspection, such as a visual walk around or is more depth expected: Is the appraiser expected to start up equipment and put it through test procedures and/or reference lube oil samples?

### *Additional Liquidation Value Costs*

Does the appraisal report discuss who will be responsible for the cost to disassemble and prepare assets for removal (if necessary)? Is this cost borne by the buyer, seller, or lender? Could these additional costs influence how much a buyer will pay (what is his/her ceiling)? Will these costs influence the comparables and hence the opinion of value?

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<sup>2</sup> VME: Machinery & Technical Specialties Committee of the American Society of Appraisers, Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets, 4th ed., American Society of Appraisers (Herndon, Virginia: 2020), Glossary, “market level,” p. 542.

## Communicating the Appropriate SoW

The appraiser needs to recognize these issues, discuss with the lender/client, and agree on a relevant SoW to account for this or any other condition. Would the lender want to know your opinion of these issues? These issues are best discussed before the acceptance of the appraisal assignment.

It is also common to start an assignment with an agreed SoW and find in the process of completing the assignment that adjustments should be made to that SoW. The SoW Rule states, under Scope of Work Acceptability, Comment, that “*Determining the Scope of Work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.*”<sup>3</sup>

Summarizing the SoW might also include disclosure of research and analysis *not* performed.

Pertaining to this are the relevant USPAP Reporting Standards Rules. For example, Standards Rule 8-2(a)(x)<sup>4</sup> states that at a minimum an Appraisal Report must provide sufficient information to indicate that the appraiser complied with the requirements of [the Development Standards Rule] by

- (1) summarizing the appraisal methods or techniques employed ...
- (5) summarizing the information analyzed and the reasoning that supports the analysis, opinions, and conclusions, including reconciliation of the data and approaches

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<sup>3</sup> USPAP, Scope of Work Rule, p. 14.

<sup>4</sup> USPAP, p. 47.

## Three Approaches to Value

Appraisers must determine the appropriate approach and clearly communicate why and how that approach, or those approaches, are used in the appraisal. The appraiser must also state the reason(s) for excluding an approach if any have not been developed.

### *Cost Approach Issues*

A leasing group related issues with appraiser's utilization of the cost approach. While the appraiser(s) relied heavily upon the cost approach, the report(s) lacked discussion and support of the various forms of depreciation.<sup>5</sup> Typically, appraisers consider the three standard forms of depreciation which are then applied to the replacement or reproduction cost new of the subject asset to determine market value.

What the leasing group wanted to know is if or how the cost approach is supported by recognized (published) age life, depreciation tables and indexes. Or is there analysis of comparable items sold in the marketplace from which one can determine levels of obsolescence and apply that data? It is important to these intended users how, or to what level, are physical depreciation, functional obsolescence, and economic obsolescence discussed and supported?

### *Market Approach*

Lenders noted that comparable analysis is sometimes not well discussed or explained. Reviewers sometimes see statements such as "I have researched the relevant markets," or "In my analysis, I may have removed the buyer's premium."

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<sup>5</sup> VME, p. 48-49.

These statements are vague. The Scope of Work Rule states that "*an appraiser must:*

1. *identify the problem to be solved,*
2. *determine and perform the scope of work necessary to develop credible assignment results; and*
3. *disclose the scope of work in the report.*"<sup>6</sup>

Vague or boilerplate type statements do not comply with the Scope of Work Rule. The reviewer will instead think about the elements of CAARR: Complete, Adequate, Accurate, Relevant, Reasonable, as well as USPAP SR8-2(a)(x) discussed earlier.


Other review issues arise when the appraiser utilizes market sales or classifieds (advertisements) and applies that data to opinions of liquidation value with no discussion of how adjustments were made. How did the appraiser adjust from a fair market sale to (get to) a forced liquidation value? Are prices asked (rather than sold costs) reasonable comparables?

