

The Zaio Appraisal Process and USPAP

A Report by Danny Wiley, SRA, IFA

October 23, 2007

Mr. Thomas Inserra, MAI, SRA
Chief Executive Officer
Zaio Corporation
617 South Rockford Drive
Tempe, AZ 85281

Dear Mr. Inserra,

As requested, I have conducted a review of the Zaio appraisal process in light of requirements contained in the *Uniform Standards of Professional Appraisal Practice* (USPAP). The goals of this study were to:

1. Identify aspects of the Zaio appraisal process that I believe are not in compliance with USPAP
2. Identify aspects of the Zaio appraisal process that might be perceived to be in violation of USPAP,
3. Offer recommendations and/or comments about these items, and
4. Provide a Final Report of my findings.

This Final Report is based on my personal analysis. However, in some cases, this report contains statements or positions communicated by the Appraisal Standards Board (ASB) of The Appraisal Foundation. References are provided throughout so that the reader may distinguish personal opinions from ASB positions.

Should you desire additional information on any topic in this report, please do not hesitate to contact me.

Very respectfully,

Danny K. Wiley, SRA, IFA

SCOPE OF WORK FOR THIS REPORT

Familiarity with the Zaio appraisal process was acquired in several ways. There were multiple telephone calls during which Zaio representatives presented information and answered questions about the process. One of these calls involved a web cast that provided additional visual descriptions of the process. Information posted on the Zaio web site was also independently reviewed. Two sample reports were also provided for consideration.

Familiarity with USPAP was acquired primarily through six years of service on the ASB.

An initial report was prepared and submitted to Zaio. Zaio prepared a response indicating some changes made to the Zaio process and including some additional questions which were then discussed.

This Final Report has been prepared to provide a summary of my conclusions at the end of that review process.

APPLICABLE STANDARDS

Issue: Within the appraisal community there is active debate/discussion as to which Standards should apply to the Zaio process.

Comment: The Zaio process results in the appraisal of individual residential dwellings. Hence, the applicable development and reporting Standards in USPAP are STANDARD 1 and STANDARD 2.

Many might initially conclude that the Zaio appraisal process is a mass appraisal system and is addressed by STANDARD 6 of USPAP. However, in a mass appraisal the subject of the appraisal is a "universe" of properties.¹ In a mass appraisal one may only obtain data on individual properties after the universe of properties is valued. In the Zaio process individual properties are analyzed independently.

INTENDED USE/INTENDED USERS

Issue: USPAP requires an appraiser to identify the client and any other intended users as well as the intended use² of the appraisal. Some will likely conclude that the Zaio appraisal process violates this requirement because at the time a lender desires a report it can be generated without directly contacting the appraiser. If the appraiser is not involved, how can the appraiser identify the intended use and intended users?

Comment: The client (and any other intended users) are identified at the time the client and appraiser agree to both participate in the Zaio appraisal process. It is not necessary to reconfirm the appraiser-client relationship for each specific property. This is no different than appraisers who sign agreements to provide services for large vendor management companies. Services are provided based on a master

¹ STANDARD 6, *Uniform Standards of Professional Appraisal Practice*, effective July 1, 2006

² Standards Rules 1-2(a)(b), *Uniform Standards of Professional Appraisal Practice*, effective July 1, 2006

agreement. For each new assignment the appraiser simply receives a notification, not a new engagement contract.

COMMUNICATION WITH THE CLIENT

Issue: Communication with the client is required as part of the problem identification process for any appraisal assignment.

Comment: This would include an assignment completed using the Zaio process. However, this should not be taken to mean that an extended conversation must be conducted with the client for each and every appraisal. The communication may be based in large part on previous contact with the client, or upon a written "master agreement," that provides sufficient information for the appraiser to make a scope of work decision.

For example, once an appraiser has established a relationship with a lender, it is common for an appraiser to simply receive an e-mail requesting an appraisal report on a Fannie Mae from 2055. While the e-mail may be the only communication received for that specific assignment, many assignment elements have been previously agreed upon in previous communications.

In situations where the client does not have a previously established relationship, the questions and responses received through Zaio's web based ordering system would qualify to provide the required communication to identify the client and the necessary elements for an assignment. Where the characteristics of the client or the potential assignment do not coincide with prescribed situations that are judged to be acceptable by the appraisers, the client will be referred to an appraiser to have a conversation with the prospective client to clarify whether the Zaio process is adequate for the intended use or whether another kind of valuation service by the appraiser is needed.

RELEVANT PROPERTY CHARACTERISTICS

Issue: USPAP requires an appraiser to *identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal.*³ This includes physical, legal and economic characteristics. The GeoScore process requires an appraiser to rate property characteristics, but the number of categories rated is finite. In some instances a property will have characteristics that play an important role in its value, but are not rated in the GeoScore.

Comment: It is important that Zaio training make clear to appraisers that properties with significant characteristics that are not GeoScored are excluded from the Zaio process.

DRAFT REPORTS/PRELIMINARY REPORTS

Issue: The issuance of an unsigned "draft" report is a controversial matter. Though it is common practice in some circles, there is not universal agreement on the acceptability of issuing a draft prior to issuing a final report.

³ Standards Rule 1-2(e), *Uniform Standards of Professional Appraisal Practice*, effective July 1, 2006

The members of the ASB have discussed the topic at length, but have not directly addressed “drafts”. The ASB issued a monthly Q&A⁴ on the topic. Since “drafts” is not addressed in USPAP, the guidance provided here is very general in nature.

The ASB did warn that appraisers should be cautious in issuing “drafts” because many state appraisal laws define a report as *any communication, written or oral, of an appraisal*. It is the stated opinion of the Appraisal Subcommittee that a “draft” report would be an appraisal report as defined by the appraisal laws of every U.S. jurisdiction. Therefore, any “draft” report that did not fully comply with all elements of USPAP could potentially result in disciplinary action by a state appraisal authority.

Comment: In order to avoid any potential problems with state regulatory agencies, when there is a need to provide a report of a limited scope appraisal where additional steps will be taken by the Zaio appraiser before issuing a final report, Zaio could:

1. prominently label the report as a “preliminary” or “draft” report,
2. indicate that the results in the “preliminary report” are subject to change, and
3. include a signed certification.

The signed certification is necessary to meet USPAP requirements.

I believe that this solution would be USPAP compliant and not in conflict with any state laws.

COST APPROACH

Issue: USPAP requires the cost approach when it is “necessary for credible results.” Presently, the Zaio process does not automatically include a cost approach.

Comment: There could be many cases where a cost approach was relevant, but not necessary for credible results. It is the instances where a cost approach would be necessary for credible results that will be a problem.

Hence, it is important that Zaio training make clear to appraisers that they need to identify any properties where an appraisal would require the cost approach in order to produce credible results and deactivate automated delivery if the cost approach is not populated. It is my opinion that this would affect a very small number of properties.

COMMENTS ON REPORT CONTENT

This report is based on the personal analysis of Danny Wiley. As such, it does not represent an official position of the Appraisal Standards Board or any appraisal regulatory authority. The report was conducted independently and objectively. Other than compensation for the time required to develop the report, Danny Wiley has no business interest in the Zaio Corporation. Furthermore, Danny Wiley has no personal bias with regard to the Zaio Corporation or its employees.

⁴ Item 175, *Frequently Asked Questions*, Effective July 1, 2006