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Interagency Appraisal Guidelines

Appraisal and Evaluation Program

A credit union'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.



The image shows a close-up of a document titled 'Property Value'. The document contains several charts, including a bar chart and a line graph. A magnifying glass is positioned over the charts, highlighting a specific area. The document is placed on a desk with other items like a pen and a small figurine.



UTAH'S CREDIT UNIONS

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Interagency Appraisal Guidelines

Appraisal and Evaluation Program

The program should:

- Provide for the independence of the persons ordering, performing, and reviewing appraisals or evaluations.
- Establish selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations.
- Ensure that appraisals comply with the Agencies' appraisal regulations and are consistent with supervisory guidance.
- Ensure that appraisals and evaluations contain sufficient information to support the credit decision.
- Maintain criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices.

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Interagency Appraisal Guidelines

Appraisal and Evaluation Program

The program should:

- Provide for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
- Develop criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.
- Implement internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements
- Establish criteria for monitoring collateral values.
- Establish criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of the Agencies' appraisal regulations.

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Interagency Appraisal Guidelines

Independence

For both appraisal and evaluation functions, an institution should maintain standards of independence as part of an effective collateral valuation program for all of its real estate lending activity.

Selection of Appraisers or Evaluators

An institution's collateral valuation program should establish criteria to select, evaluate, and monitor the performance of appraisers and persons who perform evaluations.

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Interagency Appraisal Guidelines

Approved Appraiser List

If an institution establishes an approved appraiser list for selecting an appraiser for a particular assignment, the institution should have appropriate procedures for the development and administration of the list.

Engagement Letters

An institution should use written engagement letters when ordering appraisals.

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Interagency Appraisal Guidelines

Transactions That Require Appraisals

- Most real estate-related financial transactions over the appraisal threshold (\$400,000) are considered federally-related transactions and, thus, require appraisals.
- The Agencies also reserve the right to require an appraisal under their appraisal regulations to address safety and soundness concerns in a transaction.

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Interagency Appraisal Guidelines

Minimum Appraisal Standards

The Agencies' appraisal regulations include minimum standards for the preparation of an appraisal. The appraisal must:

- Conform to generally accepted 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 proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units.
- Be based upon the definition of market value set forth in the appraisal regulation.
- Be performed by state certified or licensed appraisers

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Interagency Appraisal Guidelines

Transactions That Require Evaluations

- The Agencies' appraisal regulations permit an institution to obtain an appropriate evaluation of real property collateral in lieu of an appraisal for transactions that qualify for certain exemptions.
- However, a credit union should establish policies and procedures for determining when to obtain an appraisal for such transactions. (for example higher risk loans, atypical properties)

Interagency Appraisal Guidelines

Evaluation Development

- An evaluation must be consistent with safe and sound banking practices and should support the institution's decision to engage in the transaction.
- An institution should be able to demonstrate that an evaluation, whether prepared by an individual or supported by an analytical method or a technological tool, provides a reliable estimate of the collateral's market value as of a stated effective date prior to the decision to enter into a transaction.
- A valuation method that does not provide a property's market value or sufficient information and analysis to support the value conclusion is not acceptable as an evaluation. For example, the following valuations methods, on their own, are insufficient to establish market value:
 - Tax assessment
 - Broker price opinion
 - Information on local housing conditions and trends
- The information obtained from such sources, while insufficient as an evaluation, may be useful to develop an evaluation or appraisal.

NCUA Appraisal Rules

Citation: [12 CFR 722](#)

When appraisals are required

An appraisal performed by a state certified or licensed appraiser is required for all real estate-related financial transactions except those in which:

- The transaction value is \$400,000 or less
- A lien on the real property has been taken as an abundance of caution and the terms of the transaction are not more favorable than they would have been in the absence of a lien.
- The lien on the real estate is taken for a purpose other than the real estate's value.

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NCUA Appraisal Rules

When appraisals are required

An appraisal performed by a state certified or licensed appraiser is required for all real estate-related financial transactions except those in which:

- The transaction involves an existing extension of credit at the credit union if:
 - there is not advance of new money except what is necessary to cover closing costs, or
 - there is not obvious or material change in condition of the property that would threaten the value of the collateral.

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NCUA Appraisal Rules

When appraisals are required

An appraisal performed by a state certified or licensed appraiser is required for all real estate-related financial transactions except those in which:

- The transaction is wholly or partially insured or guaranteed by a United States government agency or United States government sponsored agency.
- The transaction either:
 - Qualifies for sale to a United States government agency or government sponsored agency, or
 - The appraisal conforms to the FNMA or FHLMC appraisal standards applicable to that category of real estate.

**NCUA reserves the right to require an appraisal under Part 722 whenever the agency believes it is necessary to address safety and soundness concerns.

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NCUA Appraisal Rules

Valuation Requirement

Secured transactions exempted from appraisal requirements must be supported by a written estimate of market value, performed by an individual having no direct or indirect interest in the property, and qualified and experienced to perform such estimates of value for the type and amount of credit being considered.

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NCUA Appraisal Rules

Minimum Appraisal Standards

For federally related transactions, all appraisals shall, at a minimum:

- Conform to generally accepted 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 proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units

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NCUA Appraisal Rules

Appraiser Independence

Staff Appraiser

If an appraisal is prepared by a staff appraiser, that appraiser must be independent of the lending, investment, and collection functions and not involved, except as an appraiser, in the federally related transaction, and have no direct or indirect interest, financial or otherwise, in the property.

