



**AskHenryHarrison.com**

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*Henry S. Harrison is the leading appraisal author in America with over 30 books in print. He has taught seminars all over the United States and has been active in the appraisal field for over 45 years. For the past 25 years, he has also been the publisher of Real Estate Valuation Magazine. Viewers can now read and submit questions for free by e-mail, fax, or directly through Henry's new website:*

***[www.askhenryharrison.com](http://www.askhenryharrison.com)***

*We reserve the right to edit the letters as needed when we use them for publication. We respect "name withheld" requests.*

## **Ask Henry Harrison**

### **SCOPE OF WORK & RENOVATIONS**

**Hi Henry:**

I have been requested lately to verify that renovations or additions have been completed with proper permits.

My response to the client has been this comment in the appraisal:

"This appraiser did not appraise the property at the time of the subject renovations. At the time of this inspection, the subject renovations were complete, and there were no obvious adverse conditions. It is to be noted that the Appraiser is not performing a Building Inspection, nor is responsible for matters of a legal nature that involve hidden or fraudulent actions of other parties. If the reader of this report requires further information regarding permits or previous home additions or remodeling, the appraiser recommends contacting the homeowner or Building Inspector."

I view my Appraiser's License as authorization to provide Market Value, not to act as the Town Hall Permit Police. Even if I can find a permit, who am I to say the work was completed to code or not? Please tell me if I am wrong, and how you suggest I respond. Should I be digging through permits & putting my license on the line for past renovations that I have no way to oversee?

Thank you in advance! You're the best!

*Kiersten Gerow, appraiser*  
*Nashua, NH*  
[capitalk@myfairpoint.net](mailto:capitalk@myfairpoint.net)

**Dear Kiersten:**

The USPAP requires a scope of work dialogue with the client prior to accepting an appraisal assignment. If you are not willing to do what they ask for, you should inform them, and try to come to an agreement as to what you are willing to do and what you will be paid for this work. For example, you might be willing to interview the building inspector and report the results of the interview. Once you become aware of a potential problem (e.g., an unsafe exterior staircase to a new deck), you do have to report it in your appraisal, and to the client.

In the other example above, if acceptable to the client, your appraisal report could include the results of your interview and contain a statement saying that you are aware of a recent renovation being made, there are no apparent problems with the renovation (if this is true), and that the value you have estimated is based on the assumption that there are no problems.

If you cannot come to a scope of work agreement with the client, you should not do the appraisal.

**H2**

# Claudia Says...

...all the right things concerning your legal questions!

Claudia Gaglione  
LIA National Claims Counsel



## Introducing *Claudia Says!*

Liability Insurance Administrators is proud to announce our new online Errors & Omissions (E & O) legal resource – *Claudia Says!* Hosted by Claudia Gaglione, LIA's renown National Claims Counsel, *Claudia Says!* is the appraiser's source for practical legal advice concerning loss prevention issues. Claudia utilizes her extensive experience to give you trusted advice for your most pertinent E&O concerns.

LIA's National Claims Counsel – Gaglione & Dolan – has supervised more real estate appraiser E&O claims than any other law firm in the nation, and is recognized as a leader in defending real estate professionals. LIA clients have the exclusive benefit of access to Claudia for legal advice and counsel if a claim or threatening situation arises. Claudia also shares her extensive claims experience in LIA's highly acclaimed *Claim Alert* newsletters, which are available for free at [www.liability.com/claimalerts](http://www.liability.com/claimalerts).

Please be sure to visit the *Claudia Says!* section of our newly updated website at [www.liability.com/claudiasays](http://www.liability.com/claudiasays) to gain knowledge from her latest legal Q&A. You are also invited to read our discussion of appraiser legal issues at [www.appraiserinsurance.blogspot.com](http://www.appraiserinsurance.blogspot.com). To learn more about Liability Insurance Administrators and the services we offer, please visit us online at [www.liability.com](http://www.liability.com), or call us at (800) 334-0652.

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## VACANT APARTMENT

Dear H2,

I have a full duplex that is being purchased and the borrower is already living in one unit while the other unit is vacant. The property was vacant until the borrower recently moved in. My client has requested that the appraisal be done on the 1004 form, since the borrower qualifies for the loan without any rental information. The appraisal is likely to be kept in-house by the lender and not sold on the secondary market. Can I do this appraisal on the 1004 or am I required to put it on the 1025 form since it is in reality a small income property? Thanks.

