Application of UAD Quality and Condition Definitions

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January 22, 2014

It has been almost three years since the Uniform Appraisal Dataset (UAD) was formally announced by Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac. The first version of Appendix D outlining field-specific standardization requirements was dated February 11, 2011. This guide detailed specific formats and responses for certain fields of the four major residential appraisal report forms.

The initial reaction from appraisers was a mix of frustration and resignation; a change they didn’t like was being made without their input, and they realized that there would be little they could do short of leaving the profession if they did not quickly adapt to the new requirements.

Practically speaking, meeting most of the UAD requirements required very little adjustment to existing practices. Things like consistently formatting dates and currency was long overdue anyway. Bringing consistency to reporting the analysis of a current agreement of sale simply prescribes a format for research and analysis that we were already doing. And the vendors of appraisal software did a great job of driving consistency and making it nearly impossible for an appraiser to overlook UAD formatting in a report.

The biggest area of ongoing confusion is in the application of the definitions for quality and condition. Many appraisers either cannot or choose not to analyze the quality and condition of comparable properties against the definitions themselves, but instead do so in relation to the property they are appraising. This application of the GSE definitions of quality and condition in “relative” comparison to the subject property is both inconsistent with the instructions, and raises questions as to whether the appraiser understands other important aspects of their professional responsibilities as well.

Relative versus absolute comparison

Some appraisers argue that anything but a relative comparison is misleading and they believe that the quality and condition rating of a comparable sale can and should change when that comparable is used to support a value opinion for a different subject property. In other words, it could be a C3 against today’s subject and a C4 against tomorrow’s subject, depending on the condition of each subject property.

Many appraisers long for the days when they could write whatever description they chose to convey their opinion of quality and condition. As we know, in that environment, not only were most ratings relative (and thus inconsistent over time) but there were literally hundreds of permutations of appraiser’s favorite word: average.

Resistance to a uniform and specific rating system was surprising to me at first. After all, appraisers had been using exactly such a system for years already whenever they performed a cost approach analysis using the Marshall & Swift Cost Guide. Marshall & Swift offers the appraiser six choices for quality –

1 The term "misleading", while not specifically defined in the Uniform Standards of Professional Appraisal Practice (USPAP), is essentially the opposite of Credible. USPAP is clear that credibility is always measured in the context of intended use. It is most unlikely that one could mislead a client by following that client's instructions.
Low, Fair, Average, Good, Very Good and Excellent – all of which are specifically defined within the cost manual. Appraisers have not expressed problems with this system. Likewise, using the Marshall & Swift condition ratings – Poor, Fair, Average, Good, Very Good and Excellent has not been a known problem.

Every appraiser uses tax records in one form or another. In King County, Washington where I have done many appraisal assignments, the assessor has used a 13-point quality rating system and a 5-point condition rating system. Within this county you have Bill Gates with one of the most expensive and elaborate homes ever built (66,000 sf; assessed value $147,500,000 in 2009) and pre-1900 bungalows of fewer than 500 square feet that are little more than sheds. These homes and everything in between fits into one of 13 quality categories and one of five condition categories, and the assigned categories have no relationship to any other property; they relate only to the definition. Local appraisers have relied on this system for decades without issue.

Most of us also use MLS which have absolute condition rating systems. We can debate the accuracy of the ratings by agents in another paper, but the point is that the system is in place and appraisers have used and relied on it without much question for many years.

Kelly Bluebook defines condition for cars almost exactly the same way Marshall & Swift defines condition for houses: Excellent, Very Good, Good, Fair and Poor. That’s it. Every car whether a neglected 1976 Chevy Impala or pristine 2014 Bentley fits into one of these five categories. Whether you haven’t washed it in decades or make love to it every Saturday, it goes in one of these five condition categories. A 1976 Ford Pinto that has been in the back yard since the mid-80’s doesn’t get any better looking when you pull a 1970 AMC Gremlin covered in bondo and duct tape into the driveway – the ratings are absolute.

In the world of diamonds (and most married men reading this will have some experience here), there are the four C’s – Cut, Color, Clarity and Carat (weight). Each of the four Cs is broken down into ratings. Color for example has five categories: Colorless, Near Colorless; Faint Color, Very Light Color and Light Color. Within each of these categories there are some gradations, but ultimately every gemologist in the world can put every diamond they ever see into one of these five categories. These ratings have nothing to do with any other diamond except the one being rated.

There are many other examples of absolute rating systems and we all use them whether we realize it or not. Appraisers need to view each property (subject and comparable) in the context of the definitions. There are some key words within each definition that can simplify making the right choice. The following table summarizes the key elements within each definition. Some may find it helpful to print and laminate a copy of this table and paste it to the inside of your table cover or the back of your clipboard for easy reference while in the field.
Conclusion

Absolute rating systems are in widespread use across all aspects of real and personal property. The quality and condition definitions required for GSE-bound residential appraisals are clear and distinct, making them reasonably easy to apply.

Ultimately, as appraisers we are in the judgment business. Exercising good judgment in the applicability of the UAD definitions is required to demonstrate competence. USPAP requires not only that we are competent when accepting an assignment, but that we perform the assignment competently as well. Competent performance in GSE assignments requires applying these definitions correctly. Correct and competent application means looking at each property exclusively in the context of the definitions, as of a specified date – either the effective date of valuation for a subject property or a sale date for a comparable property – and once the determination is made, until you appraise that subject again, or until the comparable property sells again, the rating has no basis for changing.

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