### *Income Approach*

No interviewees brought up the income approach, even though the income approach is a viable approach in many situations, such as refineries, pharmaceutical and chemical plants, steel mills, hospitals, convalescent facilities, and apartment complexes. These facilities may have income that can be allocated to a single process, the complete facility, or a single asset, such as an individual process line, a forging press, or items such as a piece of construction equipment contracted out on some form of rental or longer-term lease agreement. Think of companies like United Rentals, Sunbelt Rentals, Penske Truck Leasing and Idealease.

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<sup>6</sup> USPAP, p. 13-14.



*“A better way to conclude liquidation appraisals for financing is by providing more relevant and meaningful reports.”*



Especially for Real Property (RP), the income approach is a well-recognized method and typically a necessary approach which may support the analysis and credibility. Machinery and Equipment reviewers (M&E) see statements such as “The income approach is not relevant because no data was supplied,” or “It is difficult to allocate income to individual assets,” or “The market approach is the most relevant approach used by machinery and equipment appraisers.” However, are these factors analyzed and then discussed in the report? What is the support (which is reported as often lacking)?

With M&E / PP assets, income may be derived from equipment in a rental center (United Rentals, Sunbelt Rentals). Oil refiners and Pharma chemical plants derive income from raw materials processed to finished product sold. Valuation analyses may be completed utilizing cash flow, discount, and cap rates, or present worth of future benefits. Simply put, the investment decision is predicated upon the present value of future benefits and the Income Approach may be applicable.

## Real Property Appraisals

RP lenders had few review issues and noted they were satisfied with most appraisals received. However, when issues were brought up, it was generally a lack of comparable sales analysis and/or illogical comparable(s) used.

Comparable analysis includes recognition of major real estate factors such as building square footage, land size, living/dwelling units (how many) in apartment complexes, convalescent and senior citizen facilities, bed count, hospital rooms, departments and modalities, mall retail space and store fronts, etc. An example of an illogical comparable

is an industrial building with heavy-duty floors, heavy electric service, and overhead bridge cranes while the comparable cited is a simple warehouse, not climate controlled and with no extra or any heavy-duty services. What adjustments were made and how were they calculated and applied?

## Leasing Issues

Equipment leasing and financing professionals are interested in fair rental calculations, and end of lease or residual values (residual forecasting). Their lack of support issues hinge primarily on the report not explaining concerns such as how the appraiser produced an opinion of value for a future opinion five years out? Another issue is an appraiser not reading the specific lease agreement and so utilizing an incorrect definition of value. Lease agreements can be vastly different from one firm to another, and it behooves the appraiser to review the lease document prior to starting an assignment.

Reviewers noted a lack of explanation and support for age/life analyses, normal useful life, remaining useful life, economic useful life estimates, and calculations. Intended users want to know where the data comes from. Are data sources cited? How is this information conveyed and supported within the appraisal report?

## Supporting the Opinion of Value

While appraisal mythology suggests that few lenders are interested in the support of opinions or the nuts and bolts of the appraisal, and only look at the bottom-line, my interviews suggest that most lenders are interested in the appraisal process. Some lenders have in-house reviewers or review departments who are interested

in the analysis and support of opinions. Dodd/Frank legislation requires financial institutions to have appraisals reviewed by **independent** third parties, whether in-house or from outside. [**Bold** added to emphasize independent, impartial, and non-biased.]

A common misunderstanding between a lender and an appraiser might sound like this:

Lender: “As we talked on the phone, I thought the appraiser knew exactly what I was asking for and what I needed.”

Appraiser: “I thought the lender knew what was involved and how I was going to do it, and that is exactly what I gave her.”

A better way to conclude liquidation appraisals for financing is by providing more relevant and meaningful reports.

### Relevant and Meaningful Reports

How do appraisers analyze and draft their reports to be more relevant and meaningful? USPAP, while sometimes referred to as “the minimum standards,” is not limiting in the sense of the Scope of Work and how much relevant and supporting information an appraisal report includes.

The objective of USPAP requirements, as illustrated by the Preamble and the Scope of Work Rule, is a clear, concise, relevant, and meaningful appraisal report.