*Sean E. Wooley, Appraiser  
Overland Park, KS  
[swooley@adamsoninc.com](mailto:swooley@adamsoninc.com)*

**Dear Sean,**

The USPAP has no requirements as to what (if any) appraisal reporting forms you use. This is a matter to be decided by you and the client during the scope of work dialogue with the client that the USPAP does require. First, you must make it clear to the client that if they decide to sell the mortgage, your appraisal probably will not be acceptable to Fannie Mae, Freddie Mac or the FHA.

You should also explain that your appraisal will have to accurately describe the ownership and configuration of the whole property, including the vacant residential unit. It probably will be harder for you to do this on the URAR than to complete to 1025 as you will have to make a lot alterations and additions to the URAR. The final decision is up to you and the client.

**H2**

## **LACK OF COMPARABLES**

**Dear H2,**

I am appraising a house, newly built in 2008. It is 2,600 sq.ft., in an established neighborhood of 50-100 year old houses, most of which are 1,500-1,900 sq/ft. This house is not actually atypical, because many owners in the neighborhood have torn down and re-built this type of house (2 story, and made with the finest materials.) However, houses of this caliber and size have not been sold, so there are no recent sales of this type. Do I use comps that are as large as the subject, but older, even though upgraded with the finest materials? Do I adjust for age? I don't think these are true comps. Do I venture out into other areas and neighborhoods until I find genuine comparable sales? No sales of similar age and quality are making this assignment difficult for me.

*Leroy Thomas III Los Angeles, CA  
[LT3Appraisers@aol.com](mailto:LT3Appraisers@aol.com)*

**Dear Leroy,**

It is solely up to the appraiser to select which comparable sales are most useful and how much weight to give each one, as well as what adjustments are needed. You have to decide if the comparable sales available are sufficient to make a credible appraisal, which is what is required by the USPAP. If you don't think you have sufficient data, you cannot do the appraisal.

**H2**

## **INDUSTRIAL BUSINESS SPACE**

**Dear H2,**

I own an industrial building with 5,000 square feet of shop and 1,000 square feet of office space, with an additional 1,000 square feet above (on a mezzanine) that is finished with an office, conference room and a full bath. This finished mezzanine can only be accessed from a stairway in the shop area, and is heated but not air conditioned. The lower office area has heat and A/C. Can this upper office/ mezzanine be counted as additional office square feet?

*Gerard Man*  
[gerardman@cavtel.net](mailto:gerardman@cavtel.net)

**Dear Gerard,**

There are no rules about how to measure and describe an industrial building. It is up to an appraiser to provide a description that is clear enough so that a reader of their appraisal report will not be confused. What you actually call the space is up to you and should be what will be most helpful to convey the actual configuration and utility of the space. Some appraisers would probably disqualify your mezzanine space as additional office, since it is not air conditioned. Others would include it, noting that it is not finished exactly as the lower level office space (having no A/C).

**H2**

## **FHA REPORT CONVERSION**

**Dear H2,**

I have a question that I can't seem to find an answer to though all my internet searches. I have a client that I did a conventional appraisal for, effective 4/9/2010. The client came back and asked for a 1004D Summary Appraisal Update Report which was effective 8/16/2010. I received an additional order on 8/24/2010 requesting the original appraisal be converted to an FHA appraisal. I did an FHA re-inspection on 8/25/2010.

My question is whether this will require an entirely new appraisal considering the 1004D appraisal update was effective 8/16/2010 or can the FHA number be added to the original appraisal? If so, will the effective date of the converted appraisal be the date of the 1004D (8/16/2010) or the date I went back to do the FHA re-inspection (8/25/2010).

Thank you in advance for your assistance.

*Jeremy Smart*  
[cindy.smart@comcast.net](mailto:cindy.smart@comcast.net)

**Dear Jeremy,**

The USPAP requires that whenever the date of the appraisal is changed, a new appraisal is required. It does not require that you make a new inspection (or any inspection) unless the client requires that you do so as part of the new scope of work. Much of the material is probably reusable for a new appraisal. You can change your original report to meet FHA requirements, as long as you don't change the effective date and still meet all the FHA requirements.

**H2**

