

**PUBLIC RELEASE TO APPRAISERS AND BROKERS**  
**LUTHER BURBANK SAVINGS APPRAISAL POLICY JANUARY 2010**

**BACKGROUND**

The Board of Directors and management of Luther Burbank Savings ("LBS") place great importance on the quality of appraisals. The soundness of LBS' mortgage loan portfolio depends to a great extent upon the adequacy of the appraisals used to support them. This policy sets forth the standards of LBS, as approved by LBS' Board of Directors.

Appraisers are to provide appraisal reports which are prepared in accordance with the standards and reporting requirements of the Office of Thrift Supervision under Title XI of FIRREA (12 CFR 564), the Uniform Standards of Professional Appraisal Practice, and those set forth in this policy.

In following these standards, appraisers must not consider the race, color, religion, national origin, sex, marital status, age, familial status, disability, or receipt of income from public assistance programs of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property, or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

Quality appraisal reports require appraisers to be both knowledgeable and experienced in specific market areas. Prior to approving an appraiser, LBS must be reasonably sure the appraiser possesses the experience, education, and competence to perform acceptably. The Board of Directors further recognizes that appraisal knowledge and skills are not static and that continuing education and participation in the activities of professional organizations are factors to be considered when selecting fee appraisers. Membership in a professional appraisal organization is encouraged.

**APPRAISAL STANDARDS**

For federally related transactions, all appraisals shall at a minimum:

- (a) Conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Standards Board of the Appraisal Foundation, unless principles of safe and sound banking require compliance with stricter standards;
- (b) Be written and contain sufficient information and analysis to support the institution's decision to engage in the transaction;
- (c) Analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units;
- (d) Be based upon the definition of market value set forth in this part; and
- (e) Be performed by State licensed or certified appraisers in accordance with requirements set forth in Title 12 CFR 564.4 OTS 7/94.

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## **SCOPE OF WORK RULE**

Revisions to the Uniform Standard of Professional Appraisal Practice (USPAP) took effect July 1, 2006. The prior labels of “Complete” and “Limited” Appraisals along with the “Departure” Rule and “Binding” and “Specific” Requirements have been deleted and replaced with the **Scope of Work Rule**. The appraisal report labels of “Self Contained,” “Summary” and “Restricted” were retained and still apply.

According to the Scope of Work Rule, the appraiser must:

1. Identify the problem to be solved;
2. Determine and perform the scope of work necessary to develop credible assignment results;  
and
3. Disclose the scope of work in the report

Integral in determining the problem to be solved and the scope of work necessary, is the communication and agreement with the client engaging the service. The client’s *intended use* provides part of the input required to determine the scope of work. The remaining criteria stems from what would be the typical requirements for other similar assignments and what other appraisers would complete for the same assignment. The minimum amount of work required for accomplishing a “credible” result may be adequate for a client’s use, or the client may request additional work.

The quality requisite for appraisals for LBS remains the same. A table outlining the appraisal product and content required for various property types is included in this policy. The appraiser is encouraged to clearly identify the Scope of Work required in an assignment with their client, so the appraisal will satisfy the client’s intended purpose.

USPAP defines three types of appraisal reporting options: Self-Contained Appraisal Report, Summary Appraisal Report, and a Restricted Appraisal Report. USPAP Standard Rules 2-2 and 8-2 require that the appraiser prominently state which reporting option is being used. The Self-Contained Appraisal Report should contain all information significant to the solution of the appraisal problem and report all significant data in comprehensive detail. The Self-Contained Appraisal Report is typically communicated in a narrative format. The Summary Appraisal Report should contain a summary of all information significant to the solution of the appraisal problem and report all significant data in tabular, abbreviated narrative or a combination of these reporting formats. The Summary Appraisal Report can be communicated in a narrative document or a form with appropriate supplements. A Restricted Appraisal Report should contain a brief statement of information significant to the solution of the appraisal problem. The reader of a Restricted Appraisal Report will not find all significant data reported.

