



Part I

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Learning Objectives

- Learn to recognize:
 - What Uniform Standards of Professional Appraisal Practice (USPAP) is.
 - USPAP standard 3.
 - Advisory Opinion 20.
 - Review with an Opinion of Value (ROV).



Part II

Overview

- Report with an Opinion of Value (ROV)
- Standard 3
- Advisory Opinion 20 (AO-20)

Use of ROV, USPAP Standard 3 & AO-20

Obvious Questions:

- What is USPAP?
- What is Standard 3?
- What is AO-20?
- What is a Review with an opinion of value (ROV)?
- How much more work will this require?
- Why do I need this?



ROV & USPAP

- USPAP – Uniform Standards of Professional Appraisal Practice
 - Applies to **all appraisers** whether state licensed or not.
 - Applies to all real estate appraisers.
 - Applies to all business valuation appraisers.
 - Applies to **all review appraisers** who do reviews of real estate or business valuation appraisals.
 - Enforcement is done by state boards.

Standard 3

- USPAP Standard 3
 - Standard specifically for review appraisers.
 - Defines what constitutes a review and what constitutes an appraisal.
 - Defines what must be in a review report as well as a review report with an opinion of value!
 - Cites specific language that prevents the reviewer's role from being misinterpreted.

Advisory Opinion 20 (AO-20)

Standard 3 applies to all reviews. Review appraisers' requested clarification on reviews with an opinion of value.

- AO-20 provides guidance to reviewers.
- Provides suggestions on verbiage.
- Cites similar examples for guidance purposes.
- However, unlike standard 3, following the advice in AO-20 is not mandatory.
- Standards are mandatory – Advisory opinions are recommendations – based upon probable action by ASB.

Review with an Opinion of Value

Reviews with an opinion of value (ROV) are the mainstay of the job!

- Most of our work – starts with reviewing a taxpayer's appraisal.
 - If the appraisal has a "reasonable" value, we accept the report and close the file (reasonable is defined later).
 - If the appraisal has an "unreasonable" value, then we must complete our own valuation.
- ROV's help us with the later option as opposed to the former option.

Important Questions

- How much more work will this require?
 - IRS Guidelines standards and USPAP standards are not that different!
 - Couple of items required by IRS Guidelines that are not required by USPAP. Couple of Items required by USPAP are not required by IRS Guidelines.
 - When we get done explaining USPAP Standard 3, Extraordinary Assumptions & AO-20, You may find that you will require less work!!

Important Questions

- Why do I need this?
 - The service requires us to follow IRS Guidelines standards.
 - Service is looking at using USPAP standards.
 - Courts are looking to USPAP standards and compliance.
 - Should make your job easier.
 - Will assist you in developing a professional report for use by RA's, Appeals and perhaps Tax courts.

Part III

- Report Options



Reporting Options

- Starts with a Risk Analysis:
 - Three possibilities
 - 1) Value is reasonable
 - 2) Value is unreasonable and difference is significant.
 - 3) Value is unreasonable but difference isn't significant

Reporting Options

- Value is reasonable:
 - Critique or standard 3 review.
 - Complete a 3213 with no change box checked.
 - USPAP says you must also have eleven items in report (which are not on 3213).
 - Perhaps complete an 886A.

Reporting Options

- Value is unreasonable – significant difference:
 - Critique / standard 3 review – but have to deal with value issue.
 - Complete an independent appraisal.
 - Review with an Opinion of Value.
 - Will also complete an 886A and 3213.

Reporting Options

- Value is unreasonable – Not a significant difference:
 - This is part of the risk analysis.
 - Howard Lewis Memorandum dated June 23, 2006 and titled “Memorandum for all engineering program appraisers and valuers” provides guidance.
 - Can either do necessary work to support preliminary value estimate or cite 43 C.F.R. 2201.1(b) as support for preliminary value estimate.

Reporting Options – Recap

○ **Agree with Value**

- Critique
- Review
- 3213
- 886A - Perhaps

○ **Disagree with Value**

- Critique
- Review
- 3213
- 886A
- Full Appraisal
- Review w/ opinion of value (ROV)

Part IV

- USPAP Standards
- IRS Guidelines





Items not in IRS Guidelines

- Competency Rule
- Extraordinary Assumptions
 - For review appraisers
- Language from AO-20 and Standard 3 dealing with language to use.
 - Concur vs. reasonable
- Distinction between doing an appraisal and doing a review.



