

Kentucky Real Estate Appraisers Board

QUARTERLY NEWSLETTER NO. 61 – AUGUST 2006

MESSAGE FROM THE CHAIR

By: Russell Sloan

As real estate appraisers, we are generally engaged to perform appraisals of real estate, but we are sometimes asked to develop a value opinion for properties that are typically operated as a going concern by the property owner. These can include lodging facilities, nursing homes, convenience marts, restaurants, as well as several agri-business uses, such as chicken houses and hog farms with grower's contracts.

Based on the fourth edition of the Dictionary of Real Estate Appraisal, Going Concern Value is defined based on the following three criteria, which reflect the same concept.

1. The market value of all of the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate.
2. Tangible and intangible elements of value in a business enterprise resulting from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.
3. The value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going concern value.

Appraisal Institute. *The Dictionary Of Real Estate Appraisal*. 4th ed. (Chicago: Appraisal Institute, 2002), 127.

It is important to recognize that this is a different property interest than merely the real estate. The Uniform Standards of Professional Appraisal Practice requires that the appraiser consider the influence of non-realty components, including personal property and any going concern value. Furthermore, the appraiser should allocate the final opinion of value among these various components.

While it may be appropriate to value some property types, such as these, based on the income from the operating unit, the appraiser is required to allocate this value opinion between the real estate and these non-realty components. The income from these property types is different from that associated with other real estate (real property ownership rights), which can be owned by passive investors. This raises issues with the income stream that must be recognized and considered.

Since the income stream includes a business operation, the management function becomes a more important component. This type of income stream requires a much higher degree of management. While properties such as lodging facilities and nursing homes are sometimes managed by management companies, these other property types are typically managed by the owners. In the development of the income stream, the owner

must recognize this component. This may be accomplished using a significantly higher management function than that typically found in other real estate, a deduction to reflect the cost of hiring a management, or a significant increase in the capitalization rate, as will be more fully discussed below. Failure to apply a deduction reflecting the owner's active influence could overstate the value significantly.

The income from the operation of a going concern is less stable than that obtained from the rental of real estate. As a result, required rates of return are typically much higher than that typically associated with rental real estate. This is just as corporate bonds and commercial real estate typically command much higher yield rates than the safe rate associated with government bonds. The capitalization rates and discount rates applied to the income stream from this type property should be obtained from similar property types, rather than being based on other types of real estate that are less management intensive. Capitalization of the net income from the operating business at a rate similar to more passive investments would once again potentially overstate the value significantly.

Another significant factor that the appraiser must understand is the expenses associated with the operation. These expenses may include the cost of goods sold, salaries, supplies, etc. If the appraiser does not understand these expenses, it is possible to arrive at a misleading value opinion. There is often far more potential for variations in these expenses in relation to the expenses associated with other rental real estate.

Being conscious of these items, as well as the overall property application of established appraisal techniques and methodology, should result in a reliable indication of value for the operating unit. Once the appraiser has developed this value indication, using appropriate techniques, and properly applying them, he or she must recognize that a value opinion developed using the operation of a going concern is not merely a real estate (real property) value, but that it also includes these other components. Most lenders base their loans on the real estate (real property) value; therefore, the lack of the allocation of the value opinion could result in a disproportionately high loan in relation to the real property interests.

These allocations could potentially be developed based on cost or based on application of appropriate rates of return for the various components. It is possible that the techniques could result in the presence of no value for the business, but obtaining this answer is the responsibility of the appraiser who must verify, analyze, reconcile and report the results to the client in a manner that is credible, reliable and not misleading.

CHANGE IS AROUND THE CORNER

By: Rick O. Baumgardner, Member AQB

We are fast approaching implementation of the 2008 *Real Property Appraiser Qualification Criteria*. It is critical that all appraisers who may wish to change credentials, and trainees moving toward their first credential, understand how the changes in qualifications may impact their current or potential careers as real property appraisers.

To better understand the future, it is helpful to understand the past.

History

Investigations into the failures of many savings and loans institutions in the 1980s revealed to Congress that the very individuals who were determining the value of the underlying collateral for loans in real estate transactions were, for the most part, unregulated. When legislation was enacted to address issues contributing to the collapse of the financial institutions, a provision was included to mandate the regulation of real estate appraisers by the states. Known as Title XI of the Financial Institutions Recovery, Reform and Enforcement Act (FIRREA), the legislation required each state to create and put in place a regulatory system to license and/or certify real estate appraisers and provide a process to investigate complaints involving appraisers.

Title XI charged The Appraisal Foundation “with the responsibility of establishing, improvement and promoting minimum uniform appraisal standards and appraiser qualification

criteria.” The Foundation is a not-for-profit corporation that acts as the parent organization for two independent boards:

- The Appraisal Standards Board (ASB) promulgates and maintains the Uniform Standards of Professional Appraisal Practice (USPAP); and
- The Appraiser Qualifications Board (AQB) establishes minimum education, examination and experience criteria for licensure and certification.

In appraiser qualifications, states are responsible for the administration of licensing and certification. They may, in the process, adopt stricter standards than those identified in the *Real Property Appraiser Qualification Criteria*. They may not, however, require less than these minimum standards. In addition, all appraisers certified by the state must conform to USPAP when performing appraisals in connection with federally related real estate transactions.

In 2004, the AQB adopted changes to the minimum requirements for appraiser qualifications. The implementation dates were postponed until January 1, 2008 to ensure adequate time for state implementation and professional education.

The changes include increased educational requirements that will require college-level education and a more structured required core curriculum (rather than simply unstructured appraisal education hours). Those changes represent the minimum material requirements for each state to implement as of January 1, 2008. The education component of the criteria is summarized as follows:

Category	Current Requirements ¹	1/1/08 Requirements ^{1, 2}	1/1/08 College-Level Course Requirements ³
License	90 hours	150 hours	None
Certified Residential	120 hours	200 hours	Associate degree or higher. In lieu of the required degree, twenty-one (21) semester credit hours covering the following subject matter course; English Composition, Principles of Economic (Micro or Macro); Finance, Algebra, Geometry, or higher mathematics; Statistics; Introduction to computers – Word Processing/Spreadsheets; and Business or Real Estate Law.
Certified General	180 hours	300 hours	Bachelors degree or higher. In lieu of the required degree Thirty (30) semester credit hours covering the following subject matter courses: English Composition; Micro Economics; Macro Economics; Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers - Word Processing/Spreadsheets; Business or Real Estate Law; and two (2) elective courses in accounting, geography; ag-economics; business management; or real estate.

¹ Hours required include completion of the 15-hour National USPAP Course (or its equivalent)

² Hours required include specific core curriculum courses and hours – please see the *Real Property Appraiser Qualification Criteria* for details

³ College-level courses and degrees must be obtained from an accredited college or university.

This summary includes the educational changes only. For a complete guide to the new criteria, you should obtain copies of:

- (1) *The Real Property Appraisers Qualifications Criteria and Interpretations of the Criteria*
- (2) *A Guide for Understanding the 2008 Real Property Appraiser Qualification Criteria*
- (3) *Executive Summary of the 2008 Real Property Appraiser Qualification Criteria*

All three of these publications can be obtained from The Appraisal Foundation (www.appraisalfoundation.org)

How this Impacts Appraisers

The real purpose of this article is to make you aware of these changes, and also call attention to appraisers and trainees that their professional plans may be impacted.