Appraisal reports shall be written, providing adequate data and analysis to support the appraiser's estimate of market value. The purpose of each appraisal is to estimate market value. Market area

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trends and neighborhood description must comply with federal fair housing/fair lending laws and USPAP. An appraiser should research the actions of participants in the subject's market to identify factors having a direct favorable or unfavorable influence on marketability or value. The appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, disability, or an unsupported conclusion that homogeneity of these characteristics is necessary to maximize value. The appraiser must not discriminate based on the location or age of the dwelling.

The development of the appraisal and the reporting of the value estimate must be objective, impartial and unbiased. In all appraisal reports, the appraiser is expected to make appropriate adjustments based on factual data supported by market evidence for all factors that influence value, including design, appeal, condition and location. Failure to address and note adverse factors or conditions that impact value or marketability with respect to the neighborhood, site, or improvements is an unacceptable practice.

Adjustments must not be made on the basis of unsupported assumptions or personal bias. Including subjective phrases regarding residents of a neighborhood in a report may be seen as illegally discriminatory; drawing conclusions from assumptions based on personal bias is an unacceptable appraisal practice that may be grounds for removal from the panel. The USPAP, particularly Advisory Opinion No. 16 and the ETHICS PROVISION of USPAP provide the authoritative guidance on objectivity in the appraisal process and appraisal report content.

### **APPRAISER INDEPENDENCE**

With rare exceptions, appraisal reports are prepared by approved fee appraisers outside of LBS. Appraisals must be prepared by appraisers who are independent of the borrower or seller of the real estate and who must certify that they have no direct or indirect interest financial or otherwise in the property or transaction; no bias with respect to the parties involved; that the appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the need to approve a specific mortgage loan.

The responsibility of LBS Staff Appraisers is primarily to review appraisals. In some instances a Staff Appraiser may prepare an appraisal report. In both a review and appraisal capacity, Staff Appraisers are independent of loan transactions.

### **APPRAISAL ASSIGNMENT LIMITATIONS AND COMPETENCY**

All appraisers approved for LBS' appraiser panel must be licensed or certified in the State corresponding with location of the property being appraised.

- A. Any approved appraiser as designated by LBS on its approved appraiser Residential 1-4 Unit Panel with an asterisk (\*) included with his or her name is authorized to appraise any existing, non-complex 1-4 unit residential property where the loan requested is \$1,000,000 or less AND non-residential property where the loan requested is \$250,000 or less.

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- B. Any other approved appraiser as designated by LBS on its approved appraiser Residential 1-4 Unit Panel is authorized to appraise any 1-4 unit residential property regardless of the loan amount requested, AND non-residential property where the loan requested is \$250,000 or less.
- C. Any approved appraiser as designated by LBS on its approved appraiser Multi-Family Residential 5 + Units Panel is authorized to appraise any existing residential real estate, regardless of the loan amount requested AND non-residential property where the loan requested is \$1,000,000 or less.
- D. Any approved appraiser as designated by LBS on its approved appraiser Commercial/Industrial Panel is authorized to appraise any type of real estate regardless of loan amount requested.

Prior to entering into an agreement with an appraiser to perform any assignment, LBS or its authorized agent and the appraiser must properly identify the appraisal problem and be sure the appraiser has the knowledge and experience in the specific market area to complete the assignment competently. If an LBS approved appraiser is requested to perform an appraisal for which he or she lacks the knowledge or experience to appraise competently, he or she must decline the assignment.

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### **ORDERING APPRAISALS**

When appraisals are ordered by LBS staff, an engagement letter will be used to detail the requirements of the assignment, the fee and the delivery date.

Appraisers are to be selected from LBS' approved appraiser panel with observance of any individual limits established by LBS. The selected appraiser must be capable of rendering an unbiased opinion of value, having no direct or indirect interest, financial or otherwise, in the property or the transaction.