Certification Differences USPAP vs. IRS Guidelines

- USPAP Requirements not in IRS Guidelines
 - My engagement in this assignment was not contingent upon developing or reporting a predetermined result.
 - My analysis, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
 - No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.



Certification Differences USPAP vs. IRS Guidelines

- IRS Guidelines not in USPAP Requirements
 - My analysis, opinions, and conclusions were developed and this review report was prepared in conformity with the applicable Internal Revenue Service Valuation Guidelines.

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS (4.48.6)
Identify Client	3-1a	Not req. (NR)
Identify users	3-1a	NR
Identify use	3-1a	2.6.2.1
Identify purpose	3-1a	2.6.2.1
Reviewer's - Opinion of value	3-1a	NR
Identify subject	3-1b(i)	2.2.1.1
Effective date of review	3-1b(ii)	2.6.2.2
Ownership rights	3-1b(iii)	2.6.2.2

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS (4.48.6)
Work under review date	3-1b(iv)	2.6.2.2
Effective date of value	3-1b(iv)	2.6.2.2
Identify appraiser	3-1b(v)	NR
Scope of Work	3-1c	2.6.2.3
Opinion on work	3-1d	2.6.2.4
Adequacy of data	3-1e	2.6.2.5
Methodology	3-1f	2.6.2.6
Reasonable conclusions	3-1g	2.6.2.7

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS (4.48.6)
Standard rule 3-2 is the reporting standard for USPAP standard 3-1. Additional information requirements are included below		
Include all known pertinent information	3-2e	2.3.1
Signed Certification in accordance w/ 3-3	3-2f	4.3.1

Comparing USPAP to IRS Guidelines

- If one includes an opinion of value as part of the review, then Standards 1 & 2 are invoked.
- Applies only to new information w/ use of EA.
- 1 is developing and 2 is reporting.
- Following table combines 1 & 2 and compares to IRS Guidelines.

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS
Correct methods & Techniques	1-1(a)	2.4.3 2.4.3.4
Omission/commission errors	1-1(b)	Inferred
Negligent	1-1(c)	Inferred
Not misleading	2-1	NR
Identify client	1-2 & 2-2	NR
Intended use	1-2 & 2-2	2.2.1.5
Value definition	1-2 & 2-2	2.2.1.7
Effective date	1-2 & 2-2	2.2.1.3

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS
Property interest	1-2 & 2-2	2.2.1.2
Property characteristics	1-2 & 2-2	2.3.1.1
Land use regulations	1-3	2.3.1.1.7
Highest & Best Use	1-3	2.4.2
Supply & demand/trends	1-3	2.3.1.11
Analyze options, listings & current sales	1-5(a)	2.3.1.10
Analyze all subject sales within 3 yrs (5 yrs for IRS)	1-5 (b)	2.3.1.4

Comparing USPAP to IRS Guidelines

Description	USPAP	IRS
Reconcile quality and quantity of data & analyze approaches used	1-6	2.4.3.4
Reconcile applicability and relevance of the approaches	1-6	2.4.3.4

Part V

- AO – 20
- Standard 3

Extraordinary Assumption

- Extraordinary Assumption (EA) in Reviews.
- Defined by USPAP as:
 - An assumption, directly related to a specific assignment, which if found to be false, could alter the appraiser's opinions or conclusions (USPAP 2008-2009).

Extraordinary Assumption

- Comment by USPAP:
 - EA presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis (USPAP 2008-2009).

Extraordinary Assumption (EA)

- EA's in Reviews.
- Standard rule 3-1(c) states:
 - Determine the scope of work necessary to produce credible assignment results in accordance with the Scope of Work Rule (USPAP 2008-2009).
- Comment section:
 - In making the scope of work decision, the reviewer must identify any extraordinary assumptions necessary in the assignment.

Extraordinary Assumption

Comment by USPAP:

- An EA may be used in an appraisal review assignment only if:
 - It is required to properly develop credible opinions and conclusions;
 - The reviewer has a reasonable basis for the EA;
 - Use of the EA results in a credible analysis; and
 - The reviewer complies with the disclosure requirements set forth in USPAP rule 3-2(d) for EA.