The new criteria increase an appraiser or trainee's responsibilities when planning on changing a credential or obtaining an initial one. The candidate must: 1) ensure the educational courses they attend will meet the required core curriculum requirements and be eligible for qualifying education in their state; 2) choose a qualified mentor-supervisor; and 3) ensure they are adequately prepared for a more rigorous state examination. All "three legs of the stool" will be needed to support the career path you have chosen.

Choosing qualified education - Make sure courses you are attending are approved by the state for use as qualifying education. You must also understand which core curriculum

modules will be covered, and to what degree. Appraiser candidates will need to show successful completion of a specific number of hours in each module.

Choosing a qualified mentor-supervisor - Experience will be a vital part of your training since it is the application of education in real world situations. Obtaining meaningful experience will be critical in preparing you for the examination and the work you intend to do. Meaningful experience requires the supervision and guidance of experienced, well-qualified supervisors. Look for someone who has been in the business for a while, someone who is respected by both peers and users. Also look for an individual who will truly mentor you,

Be prepared for the examination - The subtopics in Guide Note 1 of the *Real Property Appraiser Qualification Criteria* were published to provide additional guidance on the scope of material that a candidate is expected to know at the each credential level. This material complements the required education and experience hours and can be used as a checklist.

Summary

The changes in the *Real Property Appraiser Qualification Criteria* will change the way many of you manage your careers. The AQB encourages you to immediately become familiar with your individual state's new requirements and re-assess how you can achieve your professional goals.

APPROVED EDUCATION

**Please Refer To The KREAB Website For
Information On Education.**

**(Please read carefully the education information regarding the courses
approved through the AQB)**

WWW.KREAB.KY.GOV

CHANGE, WORK AND PROGRESS AT THE KREAB

By: Larry Disney, Executive Director

Larry Disney
Executive Director

I realize it has been longer than the usual three months since the last newsletter was mailed. But, to say that during the past six months the work load at the Board office has been overwhelming for three fulltime staff persons and one contractor would be an understatement.

The following is a list of the most significant changes:

- On January 1, 2006 the 2008 criteria became effective for every applicant who filed an application to become a Licensed Associate Real Property Appraiser in Kentucky, and for anyone who cannot complete education, experience and or examination by January 1, 2008.
- In April 2006 the physical offices of the KREAB moved to the Spindletop Administration Building, 2624 Research Park Drive #204, Lexington, Kentucky 40511. Although a very short distance in miles, it happened at the worst possible time for the KREAB staff, just before the renewal rush which is from May 1 through June 30. Having to pack, unpack, become acquainted with new office space, getting a new e-mail system, learning a new telecommunications system, and assembly of the office materials and computers during this time was a great challenge for everyone.
- During the past twelve (12) months the KREAB staff has devoted considerable time in developing a program for appraisal education course approval, education provider approval, instructor approval, instructor evaluation, and distance education approval for continuing education. Previously we approved hours. The expectation for the 2008 criteria is much greater. Some state appraiser regulatory agencies have created education departments for this purpose. But, the KREAB Board and staff believe we can achieve successful results with the current staff and the assistance of Subject Matter Experts (SME's) serving as the KREAB Education Advisory Committee on an as needed basis.
- During the past twelve (12) months the Board has directed that the complaint case load should be totally investigated prior to January 1, 2007. After that date it is hoped only the cases filed in the calendar year 2006 will be open. This is a daunting task. The education and experience requirements for someone to become an effective appraiser regulatory agency investigator are unique and different from the skills typically possessed by review appraisers. The Board and staff believe that the contract investigator and his staff are among the best and most qualified in the United States. Currently, the investigator contractor is on pace to meet the Board charge to have all current pending investigations completed by January 1, 2007.
- During the past twelve (12) months the Board has directed the legal counsel to work toward having the cases that could not be settled by mediation set for a Board hearing. This process is time consuming and as we are finding out, a great deal of time must be spent in preparation and planning. The KREAB Board and staff believe our legal counsel will get the sessions scheduled and final dispositions reached for each no later than June 30, 2007.
- The Uniform Standards of Professional Appraisal Practice (USPAP) became effective on July 1, 2006 and instead of the usual 12 months it will be effective for 18 months. The significance of this edition included the elimination of the Departure Rule with its replacement, the Scope of Work Rule. In my opinion this change is the single best amendment to USPAP in the past ten years. If appraisers will embrace it, use it, and believe in it, I feel they will be better prepared to provide the services that are expected and demanded today, and they will have a better shield of protection from complaints. The KREAB Board and staff will continue working tirelessly to make appraisers aware of how the change can be one of their best allies.
- During the past one and one-half years we have been working through our Distance Education Advisor in creating, we believe, one of the best programs available anywhere for purposes of evaluating and approving distance education delivery for continuing

education credit. As a result of this effort it is likely that within the next three months the KREAB will announce approval of distance education delivery continuing education classes for this current renewal cycle which will end June 30, 2007.

The above items are what the KREAB Board and staff have been working on for the past twelve months. During the next six months it is envisioned we will be initiating and perfecting various methods to make our Kentucky program of appraiser regulation work better and more effectively. The following are some of what we are doing.

Beginning July 1, 2006 the Kentucky Board began implementing a new program of education approval. Prior to the 2008 criteria education for appraisers consisted of completing classroom hours only. However, the 2008 criteria demands education courses consist of appraisal specific topics that are required to include the content outlined in 201 KAR 30:190 for each course submitted for approval consideration.

Because of the education changes the Board has approved very few courses for 2006. The requirements for course approval are much more demanding and the materials that must be submitted with the courses are voluminous compared to previous approval request requirements. Until we can make the Kentucky education providers totally

familiar with the requirements, I assume we will continue to move slowly with approvals. But, this is nothing new; change brings challenges. I am confident the Board, staff and education providers will work together to erase the challenges and make the process beneficial for everyone, leading to a more solid program of appraiser regulation in Kentucky.

We ask that everyone be patient and understand the changes we face are unique and more massive than anything we have seen in the past decade of appraiser regulation. Therefore, as we move forward into 2007 we will be working tirelessly to make the changes for 2008 criteria, enforcement of the USPAP Scope of Work Rule, and the other items that must be completed in order to keep the Kentucky program compliant with expectations of The Appraisal Subcommittee. To do this, we will need your help in keeping us informed of what you perceive is working, what is not, and what you believe we should be doing to make the program better.

The staff and Board members of the KREAB have an open door and open communication policy. So, please contact us anytime, stop by the new offices for a tour of the space or to have a one-on-one conversation. Also, if possible begin attending the monthly Board meetings and see firsthand the positive things that are happening today at the KREAB.

KENTUCKY REAL ESTATE APPRAISERS BOARD

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...Are you finally getting ANSI...?

By: C. W Wilson

It has been almost 5 years now and most appraisers are at least trying to comply with the statutory requirement to measure all single family houses under the ANSI Z765-2003 standard. Maybe more importantly, the real estate sales profession is increasingly 'on board' with the need for a common measuring and reporting protocol.