### Preamble of USPAP

*The purpose of the Uniform Standards of Professional Appraisal Practice is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to*

*intended users of their services in a manner that is meaningful and not misleading.*<sup>7</sup>

### Scope of Work Rule

*Comment: Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment... Credible assignment results require support by relevant evidence and logic.*<sup>8</sup>

*Disclosure Obligations: The report must contain sufficient information to allow the client and other interested users to understand the scope of work performed. The information disclosed must be appropriate for the intended use of the assignment results.*<sup>9</sup>

### About the Author

Charles Dixon, ASA, ARM, is accredited as MTS and ARM. He is a USPAP Certified Instructor (personal property) through the Appraisal Qualifications Board (AQB) of the Appraisal Foundation, was awarded the George D. Sinclair Award for Professionalism, and served ASA as local chapter president and internationally on the Machinery & Technical Specialties (MTS) Committee and MTS Discipline Governor. He is currently on the ASA Educational Foundation and Board of Examiners (ARM) and is co-editor of the ARM e-journal. Charlie is also a Certified Senior Appraiser of the Equipment Appraisers of North America (EANA) and is the EANA Appraisal Review Chair.

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<sup>7</sup> USPAP, p. 1.

<sup>8</sup> USPAP, p. 13.

<sup>9</sup> USPAP, p14.

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# IVSC Announces Major Update to International Valuation Standards

By Faisal Hoodbhoy, ASA, ARM

**Abstract:** The International Valuation Standards Council (IVSC) was established to create globally recognized valuation standards for all types of assets around the world. This article presents a brief overview of IVSC history, presents the key changes for the January 2024 edition, and discusses how changes have been received by the global valuation community and other stakeholders.





## History of IVSC

In 1981, 20 national valuation professional organizations founded the IVSC as The International Assets Valuation Standards Committee

(TIAVSC). Over 4 decades later, IVSC has more than 170 member organizations including nearly 70 professional valuation organizations, including ASA. The IVS are referenced and used by valuers in more than 100 countries.

Before IVSC, the global financial market lacked a common framework for valuation practices. Every country has its own set of valuation standards, making it challenging for investors to compare the market values of various assets.

Collaborating with leading financial experts worldwide, IVSC developed a comprehensive set of standards covering all asset classes and sectors. These globally recognized valuation standards—applicable to every type of asset in every part of the world—ensured that all assets were valued consistently across all markets, providing investors with transparency and enabling them to make informed decisions. In addition, IVSC established standard guidelines for valuation professionals, ensuring that all valuations were conducted according to globally recognized best practices.

As a result of the IVSC’s efforts, the global financial market became more transparent and trustworthy. Investors had confidence in the valuations of various assets, which led to greater investment and growth in global financial markets.

## January 2024 Update

Late last year, the International Valuation Standards Council (IVSC) announced a major update to its global standards. This update, which concludes a two-year revision journey, including a three-month global consultation period from April to July 2023, addresses the changing landscape of the global economy, as well as emerging technologies and new types of assets.

The IVSC worked closely with stakeholders worldwide, including valuation professionals, regulators, investors, and others, to ensure that the updated standards would be relevant, practical, and effective.

The 2024 IVS edition will include new standards for intangible assets, updated guidance for real estate valuations, revised definitions of fair value and market value, and new guidance on technology in valuations.

## Key Changes for Appraisers

IVSC states that the “changes enhance the standards’ relevance and utility for all parties involved in valuation, extending beyond

*“IVSC standards are recognized and respected by financial institutions, governments, and investors around the world and the organization’s commitment to promoting transparency and consistency continues to help support a stable and secure global economy.”*



valuers alone.”<sup>1</sup> Certain changes, however, such as the General Standards sections, applicable to all valuations, which “have been thoroughly updated to better align with the typical valuation process,” are especially applicable to appraisers of all disciplines. All appraisers, and any reviewers working within the global valuation community, will want to investigate these changes:

- New standards for the valuation of intangible assets, such as intellectual property and human capital
- Updated guidance for the valuation of real estate, taking into account changes in transportation, infrastructure, and other factors that affect property values
- Revised definitions of fair value and market value to ensure consistency and accuracy across different markets and asset classes
- New guidance on the use of technology in valuations, including the use of artificial intelligence, blockchain, and other innovations

The 2024 edition will also feature improved navigation and integrated digital tools; IVSC states that this will be “the most accessible and intuitive IVS to date.” IVSC will be offering a series of complimentary webinars addressing the updates; details will be available on the IVSC website.

