



Do Diligence

Protecting Appraiser-Client Relationships

by Micheal R. Lohmeier

Although many appraisal offices have policies and procedures in-place governing client-engagements and document retention, many do not. In our contemporary and ever-growing litigious society, maintaining supporting documentation is an absolute must. Many problems can be easily minimized by following a conscientious five-part engagement process from pre-assignment disclosures to post-appraisal report communications.

Part 1:

Pre-Assignment Disclosures

Communication with a prospective client is important in understanding the true nature of the prospective client's appraisal problem. Equally important is for the appraiser and the prospective client to qualify one another. The more time spent up-front in an assignment helps to diminish a greater deal of potential troubles later.

Qualifying the potential assignment is critical in helping to reconcile whether the personality and needs of the client fit the capabilities of the appraiser to complete the assignment. This qualification stage includes identifying the prospective appraisal problem, establishing draft/final report deadlines, deciding what software programs and other resources are required, determining appraisal assistance and other professional associations required and specifying time and expenses anticipated.

Some questions the appraiser will ascertain about the client include: who is he/she, what is his/her level of sophistication as a user of appraisal services, and is he/she expecting objectivity or advocacy from the appraiser (advocacy is never allowed).

The client will need to know if a conflict exists between the appraiser and the parties involved and/or the subject of the appraisal assignment. The client will also want to know if the appraiser has the knowledge and experience to complete the assignment. This is often satisfied by the appraiser providing his/her resume, company information, and some sample reports.

Part 2:

Engagement Agreement

Engagement agreements establish the "meeting of the minds" between the appraiser and the client. They should be kept simple, customized, and at a minimum should include the following:

- date of agreement
- name of appraiser and client
- other intended users, including limitations pertaining to distribution
- intended use of appraisal report

- subject of appraisal assignment
- type and definition of value, and source
- interest appraised
- effective date of appraisal
- anticipated scope of work to be followed
- reporting type
- standards of professional practice adhered to
- assignment fees and schedules of payment, including retainer
- cancellation clauses
- limitation of appraiser's liability and indemnification
- use of intellectual property (i.e. software remains property of appraiser)

Engagement letters will often include the appraiser's resume and anticipated assumptions and limiting conditions as exhibits.

Part 3:

Interim Engagement Addenda

This is often the most overlooked area by appraisers. There are almost always questions that arise from either the appraiser or the client regarding the assignment while the work is in process. Often, appraisers become so engulfed in analyzing numbers, they forget to make notes when they talk with their clients.

Any communication between the appraiser and client pertaining to the assignment parameters, including changes in the appraiser's original intended scope of work, should be considered addenda to the original engagement letter. Any and all communications (regardless if electronic or hardcopy) should be retained by the appraiser. If the communication is made verbally, the appraiser needs to summarize these discussions and retain them as permanent records in the assignment's work file.

Part 4: Engagement Receipts

Appraisers typically recognize the engagement letter as the means of "opening the door" to an appraiser-client relationship. Often appraisers fail to appreciate the importance of providing the client with an engagement receipt. The most frequent means of providing this receipt is the use of letters of transmittal. Letters of transmittal reiterate the obligation to which the appraiser and client

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agreed and disclose if the appraiser has fulfilled his/her commitment.

Part 5:

Post-Appraisal Communications

The relationship responsibility the appraiser has to a client extends long beyond the delivery of an appraisal report. Appraisers continue to shoulder tremendous responsibilities for the client, including maintaining confidentiality of the very nature of the appraiser-client relationship as well as confidentiality of any non-public information collected from the client. Additional communication needs to be made to the client for a variety of reasons including determining the time the work file is retained (outside of USPAP and state law requirements). Prior to destroying work files, many appraisers will call their client to ensure that additional services are not needed. **MAR**



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