



Appraisals & Evaluations



Association of Appraiser Regulatory Officials

Agenda



-
- **Appraisals**
 - **Evaluations**
 - **Review**
 - **Referrals**
 - **Reference Materials**
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Appraisals



- Part 323 requires an appraisal for real estate (RE) related transactions, except when an exemption applies

Conform to Uniform Standards Professional Appraisal Practice (USPAP)

- Results from an automated valuation model (AVM) by itself or signed by an appraiser is not an appraisal
- Broker Price Opinion (BPO) is not an appraisal

Contain sufficient information

- Consider risk and complexity of the transaction
- Reflect a scope of work that is appropriate for the appraisal assignment
- Contain disclosure of the nature and extent of inspection

Analyze deductions and discounts for construction projects

- Provide an estimate of market value based on future demand for the real estate
- Use realistic assumptions and appropriate valuation methods, including the holding, marketing, and sales period. Refer to Appendix C in the Guidelines for a discussion by property type on compliance with this standard

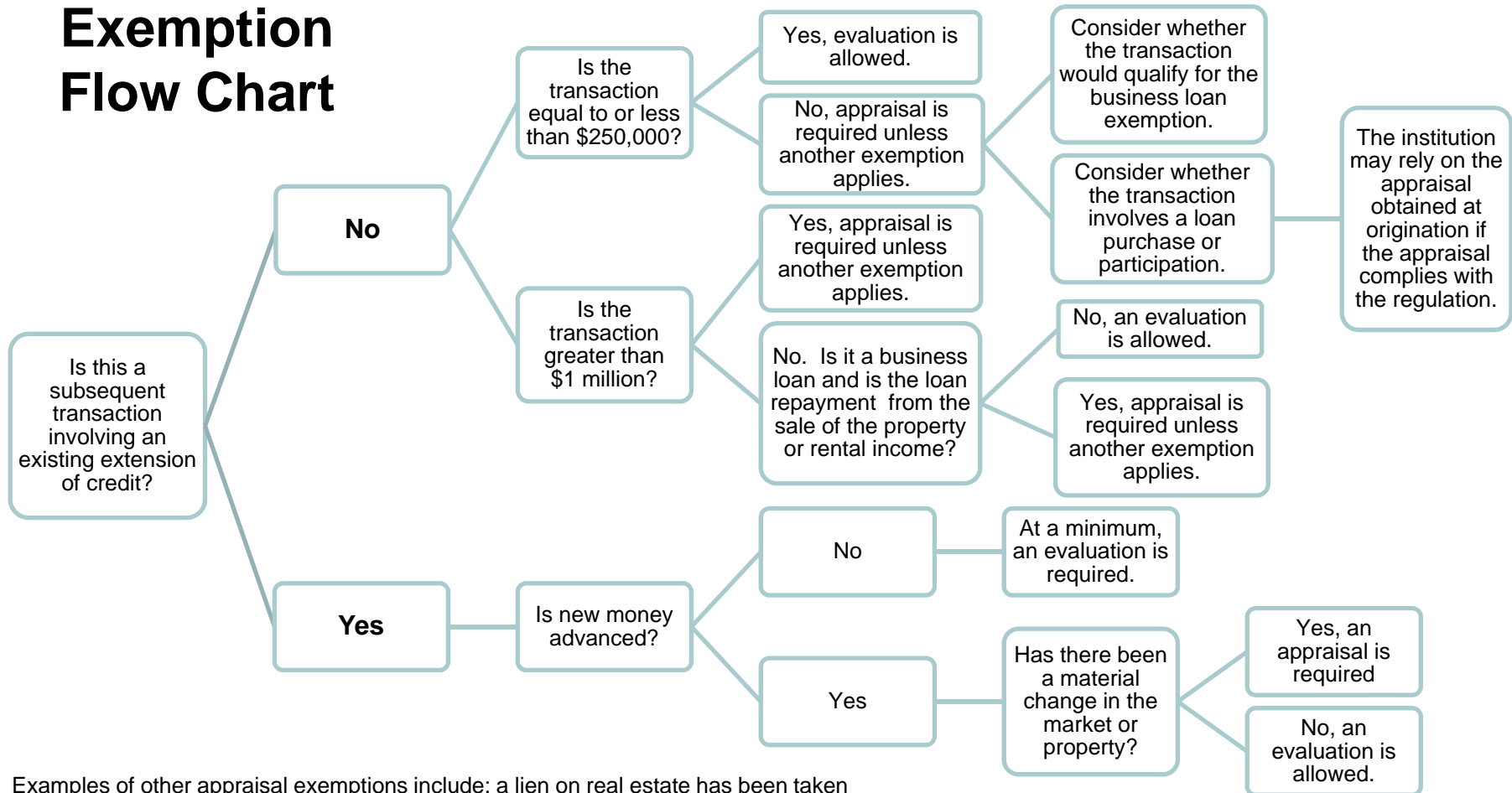
Contain an estimate of market value

- Comply with the definition of “market value” in the regulation, considering the property’s “as is” condition
- Provide prospective market value opinions, if applicable to loan purpose, based on current and reasonably expected market conditions

Appraisals



Exemption Flow Chart



Examples of other appraisal exemptions include: a lien on real estate has been taken as an abundance of caution, the transaction is not secured by real estate, a lien on real estate has been taken for purposes other than the real estate's value.