## Conclusion

The January 2024 updates are widely praised by the global valuation community, who recognize the IVSC’s efforts to keep

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<sup>1</sup> All quotes from IVSC Standards Review Board Ratifies New Edition of International Valuation Standards (IVS), IVSC, December 5, 2023, <https://www.ivsc.org/ivsc-standards-review-board-ratifies-new-edition-of-international-valuation-standards-ivs/>

pace with a rapidly evolving world. The new standards provide greater clarity and consistency in valuation practices and allow for greater flexibility and innovation.

These updates were widely praised for providing clarity and consistency, which would ultimately lead to more efficient and transparent markets. As a result of these updates, investors, regulators, and other stakeholders could have greater confidence in the integrity of valuations, which in turn could help promote more efficient and transparent markets, and ultimately lead to better outcomes for all involved.

With these updates, the IVSC continues setting standards for valuation practices worldwide and remains the go-to organization for anyone seeking guidance on valuations. IVSC standards are recognized and respected by financial institutions, governments, and investors around the world and the organization’s commitment to promoting transparency and consistency continues to help support a stable and secure global economy.

### About the Author

Faisal Hoodbhoy, ASA, ARM, is currently a Managing Director at Rosehood Global Financial, overseeing valuation, litigation support, and financial advisory services (FAS) in Toronto, Canada. He was previously Middle East Regional Partner of Deloitte LLP based in the Dubai International Financial Center (DIFC), head of Deloitte ME FAS, and director of valuation services at Deloitte Canada. With 30+ years of professional experience in North America, Middle East, and the UK, including NASDAQ Dubai, Fez has worked for Global Big 4 Firms including Andersen and EY and a variety of financial institutions. He is an active supporter of International Financial Reporting Standards (IFRS) and International Valuation Standards (IVS) globally.

# Resolve Appraisal Differences with Mediation

By Michael A. Gregory, ASA

**Abstract:** As an independent expert you are not an advocate for your client, but you are an advocate for your position. However, there are times when given assumptions and approaches it may be in your and your client's best interest to work with a neutral, impartial mediator to resolve differences with another party. This article explores the use of a qualified mediator to assist you and your client with dispute resolution.





## Why Mediation?

Mediation can save the parties time and money. Mediation allows the parties to determine the result rather than have a decision imposed by a third party. Mediation is confidential. The process can reduce stress as well as emotional and physical toil. Mediation can be carried out in parallel with litigation. The process allows for an additional option for settlement. Finally, it gives the parties timely closure.

## What is Mediation?

Mediation is a confidential process whereby a qualified mediator works with the parties so that the parties can make a decision that is acceptable in nature. Mediation may take the form of an evaluative, transformative, or facilitative approach.

In evaluative mediation the mediator researches the work of each expert, meets with them, and then provides what the evaluative mediator may think would happen if the case went to court. This becomes the starting point for the parties to work together to try and resolve their dispute.

A transformative mediator attempts to transform a relationship between two parties as the highest priority while assisting the parties in resolving their dispute. For example, in family divorce the mediator

may focus on the children to help the parties come to an amicable agreement they can live with going forward.

A facilitative mediation is a process where the mediator works with the parties to look at the dispute from a different perspective promoting each party to consider underlying assumptions, methods, and interests to help the parties come to an amicable resolution.

## What are the Characteristics of the Ideal Appraiser?

The ideal appraiser in mediation should be able to:

- truly be independent;
- explain in lay terms;
- provide insight and information;
- look at the issue from multiple perspectives;
- focus on key strengths and weaknesses;
- separate emotions from those of the client; and
- make useful suggestions to the client.

