



Appraisals and Evaluations

III. Regulatory Expectations for Evaluations and Validating Appraisals and Evaluations

What is an Evaluation?

- An evaluation is a credible estimate of the collateral's market value which supports the decision to engage in a transaction.
- An evaluation must be prepared by a competent individual; however, the preparer does not have to be a State-certified or State-licensed appraiser.

Evaluation Expectations

- An evaluation must be consistent with safe and sound banking practices – this means that it must provide a credible estimate of market value.
- An evaluation should address the property's actual physical condition and characteristics, as well as the economic conditions that affect market value.
- Must meet documentation standards in the Interagency Appraisal and Evaluation Guidelines (FIL-82-2010).

Minimum Evaluation Documentation

- Location of the property;
- Description of its current and projected use;
- Market value based on actual physical condition;
- Use and zoning as of evaluation date, and any potentially limiting conditions; and
- Listing of all sources of information used in the analysis.

Who Can Perform an Evaluation?

- Anyone who is competent – must have real estate-related training or experience and knowledge of the market, including but not limited to:
 - **Bank employees,**
 - **Real estate lending professionals, and**
 - **Agricultural extension agents.**
- **Must be independent of the transaction.**

Validating Existing Appraisals or Evaluations

- Key concept as an appraisal or evaluation may be used for subsequent transactions as long as it remains valid.
- Bank policy should include criteria to determine whether or not an appraisal or evaluation remains valid.
- Documentation in the credit file should provide facts and analysis to support the use an existing appraisal or evaluation in a subsequent transaction.

Factors that Determine if a Valuation Conclusion Remains Valid

- Passage of time;
- Changes in, or volatility of, the local market;
- Improvements to, or deferred maintenance of, the subject property or competing properties;
- Changes in economic and market assumptions;
- Changes in zoning, building materials, or technology; and
- Potential environmental contamination.

Frequently Asked Questions

- Is an annual appraisal required to calculate the amount of impairment for determining the adequacy of the allowance for loan and lease losses for problem real estate loans greater than \$250,000?

In this situation, the bank needs valuation information to determine the amount of impairment. If the value conclusion in the property's appraisal or evaluation remains valid, another appraisal or evaluation is not needed.

Frequently Asked Questions

- What qualifications are recommended for personnel who validate appraisals or evaluations?

The individual should be competent relative to the type of real property and its market and be independent of the transaction.