To recap, appraisers in Kentucky have a mandatory requirement under 201 KAR 30:040, Section 4, "*The standard for the calculation and reporting of above-grade square footage and below-grade square footage in single-family houses shall be the American National Standard for Single-Family Residential Buildings; Square Footage-Method for Calculating*", ANSI Z765-2003, as approved by the American National Standards Institute, Inc.". The Kentucky Association of Realtors adopted ANSI for all those sales licensee members who choose to measure a house in their September 22, 2003 annual meeting, to become effective in September of 2007. In fact, the leadership of the Association and the Chair of the A.E.'s group, is providing time to work on compliant MLS input and output modifications for the local board programs at the KAR annual convention in Owensboro in September. With that change in place and remembering that most appraisers received their information on houses from MLS on-line services or printouts, the next phase of integration of ANSI into our world will be complete.

Large Realtor Board Adoptions

On a newsworthy items basis, you might want to know that the Lexington Bluegrass Association has moved toward input and output compliance and continues to offer ANSI training for agents in Central Kentucky. The Greater Louisville Association of Realtors moved this year to adopt ANSI ahead of the KAR mandate (January 1, 2007) and will provide training in 6 sessions for their membership this fall. Others are inquiring and trying to work out the programming logistics with their MLS software providers, all of which will hopefully come into focus in the Owensboro meeting.

Appraiser Non-Compliance

Most appraisers, as I said earlier, are trying to comply and most have had at least one training session somewhere. However, there are some nagging problems.

- Many appraiser have not quite understood that above grade and below grade, finished and unfinished areas should be measured and reported...so that unfinished bonus room over the garage needs to be 'taped' and the square footage noted somewhere in the report.
- Most appraisers do not use the required 'limiting conditions' statements provided on page 3 of the standard. This is particularly important on 'drive-by' and 'from plans and specs' appraisals because, as the standard indicates "*Failure to provide the declarations listed below-where applicable-voids any claim of*

adherence to this standard".

- Some appraisers apparently consider the application of this standard as optional or 'a suggestion' or at the discretion of the Certificate holder. Wrong! It is a legal requirement of 201 KAR 30 and has the full force of the law. What the Board will do with violations will be a matter for them to settle. There have, already, been minor disciplinary actions relative to this area.

Client and Owner Frustration Versus the Appraisers Obligations

There is no question that ANSI has created considerable confusion, especially in non-typical properties, for lenders and owners. Although I don't do a great deal of residential work, I personally had a home with less than seven foot ceilings in a second floor bedroom and, in detail, addressed the issue and the marketability concerns. An underwriter, after reading my 5 line explanation of the problem, call to ask if Kentucky had decided to follow ANSI instead of USPAP!

You can avoid a good deal of the grief that comes with these misunderstandings by anticipating the problem. Remember some key points:

- ANSI has a very narrow focus relative to measuring, documenting and reporting the square footage of single family houses. It does not dictate your analysis, the use of the various appraisal forms or your need to find ways to deal with the unusual properties you encounter. Just don't mislead any reader about the true nature of the physical characteristics of the property.
- Apart from above grade and below grade status, the sales comparison grid should reflect your market's reaction to the property's physical characteristics and thus square footage, if properly described under the ANSI standard, may be used in the sales grid even though it is not ANSI compliant.
- If you have demonstrated market acceptance for any unusual property, there is no 'appraisal' issue. Fundamental dissimilarities between the subject and the available comparable data cannot be hidden or ignored. Thus, for those homes with 6 foot 5 inch ceilings or a below grade kitchen, the problem is not ANSI but the property and the market. Deal with it the best way you can and let the chips fall where they may...but don't mislead any reader.
- Don't fall into the trap of thinking or saying that below grade space never contributes more than some predetermined percentage of above grade space. That is a market sensitive issue which varies

dramatically from region to region, price range to price range and with specialty external factors such as lake frontage.

Conclusion...

The ANSI standard, when fully implemented should facilitate meaningful communication between the various real estate professions and with the consumer. It will take time but we are making progress. Be patient and continue to educate your clients and those consumers you come into contact with. Better, more consistent data will make our job as appraisers much easier and the conclusions more credible.

**Attention all Kentucky Licensed and Certified
Real Property Appraisers,
The USPAP effective date cycles are:**

- ◆ The 2006 Edition of USPAP will be effective from July 1, 2006 – December 31, 2007
- ◆ Future USPAP editions will be on a two-year effective date per the Appraisal Standards Board advisory.

ADMINISTRATIVE REGULATION EXPERIENCE HOURS

All applicants for real property appraiser experience in the Commonwealth of Kentucky are advised to be familiar with the following explanation and amplification of 201 KAR 30:050, Section 6.

Effective July 1, 2005 "all" applicants applying to the Kentucky Real Estate Appraisers Board, without having received a prior credential, for Certified General Real Property Appraiser, Certified Residential Real Property Appraiser or Licensed Real Property Appraiser must affirm by a signed and certified experience log that the hours presented were completed while the applicant was practicing as a Licensed Associate Real Property Appraiser under the "direct" supervision of a Certified General Real Property Appraiser, Certified Residential Real Property Appraiser or Licensed Real Property Appraiser. The log must be signed, and the signatures notarized, by the applicant and all licensed/certified appraisers listed as providing supervisory duties for the specific assignments presented. Please remember that each supervising appraiser accepting responsibility for the training must notarize each specific assignment section that is pertinent to their supervision of the applicant.

Please note the above does not apply to 1) individuals currently licensed or certified but have their credentials in escrow, 2) for those individuals holding current valid credentials applying to move from one credential to the next, or 3) individuals who reside in a State other than Kentucky and apply for a credential through reciprocity and wish to receive the same

credential they possess in their home state. The requests for experience approval requests by applicants who have been previously licensed or certified but allowed their credentials to expire will be examined on a case by case basis.

EXAMPLE of UNACCEPTABLE SCENARIO:

An individual, never previously licensed or certified as a real property appraiser, worked two years in a real property appraiser's office without applying for an Associate Real Property Appraiser License. On July 1, 2006 the individual filed an application with the Kentucky Real Estate Appraisers Board for the Certified Residential Real Property Appraiser credential with the notation that the only lacking requirement is successful completion of the national examination.

After reviewing the application the Board staff determines the individual has documented acceptable proof of education completion. The appraisal assignment log indicates the experience hours were completed under the direct supervision of a Certified Residential Real Property Appraiser. However, the applicant has never applied for or received any prior credential, including the Associate Real Property Appraiser License, for the period in which experience credit is now requested. Therefore, in this scenario the individual will be denied experience credit until he/she receives an Associate Real Property Appraiser License and completes all required experience (time and hours) under the direct supervision of a licensed/certified appraiser(s).

**BOARD OFFICE HAS MOVED!!!!
MAKE NOTE OF CHANGES!!!!**

**Kentucky Real Estate Appraisers Board
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2624 Research Park Drive, Suite 204
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Phone and fax numbers will remain the same.**

IMPORTANT CHANGES TO APPRAISER QUALIFICATIONS!!!