The purpose of mediation is to resolve the issue, so in this instance understanding the sensitivity of variables used in the appraisal process and the impact of assumptions on the appraiser's determination help the team to evaluate each side's expert opinion.

## **How is Mediation Used with Appraisers?**

With experts such as appraisers, typically a facilitative approach is used. In this instance a qualified appraiser mediator with a background in appraisal would meet with all parties ahead of time: the decision maker, the appraiser and the attorney on each side. The qualified appraiser mediator would have read the appraisals ahead of time and would come forward with questions and explore the interests of the parties. Having met with both parties separately beforehand, the appraiser mediator would indicate whether mediation might be an appropriate alternative or not. If the parties are so entrenched that one or both of the parties are not willing to move off their position, there is no reason to waste time with mediation. Litigation or arbitration would be more appropriate in this instance. However, if the parties are both open to movement from their initial positions, mediation may be a good alternative.

If mediation is accepted by the parties and the appraiser mediator, the appraiser mediator would have all parties sign an engagement letter spelling out the process and limitations. If the mediation is conducted virtually, a separate agreement also needs to be signed by all of the participants acknowledging the role of the parties and agreeing to the process of virtual mediation.

The mediation would begin with a joint session. To reduce tension, the appraiser mediator might initiate the process with an icebreaker such as asking everyone present to share something positive of a personal nature that has happened in the last 30 days. De-escalation and addressing emotions is critical towards working together to

formulate a resolution. Following this icebreaker and introductions, each party would present an opening commentary. After the opening commentary by one party the other party would be able to ask any questions, but this would not be a time to refute the opening commentary of the other party. The appraiser mediator would ensure the process is carried out appropriately. Then the other party would reciprocate.

Following the introductory remarks, the parties may either stay in the same room or they may proceed to separate rooms and mediation would begin. If the parties are in the same room the appraiser mediator would facilitate the process. If the parties are in separate rooms the appraiser mediator would proceed back and forth between the rooms. In this instance each party would share with the appraiser mediator their concerns in terms of facts, issues, emotions around the issues, and their interests. The appraiser mediator would ask exploring questions and after hearing the commentary, phrase what was heard in a neutral manner to share with the other party. The appraiser mediator would proceed back and forth between the parties exploring various alternatives in an attempt to help the parties reach a resolution.

During this process the decision maker and attorney generally for the first time begin to understand more fully what the strengths and weaknesses are of the expert's report and begin to look at what might happen if the case were to proceed to litigation.

After this initial meeting often the decision maker and attorney of each party regroup and meet again with the appraiser mediator and the other party to try and work out an agreement. There may be more than one meeting like this with or without the decision maker present. The goal is for the attorneys for each party to have a good

understanding of the situation and the expert's perspective to work together to resolve the issue in an amicable manner.

## Additional Resources

If you would like to dig a little deeper into this subject matter, here are some additional sources for your consideration.

- [Effective Virtual Mediations: 10 Lessons After 10 Months from JAMS ADR Insights by Robin Gise](#)
- [A Dozen Tips for Zoom Mediators from Miles Mediation and Arbitration by Ken Shigley](#)

## Conclusion

Mediation is a process that allows the parties involved to self-determine a conclusion and closure. Mediation can save time and resources. Mediation is confidential. An appraiser mediator speaks the same language as the appraisers and is more effective. Mediation is more productive than litigation. Being involved with mediation can assist the client by providing insight on assumptions, methods, sensitivity analysis, and other insights to help the client work towards an amicable solution with the other side.

### About the Author

[Michael A. Gregory, ASA](#), founded Michael Gregory Consulting, LLC in 2011 after 28 years with the IRS where for 11 years he led the national business valuation program. He is a qualified mediator and a negotiation specialist, an international speaker, and an author with 12 books and over 45 published articles. He is a Qualified Mediator with the Minnesota Supreme Court, has served on the ASA BV Committee, chaired the Oversight and Ethics Board at NACVA, and has served on over a dozen boards. He currently serves on the board of the Minnesota State Bar Association Alternative Dispute Resolution Section.