Evaluations



- **Requirements**

- Must be consistent with safe and sound banking practices – that means that it must provide a Credible Value
- Individual preparing an evaluation should be competent and:
 - Possess RE-related training/experience and knowledge of market
 - Provide a supported and credible determination of market value
 - Be independent of the transaction

- **Automated Valuation Models and Tax Assessment Values**

Evaluations



Transactions that Require at a Minimum an Evaluation

- A transaction value equal to or less than the appraisal threshold of \$250,000
- A business loan equal to or less than \$1 million
- Transaction involves an existing extension of credit
- Note: An institution should consider obtaining an appraisal as an institution's portfolio risk increases or for higher-risk real estate-related financial transactions

Evaluation Development

- An evaluation must be consistent with safe and sound banking practices and support the institution's decision to engage in the transaction
- A valuation method should address the property's actual physical condition and characteristics as well as the economic and market conditions that affect the estimate of the collateral's market value
- An evaluation should not be based on unsupported assumptions
- An institution should establish criteria for determining the level and extent of research or inspection necessary to ascertain the property's actual physical condition, and economic and market factors

Evaluation Content

- Contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision
- Be documented in the credit file or reproducible
- Appendix B of the Interagency Appraisal and Evaluation Guidelines provides guidance on the use of analytical methods and technological tools in developing an evaluation

- **Documentation Standards**

- Identify the location of the property
- Describe the property and current and projected use
- Estimate property's market value in its actual physical condition, use and zoning designation
- Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed
- Describe the analysis performed and the supporting information that was used in valuing the property

Evaluations



- Describe supplemental information considered when using an analytical method or technological tool
 - Indicate all source(s) of information used in analysis, as applicable, to value the property, including:
 - External data sources (sales databases, tax and land records)
 - Property-specific data (previous sales of subject property, tax assessment data, and comparable sales information)
 - Evidence of a property inspection
 - Photos of the property
 - Description of the neighborhood or local market conditions
 - Name, contact information, signature of preparer
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Evaluations



- **1994 Appraisal Rule Preamble**
 - “In the event an appraisal is not required because the transaction falls below \$250,000, the appraisal regulation nonetheless requires that an evaluation of the property be conducted.”
 - The agencies’ appraisal rules do not impede licensed and certified appraisers from performing these evaluations.
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- **USPAP Ethics Rule**

- “An appraiser must comply with USPAP when obligated by law or regulation [both Federal and State*], or by agreement with the client or intended users.”
- “...an individual should comply any time that individual represents that he or she is performing the service as an appraiser.”

*Several States define appraisal and appraisal report, which could be different from USPAP and Federal banking regulations.

Evaluations



- **USPAP AO 13**

- “...federal regulators require that an appraisal must conform to generally accepted appraisal standards as evidenced by USPAP, but that an evaluation need not conform to USPAP.”
 - “...appraisers who are bound by USPAP must recognize that an evaluation meets the USPAP definition of appraisal and appraisers must comply with USPAP when providing such a service.”
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Evaluations



- **USPAP AO 13**
 - “An evaluation, per the Agencies’ Guidelines, provides an estimate of market value.”
 - “When that estimate of market value is the opinion of an individual who is required to comply with USPAP, that opinion (i.e., the evaluation) is, per USPAP, an appraisal.”

Review



- **Appraisal Review**

- Section XV of the Interagency Appraisal and Evaluation Guidelines (FIL-82-2010)
 - Reviewer qualifications - Criteria for who is eligible to review appraisals and evaluations
 - Depth of review - Risk-focused approach
 - Resolution of deficiencies
 - Documentation of review

Review



Expectations

- Ensure compliance with appraisal regulation and consistency with guidelines
- Assess reasonableness and validity
- Perform before the final credit decision
- May reflect a risk-focused approach to deciding the depth of the review
- Ensure person performing the review is qualified and independent

Depth of Review

- The methods, assumptions, data sources, and conclusions should be reasonable, well-supported, and appropriate for the transaction, property, and market
- The review process should consider whether the appraisal or evaluation was obtained by the institution or from another financial services institution
- An institution generally should not rely on an evaluation prepared by or for another institution
- With prior approval from its primary federal regulator, an institution may employ automated tools or sampling methods for performing pre-funding reviews of appraisals or evaluations supporting lower-risk residential mortgages

Resolution of Deficiencies

- Communicate the noted deficiencies to, and request correction of, such deficiencies by the appraiser or person who prepared the evaluation
- Implement adequate internal controls to ensure that communications with an appraiser do not result in any coercion or undue influence
- Address significant deficiencies in the appraisal that could not be resolved with the original appraiser by obtaining a second appraisal or relying on a review that complies with Standards Rule 3 of USPAP, including the reviewer's opinion of value
- Replace evaluations prior to the credit decision that do not provide credible results or lack sufficient information to support the final credit decision

Referrals



- **Banks should file a complaint with appropriate state appraiser regulatory agency when:**
 - Failed to comply with USPAP
 - Failed to comply with applicable state laws
 - Engaged in unethical or unprofessional conduct
- **Mandatory per DFA in TILA 1026.42(g)**
- **Banks must file a suspicious activity report w/FinCen when it suspects appraisal fraud**

Reference Materials



- **FDIC Rules & Regulations: Part 323 – Appraisals**
- **Interagency Appraisal & Evaluation Guidelines**
 - FDIC: www.FDIC.gov - search for FIL-82-2010
 - FRB: www.federalreserve.gov - search SR letter 10-16
 - OCC: www.OCC.gov - search for OCC 2010-42
- **Appraisal Regulations FAQs –**
<http://www.fdic.gov/news/news/financial/2005/fil2005a.html>
- **FAQs on Residential Tract Development –**
<http://www.fdic.gov/news/news/financial/2005/fil9005a.html>
- **CFPB: www.cfpb.gov – search for Section 1026.42 of Regulation Z**



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