On February 20, 2004, the Appraiser Qualifications Board of The Appraisal Foundation adopted changes to the *Real Property Appraiser Qualification Criteria* that will become effective on January 1, 2008. These changes represent the minimum national requirements that each state must implement for individuals applying for a real estate appraiser license or certification as of January 1, 2008. The changes include increased required education, which is summarized as follows:

Category	Current Requirements¹	1/1/08 Requirements¹ ₂	1/1/08 College-Level Course Requirements³
License	90 hours	150 hours	None
Certified Residential	120 hours	200 hours	Twenty-one (21) semester credit hours covering the following subject matter courses: English Composition; Principles of Economics (Micro or Macro); Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers-Word Processing/Spreadsheets; and Business or Real Estate Law. In lieu of the required courses, an Associate degree will qualify.
Certified General	180 hours	300 hours	Thirty (30) semester credit hours covering the following subject matter courses: English Composition; Micro Economics; Macro Economics; Finance; Algebra, Geometry or higher mathematics; Statistics; Introduction to Computers - Word Processing/Spreadsheets; Business or Real Estate Law; and two (2) elective courses in accounting, geography; ag-economics; business management; or real estate. In lieu of the required courses, a Bachelors degree will qualify.

¹ Hours required include completion of the 15-hour National USPAP Course (or its equivalent).

² Hours required include specific coverage of multiple topics-please see the *Real Property Appraiser Qualification Criteria* for details.

³ College-level courses and degrees must be obtained from an accredited college or university.

Please note that individual states may adopt requirements more stringent than the national requirements, and may opt to impose those requirements prior to January 1, 2008. Therefore, applicants for a real estate appraisal license or certification should always check with their state for individual requirements.

The Appraiser Qualifications Board intends to issue additional guidance regarding implementation of the revised Criteria in the near future. Please be sure to check our website at www.appraisalfoundation.org for the latest information. Questions regarding the national requirements can be directed to John S. Brennan, Director of Research and Technical Issues at The Appraisal Foundation, 1029 Vermont Avenue, NW, Suite 900, Washington, DC, 20005, via e-mail to john@appraisalfoundation.org or by phone at (202) 624-3044.

APPRAISER LICENSE STATISTICS - As of August 10, 2006

LICENSEES	NO.	INACTIVE STATUS	NO.
Certified General	472	Certified General	21
Certified Residential	767	Certified Residential	45
Licensed Real Property	100	Licensed Real Property	4
Associate	417		
TOTAL	1756		70

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ANSI Residential Measuring Standard Revised

At the March 26th meeting, the Kentucky Real Estate Appraisers Board voted unanimously to revise the administrative regulation adopting the **Method for Calculating Square Footage ANSI Z765-2003**. The rule is an updating of the current ANSI measuring standard which was in effect as of July 2003 for all appraisers in Kentucky.

The 2003 revision is made up of several editorial corrections to clarify language and the addition of a rule which acknowledges that at times, "circumstances can exist when direct measurement of a structure is not possible". ***The basic field measuring methodology and reporting requirements have not changed.***

The revised regulation will take effect no earlier than July 1, 2004. A copy of the current Z765-2003 revised standard is available from the NAHB Research Center bookstore at www.nahbrc.org/bookstore. The Board will be acquiring bulk rate copies for all appraisers in Kentucky for distribution.

SUMMARY OF CASES

FYI, the Board has included in this newsletter a list of activities on filed cases including 1) total cases opened, 2) cases which were disposed of (dismissed or 'with action'), 3) a total of cases closed (a subtotal) and 4) the cases which carried over from one year to the next. The Board felt that it was worthwhile for you to understand that the staff as well as the Board is processing a significant number of cases each quarter.

Obviously the number of cases which were filed or opened has increased substantially with increased input from federal and state regulators. Further, the staff changes in 2003 and not being able to fill the position formerly held by the current Executive Director has had an adverse impact on the number of cases being held over from one year to the next.

Year	# Opened	# Dismissed	# with Action	Total Closed	Carry Over
1992	5	4	1	5	0
1993	16	11	5	16	0
1994	18	10	8	18	0
1995	9	6	3	9	0
1996	5	4	1	5	0
1997	25	9	16	25	0
1998	37	11	26	37	0
1999	26	6	20	26	0
2000	85	23	62	85	0
2001	68	19	48	67	1
2002	82	23	54	77	5
2003	115	56	54	110	5
2004	109	53	32	85	24
2005	84	21	7	28	56
2006	40	5	0	5	35
TOTALS	724	261	337	598	126

“ASSOCIATE” REAL PROPERTY APPRAISER REGULATIONS

1. For experience credit, appraisal reports must be completed under the supervision of a certified or licensed appraiser.
 2. For experience credit, the Associate appraiser must, (1) sign the certification, or (2) be given credit in the certification for significant professional assistance, and (3) comply with Standards Rule 23(a)(b), or (c)(vii), as applicable.
 3. An Associate appraiser may perform an appraisal of property that the supervising appraiser has the competency and licensed authority to appraise.
 4. An Associate appraiser may have more than one supervisor, but must maintain a separate log for each supervisor.
 5. An Associate appraiser is entitled to obtain copies of the appraisal reports he or she has prepared.
 6. A supervising appraiser shall have been licensed by the Kentucky Board for a period of one (1) year, be in good standing with the Kentucky Board, and shall be responsible for the training and supervision of the Associate appraiser.
 7. The supervising appraiser shall inspect the first fifty (50) appraisals listed on the Associate's log.
 8. After the first fifty (50) assignments, a supervisor may permit an Associate appraiser to inspect properties within fifty (50) miles of the supervisor's office.
 9. The supervising appraiser, during the first twelve (12) months, shall accompany the Associate appraiser on any assignment greater than fifty (50) miles from the supervisor's office.
 10. A supervising appraiser may not have more than three (3) Associate appraisers at any one time.
 11. An Associate appraiser shall send one (1) appraisal report to the Board at the end of the first six (6) months and at the end of the first twelve (12) months of initial license for review by the Board.
- Any Associate appraiser who feels they are not receiving adequate supervision or training may call Larry Disney at the Board, in confidence, and discuss specific problems.

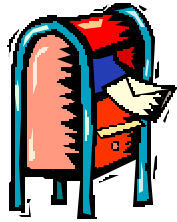
ASSOCIATE INFORMATION

Still some confusion: For an Associate Real Property Appraiser to receive experience credit toward certification, at least one of the following must be completed, (1) the Associate must sign the certification, or (2) the names of individuals providing significant real property appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but the description of their assistance is required in accordance with Standards Rule 2-3(a), (b), or (c)(vii), as applicable. If one of the steps is not completed in each report, the

Associate will not be awarded experience credit for those reports.

Also, the act by any certified/licensed appraiser permitting an Associate appraiser to perform significant professional assistance and not permitting the Associate appraiser to sign the certification, or give the associate credit in the certification for significant professional assistance is a violation of the USPAP and could result in a sanction by the Board.

“Mail or fax course completion certificate(s) to the Board upon completion of the course.”



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Fax: (859) 543-0028

CLARIFICATION OF THE 7 HOURS NATIONAL USPAP UPDATE

The Board has been asked several questions concerning the 7 hour National USPAP Update. I hope the following will clarify some of the issues.