# The Crucial Role of Verifying Appraiser Authorship:

## Unmasking the Importance of Authenticity in Valuation Reports

By Melanie Modica, ASA, ARM

**Abstract:** In the dynamic landscape of asset valuation, the reliability and authenticity of appraisal reports are paramount. Investors, financial institutions, and stakeholders depend on these reports to make informed decisions. However, with the rise of advanced technologies, including AI, Artificial Intelligence-driven models like ChatGPT, questions about authorship and reliance on automated systems have become increasingly pertinent. This article delves into the critical importance of verifying whether an appraiser authored a report or relied on ChatGPT, emphasizing why claiming authorship is an essential aspect of maintaining trust and accuracy in the valuation process.





## The Evolution of Appraisal Methods

Traditionally, appraisals were primarily conducted by appraisers who would visit properties, assess various factors, and compile comprehensive reports. However, as technology advanced, the integration of AI into the appraisal process has become more prevalent. Automated systems, like ChatGPT, have the capacity to analyze vast amounts of data and generate detailed reports in a fraction of the time it would take a human appraiser.

While the efficiency gains are evident, the ethical implications and potential consequences of relying solely on AI-generated content in appraisal reports necessitate a closer examination of the authorship of such reports.

## The Impact of Authorship on Credibility

Credibility is the bedrock of any valuation report. Stakeholders rely on these reports to make decisions involving substantial financial investments. When an appraiser claims authorship of a report, it signifies accountability and expertise. Knowing that a qualified human professional has conducted the analysis instills confidence in the accuracy and reliability of the findings.

On the contrary, if an appraisal report is generated entirely by an AI model like ChatGPT, and the appraiser fails to disclose this fact, it could lead to a breach of trust. Stakeholders may question the authenticity of the report and the competency of the appraiser. Thus, transparency in authorship is crucial to maintaining the integrity of the valuation process.

## The Risks of Overreliance on AI Models

While AI models have demonstrated remarkable capabilities in various fields, they are not infallible. Appraisers who solely rely on AI-generated content without thorough verification and oversight may inadvertently introduce errors or biases into their reports. Additionally, AI models lack the nuanced understanding and contextual awareness that human appraisers bring to the table.

Failure to disclose the use of AI in the appraisal process may lead to a misrepresentation of the appraiser's skills and qualifications. This misrepresentation not only poses a risk to the accuracy of the valuation but also undermines the trust that clients place in the expertise of the appraiser.

## Legal and Regulatory Implications

The appraisal profession is subject to a myriad of regulations and standards designed to protect the interests of all parties involved. Misrepresenting the authorship of an appraisal report can have

legal consequences. Many regulatory bodies mandate disclosure of the methods and tools used in the valuation process. Failing to disclose the use of AI models like ChatGPT may result in disciplinary action and damage to an appraiser's professional reputation.

Moreover, financial institutions and investors may have specific requirements regarding the qualifications and methodologies employed by appraisers. Non-disclosure of AI usage could lead to non-compliance with these requirements, potentially jeopardizing the acceptance of the appraisal report in critical financial transactions.

### **The Need for Professional Standards and Guidelines**

As the integration of AI into the appraisal process becomes more prevalent, there is a growing need for profession-wide standards and guidelines. These standards should address the ethical considerations surrounding AI usage in valuation, emphasizing the importance of transparency and disclosure. Appraisers should be encouraged to clearly state whether they authored a report or relied on AI models for content generation. This transparency not only ensures compliance with regulations but also fosters a culture of accountability within the industry.

### **Building Trust Through Disclosure**

The valuation profession thrives on trust. Clients, whether individual homeowners or large corporations, trust appraisers to provide accurate and unbiased assessments of property values. This trust is easily eroded when there is a lack of transparency regarding the methods employed in the appraisal process.

By openly disclosing whether an appraisal report was authored by a human appraiser or generated with the assistance of AI models

like ChatGPT, appraisers can build trust with their clients. This transparency demonstrates a commitment to providing accurate and reliable information, even if technology plays a role in the analysis.

