



# **Appraisals and Evaluations**

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## **VI. Review and Additional Resources**

# Presentation Series

## I. Overview and Background Information

- Part 323 of the FDIC Rules and Regulations
- Interagency Appraisal and Evaluation Guidelines

## 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 FDIC Rules and Regulations:**
  - **Provides the definition of a real estate-related financial transaction;**
  - **Establishes which of these transactions requires the services of an appraiser; and**
  - **Specifies the minimum standards for the performance of real estate appraisals.**
  
- **Part 323 also defines exemptions to the appraisal requirements and requires the use of an evaluation when certain exemptions apply.**

# Background

- The Interagency Guidelines state that a bank's Board of Directors, or its designated committee, is responsible for adopting and reviewing policies and procedures to establish an effective real estate appraisal and evaluation program.
- An effective appraisal and evaluation program should:
  - **Ensure independence in the valuation process;**
  - **Establish selection criteria and assess performance of appraisers and individuals performing evaluations;**
  - **Establish criteria for the content and appropriate use of evaluations;**
  - **Provide for a review program;**
  - **Develop validation criteria to assess whether existing valuation products can be used to support subsequent transactions;**
  - **Implement internal controls; and**
  - **Establish criteria for monitoring collateral values.**

# When is an Appraisal or Evaluation Needed?

- Section 323.3(a) requires an appraisal for a federally related transaction unless an exemption applies.
- There are 12 exemptions to the appraisal requirements. Four common exemptions include:
  - **Transaction value is \$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; and**
  - **Subsequent transaction of an existing credit at the institution if certain conditions are met.**

# Subsequent Transaction Exemption

- The subsequent transaction exemption applies if at least one of the following two conditions is met:
  - **There has been no obvious and material change in market conditions or the physical aspects of the property that threatens the adequacy of the real estate collateral after the transaction, even with the advancement of new monies; or**
  - **There is no advancement of new monies, other than funds necessary to cover reasonable closing costs.**
- If either of these conditions is met, the subsequent transaction applies and an appraisal is not required.

# Regulatory Expectations for Evaluations and Validating Appraisals and Evaluations

- An evaluation is a credible estimate of the collateral's market value which supports the decision to engage in a transaction.
- An evaluation must:
  - Provide sufficient information to support the estimate of market value;
  - Be prepared by a competent individual who is independent of the transaction.
- An existing appraisal or evaluation may be used, in certain circumstances, for a subsequent transaction as long as it remains valid.

# Applying Part 323 / Other Topics

- Six valuation topics for which the FDIC frequently receives questions include:
  - Residential tract developments;
  - Rented single-family residences;
  - Modifications;
  - Added collateral for problem loans;
  - Business enterprise value; and
  - Engagement letters.

# Appraisal and Evaluation Review

- Section 1473 of the Dodd-Frank Act requires federal financial institution regulatory agencies to establish a rule to require the appropriate review of appraisals for federally related transactions.
- Until the rule is issued, institutions should refer to Section XV of the Interagency Guidelines.
- An institution's valuation policy should address:
  - A reviewer's qualifications;
  - The depth of the review;
  - The resolution of deficiencies; and
  - The documentation of the review.

# References

- FDIC Rules and Regulations: Part 323 — Appraisals
- FIL 82-2010, entitled “Interagency Guidance: Appraisal and Evaluation Guidelines”
- FIL 90-2005, entitled “Residential Tract Development Lending: Frequently Asked Questions”
- FDIC Supervisory Insights, Winter 2011 — “Navigating the Real Estate Valuation Process”

# Questions

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