

# What You Need to Know Before Hiring an Aircraft Appraiser

One of the factors which impacted both the S&L collapse of the '80s and the real estate crisis early in the 21<sup>st</sup> century was artificially inflated evaluation reports from supposedly professional real estate appraisers. Aircraft financing has been impacted just as seriously even though this situation isn't something most lenders will discuss openly. However, it raises a question regarding the legitimacy of any individual aircraft appraiser or "professional" appraisal organization. After all, there are no legal requirements placed on the aircraft appraisal industry therefore anyone can call themselves an aircraft appraiser – regardless of their knowledge, skills and abilities. Furthermore, there are no legal requirements placed on aircraft appraisal organizations so anyone can establish their own "association" giving the banking industry a false impression that there is some type of professional organization behind their members which ensures competence, ethical behavior and enforces some type of appraisal standard when none actually exists. The impact of using these types of individuals and organizations can impact both the bank and the buyer by providing an artificially inflated sense of the aircraft's value that the market will not support if the need arises to dispose of the asset. These types of reports also do not properly document the bank's collateral interest. So, how does a bank or individual know who is legitimate and who isn't and why do you care?

In the aircraft appraisal industry, there are only two organizations that are nationally recognized and who adhere to an industry recognized standard. One organization is the American Society of Appraisers (ASA) and the other is the National Aircraft Appraisers Association (NAAA). For the purposes of this article, I will focus on the NAAA. The NAAA is the oldest and largest organization focused exclusively on evaluating and documenting aircraft and the only organization that tracks the actual selling prices (market value) of aircraft. Anyone who claims certification from any other organization (other than the NAAA or ASA) should be scrutinized further to avoid evaluation problems and to protect the integrity of the bank's aircraft lending policy and procedure. Here's what you need to know and what factors should be important to any bank (or buyer) that relies on appraisal reports – and the appraiser - to provide reliable information that is essential to an informed lending or purchase decision.

**Membership and Certification:** What are the requirements for membership in the association and how does the association certify its members? It is possible that anyone can set up an association and thereby certify its members but a certification given to an individual who does not possess the knowledge, skills and experience to appraise an aircraft has very little value.

In the case of the NAAA, members MUST have a background in aviation (normally in maintenance or their pilot ratings and hours) in order to join. Certification levels within the NAAA are awarded based on training and testing.

**Standards and Ethics:** What published standards and ethics does the association support and are these standards industry recognized? Failure to adhere to any standard or code of ethics

could indicate problems with the “unbiased” nature of the appraiser along with the final opinion of value. The standards and ethics question becomes even more critical when dealing with higher end aircraft as contested evaluation issues may eventually be addressed through the legal system and the appraiser’s background, training and credibility will be challenged so it is important to select someone who can provide professional representation both now and in the future.

The NAAA established its appraisal standards, methodology and ethics in the early ‘80s before any industry standards or ethics existed. As part of joining the NAAA, all members must sign and adhere to these Standards of Professional Practice and Conduct. A copy of this document is found on the Plane Data, Inc. website as well as the NAAA website. In the early ‘90s the U.S. Government and the appraisal industry in general began standardizing on the Uniform Standards of Professional Appraisal Practice (USPAP) which were established in response to the S&L collapse. NAAA USPAP reports are available for all aircraft.

**Peer Review:** How are the ethical standards enforced? Associations that are composed of a small number of individuals typically have no process of enforcing their ethical standards – if any industry recognized standards exist for that association. In the case of USPAP, The Appraisal Foundation itself has no enforcement authority and relies on the certifying agency or association to enforce its appraisal and ethical standards.

The NAAA has an established Peer Review Committee and a process in place to address business and appraisal ethical issues should they arise.

**Training:** What training programs has the appraiser completed? Normally, the training needed to properly appraise aircraft can only be provided through the association itself but there should be some type of training program in place to educate members and ensure that a reliable, accurate and creditable report is delivered to clients.

The NAAA has established several training programs for its members. These include “hands on” training programs that last several days as well as USPAP training and testing. All members are required to complete a basic level of training before being certified by the NAAA to appraise aircraft and reports are sent to the NAAA Headquarters for review.

**The Report Itself:** It is surprising but very few people read the report they have paid for. Before hiring an appraiser, see if they can provide a sample report and review its contents. Aside from the final opinion of value, here is what you should be looking for (in no particular order):

- An indication of the standards being followed (USPAP for example)
- A statement indicating that the appraiser’s fee is not based on a predetermined value being reported or a percentage of the value being reported.
- A statement indicating that the appraiser has no interest in the subject aircraft and no connection to any subsequent deal related to the subject aircraft.
- A statement indicating that the appraiser did or did not physically examine the aircraft and its records.

- The appraiser's signature on the report itself attesting to the above statements.
- Calculations leading to the final opinion of value. Some aircraft and situations (unique aircraft or a very small field population) may not easily lend themselves to calculations but most reports that involve General Aviation aircraft should include calculations leading to the final opinion of value.
- An indication of the data being used. Published guides by their own disclaimer state that they cannot be used to appraise a specific aircraft because of the many variables involved. However, many evaluators use these published guides as their primary resource. NAAA reports use data based on the actual selling prices of aircraft and this is clearly stated in all reports.
- Ideally there should be market data related to the year, make and model of aircraft along with at least two comparable aircraft if possible.
- The length of the report itself. Reports that involve very little investigation and research are only a few pages long but reports that involve a thorough investigation of the aircraft and records are more detailed and tend to include many more pages of observation and analysis.

While this may sound like quite a bit of effort to ensure that an appraiser or appraisal association is legitimate, there is an easier and quicker process - contact Plane Data, Inc. or the NAAA to ensure all criteria are met or to verify someone's claim of membership in the NAAA.

The key objective of hiring an appraiser is (or should be) to obtain a reliable opinion of value that is based on detailed research of the subject aircraft using current market data. Utilizing substandard individuals or organizations does not meet this objective and puts a bank's lending decision at risk. If the need arises to use an unknown aircraft appraiser or appraisal organization, ask for facts, details and samples of their work. The inability of the appraiser or association to provide details about key items should raise a concern to any individual seeking professional assistance evaluating aircraft.



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