### **Educating Stakeholders on AI Integration**

To facilitate a smooth transition toward greater transparency, it is essential to educate stakeholders about the integration of AI into the appraisal process. Clients, real estate agents, and investors should be aware of the potential benefits and risks associated with AI usage in valuation. This awareness enables them to make informed decisions and reinforces the importance of appraisers disclosing their methodologies.

### **Conclusion**

In the ever-evolving landscape of real estate and asset valuation, the authenticity of appraisal reports remains a cornerstone of trust and reliability. Verifying whether an appraiser wrote a report or relied on AI models such as ChatGPT is not just a matter of ethical consideration; it is essential for maintaining the integrity of the valuation process.

Claiming authorship is more than a professional courtesy, as it is a commitment to transparency, accountability, and the highest standards of practice. As the profession grapples with the integration of AI, establishing clear standards and guidelines for disclosure is paramount to ensuring the continued trust of stakeholders and the longevity of the appraisal profession. Ultimately, a collaborative effort from professionals, regulatory bodies, and technology developers is necessary to strike the right balance between innovation and ethical practice in valuation.

## For Your Consideration

Now that the article Conclusion has been reached, this is the perfect time to share that I did not write any of the above content, nor did I write the subheading titles. I used ChatGPT to write this article with the single prompt of “Write a 1100-word article about the importance of verifying an appraiser wrote a report or relied on ChatGPT for the content and why claiming authorship is important.”

The free program immediately began producing the content that I was watching develop. I quickly decided to time the program so see how long it took to write the article. I began counting as I opened my timer on my phone. And, as soon as I opened and started the timer, the article was finished being written. I had counted to 22 seconds.

Editing the above content was extremely limited on purpose. For the sake of transparency here, I deleted the word “human” as it was first written “human appraisers” and I also deleted “real estate” to include all appraisal disciplines. I also added the words “Artificial Intelligence” for the explanation of “AI”. Lastly, I exchanged the phrase of “real estate industry” for “appraisal profession”, along with a few exchanges of “industry” for the appropriate term of “profession.”

And that’s it!

I am not advocating for the use of artificial intelligence in appraisal or appraisal review writing, nor am I advocating for its exclusion. I advocate for the importance and the need of stating the truth regarding the creation of an appraisal or appraisal review report, and if report content was solely created by a credentialed appraiser human person, or not.

The use of AI for written content is part of our society now and part of many professions.

People are using AI generated content in multitudes of ways to lessen work time, instantly complete tasks, and so much more. Extensive analyses of data are created in seconds just like the above article I did not write. Even educational professionals are using AI to generate student performance reviews in their report cards that are sent home to parents. The AI programs are able to generate detailed content and personalized messaging—it even interjects compliments in performance reviews, as if it knows the importance of providing positive messages along with criticisms.

The standard of care for professional appraisers in the United States is the Uniform Standards of Professional Appraisal Practice (USPAP). As appraisers, we are required to state if we inspected a subject property or not, and if we relied on others for significant appraisal assistance or not, and even that our analyses, opinions, and conclusions are developed and prepared in compliance with USPAP.

So, should we discuss the need for claiming the content composed in an appraisal or appraisal review report was solely created by us or not? We should.

### About the Author

Melanie Modica, ASA, ARM, Modica Fine Art LLC, in Houston, Texas, is a board member of the ASA Houston Chapter, where she has served as President, Secretary, Director, and as Chair for Personal Property and for ARM. She serves the ASA ARM discipline as an instructor; a member of the Committee and Board of Examiners; Chair of the Education Subcommittee; and past editor of the ARM Journal. Internationally, she served ASA as Chair of the International Appraisers Conference Personal Property Planning and the Personal Property Committee Membership. She has presented at numerous ASA International Conferences and was a 2020 ASA Appraiser of the Year. Melanie holds UCI certificates in Fine and Decorative Arts Appraisal Studies and in Specialized Studies Program of Connoisseurship in Fine Arts.



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