1. The 15-hour National USPAP course or it equivalent **MAY NOT** be substituted for the 7-hour National USPAP Update course.
2. The 7 hour National USPAP Update course is required to be completed every two years by every certified/licensed appraiser.
3. The two year cycle will begin on July 1 of the first year a licensee is required to complete continuing education. For anyone licensed or renewing on July 1, 2005, the course must be completed at least one time between July 1, 2005 and June 30, 2007.
4. The 7 hour National USPAP Update course is not in addition to the required 14 hours. You can take the 7 hour National USPAP Update Course and an additional 7 hour course and receive credit for the 14 hour requirement.

NATIONAL USPAP UPDATE COMPLETION

Fiscal Year	Year 14 hours CE <u>IS</u> <u>NOT</u> required	Year 14 hours CE <u>IS</u> required	Year National USPAP Update <u>IS</u> required
Everyone licensed prior to June 30, 2004	N/A	6/30/06	June 30, 2007
First license* issued between 7/1/04 – 6/30/05	6/30/05	6/30/06	June 30, 2007
First license* issued between 7/1/05 – 6/30/06	6/30/06	6/30/07	June 30, 2008
First license* issued between 7/1/06 – 6/30/07	6/30/07	6/30/08	June 30, 2009

*First license being the very first license ever issued at any level (Associate, Licensed Real Property, Certified Residential, Certified General) by the State of Kentucky.

PRE-LICENSING COURSE VS. CONTINUING EDUCATION COURSE

The Board receives several calls a day from individuals not understanding the difference between a pre-licensing course and a continuing education course.

A pre-licensing course is the education completed for initial licensure/certification or for an individual moving to another credential. A pre-licensing course must be at least 15 hours in length and require the individual to successfully pass an exam at the end of the course.

A continuing education course is one completed for renewal of a license/certification. A continuing education course can be from 2 hours to “?” hours and the individual

is not required to complete a test at the end of the course, excluding the National USPAP Course. ***But, continuing education courses absent successful completion of an examination will not apply toward the education required to obtain a license/certification.***

Individuals who take a pre-licensing course **and** pass the exam at the end of the course may receive both pre-licensing and continuing education credit for the course. However, a pre-licensing course taken by an individual who does not take the test, or failed the test, can receive continuing education credit only.

WHO NEEDS CONTINUING EDUCATION?

There still seems to be some confusion with regard to who is and when is required to complete the 14 hours of continuing education.

Your original date of licensure governs when you must complete 14 hours of continuing education. Our fiscal year runs from July 1st through June 30th. If your licensure/certification renewal for all categories of appraisers, **including Associates**, is on or before June 30th; commencing with the next fiscal year, you are required to complete 14 hours of continuing education. You do not have to take continuing education during the fiscal year in which you received your **first** original license. If you move to another credential during the fiscal year, your first original license issue date is the basis date for renewal. Any questions, please call the Board office.

Also, it's a lot easier if you will complete continuing education before the last week in June. If you wait until the

last week in June to complete your education, your certificate will not be issued until the Board has proof of education completion. Proof can be a faxed copy of the certificate; in most cases the provider sends the Board a list of attendees. We will accept the list for continuing education credit, but the appraiser is required to send a copy of the certificate to the Board.

If you schedule classes the last week of June and wish to mail the renewal fee and form early, you may do so but include a note with the form stating when the courses will be taken. The Board must receive payment and proof of education by July 1st to avoid a late renewal charge.

Please submit course completion certificates at time of course completion. Waiting to send it with your renewal may delay processing your certification/license.

APPROVED EDUCATION

**Please Refer To The KREAB Website For Information On Education.
(Please read carefully the education information regarding the courses
approved through the AQB)**

WWW.KREAB.KY.GOV

COURSES THAT CAN BE TAKEN EVERY THREE (3) YEARS FOR CONTINUING EDUCATION CREDIT

The following courses may be taken every three years to complete the continuing education requirement. The Uniform Standards of Professional Appraisal Practice (USPAP) and/or Standards Update may be taken every year for *continuing education* credit. The Board may add additional courses.

1. Appraisal Principles;
2. Appraisal Procedures;
3. Income Capitalization and Financial Calculations;
4. Appraisal Report Writing;
5. Highest & Best Use Analysis;
6. Sales Comparison Analysis;
7. Cost Approach Methods – Depreciation – Cost From Market, etc.;
8. Appraisal Review;
9. Appraiser Liability and Kentucky Real Estate Appraisers Board Cases;
10. Site and Site Improvements;
11. Understanding Limited Appraisals and Appraisal Reporting Options;
12. Appraisal Forms – URAR, 2-4 Family. Condominium, etc.;
13. Farm, Ranch & Rural Appraising; or
14. Narrative Appraisal Report;

RECIPROCAL STATES & TELEPHONE NUMBERS

Alabama	(334) 242-8747	New York	(518) 473-2728
Arizona	(602) 542-1539	North Carolina	(919) 420-7920
California	(916) 552-9000	North Dakota	(701) 222-1051
Colorado	(303) 894-2166	Ohio	(614) 466-4100
Georgia	(404) 656-3916	Oregon	(503) 373-1505
Illinois	(312) 793-3000	Pennsylvania	(717) 783-4866
Indiana	(317) 232-2980	South Dakota	(605) 773-3178
Maine	(207) 624-8520	Tennessee	(615) 741-1831
Maryland	(410) 230-6165	Texas	(512) 465-3950
Missouri	(573) 751-0038	Washington	(360) 753-1062
New Hampshire	(603) 271-6186	West Virginia	(304) 558-3919
		Wyoming	(307) 777-7141

Indiana – Reciprocal agreement for classifications of Certified General and Certified Residential. The individual must have been licensed in Indiana for at least two (2) years.

Pennsylvania – Reciprocal agreement for classifications of Certified General and Certified Residential

BOARD FEES

Initial license/certification	\$200.00
Current USPAP Fee	\$12.00
Roster Fee	\$25.00
Renewal Fee (Certified General, Certified Residential & Licensed Real Property)	\$237.00
Renewal Fee (Associate)	\$212.00
Initial Inactive Status	\$50.00
Address Change	No charge
Address Change with new certificate	\$10.00
Letter of Good Standing	No charge
State Appraiser List	\$25.00
Continuing Education Course Approval	\$50.00
Pre-Licensing Course Approval	\$100.00
NSF Check Fee	\$25.00
NSF Renewal Check Fee	\$200.00 may be charged if renewal check is returned after July 1

Upgrading a license/certification during a fiscal year requires an additional license, roster & book fee. There is no prorating of fees.

If you are moving or obtaining a license or certification before the renewal cycle, you have two options: 1) If obtaining a license/certification prior to the renewal date, you will be required to pay the licensing fee at that time and then a renewal fee by June 30th with no prorating of fees, or 2) Waiting until July 1 to have your license or certification issued and only paying one fee. If you have any questions, please call Angie at the Board office or you can email her at Angie.Thomas@ky.gov.

PROCEDURES FOR MOVING A LICENSE OR CERTIFICATION

The following list contains information that is required for submission to the Board when upgrading a license or certification. If you have any questions concerning the process, please contact Angie Thomas at the Board.

