



Appraisals and Evaluations

II. When is an Appraisal or Evaluation Needed?

Appraisal or Evaluation

- An appraisal is required for all real estate-related financial transactions, except when an exemption applies.
- Refer to Section 323.3 for a list and description of all 12 exemptions.

Appraisal Requirement Exemptions

- Four common exemptions to the appraisal requirements:
 - **Transaction value \$250,000 or less (Beginning January 18, 2014, certain higher-priced mortgage loans will require an appraisal. See Financial Institution Letter 11-2013, issued March 18, 2013.);**
 - **Lien on real estate taken as collateral in an abundance of caution;**
 - **Business loan with a transaction value of \$1 million or less and not dependent on the sale of, or rental income derived from, real estate as the primary source of repayment;**
 - **Subsequent transaction of an existing credit at the institution if certain conditions are met.**

Subsequent Transaction

A subsequent transaction includes the following:

- **Renewal of an existing loan at maturity;**
- **Refinancing of an existing loan prior to maturity;**
- **Modification that involves more than a limited change in terms; and**
- **Acquisition of other real estate.**

Appraisal Requirement Exemptions

- The subsequent transaction exemption applies if:
 - there has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the real estate protection, even with the advancement of new monies; or
 - there is no advancement of new monies, other than funds to cover reasonable closing costs.

Policy Guidelines

- Bank's policy guidelines for determining whether adequacy of the collateral protection is threatened should consider:
 - the strength of the borrower and guarantors,
 - the loan's performance and internal classification,
 - the loan-to-value ratio prior to and after the proposed transaction,
 - the types of real estate collateral accepted by the bank,
 - the marketability of the real estate collateral,
 - a comparison of sales prices of similar real estate in the market, and
 - any other factors determined by the bank to be relevant.

When is an Evaluation Required?

- These real estate-related financial transactions do not require an appraisal, but do require an evaluation:
 - **Transaction value is \$250,000 or less** (Beginning January 18, 2014, certain higher-priced mortgage loans will require an appraisal regardless of transaction value. See Financial Institution Letter 11-2013 for details.),
 - **Business loan of \$1 million or less and not dependent on the sale of, or rental income derived from, real estate as the primary source of repayment,**
 - **Subsequent transaction** (if at least one of these two conditions is met)
 - No obvious or material change in market conditions or the property that threatens real estate collateral protection (even with new monies), or
 - No advancement of new monies, except reasonable closing costs.

Example #1 – Appraisal or Evaluation?

- \$2 million commercial real estate loan, five-year term;
- \$3 million appraised value at origination;
- Obvious and material deterioration in local real estate market conditions at time of renewal; and
- \$500,000 additional funds advanced at renewal.

An appraisal is required due to market deterioration threatening collateral protection and because additional funds are advanced.

Example #2 – Appraisal or Evaluation?

- \$2 million commercial real estate loan, five-year term;
- \$3 million appraised value at origination;
- Obvious and material deterioration in local real estate market conditions at time of renewal; and
- No additional funds other than reasonable closing costs were advanced at renewal.

An evaluation is required. An appraisal is not required as only reasonable closing costs were advanced.

Example #3 – Appraisal or Evaluation?

- \$2 million commercial real estate loan, five-year term;
- \$3 million appraised value at origination;
- No obvious or material change in local real estate market conditions since origination date; and
- \$500,000 additional funds advanced at renewal above and beyond reasonable closing costs.

An evaluation is required. An appraisal is not required as no obvious or material change in local real estate market.

Frequently Asked Questions

- Although an appraisal is not required when real estate collateral is taken as abundance of caution, is an evaluation required?

No. Transactions involving real estate collateral taken as an abundance of caution do not require an appraisal or evaluation. Refer to Section 323.3(b).

Frequently Asked Questions

- If a transaction is a business loan that is exempt from the requirements for an appraisal, is an evaluation required?

Yes. Section 323.3(b) requires an evaluation for a business loan if an appraisal is not otherwise required.