



Appraisals and Evaluations

I. Overview and Background Information

Overview of Presentations

- I. Overview and Background Information
- II. When is an Appraisal or Evaluation Needed?
- III. Regulatory Expectations for Evaluations and Validating Appraisals and Evaluations
- IV. Applying Part 323 / Other Topics
- V. Appraisal and Evaluation Review
- VI. Review and Additional Resources

Background

- Part 323 of the FDIC Rules and Regulations - Appraisals
- Interagency Appraisal and Evaluation Guidelines (Interagency Guidelines) in Financial Institution Letter 82-2010 (FIL-82-2010), issued December 2, 2010

Background

- Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI) provides protection for federal financial and public policy interests in real estate-related financial transactions by requiring uniform standards for appraisals and appraisers.
- The FDIC issued Part 323 under the authority of Title XI to implement the standards.
- Part 323 became effective on September 19, 1990.

Part 323 of the FDIC Rules and Regulations

Minimum requirements for real estate appraisals used in connection with federally related transactions:

- **Be completed in accordance with uniform appraisal standards;**
- **Be written and contain sufficient information and analysis to support the institution's decision to engage in the transaction;**
- **Analyze and report appropriate deductions and discounts for certain transactions;**
- **Be based on the definition of market value included in Part 323; and**
- **Be performed by appraisers whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.**

Part 323 of the FDIC Rules and Regulations

- Identifies which federally related transactions require the services of an appraiser (either state-certified or state-licensed).
- Prescribes minimum standards for real estate appraisals in connection with federally related transactions.

Real Estate-Related Financial Transaction

- Defined as any transaction involving:
 - The sale, lease, purchase, investment in or exchange of real property, including interests in real property, or the financing thereof; or
 - The refinancing of real property or interests in real property (includes renewals); or
 - The use of real property or interests in real property as security for a loan or investment.

Interagency Guidelines

- Provide federally regulated institutions clarification on the Agencies' expectations for prudent appraisal and evaluation policies, procedures, and practices.
- Updated December 2, 2010.

Appraisal and Evaluation Program

- Section IV of the Interagency Guidelines states:

“An institution’s Board of Directors or its designated committee is responsible for adopting and reviewing policies and procedures that establish an effective real estate appraisal and evaluation program.”

Effective Valuation Policy Components

- Provide independence in the valuation process;
- Evaluate and monitor the ongoing performance of appraisers and individuals who perform evaluations;
- Establish criteria for the content and appropriate use of evaluations;
- Establish a review program;

Effective Valuation Policy Components

- Develop validation criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction;
- Establish criteria for monitoring collateral values; and
- Implement internal controls that promote compliance with the Interagency Guidelines and bank policies.