CERTIFIED RESIDENTIAL MOVING TO CERTIFIED GENERAL

1. 180 hours of pre-licensing education* - Included in the 180 hours, 15 hour Basic Income Course
2. Successfully pass the Certified General exam
3. Certified General Experience Affidavit – Signed and Notarized
4. Experience Log – Log must contain 1,500 hours of non-residential work
5. 2 non-residential appraisal reports

LICENSED REAL PROPERTY or ASSOCIATE MOVING TO CERTIFIED GENERAL

1. 180 hours of pre-licensing education* - Included in the 180 hours, 15 hour Basic Income Course
2. Successfully pass the Certified General exam
3. Certified General Experience Affidavit – Signed and Notarized
4. Experience Log – Log must contain 30 months **and** 3,000 hours (1,500 hours, at a minimum, must be in non-residential work).
5. 2 non-residential and 2 residential appraisal reports

LICENSED REAL PROPERTY or ASSOCIATE MOVING TO CERTIFIED RESIDENTIAL

1. 120 hours of pre-licensing education* - Included in the 120 hours, 15 hour Basic Income Course
2. Successfully pass the Certified Residential exam.
3. Certified Residential Experience Affidavit – Signed and Notarized
4. Experience Log – Log must contain 2 years **and** 2,500 hours
5. 2 residential appraisal reports

ASSOCIATE MOVING TO LICENSED REAL PROPERTY

1. 90 hours of pre-licensing education* - Included in the 90 hours, 15 hour Basic Income Course
2. Successfully pass the Licensed Real Property exam
3. Licensed Real Property Experience Affidavit – Signed and Notarized
4. Experience Log – Log must contain 2 years **and** 2,000 hours (some hours must be in non-residential)
5. 2 non-residential and 2 residential appraisal reports

*A pre-licensing course must be at least 15 hours in length and successful completion of a closed book exam at the end of the course.

Report requirements for submission:

1. Reports submitted for experience credit must true and be true copies, with signatures, of the reports submitted to the client. Modifications to the reports for the purpose of submitting the appraisal for experience credit are not permitted.
2. Appraisal review experience will be awarded; however, review appraisal reports are not considered sufficient examples of appraiser knowledge and demonstration of techniques. Therefore, all appraisers requesting certification must submit complete appraisals presented in the summary form and complying with all requirements in this statement.
3. Reports submitted must be completed within the past twelve (12) months from date of submission.
4. The residential appraisal experience must be a complete appraisal using the self-contained or summary reporting option.
5. A single-family residence, where the income approach is not applicable, and it is so stated, will be acceptable.
6. Non-residential reports must be a complete appraisal with all the (3) approaches utilized. Reports submitted for experience credit that do not comply with this requirement will be returned to the applicant without credit being awarded.
7. Additional appraisal reports may be requested from the log.

Before submitting the reports and experience log, you must have completed the education requirement. If you have completed all the requirements except for passing the exam, you may submit the reports and log for review. Upon Board acceptance and approval of your experience and education, you will be approved pending successful completion of the exam. Once you have passed the exam, you will be able to obtain your license/certification at that time.

The following are the Board meeting dates. Submission of reports any later than a week before the Board meeting dates, will not be reviewed until the following month.

August 25, 2006	October 27, 2006	December 15, 2006
September 19, 2006	November 17, 2006	

REMINDERS!!

ASSOCIATE REAL PROPERTY APPRAISERS LICENSED AFTER JULY 1, 2001

All Associate real property appraisers licensed after July 1, 2001 shall submit to the Board two (2) complete summary appraisal reports, 1) the first report shall be submitted to the Board six (6) months following the date of issuance of the associate license, and 2) the second report shall be submitted to the Board twelve (12) months following the date of

issuance of the associate license. Reminder letters will be mailed to the associate prior to the report(s) due date. The reports will be reviewed for USPAP compliance and acceptable appraisal practices. Any deficiencies noted will be made known to the applicant so future appraisals will be compliant.

HAVE YOU BEEN IN AN INACTIVE STATUS FOR THREE YEARS?

Under KRS 324A(4), if you have been in an Inactive Status for 3 years, you will have to meet "all requirements for original license or certification" in order to return to active status. Check now and be certain that you don't get blind sided by not activating your status in a timely fashion.

YEAR LICENSED PLACED INACTIVE:	LICENSE MUST BE ACTIVATED BY:
July 1, 2004	June 30, 2007
July 1, 2005	June 30, 2008
July 1, 2006	June 30, 2009

TO RETURN TO ACTIVE STATUS

(1) Petition the Board for reactivation of the certificate or license; and (2) pay the applicable renewal fee, roster fee and book fee (\$237.00); and (3) provide evidence of completion of the annually required continuing education hours (14) for each year of inactive status. Remember that if you did not complete the continuing education for the year prior to placing

your license/certification in the inactive status, you will also be required to complete that 14 hours of continuing education. (Example: 14 hours x 3 years in an inactive status = 42 + 14 hours for the year prior to placing your license in an active status = 56 total continuing education hours).

APPRAISAL STANDARDS BOARD
QUESTIONS AND ANSWERS

This communication by the Appraisal Standards Board (ASB) does not establish new standards or interpret existing standards. The ASB USPAP Q&A is issued to inform appraisers, regulators, and users of appraisal services of the ASB responses to questions raised by regulators and individuals; to illustrate the applicability of the Uniform Standards of Professional Appraisal Practice (USPAP) in specific situations; and to offer advice from the ASB for the resolution of appraisal issues and problems.

*For further information regarding USPAP Q&A, please contact: **John S. Brennan**, Director of Research & Technical Issues.*

*The Appraisal Foundation
1029 Vermont Avenue, NW, Suite 1900
Washington, DC 20005
(202) 624-3044
(202) 347-7727 Fax*

QUESTION # 1

Including an “Unreliable” Approach to Value

I have a client requesting that the cost approach be included in every appraisal assignment, including those where I feel the cost approach may not yield meaningful results. I am concerned that by complying with the client’s request I may be providing a misleading appraisal report. How can I comply with USPAP and satisfy the client at the same time?

RESPONSE TO QUESTION # 1

Performing a cost approach that may not yield a meaningful indication of value does not result in a misleading appraisal report if the appraiser properly addresses the applicability and suitability of the approach in the report. Many appraisers address this in the reconciliation by including statements such as, “The cost approach was included solely at the request of the client; it has been given no weight in arriving at the final opinion of value because....”

QUESTION # 2

Review Appraiser Bias

An appraiser receives a request to review an appraisal; however, the reviewer has previously appraised the same property. Does the reviewer’s prior experience with the property create a bias that then precludes an objective review?

RESPONSE TO QUESTION # 2

No. Prior appraisal experience with the subject of the work under review might be considered an asset and may have contributed to the reviewer’s selection for the assignment. Before accepting any assignment, an appraiser must be

certain that he or she will be able to attest in the certification that the assignment results are impartial and unbiased. If the performance of the prior appraisal assignment creates a predisposition regarding appropriate and reasonable assignment results, the appraiser should decline the appraisal review assignment.

QUESTION # 3

Appraiser’s Fees

I’m aware that an appraiser’s fee cannot be based on the amount of the appraiser’s value conclusion. However, does USPAP allow an appraiser’s fee to be based on the amount of the owner’s estimate or a pending sale price of the subject property?

