



Appraisals and Evaluations

V. Appraisal and Evaluation Review

Appraisal and Evaluation Review

- Section 1473(e) of the Dodd-Frank Act amended Section 1110 of FIRREA. It requires the federal financial institution regulatory agencies to establish a rule to require the appropriate review of all appraisals required in connection with federally related financial transactions for compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).
- Until the agencies issue a final rule, institutions should refer to Section XV of Interagency Appraisal and Evaluation Guidelines (FIL-82-2010) for expectations regarding the review of appraisals and evaluations.

Appraisal Review Definition

- Uniform Standards of Professional Appraisal Practice (USPAP) definition of appraisal review:

“The act or process of developing and communicating an opinion about the quality of another appraiser’s work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment.”

Policy for Appraisal and Evaluation Review

- Reviewer qualifications -
 - **Factors include education, expertise, knowledge of market and independence.**
- Depth of review -
 - **Use a risk-focused approach.**
 - **Higher-risk loans require a more detailed review.**
- Resolution of deficiencies -
 - **Inaccuracies or weaknesses must be resolved.**
- Documentation of appraisal and evaluation reviews -
 - **Review must be documented in the credit file.**

Resolution of Deficiencies

Procedures should be defined for:

- **Communicating the noted deficiencies and requesting correction by the appraiser or person who performed the evaluation;**
- **Addressing 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 USPAP and is performed by a State-certified or State-licensed appraiser prior to the final credit decision; and**
- **Replacing valuations that are not credible or lack sufficient supporting information prior to the credit decision.**

Frequently Asked Questions

- An appraisal review is conducted by the lead bank for a real estate loan participation my bank purchased. Am I required to perform an appraisal review?

Yes. Each bank participating in the credit should perform an appraisal review to the same extent that one would be performed on appraisals that are obtained for a credit underwritten directly by the bank.

Frequently Asked Questions

- Can a qualified individual, acting in the capacity of a reviewer, change the value in the appraisal or evaluation under review?

No. A reviewer cannot change the value conclusion. However, a review performed by a State-certified or State-licensed appraiser, in accordance with USPAP, may result in the reviewer developing a second opinion of value which can be used for the credit decision.

Frequently Asked Questions

- Can a lender assist in preparing a review for an evaluation or appraisal if the loan is subject to review by a Loan Committee?

To maintain independence, loan production staff generally should not review an appraisal or evaluation. If absolute lines of independence cannot be achieved, the review may be part of the lender's overall credit analysis, as long as the lender abstains from directly or indirectly approving or voting to approve the loan.

Frequently Asked Questions

- What kind of communication is permissible between a bank and an appraiser?

Examples of permitted communication include:

- **Providing information to identify the property and rights;**
- **Providing a copy of the sales contract;**
- **Asking that additional information be considered;**
- **Requesting additional detail, substantiation, or explanation of value conclusion; and**
- **Asking that errors be corrected.**

Frequently Asked Questions

- What kind of communication is inappropriate between a bank and an appraiser?

Examples of inappropriate communication include:

- **Providing a predetermined, expected, or qualifying value estimate;**
- **Specifying the loan amount or targeted loan-to-value ratio; and**
- **Conditioning the appraiser's compensation or future services based on loan consummation or meeting a certain value.**

Appraisal and Evaluation Review Policy

The review policy, at a minimum, should:

- **Address the independence, educational and training qualifications, and role of the reviewer;**
- **Reflect a risk-focused approach for determining the depth of review;**
- **Establish a process for resolving any deficiencies in appraisals or evaluations; and**
- **Define documentation standards for the review and resolution of any noted deficiencies.**

Resources on Appraisal and Evaluation Review

- Section XV of Interagency Guidelines
- FDIC Supervisory Insights, Winter 2011 — “Navigating the Real Estate Valuation Process”