

Return to Sender, or Not

IN REVIEWING APPRAISALS, we all encounter reports that contain errors, typos, and questionable or unsupported conclusions. After all, few 50- to 100-page documents are perfect, so it's reasonable to conclude that every appraisal report contains errors. So when do we ask for a revised report?

I recently encountered this issue while reviewing an appraisal of a relatively new borrow pit. The report provided the following facts:

- The subject property sold 100,000 cubic yards of sand in the past year.
- The pit contains 2.4 million cubic yards of sand.
- The average price of sand over the past year was \$3.60 per cubic yard.
- One competitor pit was selling sand for \$1.50 to \$2.00 per cubic yard.

The report then concluded the following:

- The subject will sell the remaining 2.4 million cubic yards of sand in the next five to six years.
- The subject will obtain prices starting at \$3 per cubic yard and increasing to \$4.50.

My first observation was that 2.4 million cubic yards divided by 100,000 cubic yards per year indicates a 24-year sellout period. The appraisal stated that the recent sales rate occurred during a weak market and thus is abnormally low. I could agree with that logic. However, the question remains: Where is the support for a five- to six-year sellout period? Also, if a competitor is selling sand at \$1.50 to \$2.00 per cubic yard, how can the subject maintain its pricing?

I contacted the appraiser and asked for more data. He expressed understanding of my request, and after a few days I received an e-mail with ample data supporting his conclusions. The new data showed that other borrow pits were selling sand at prices up to \$5 and \$6 per cubic yard and at rates exceeding 500,000 cubic yards per year.

At this point, I was facing an important question: Do I have the appraiser revise his report and include the additional data, or do I approve the existing report given that the value conclusion is acceptable?

I asked two colleagues what they would do. One reviewer said the report should stand on its own and thus should be revised with the additional data included in the analysis. The second reviewer said she would accept the existing report but attach the appraiser's correspondence to the original document.



No appraisal regulation covers this situation. Each reviewer likely has his or her own threshold for determining when a specific error or number of errors requires a revised report. In discussing this issue with reviewers, I have found general agreement that the following items will warrant correction and thus a revised report:

- The date of the report is incorrect.
- The date of value is incorrect.
- A typo appears in the market value conclusion.
- The market value has been incorrectly defined.
- The address of the subject property is incorrect.
- The report contains numerous typos.
- Engagement letter instructions were not followed.
- The report contains factual errors, such as incorrect subject building size.
- The report violates FIRREA.



- There is a USPAP violation, such as lack of a three-year sales history of the subject property.
- Math errors led to an incorrect market value conclusion.
- Furniture, fixtures, and equipment (FF&E) and business value were not valued separately from real estate.

The items I will personally allow without requiring a revised report include the following:

- Minor typos.
- Errors not material to the value conclusion.
- Minor disagreements with the appraiser's analysis and conclusions.
- The appraiser's value conclusion is within 5% to 10% of what I believe the data indicates.

Some reviewers may be less lenient regarding the above items, but my philosophy is not to nitpick the appraisals. The appraiser was hired to provide his or her opinion, and

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a reviewer is supposed to add value to the assignment, not redo the appraisal process from scratch.

In deciding whether to ask for revisions, I weigh the answers to several questions:

- Do I want a bank examiner to see these errors in the appraisal report?
- Could I defend why I let the errors go?
- Do I want the loan officer or credit officer to see that I let these errors stand?
- How does the delay in getting revisions affect the transaction?
- Is the borrower being "punished" by this delay just because the appraiser and I are having a battle of egos?

As with many bank decisions, stakeholders can have conflicting desires. Weigh the situation before deciding on the best course of action. Accepting questionable appraisals probably won't last long once an examiner requires that new appraisals be ordered. On the other hand, sending back every appraisal in an attempt to have "perfect" reports won't make your appraiser panel or borrowers happy.

If only one person reviews appraisals for your bank, the revision decision will be consistent. But banks with two or more reviewers should establish a consistent process. It's frustrating to all parties if one reviewer lets an item go while another reviewer sends reports back to have that same item corrected. Return to sender, or not, is a challenging decision. But consistent application will benefit all interested parties. ❖

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