Appraisals may be ordered by an LBS Staff Appraiser or an approved mortgage loan broker. **Borrower ordered Appraisals are unacceptable and will not be accepted for review by LBS.**

**Mortgage brokers are directed to call LBS' Review Appraisers for the names of appraisers authorized to prepare reports for construction loans over \$2,000,000.**

The appraisal report is to be addressed to LBS, its approved broker or another financial services institution. For each appraisal assignment, the appraiser shall be provided with data pertaining to the subject property that is useful in analyzing the property. The following documentation should be provided to the appraiser for each assignment if available: Purchase Agreement, legal description, Assessor Parcel numbers, plans, a description of materials and cost breakdown (proposed construction) and any information dealing with toxic hazards. For income producing properties, the appraiser should be provided a current rent roll, leases, and a two year history of income and expenses.

### **APPROPRIATE APPRAISALS FOR VARIOUS LOAN TRANSACTIONS**

Considering the Scope of Work Rule and three reporting options defined by USPAP, there are several valuation development and reporting options. Not all options are appropriate for every transaction. To be acceptable an appraisal report must contain sufficient information and analysis to support LBS' decision to engage in the transaction. The following guideline identifies the minimum appraisal content and reporting formats for various loan transactions. LBS may require a more comprehensive report based on the assignment and/or complexity of the property. With reference to the table below, it is recognized that for some Special Purpose properties a Cost Approach would be substituted for the Income Approach (example; a Church under the Commercial Property requirement). Please call the LBS Appraisal Department with any questions regarding the requirements for Special Purpose properties.

Regardless of the appraisal product required as defined below, every assignment for improved property requires an estimate of the Replacement Cost New of the structures.

Please follow the additional requirements noted by a reference number under "Property Type" explained at the end of this table.

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**Existing Real Estate:**

<b>PROPERTY TYPE</b>	<b>APPRAISAL</b>	<b>REPORT</b>	<b>FORM/CHOICES</b>
Single Family or Planned Unit Development (PUD) (1)	Sales Approach minimum	Summary	URAR FHLMC 70/FNMA 1004
Residential Condominium (1)	Sales Approach minimum	Summary	FHLMC 465/FNMA 1073
Manufactured Housing	Sales Approach minimum	Summary	FHLMC 70B/FNMA 1004C
Single-Family, PUD, Residential Condominium with Low Loan-to-Value Ratios (2)	Sales Approach minimum	Summary	FHLMC 2055/FNMA 2055 (Exterior Only Inspection)
2-4 Residential Income Units	Sales Approach minimum	Summary	FHLMC 72/FNMA 1025
5+ Residential Units (Loan Amt. \$750,000 or less)	Sales and Income Approaches minimum	Summary	FHLMC 71B, or FHLMC 71A, or Narrative
5+ Residential Units (Loan Amt. \$750,001 & over)	Sales and Income Approaches minimum	Summary	FHLMC 71A, or Narrative
Land	Sales Approach minimum	Summary or Self-Contained	Land Appraisal Report Form or Narrative
Commercial-(Loan Amt. \$750,000 or less)	Sales and Income Approaches minimum	Summary or Self-Contained	UCIAR-SP, or UCIAR, or Narrative
Commercial-(Loan Amt. \$750,001 to \$2,000,000)	Sales and Income Approaches minimum	Summary or Self-Contained	UCIAR or Narrative
Commercial & Mixed Use (Loan Amt. \$2,000,001 & over)	Sales and Income Approaches minimum	Summary or Self-Contained	Narrative, No forms acceptable (3)
Subdivision	Sales and Cost Approaches minimum	Summary or Self-Contained	Narrative, No forms acceptable

(1) When a single family residence, PUD or residential condominium is not owner occupied and verification of a reasonable rental income is needed for the borrower to qualify, a comparable rent schedule, Form 1007 (except for speculative construction loans), will be

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required. For PUD units, if less than 70% of the units are sold, Addendum "A" to FHLMC Form 70/FNMA Form 1004 revised March 2005 should be completed. If developer control has not been terminated or if the units have not been in homeowners' control for two or more years, Addendum "B" should be completed. Addendums "A" and "B" are required if the project is still subject to phasing or add-ons.

- (2) Low Loan-to-Value Ratio is defined as 50% or lower.
- (3) Unless form approved by Chief Appraiser.