Extraordinary Assumption

- USPAP Rule 3-2(d):
 - State the opinions, reasons, and conclusions required in standards rule 3-1(d-g), given the reviewer's scope of work:

Extraordinary Assumption

- o Comment for 3-2(d): When the reviewer's scope of work includes expressing his or her own opinion of value the reviewer must:
 1. State which information, analyses, opinions, and conclusions in the material under review that the reviewer accepted as credible and used in developing the reviewer's opinion of value;
 2. Summarize any additional information relied on and the reasoning and basis for the reviewer's opinion of value;

Extraordinary Assumption

- Comment (continued):
 3. State all assumptions and limiting conditions; and
 4. Clearly and conspicuously:
 - State all extraordinary assumptions and hypothetical conditions connected with the reviewer's opinion of value; and
 - State that their use might have affected the assignment results.

Language Differences In Standard 3 & AO-20

- Language indicating reviewer has **“estimated”** a value conclusion:
 - I concur or do not concur with the value.
 - I agree (disagree) with the value.
 - In my opinion, the value is the same.
 - In my opinion, the value is incorrect and should be \$XXXX.
 - In my opinion, the value is too high (or too low).

Language Differences In Standard 3 & AO-20

- Language indicating reviewer has **“not estimated”** a value conclusion:
 - The value opinion stated in the appraisal report is (or is not) adequately supported.
 - The value conclusion is (or is not) appropriate and reasonable given the data and analyses presented.
 - The value opinion stated in the report under review was (or was not) developed in compliance with applicable standards and requirements.

Language Differences In Standard 3 & AO-20

- Language indicating reviewer has **“not estimated”** a value conclusion:
 - The content, analyses, and conclusions stated in the report under review are (or are not) in compliance with applicable standards and requirements
 - I reject the value conclusion as lacking credibility due to the errors and/or inconsistencies found.

Language Differences In Standard 3 & AO-20

- Language indicating reviewer has **“not estimated”** a value conclusion:
 - The value conclusion is not appropriate due to a significant math error and if calculated properly, the value conclusion would change to \$XXX. However, the reader is cautioned that this solely represents a recalculation and not a different opinion of value by the reviewer.

Language Differences In Standard 3 & AO-20

- Language indicating reviewer has **“not estimated”** a value conclusion:
 - I accept (or approve) the appraisal report for use by the Internal Revenue Service.
 - It is my opinion that the value conclusion is (or is not) reasonable and acceptable.



Part VI

- ROV Advantages
- ROV Disadvantages

Comparing Appraisal to ROV

- Review an appraisal and the value is not reasonable.
- Option 1:
 - Prepare a critique/review of the appraisal.
 - Write a separate appraisal report to substantiate your conclusion of value.
- Option 2:
 - Prepare a ROV using an EA. You can critique/review the appraisal and include a valuation section.

Comparing Appraisal to ROV

- Need to use Extraordinary Assumption (EA) in doing the ROV.
- Defined by USPAP as:
 - An assumption, directly related to a specific assignment, which if found to be false, could alter the appraiser's opinions or conclusions (USPAP 2008-2009).

Comparing Appraisal to ROV

- Comment by USPAP:
 - EA presume as fact otherwise uncertain information about physical, legal , or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or **about the integrity of data used in an analysis** (section applicable to ROV).

Comparing Appraisal to ROV

EA – Example:

- o Unless otherwise noted, the sales presented have not been verified by any party to the transaction by the reviewer. The information contained in the appraisal report has been used as the basis of the analysis unless otherwise noted. I have accepted the data including: the area analysis, exposure time estimate, highest and best use, sales data and physical descriptions of the subject property as being true and correct. Areas of disagreement with the appraisal report are outlined within this review report with an opinion of value. If this information is found to be false, then the value conclusion could be impacted.

Comparing Appraisal to ROV

- Extraordinary Assumption (EA) in ROV.
 - Needs to be clearly labeled.
 - Needs to be conspicuously stated.
 - Need to clearly state that if the EA is found to be false then the value and or conclusions could be impacted.

Comparing Appraisal to ROV

- Following table shows advantages of preparing an ROV and using an EA as compared to the reviewer completing his/her own appraisal to conclude to a value.
 - **Required** – Review appraiser must generate the data and put in the report.
 - **Can Use EA** – if reviewer finds the data credible, then the reviewer can use the EA to accept the appraisal report's information.