If the only qualified persons available to perform an appraisal are involved in the lending, investment, or collection functions of the credit union, the credit union shall take appropriate steps to ensure that the appraisers exercise independent judgment.

Fee Appraisers

If an appraisal is prepared by a fee appraiser, the appraiser shall be engaged directly by the credit union or its agent and have no direct or indirect interest, financial or otherwise, in the property or the transaction.

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Valuation Independence (Reg Z)

Scope

Generally, the provisions of the rule apply to any valuation of the consumer's principal dwelling and to any person who performs valuation services or performs valuation management functions. Most of the provisions of the rule are not limited to a licensed or certified appraiser or to a formal appraisal.

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Valuation Independence (Reg Z)

Definitions

- Valuation: an estimate of the value of the consumer's principal dwelling in written or electronic form, other than one produced solely by an automated model or system.
- Valuation Management Function:
 - Recruiting, selecting, or retaining a person to prepare a valuation
 - Contracting with or employing a person to prepare a valuation
 - Managing or overseeing the process of preparing a valuation, including by:
 - Providing administrative services such as receiving orders for and receiving a valuation
 - Submitting a completed valuation to creditors and underwriters
 - Collecting fees from creditors and underwriters for services provided in connection with a valuation
 - Compensating a person that prepares valuations
 - Reviewing or verifying the work of a person that prepares valuations.

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Valuation Independence (Reg Z)

Prohibitions

With regard to valuations and valuation management functions, the regulation prohibits:

- Causing or attempting to cause, through coercion and certain similar acts or practices, the value assigned to the consumer's principal dwelling to be based on a factor other than the independent judgment of the person who prepares the valuation
- The person who performs valuation services or performs valuation management functions from having an interest in the consumer's principal dwelling or the transaction, and
- Extending credit when the creditor knows that the value assigned to the consumer's principal dwelling is based on a factor other than the independent judgment of the person who prepared the valuation, unless the creditor has documented that it has been reasonably diligent in determining that the valuation does not materially misstate or misrepresent the value of the dwelling.

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Valuation Independence (Reg Z)

Permitted Actions

The following actions are permitted:

- Asking a person who performs a valuation to consider additional property information, including comparables.
- Requesting more detail, explanation or support for the conclusions in the valuation.
- Asking for correction of errors in the valuation.
- Obtaining multiple valuations and selecting the most reliable one.
- Not paying for the services of a person who prepared a valuation due to breach of contract or inappropriate services.

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Valuation Independence (Reg Z)

Prohibited Conflicts of Interest

No person preparing a valuation or performing valuation management functions for a transaction may have a direct or indirect interest, financial or otherwise, in the property or transaction for which the valuation is or will be performed.

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Valuation Independence (Reg Z)

Prohibited Conflicts of Interest

Employees of Credit Unions with assets of more than \$250 million for both of the past two calendar years.

There is not a conflict of interest if:

- The compensation of the person preparing a valuation or performing valuation management functions is not based on the value arrived at in any valuation;
- The person preparing a valuation or performing valuation management functions reports to a person who is not part of the creditor's loan production function, and whose compensation is not based on the closing of the transaction to which the valuation relates AND
- No employee, officer or director in the creditor's loan production function, is directly or indirectly involved in selecting, retaining, recommending or influencing the selection of the person to prepare a valuation or perform valuation management functions, or to be included in or excluded from a list of approved persons who prepare valuations or perform valuation management functions.

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Valuation Independence (Reg Z)

Prohibited Conflicts of Interest

Employees of Credit Unions with assets of \$250 million or less for either of the past two calendar years.

There is not a conflict of interest if:

- The compensation of the person preparing a valuation or performing valuation management functions is not based on the value arrived at in any valuation
- The creditor requires that any employee, officer or director of the creditor who orders, performs, or reviews a valuation for a covered transaction abstain from participating in any decision to approve, not approve, or set the terms of that transaction.

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Valuation Independence (Reg Z)

Customary and Reasonable Compensation

The rule also requires the payment of reasonable and customary compensation to “fee appraisers.” The term “fee appraiser” includes state-licensed and state-certified appraisers as well as companies that employ state-licensed and state-certified appraisers to perform appraisals and are paid for the performance of those appraisals. The rule provides two alternative ways to obtain a presumption of compliance.

- The first way a creditor may obtain a presumption of compliance is if the rate paid to appraisers is determined by relying on third-party information, including fee schedules, studies and surveys that meet certain requirements.
- The second method to obtain a presumption of compliance is if:
 - The amount of compensation is reasonable in relation to recent rates for appraisals in the area; and
 - The creditor does not take any anticompetitive actions that would affect the rate paid to appraisers, such as price fixing.

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Valuation Independence (Reg Z)

Mandatory Reporting

- The rule requires that creditors or settlement service providers report an appraiser to the appropriate state licensing authorities if they have a reasonable basis to believe the appraiser is failing to comply with USPAP, is violating applicable laws, or is otherwise displaying unethical or unprofessional conduct, if the failure is material enough to significantly affect the value assigned to the consumer's principal dwelling.
- The reporting must be done within a reasonable period of time after determining that appraiser misconduct has occurred.