**MISCELLANEOUS INCOME PROPERTY REQUIREMENTS:**

- A. The forecasted gross income should be based on a realistic expectation of income for the subject after analyzing the subject contract income and rents currently being obtained by comparable properties, but must not exceed those rentals permitted by any applicable rent control regulation. A current rental survey of a minimum of three comparable properties in the same market area, as of the date of the appraisal is required.
- B. The forecasted expenses must be reasonably estimated; including property taxes based on the appraiser's value opinion, insurance, utilities, and any other operating costs attributable to the property. Replacement reserves must also be considered.
- C. An estimated vacancy factor must consider current vacancy rates in the market and conclude a stabilized vacancy rate that is deemed reasonable for the subject property.
- D. Capitalization rates are to be derived from comparable building sales when possible, which reflect the current requirements of knowledgeable investors for that type of property.
- E. A copy of the owner's rent roll and expense statement for the previous two years, if available, and current year-to-date figures should be included in the addenda.
- F. A preliminary title report is to be reviewed by the appraiser, if available, and commented on in respect to any easements, restrictive covenants, bonds, etc. and their impact on value. A copy of the report should be included in the addenda of the appraisal.

Proposed Construction: An appraisal in a Summary Narrative or Self Contained Narrative Report is required for all proposed commercial properties, development of five or more lots and for construction of five or more residential units. Appraisers should review: construction plans and specifications in sufficient detail to identify the scope and character of the proposed improvements, projected time of completion of the proposed improvements and cost breakdown of the proposed improvements.

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**REQUIREMENTS FOR RENTAL PROJECT CONSTRUCTION**

**VALUE ESTIMATE**

**DATE OF VALUE/REPORT  
REQUIREMENTS**

- |  |  |
|--|--|
| A. "As Is" Market Value  | Current Date (typically the appraiser's inspection date)   |
| B. Prospective Market Value "As If" Construction Completed         | Projected Date of Completion of Construction/Requires <i>Extraordinary Assumption</i> that the property will be improved as of a future date, as proposed                              |
| <b>OR</b>  |  |
| Market Value "As If" Construction Completed as of the Current Date | Current Date/Requires <i>Hypothetical Condition</i> that the proposed improvements were completed at the appraiser's date of value   |
| C. Prospective Market Value at Stabilization                       | Projected Date of Stabilization/Requires <i>Extraordinary Assumption</i> that the property will be improved as of a future date, as proposed and leased to the projected stabilization |
| <b>OR</b>  |  |
| Market Value at Stabilization as of the Current Date               | Current Date/requires <i>Hypothetical Condition</i> that the proposed improvements were completed and leased to the projected stabilization at the appraiser's date of value           |

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**REQUIREMENTS ON FOR-SALE PROJECT CONSTRUCTION**

<b>VALUE ESTIMATE</b>	<b>DATE OF VALUE/REPORT REQUIREMENTS</b>
A. "As Is" Market Value	Current Date (typically the appraiser's inspection date)
B. Prospective Market Value "As If" Construction Completed and Sold to a Single Buyer	Projected Date of Completion of Construction/Requires <i>Extraordinary Assumption</i> that the property will be improved as of a future date, as proposed
<b>OR</b>	
Market Value "As If" Construction Completed as of the Current Date and Sold to a Single Buyer	Current Date/Requires <i>Hypothetical Condition</i> that the proposed improvements were completed at the appraiser's date of value
C. Prospective Aggregate Sum of Retail Values	Projected Date of Completion of Construction/Requires <i>Extraordinary Assumption</i> that the property will be improved as of a future date, as proposed
<b>OR</b>	
Aggregate Sum of Retail Values as of the Current Date	Current Date/Requires <i>Hypothetical Condition</i> that the proposed improvements were completed at the appraiser's date of value

With reference to the requirements of the For-Sale Projects, the Prospective Aggregate Sum of Retail Values or Aggregate Sum of Retail Values as of the Current Date are **NOT OPINIONS OF MARKET VALUE**. LBS uses these values for comparison purposes only in underwriting decisions.

For developing the Market Values indicated in the previous tables, the appraiser is referred to the requirements in USPAP Advisory Opinion 17 (AO-17). This section of USPAP and associated documents provide the analysis and reporting requirements expected in appraisal reports for proposed construction assignments. If there are any questions regarding these requirements, please call LBS' Appraisal Department.