RESPONSE TO QUESTION # 3

USPAP does not prohibit an appraiser’s fee from being based on an owner’s estimate, a pending sale price of the subject property, loan amount, or any other factor outside the appraiser’s control.

This is in contrast to a fee based on the amount of the appraiser’s opinion of value, which is within the appraiser’s control. A fee arrangement based on the appraiser’s opinion of value violates the ETHICS RULE.

QUESTION # 4

Appraisers “Providing Comps”

I have a client that just wants me to “provide comps” from a neighborhood. Are there any USPAP requirements I must comply with to perform this task?

RESPONSE TO QUESTION #4

To answer this question, it is important to identify exactly what the appraiser is being asked to do. If the appraiser is asked to “provide comps,” that would typically mean the appraiser would be exercising his or her own judgment to determine which sales are most “comparable” to the subject property. The appraiser may chose to include only those sales that he or she deems are most similar to the subject in size, location, quality, etc., which could mean that certain sales may be omitted. In this case, the resulting data would have been “filtered” by the appraiser’s judgment, which would have the next effect of providing a range of value to the client. This range of value is defined as an appraisal under USPAP; therefore, the appraiser would be obligated to comply with STANDARDS 1 and 2.

This should be contrasted to a request for an appraiser to simply provide data. For example, an appraiser asked by a client to provide “sales data of all homes located within a one mile radius” of a specific address could comply with the client’s request without complying with STANDARDS

1 and 2, as the appraiser would just be providing sales data pursuant to the client's defined parameters. In this example, the appraiser must be careful not to communicate any opinions or conclusions regarding the data provided.

For related guidance on this topic, please refer to Advisory Opinion 19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments* and Illustration #4 "Appraisal and Market Information" in Advisory Opinion 21, *USPAP Compliance*.

QUESTION # 5

Business Valuation Using Asset-Based (Cost) Approach

I am valuing a controlling interest in a business enterprise by use of an asset-based (cost) approach, and that business owns real property. Am I required to have an appraisal of the real property or may I use other indications of the real property value?

RESPONSE TO QUESTION #5

An appraisal of the real property would not always be required. Whether or not an appraisal is necessary is based on whether credible assignment results can be developed for the business interest without such an appraisal. And whether or not assignment results are credible is measured in the context of the intended use of those assignment results. The decision is part of the scope of work determination the business appraiser must make.

For some intended uses, the business appraiser may determine that an appraisal of the real property is required (to be performed by an appraiser competent to perform the appraisal and in compliance with USPAP). For other intended uses, the business appraiser may determine that an indication of the real property value other than a real property appraisal may be appropriate. Such indications could be a management estimate, a recent transaction of the property, or tax assessment values.

2006 USPAP and Scope of Work

QUESTION # 6

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

RESPONSE TO QUESTION #6

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.

QUESTION # 7

What is scope of work?

RESPONSE TO QUESTION #7

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.

QUESTION # 8

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

RESPONSE TO QUESTION #8

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.

QUESTION # 9

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

RESPONSE TO QUESTION #9

Yes, the ASB issued two new Advisory Opinions:

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

QUESTION # 10

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

RESPONSE TO QUESTION #10

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.

QUESTION # 11

Who determines the scope of work?

RESPONSE TO QUESTION #11

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

QUESTION # 12

Is a scope of work specified by the client acceptable?

RESPONSE TO QUESTION #12

It is if that scope of work allows the appraisers 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.

QUESTION # 13

What's important to know about "credible"?

RESPONSE TO QUESTION #13

Whether or not assignment results are credible is always measured in the context of the intended use or 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.

QUESTION # 14

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

RESPONSE TO QUESTION #14

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.

QUESTION # 15

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

RESPONSE TO QUESTION #15

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.

QUESTION # 16

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

RESPONSE TO QUESTION #16

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.

QUESTION # 17

Have the reporting labels been deleted from USPAP?

RESPONSE TO QUESTION #17

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.

QUESTION # 18

Applicability of SCOPE OF WORK RULE

In my role as an appraiser, I perform many assignments that are not appraisal, appraisal review or appraisal consulting services. Does the SCOPE OF WORK RULE apply to these assignments?

RESPONSE TO QUESTION #18

No. The SCOPE OF WORK RULE applies only to appraisal, appraisal review, and appraisal consulting assignments. These are the same assignments that STANDARDS 1 through 10 address.

Assignments where STANDARDS 1 through 10 do not apply (for example, teaching appraisal courses, providing sales data, collecting market data, analyzing reproduction costs, developing educational texts) still require an appraiser to comply with those portions of USPAP that apply to appraisal practice. These include the DEFINITIONS, PREAMBLE, the Conduct, Management, and Confidentiality sections of the ETHICS RULE, the COMPETENCY RULE, the JURISDICTIONAL EXCEPTION RULE and the SUPPLEMENTAL STANDARDS RULE.

QUESTION # 19

Judging an “Appraiser’s Peers Actions”

In the SCOPE OF WORK RULE, one of the two tests regarding the acceptability of an appraiser’s scope of work is what the appraiser’s peers would do. There are many appraisers that do things differently, so how would I know what they would do in an assignment?

RESPONSE TO QUESTION #19

The SCOPE OF WORK RULE states that the acceptability of an appraiser’s work is judged based on two tests:

- ◆ the expectations of parties who are regularly intended users for similar assignments; and
- ◆ what an appraiser’s peers’ actions would be in performing the same or a similar assignment?

Neither of these tests are new to USPAP for 2006. There has been no change in the way that appraisers know that their scope of work is adequate. Appraisers continue to use

their training, experience and judgment to determine a scope of work that produces credible assignment results.

The first step in knowing what your peers would do is to identify your peers. In USPAP, “appraiser’s peers” has a specific meaning. It is defined as:

other appraisers who have expertise and competency in a similar type of assignment.

This definition illustrates that an appraiser’s peers are assignment specific and may change from assignment to assignment. This is because appraisers have varying levels of expertise and competency in specific property types, geographic locations, etc. For more information on appraiser’s peers, please see Advisory Opinion 29, *An Acceptable Scope of Work*.

Knowledge about what an appraiser’s peers would do in a similar assignment comes through being a participant in the profession. Typical forums that allow appraisal professionals to share information about practice include appraisal journals and publications, professional meetings and conferences, education through courses and seminars, and appraisal discussion groups (both in-person and through the web).

DISCIPLINARY ACTIONS

ALL LAST QUARTER CASES WILL APPEAR IN THE NEXT QUARTERLY NEWSLETTER.

ADMINISTRATIVE REGULATION CHANGE
EXPERIENCE HOURS

Effective July 1, 2003, all experience hours obtained for credit toward Certified General, Certified Residential and Licensed Real Property must be completed under the supervision of a certified or licensed appraiser and the applicant **must** hold an Associate Appraiser license. You may continue working on your own or for a certified or licensed appraiser without an Associate license, but experience hours obtained in this manner will not count toward certification. Remember, the supervising appraiser must sign and certify that he/she supervised the work of the associate submitting the log.

If you have any questions, call the Board office.