Comparing Appraisal to ROV

Description	Appraisal	ROV
Identify user	Required	Required
Identify use	Required	Required
Identify purpose	Required	Required
Scope of Work	Required	Required
Effective date of Review	Required	Required
Identify the Appraiser (who completed appraisal)	Required	Required
Certification	Required	Required
Date of value	Required	Required

Comparing Appraisal to ROV

Description	Appraisal	ROV
Definitions	Required	Can Use EA
General Market	Required	Can Use EA
Regional Market	Required	Can Use EA
Local market	Required	Can Use EA
Property type market	Required	Can Use EA
Description of Subject	Required	Can Use EA
Zoning Analysis	Required	Can Use EA

Comparing Appraisal to ROV

Description	Appraisal	ROV
Highest & Best Use	Required	Can Use EA
Demographic Data	Required	Can Use EA
Land Sales Data	Required	Can Use EA
Improved Sales Data	Required	Can Use EA
Rental Data	Required	Can Use EA
Expense Data	Required	Can Use EA
Capitalization rates	Required	Can Use EA
Discount Rates	Required	Can Use EA

Comparing Appraisal to ROV

- In the previous tables – the assumption is that the data presented in the appraisal is accurate.
- Can also accept various approaches
 - Example – Cost Approach reasonable, but Sales Comparison Approach (which is given most weight) is not. Using ROV you can:
 - Use the EA to accept the Cost Approach.
 - Only have to meet Standards 1 & 2 for the Sales Comparison Approach.



Part VII

- Base Template

Items Required

- Report must identify:
 - 1) Client
 - 2) Intended users
 - 3) Intended use
 - 4) Purpose
 - 5) Date of value
 - 6) Subject property
 - 7) Any extraordinary assumptions or hypothetical conditions.

Items Required (continued)

- Report must contain:
 - 8) Scope of Work
 - 9) Certification
 - 10) Effective date of review
 - 11) Identify of the appraiser(s) who completed the work under review, unless the identity was withheld.
 - 12) Include a signed certification.
 - 13) Assumption & Limiting conditions.

Base Template

- Included in the package for this presentation are two samples:
 - A sample 886A; and
 - A sample ROV
- These serve as a base template and **must be expanded** upon based on the facts of each case.

Part VIII

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○ Questions



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Frequently Asked Questions (FAQ)

- **Question 1:**

- Would it be better to use appraisal formats that have been suggested by established organizations such as the Appraisal Institute?

- **Answer:**

- ROV format meets USPAP and IRS guidelines.
- Flexible format works for most property types

FAQ's (continued)

- **Question 2:**

- What is the distinction between an unbiased expert opinion, and the application of tax law?

- **Answer**

- Unbiased opinion is required on all appraisals
- Application of tax law determined by Intended Use of Appraisal Review
- Scope of Work and appraisal methodology affected by type of assignment

FAQ's (continued)

- **Question 3:**

- Were any changes made in USPAP for 2008?

- **Answer**

- Numerous editing changes
- SUPPLEMENTAL STANDARDS RULE deleted
- Appraisers must recognize and comply with laws and regulations that apply in an assignment
- This applies to the Scope of Work and Competency Rule
- AO – 31 added (*Assignments Involving More than One Appraiser*)

The most significant aspects of AO-31:

- "...When more than one appraiser is involved in an assignment, USPAP allows for certification in a variety of ways, including:
 - all appraisers could sign a certification accepting responsibility for the entirety of analyses and report if they are all competent to do so; or

The most significant aspects of AO-31:

- one appraiser could sign a certification and provide the name of each individual who provided significant appraisal, appraisal review, or appraisal consulting assistance. In such a case, the exact nature of the assistance must be reported, but this need not be in the certification; or
- for assignments involving multiple disciplines (e.g., real property appraisal and personal property appraisal) an appraiser could sign a certification accepting responsibility only for the elements of the certification, assignment results and report contents applicable to the appraiser's discipline"

FAQ'S (continued)

2nd part of Question:

What USPAP rules apply to an appraisal or review?

- Rules in effect for year the appraisal was written
- Rules in effect for year the appraisal was written for prospective and retrospective values (not the year of valuation)
- Rules in effect for year the appraisal review was written (not the year of the appraisal)

FAQ's (continued)

- **Question 4:**

- What are the reporting requirements for a “risk analysis”?

