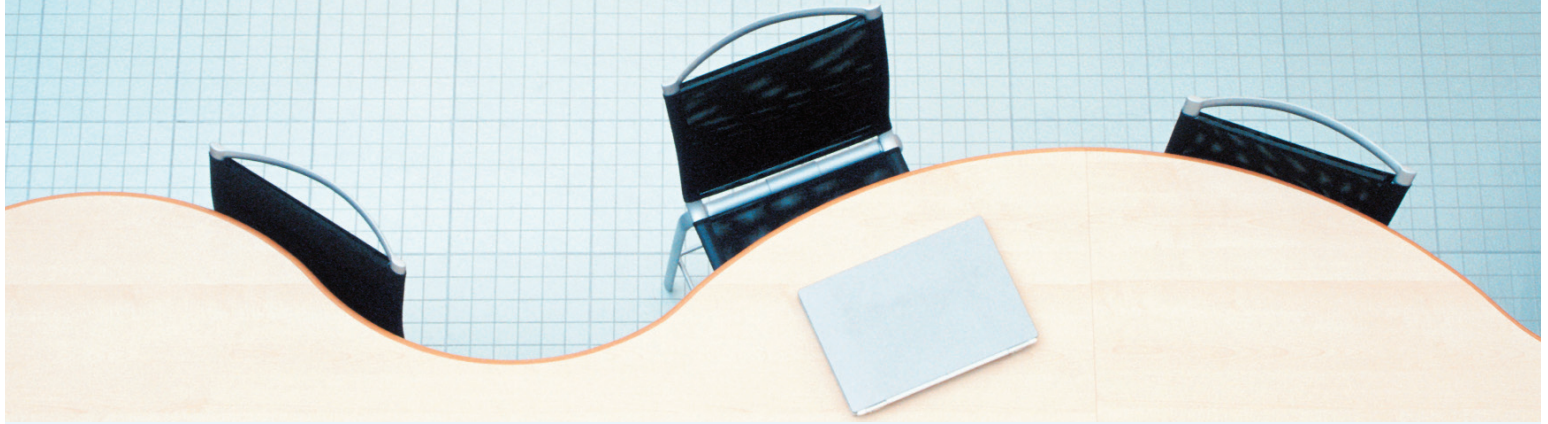


2006 USPAP AND SCOPE OF WORK



The 2006 Edition of USPAP reflects extensive changes resulting from the Appraisal Standards Board (ASB) examination of the proper role of the scope of work and departure concepts in the appraisal process. This material provides answers from the ASB regarding some of the most common questions about these changes.

1 What are the major changes in the 2006 USPAP related to the scope of work and departure concepts?

The biggest changes are elimination of the DEPARTURE RULE and introduction of the SCOPE OF WORK RULE. The most visible change in appraisal practice is the discontinued use of the terms "Complete" and "Limited" to describe the appraisal process. There are numerous related changes, but these are the main focus.

2 What is scope of work?

In basic terms, the scope of work is the work an appraiser performs to develop assignment results. USPAP defines "scope of work" as *the type and extent of research and analyses in an assignment*. Note that this definition excludes reporting.

3 How is USPAP affected by the changes related to scope of work?

USPAP required extensive editing to incorporate the new SCOPE OF WORK RULE and to delete references to the DEPARTURE RULE and the related terms Binding Requirement, Specific Requirement, Complete Appraisal and Limited Appraisal.

4 Will the changes in the 2006 USPAP change the steps an appraiser takes in developing assignment results from what is done now?

No. The SCOPE OF WORK RULE has no requirements that were not in USPAP before. It's a matter of emphasis. The process of problem identification and the development of an appropriate scope of work, both previously-existing USPAP requirements, are emphasized more in the SCOPE OF WORK RULE and the 2006 USPAP.

5 If the requirements for the development process have not changed, then what has?

USPAP now provides a set of minimum standards for all appraisal, appraisal review and appraisal consulting assignments. This simplifies understanding the development process. Further, there is greater emphasis on

the scope of work disclosure in the report to provide intended users with an understanding of the appraiser's actions in arriving at assignment conclusions.

6 Do the changes affect all types of assignments (appraisals, appraisal reviews and appraisal consulting) and all disciplines (real property, personal property and intangible property, including business interests)?

Yes.

7 How are scope of work and departure different?

The departure process addresses only a single dimension of the appraisal process (the completion of what was labeled a Specific Requirement). However, the scope of work determination addresses the decision to perform a particular analysis (the work addressed by a particular Standards Rule) and, if it is performed, the extent of research and analysis completed in performing it.

8 What happened to Binding and Specific Requirements?

The labels were removed. The Standards Rules were re-written to show when appraisers need to complete the work without reference to a label.

9 Has any advice been issued to help understand the SCOPE OF WORK RULE and its use?

Yes, the ASB issued two new Advisory Opinions:

- AO-29 *An Acceptable Scope of Work*
- AO-28 *Scope of Work Decision, Performance, and Disclosure*

SCOPE OF WORK AND DEVELOPMENT OF ASSIGNMENT RESULTS

10 Will appraisers need to go through a complicated decision process before starting an assignment?

Not any more than under the 2005 USPAP. At the beginning of an assignment, appraisers will communicate with the client to gather the information needed for problem identification

and then determine the scope of work appropriate to address the problem. This is the same process appraisers go through at the beginning of an assignment under the 2005 USPAP.

11 Are there new development requirements?

No. The fundamentals of the appraisal process have not been changed. A development process that was appropriate under the 2005 USPAP is appropriate under the 2006 USPAP. And a development process that was not appropriate under the 2005 USPAP is not appropriate under the 2006 USPAP.