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### **ENVIRONMENTAL HAZARDS**

It shall be the duty of the appraiser to clearly identify, in the appraisal report, any and all known or suspected environmental hazards.

While the appraiser is not looked to as an environmental expert, he or she is expected to fully report any environmental concerns, whether real or potential, based on observations at the subject property or in information otherwise obtained. Such environmental concerns include the presence or former presence of underground storage tanks and above ground fuel tanks; the onsite storage or disposal of toxic chemicals or toxic wastes; and, the presence of asbestos materials. Further, the appraiser must assess the impact of such environmental concerns on marketability and market value. In some instances it may be appropriate for the appraiser to seek LBS' approval to delay the appraisal report until an environmental assessment report is completed. In the event a risk assessment inspection has been performed for the buyer or LBS, a copy should be provided to the appraiser. If estimated costs of mitigation are available, these should also be provided to the appraiser. In any case, the appraiser must address the potential impact on value of the presence of any identified contamination.

Fee Appraisers should be aware of the Residential Lead Based Paint Hazard Reduction Act of 1992—Title X effective September 6, 1996 for five or more units, and December 6, 1996 for four or less units. The Act applies to residential properties constructed prior to 1978.

Lead-based paint hazard means any condition that causes exposure to lead from lead-contaminated dust, lead-contaminated soil, or lead-contaminated paint that is deteriorated or present in accessible surfaces, friction surfaces, or impact surfaces that would result in adverse health effects.

If the appraiser believes, based on the age of the improvements, the observed condition of the improvements, or the seller's disclosure, that there is lead-based paint present in the improvements, he or she should report this to LBS in the appraisal report. The appraiser is responsible for reporting to LBS all observed and probable hazards relating to lead-paint contamination. The appraiser is to receive a copy of the purchase contract, which contains the Lead Based Paint Hazard disclosure by the seller, if available. The appraiser should research the age of the improvements. During inspection the appraiser should particularly note the condition of painted interior walls, windows, windowsills and doors for chipped or peeling paint or paint dust on windowsills. The appraiser must address the potential impact on value of the presence of any identified contamination from Lead Based Paint.

### **DEFINITION OF MARKET VALUE TO BE USED FOR ALL APPRAISALS**

"The most probable price which a property could bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimuli.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

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- A. Buyer and seller are typically motivated;
- B. Both parties are well informed and well advised, and each acting in what they consider their own best interests;
- C. A reasonable time is allowed for exposure in the open market;
- D. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- E. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

Source: FDIC, 12CFR, Part 323, Appraisals, 323.2(f)

The appraisal must conform to the requirements of Uniform Standards of Professional Appraisal Practice (USPAP), promulgated by the Appraisal Standards Board (ASB) of the Appraisal Foundation. Institutions and institution-affiliated parties, including any staff appraiser or fee appraisers who violate USPAP may be subject to removal and/or prohibition orders, cease and desist orders, and the imposition of civil money penalties pursuant to the Federal Deposit Insurance Act, as amended, or other applicable law.

### **APPRAISAL CONTENT**

In conformity with the standards described above, all appraisals must:

Provide the "As Is" Market Value of the subject property along with any other value estimates requested by LBS.

Describe in sufficient detail both current and forecasted market conditions. The scope of such information will depend upon the property type and the information available.

Consider all factors, favorable and unfavorable, that have an impact on value; be impartial and objective in reporting the value estimate.

State if the appraisal presented is intended to be Self-Contained, Summary or Restricted, as these terms are defined by the Uniform Standards of Professional Appraisal Practice (USPAP).

The following is not a complete guide to appraisal report content, but reflects a minimum checklist of some Luther Burbank Savings' requirements, which supplement the USPAP. Each appraisal report should, at a minimum, include or address the following:

1. Complete street address with zip code.
2. A legal description and the Assessor's Parcel Number.
3. Describe all salient features of the property.
4. Identify the property rights being appraised.
5. Census tract number.
6. Flood zone information.

