Appraisals & Evaluations

Association of Appraiser Regulatory Officials
Agenda

- Appraisals
- Evaluations
- Review
- Referrals
- Reference Materials
### 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 |
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.

Is this a subsequent transaction involving an existing extension of credit?

Yes

Is new money advanced?

No

At a minimum, an evaluation is required.

Yes

Has there been a material change in the market or property?

Yes, an appraisal is required.

No, an evaluation is allowed.

No

Is the transaction equal to or less than $250,000?

Yes, evaluation is allowed.

No, appraisal is required unless another exemption applies.

Is the transaction greater than $1 million?

Yes, appraisal is required unless another exemption applies.

No. Is it a business loan and is the loan repayment from the sale of the property or rental income?

No, an evaluation is allowed.

Yes, appraisal is required unless another exemption applies.

Consider whether the transaction involves a loan purchase or participation.

Consider whether the transaction would qualify for the business loan exemption.

The institution may rely on the appraisal obtained at origination if the appraisal complies with the regulation.
Evaluations

• **Requirements**
  
  o Must be consistent with safe and sound banking practices – that means that it must provide a Credible Value
  
  o 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

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<thead>
<tr>
<th>Transactions that Require at a Minimum an Evaluation</th>
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<tr>
<td>• A transaction value equal to or less than the appraisal threshold of $250,000</td>
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<tr>
<td>• A business loan equal to or less than $1 million</td>
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<td>• Transaction involves an existing extension of credit</td>
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<td>• Note: An institution should consider obtaining an appraisal as an institution’s portfolio risk increases or for higher-risk real estate-related financial transactions</td>
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<th>Evaluation Development</th>
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<td>• An evaluation must be consistent with safe and sound banking practices and support the institution’s decision to engage in the transaction</td>
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<td>• 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</td>
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<td>• An evaluation should not be based on unsupported assumptions</td>
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<tr>
<td>• 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</td>
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<th>Evaluation Content</th>
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<td>• Contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision</td>
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<td>• Be documented in the credit file or reproducible</td>
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<tr>
<td>• Appendix B of the Interagency Appraisal and Evaluation Guidelines provides guidance on the use of analytical methods and technological tools in developing an evaluation</td>
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Evaluations

- **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
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.
• **USPAP Ethics Rule**
  
  o “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.”

  o “…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.”
Evaluations

• USPAP AO 13
  o “An evaluation, per the Agencies’ Guidelines, provides an estimate of market value.”
  o “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

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<th>Expectations</th>
<th>Depth of Review</th>
<th>Resolution of Deficiencies</th>
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| • 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 | • 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 | • 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
- CFPB: www.cfpb.gov – search for Section 1026.42 of Regulation Z
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