12 How does an appraiser know if the scope of work is adequate?

The same way appraisers know now. Appraisers will continue to use their training, experience and judgment to determine a scope of work that produces credible assignment results.

13 Can the scope of work change during the course of an assignment?

Yes. This is a common occurrence and USPAP recognizes that determining the scope of work is an ongoing process in an assignment.

SCOPE OF WORK AND THE CLIENT

14 Who determines the scope of work?

It is the appraiser's responsibility to determine and perform the appropriate scope of work.

15 What input does the client have to the scope of work decision?

Client input is part of the appraisal process. Communication with the client is required to establish most of the information necessary for problem identification and scope of work determination.

16 Is a scope of work specified by the client acceptable?

It is if that scope of work allows the appraiser to develop credible assignment results. If the scope of work specified by the client does not allow the development of credible assignment results, the appraiser needs to discuss changing the scope of work or withdraw from the assignment.

17 Does USPAP require client approval for the scope of work decision?

No. The DEPARTURE RULE requirement that the client agree "that the performance of a limited appraisal service would be appropriate" has been removed from USPAP and the SCOPE OF WORK RULE does not have any specific requirements for client approval. However, the SCOPE OF WORK RULE recognizes the client's role in problem identification and scope of work determination.

18 If a client wants to order a "Limited" appraisal, how can this be done (easily)?

Since the term Limited Appraisal is no longer defined, the client needs to communicate to the appraiser the assignment conditions under which the appraisal is to be performed. These might include required turnaround time, degree of inspection and approaches to be developed. After considering the client's description, it is up to the appraiser to determine if an adequate scope of work can be developed.

19 Is it a violation of USPAP to continue to use the labels "Complete" and "Limited" in the report?

No. It is not a violation to use labels or terms that are not included in USPAP.

Since the concept of departure will not exist after 2006 USPAP is effective, the report would probably be clearer if those labels were replaced with an explanation of the scope of work applied. However, if the report clearly communicates the scope of work, use of the labels would not violate USPAP.

CREDIBLE ASSIGNMENT RESULTS

20 Why did the ASB introduce a definition for the term "credible"?

Use of the term "credible" is not new. "Credible" was a central concept in USPAP prior to the 2006 USPAP, but it is more prominent in the 2006 USPAP.

21 How is the new definition different from what is in a dictionary?

The new USPAP definition of credible, *worthy of belief*, is not really different from common usage. The context for use of the term in USPAP is explained in the Comment to the definition: *credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.*

22 What's important to know about "credible"?

Whether or not assignment results are credible is always measured in the context of the intended use of the assignment. This means that credibility is relative, not absolute. Assignment results that are credible for one intended use may not be credible for another intended use.

SCOPE OF WORK AND REPORTING

23 Does the SCOPE OF WORK RULE introduce any new reporting requirements?

No. The SCOPE OF WORK RULE does emphasize that the appraiser must report the scope of work performed in the assignment, but this requirement has been in USPAP for many years.

The requirement to report the scope of work takes on greater significance because intended users rely on this disclosure to understand the research and analyses performed in the assignment, rather than relying on the simple (and potentially misleading) labels Complete Appraisal and Limited Appraisal.

24 If the scope of work changes during an assignment, which scope of work should appraisers explain in the report?

Appraisers should explain the scope of work actually performed in the development process.

25 Is a separate section in the report needed for the scope of work description?

No. USPAP does not dictate where information must be included in reports. The scope of work performed may be described in one section or throughout the report.

26 Does the report need to explain what wasn't done in an assignment?

Possibly. In addition to the disclosure of research and analyses performed, disclosure of research and analyses not performed might be needed to allow users of the report to understand your scope of work. The

report must explain why the cost approach, sales comparison approach or income approach was not developed. It may also be necessary to disclose other research and analysis not performed.

27 Have the reporting labels been deleted from USPAP?

No. The report types identified in USPAP have not changed. Self-Contained Report, Summary Report and Restricted Use Appraisal Report are still the report options for real and personal property appraisals. Appraisal Report and Restricted Use Appraisal Report are still the report options for business or intangible asset appraisals.

OTHER QUESTIONS

28 Are appraisers prepared for the 2006 USPAP?

Yes. While some education regarding the new structure of USPAP and the modified requirements will be required, appraisers have been dealing with varied scopes of work (for example, exterior only inspections vs. interior and exterior inspections) for many years now.

The 2006 USPAP does not introduce any major new requirements. The requirement to determine and disclose the scope of work is a requirement of the 2005 USPAP, as is the requirement to develop credible assignment results. Appraisers already possess the knowledge and skills needed to complete assignments under the SCOPE OF WORK RULE.

29 How can clients prepare for the 2006 USPAP?

Clients can review their policies, procedures, guidelines and correspondence for use of the terms "departure," "Complete Appraisal" and "Limited Appraisal" to describe the appraisal process. Because these terms are not defined in the 2006 USPAP, consideration should be given to replacing the terms with specific instructions that describe the type of services requested. Since the appraisal report types (Self-Contained, Summary and Restricted Use) have not changed in the 2006 USPAP, these is no need to modify current practices related to appraisal documentation.

30 Do the new Fannie Mae forms comply with the 2006 USPAP?

Forms cannot comply with USPAP. Appraisers comply with USPAP by meeting the relevant development and reporting requirements. The ultimate responsibility for USPAP compliance in an assignment lies with the appraiser, not the form.

CONTACTING THE APPRAISAL STANDARDS BOARD

The ASB invites commentary on USPAP from all interested parties. If you have any comments, questions or suggestions regarding USPAP, please contact the ASB.

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