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7. Highest and best use of the subject property setting forth all relevant data and the analytical process followed in arriving at the highest and best use.
8. Effective age and actual age. The estimate of effective age should be defensible with a description of updating, refurbishing or remodeling that has been done or is needed.
9. Plat map.
10. A minimum of three (3) closed sales must be used, verified on the report by reference to public records with recorder's document numbers or multiple listing number or name and phone number of individual providing the data.
11. Market area map depicting the locations of the subject property and comparables.
12. If a sale of the subject property is pending, the terms-of-sale should be reported and the cash equivalent sales price should be reconciled with the final value estimate.
13. For the subject property, a three-year sales history must be provided.
14. An explanation of comparable sale adjustments should describe the reasoning for applying adjustments. All factors, which influence value, must be addressed in the adjustment process.
15. Comparable sales analyzed should be adjusted for special or creative financing and for rent concessions as may be appropriate. Financing or rent concessions of comparables, and any concessions that the seller paid, must be addressed appropriately.
16. Appraiser's name typed and signature along with State license or certification number.
17. All comparable sales should be as current as possible; in a declining or rising market, listings and/or pending sale comparables should be provided.
18. The appraiser's certification must contain all the elements of the certification found in Standard Rule 2-3 of USPAP.
19. A sketch of building improvements should be drawn to scale and include all dimensions, showing the location of all rooms, interior walls, and interior and exterior doors. The sketch should include garage, porches, patios or out buildings given value in the appraisal and show tie line or point of 2nd story to 1st level if drawn separately.
20. For new construction the architect's name, job number and date of the plans should be cited in the appraisal.
21. Three reports with original photographs and signatures must be submitted that include color photographs of the **subject exterior and interior**. Photos of comparable sales and rentals are required with each report. Front, rear and street scenes are minimum for subject. Photographs should include any physical or site amenity or detriment where a substantial adjustment has been made in the market section (e.g. view, pool, outbuildings, damage, etc.). Street scenes should show the real estate adjacent to the subject property.
22. The effective dates of value and the date of the report must be stated.
23. A reasonable estimate of exposure time on the market for the property.
24. Any known or observed major code violation.
25. A list of significant deferred maintenance items and an estimate of cost to cure.
26. Zoning compliance: If the improvements do not represent a legal conforming use under the current zoning and General Plan classification, the appraiser must clarify whether the improvements represent an illegal use or a legal non-conforming use. The appraiser should

- address the affect any non-compliance may have on marketability or value, and if the property may be re-built if destroyed by fire or other hazard.
27. Adjustment grids are required for all residential subdivision and condo development appraisals and are recommended for other appraisals.
  28. Report both gross and useable site areas. Address usable site area in valuation. Properties, which have site utility of less than 100%, should be explained (differences due to hillside topography, easements, drainage channels, etc.).
  29. Any site negatives, such as soil erosion, location in a special studies zone, questionable ingress or egress and possible flood hazard should be identified and considered in the valuation.
  30. The appraiser must note and consider the potential impact on value of any known or suspected toxic or hazardous environmental conditions on the subject property or surrounding area.
  31. If the land value exceeds 50% of the total value, an explanation should be given.
  32. Any evidence that the subject property is listed for sale must be noted in the appraisal. (Sales price, days on market, agent name and phone number.)
  33. Set forth all material assumptions and limiting conditions that affect the analysis, opinions, and conclusions in the report presented together in one section within the body of the appraisal.
  34. The estimate of market value must be based upon a reconciliation of the approaches to value giving the most weight to the data and approach that is most reliable. If the value estimate is outside the range of value indicators, a satisfactory explanation must be provided.
  35. If information deemed pertinent to the completion of the appraisal is unavailable, this must be fully disclosed in the conditions section of the appraisal.
  36. Provide an estimate of Replacement Cost New of the improvements, regardless of whether a Cost Approach is included in the appraisal.
  37. The appraisal must recognize the inclusion of any items that are not real property (personal property, trade fixtures, going concern value, etc.) in the overall opinion of value. The appraisal must report an allocation to real property and non-realty items from the overall opinion of value when the non-realty items are significant to the overall value.