- **Answer**

- A risk analysis for appraisals is basically a **3-step** process (see following slides)

FAQ's (continued)

- **Step 1:**
- Prioritizing reports to determine if additional research or a review is needed. There are no USPAP requirements if:
 - No opinion of value is given
 - Specific items within report are not critiqued
 - General comments or an overview are acceptable

FAQ'S (continued)

o **Step 2:**

- o A referral is made with the expectations of an analysis of the methodology, data, etc.
 - No opinion of value (only a critique or “no change”)
 - USPAP Standard 3-2 should be followed
 - If report is accepted, use “reasonable” or “appropriate” to describe the value

FAQ'S (continued)

- **Step 3:**

- An opinion of value is required:

- Review with an Opinion of Value is required for all real property appraisals, including conservation easements. Exceptions are no change reports or critiques without a value conclusion.
- USPAP Standards 1-3 should be followed.

FAQ's (continued)

- **Question 5:**

- Will Restricted Use formats be considered by the Team?

- **Answer**

- Restricted Use Appraisal Report is for client use only.
- Not designed for third-party users
- Prominent notice to reader must be provided
- Must warn that needed information is in the appraiser's file

FAQ's (continued)

- **Answer (continued)**

- It is not advisable to use a Restricted Use format if any of the following could happen:
 - The Review Appraiser does not agree with the appraiser's value
 - There is any chance for litigation
 - The report will be reviewed internally
 - The report may go to the taxpayer or outside appraiser
 - A second intended user is named

FAQ's (continued)

- **Question 6:**

- What level of documentation is needed for a Review with an Opinion of Value?

- **Answer**

- Depends on assignment and Scope of Work
- Appeals has indicated they prefer well documented reports

FAQ's (continued)

- **Question 7:**

- If an 886-A is used as a stand alone report (without an attached appraisal review), what is needed to comply with USPAP?

- **Answer**

- Appraisal accepted and value reasonable:
Include all items in USPAP Standard 3-2
- Appraisal not accepted and value unagreed: If an opinion of value is given, your report should contain the items listed in Standard 2 (**except where you have used an Extraordinary Assumption**), 3-2, and comply with Standard 1.

FAQ's (continued)

- **Question 8:**

- Address the definition of “Fair Market Value”

- **Answer**

- **Fair market value** is defined as:

- “the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts.” [\[1\]](#)

[\[1\]](#) Treasury Regulations §§ 1.170A-1(c)(2), 25.2512-1, & 20.2031-1(b)

FAQ's (continued)

- **Question 9:**

- Is verification of a sale with the buyer, seller, or broker required by USPAP?

- **Answer**

- Standard Rule 1-4 states the following:
- “In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results.”

FAQ's (continued)

- “verify” not defined by USPAP
- Low level – documentation from public records, MLS or published data
- High level – Contact party to the transaction (buyer, seller, or broker)
- New data from reviewer should have low level verification at a minimum
- Published data should be cross checked with another source to insure accuracy if possible

FAQ's (continued)

- **Question 10:**
- What items can you generally use from an appraisal report in your review (with an Extraordinary Assumption)?
- **Answer**
- Mainly depends on documentation in original work
- Judgment must be made on accuracy and reliability of data
- Poorly documented reports may require all data to be verified

FAQ's (continued)

- **Question 11:**

- Does USPAP require the label "Review with an Opinion of Value"?

- **Answer**

- Use "Review with an Opinion of Value" if the value has been changed, or you agree or concur with the value (**you have complied with Standards 1, 2, and 3**)
- Use "Review" or "Appraisal Review" for all others (**you have complied with Standard 3**)

FAQ's (continued)

- **Question 12:**

- What happens if I accept some information from an appraisal and it turns out to be incorrect?

- **Answer**

- Scope of Work usually greater for appraiser
- Depends on value impact
- Small differences **or** errors are often unavoidable

FAQ's (continued)

- **Question 13:**

- Do I need to list every item from an appraisal (in the Extraordinary Assumptions) that I agree with?

- **Answer**

- No

- Easier to say that you have accepted all of the information in the xxx appraisal with the exception of the following items, (or something similar).

FAQ'S (continued)

- Any additional questions?