You can obtain the KREAB Statutes and Regulations at
<http://www.lrc.state.ky.us/krs/324A00/CHAPTER.HTM> - Statutes
<http://www.karea.org/kar201ch30.html> - Regulations

WELCOME NEW APPRAISERS

Max E. Blumenthal
John T. Boaz
Brenda L. Boedker
Randall P. Cain
Kevin Scott Dalton
Vallerie A. Davis
Mark T. Derringer
Quinton W. Durham, Jr.
Jack P. Friedman
Michael E. Green
Gino Guarnieri, Jr.
Donald B. Hill
Ryan Michael Hlubb
Kellie D. Houchins
Angel Infante, Jr.
Ricky D. Janes
Jason A. Johnson
Scott D. Kelley
Garret L. Kolb
Jeff Krimble
James E. Mays
Robert D. Mellinger
Anna K. Morgan
Heather Dawn Nobles
Larry R. Oeswein
William Michael Ousley
Timothy Scott Percy
Karie Sue Reach
Michael W. Resce
Clay Risner
Paul E. Rottinghaus
Michael J. Schiller
James Knox Thomason
Wilburn Flack Trotter, Jr.
John Paul Williams
Lara Janeen Wilson
Cynthia M. Wuestefeld
Ginger Yamaguchi

Certified General
Certified Residential
Licensed Real Property
Certified Residential
Associate
Certified Residential
Associate
Certified Residential
Certified General
Certified General
Associate
Licensed Real Property
Certified General
Associate
Associate
Associate
Associate
Associate
Associate
Associate
Associate
Certified General
Certified Residential
Licensed Real Property
Associate
Associate
Associate
Certified Residential
Certified General
Associate
Certified General
Certified General
Associate
Licensed Real Property
Associate

Chicago, IL
West Chester, OH
Cincinnati, OH
Cincinnati, OH
Somerset, KY
Waverly, OH
Richmond, KY
Cleveland, OH
Dallas, TX
Johnson City, TN
Lexington, KY
Cincinnati, OH
Ellicott City, MD
Bowling Green, KY
Louisville, KY
Campbellsville, KY
Nicholasville, KY
Providence, KY
Louisville, KY
Prospect, KY
Somerset, KY
Milford, OH
Vienna, IL
Columbus, OH
Louisville, KY
Lexington, KY
Belknap, IL
Sugar Grove, IL
Northbrook, IL
Shepherdsville, KY
Florence, KY
Cincinnati, OH
Danville, KY
Houston, TX
Devon, PA
Ashland, KY
Cincinnati, OH
Harrodsburg, KY

RECLASSIFICATIONS

Linda H. Best
Mark W. Breeding
Shannon L. Cornett
Angela R. Cox
Christopher D. Dillingham
Beverly Dyrdek
Bryan D. Ehret
Craig Eibel
Paul Joseph Elam
Andrew Michael Falco
Milton L. Freibert, Jr.
M. Alan Hensley
Katharine L. Hill
Ralph E. Justice
Sheila G. Kelley
Lillian Stacy Letton
David Manco, Jr.
Hank Mardis
Sean J. McCann

Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified General
Certified Residential
Certified Residential
Certified General
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential
Certified Residential

Lexington, KY
Ashland, KY
Lexington, KY
Elizabethtown, KY
Somerset, KY
Elizabethtown, KY
Crestwood, KY
Louisville, KY
Ashland, KY
Louisville, KY
Cincinnati, OH
Pikeville, KY
Louisville, KY
Grayson, KY
Metropolis, IL
Naperville, IL
New Albany, IN
Charlestown, IN
Cincinnati, OH

Robert L. Mills
Antone J. Washington
Ralph Harlan Wellman
Mike A. Wilson

Certified Residential
Certified Residential
Certified Residential
Certified Residential

Richmond, KY
West Chester, OH
Greenup, KY
Somerset, KY

REPORTING COMPLAINTS IN NEWSLETTER

At the March 22, 2002 Board meeting, the Kentucky Real Estate Appraisers Board unanimously voted to report the names of those complaints that have been adjudicated, whereby the respondent received a sanction of one of the following: (1) Fine of \$1,000 or greater; (2) Suspension of license/certification, or (3) Revocation of license/certification.

A couple of years ago the Board voted to accept anonymous complaints. Complaints were filed with little merit and were clearly filed to embarrass. Some of these complaints resulted in a small fine and or a requirement to take additional education. The complainant had one goal in mind and that being to embarrass a licensee and see a name in the newsletter so the newsletter could be used to discredit a licensee.

The KREAB, by statute, will address and dispose of every complaint it receives. The lesser offenses will be disposed

of with a Letter of Notice, small fine or additional education, without the appraiser's name being published in the newsletter. Complaints that involve fraud and gross negligence that result in a fine of \$1,000 or greater or a suspension or revocation of license, will result in appraiser's name being listed in the newsletter.

Some appraisers possess what might be referred to as the police court mentality. That being, when you open the newspaper the first item you read is the police report to see who got in trouble. I'm sure there are many appraisers who read only the disciplinary actions in the newsletter and ignore the rest. This is your prerogative but you're missing a lot of useful information.

Since 1996, the Board has encouraged appraisers to file complaints that rise to the level of gross negligence or fraud. The Board has never encouraged nit-picking complaints to embarrass your competition.

GRIEVANCE AND COMPLAINT PROCESS

The KREAB considers the initial correspondence filed with the Board to be a Sworn Statement of Grievance. The Sworn Statement of Grievance is required to be answered and investigated the same as a complaint. Should the Board determine no violation of USPAP and or Kentucky Statutes/ Regulations exist, the grievance shall be dismissed. When a grievance is dismissed by the Board, no record of a complaint shall be recorded in the appraiser's file and the appraiser shall not be required to report or disclose they had a grievance filed against them. The rationale for not reporting grievances dismissed by the Board is to discourage frivolous complaints and complaints filed to embarrass.

Should the Board determine from the investigative report sufficient evidence exists to proceed; the Board will file a formal complaint and set the case for a hearing.

The appraiser shall be afforded the opportunity to settle the complaint at an informal or mediation hearing. If the complaint is settled at an informal hearing or through mediation, the appraiser and Board will enter into an agreed order. Lacking an informal settlement, the case will proceed to a formal hearing.

ANONYMOUS GRIEVANCE - The KREAB will accept an anonymous grievance providing the complainant sends the Board a copy of the appraisal and a list of the items believed violations of USPAP and/or KY Laws & Regulations. The Board will investigate the grievance and if deficiencies exist, file a complaint on behalf of the Board. **The Board will not accept anonymous grievances that fail to state the deficiencies.** The Board will not review appraisal reports to determine if deficiencies exist.

BOARD GRIEVANCE - The KREAB, on its own volition, may file a grievance if in the opinion of the Board the alleged violations are of a serious nature such as gross negligence or fraud or not complying with a directive from the Board.

The KREAB does not encourage frivolous complaints or complaints filed to embarrass. **Effective March 22, 2002, the KREAB will publish the name of the appraiser in the quarterly newsletter who has received a sanction of the following: (1) Fine of \$1,000 or greater, (2) Suspension of license/certification, or (3) Revocation of license/certification.**

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