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Collateral Risk Network

November 5, 2014

Agenda

- **Dodd-Frank Act Update**
- **Regulatory Guidance**
- **Appraisal Review**
- **Evaluations**
- **Referrals**
- **Questions**

Dodd - Frank Act Update

- **Completed Rulemakings**
 - ◆ October 2010 - Interim Final Rule
 - ◆ January 2013 - Appraisals for Higher Priced Mortgage Loans
 - ◆ December 2013 - Supplemental Rule: Appraisals for Higher Priced Mortgage Loans

Dodd-Frank Act Update

- **Section 1473:**
- **Appraisal Portability – FAQ 202 “Does a new Assignment Require Starting Over?”**
- **Appraisal Reviews – Consider criteria in Interagency Appraisal and Evaluation Guidelines**
- **Broker Price Opinions – Cannot be used to originate a residential mortgage loan.**

Dodd-Frank Act Update

- **Section 1473:**
- **Automated Valuation Models (AVMs) – Have started developing**
- **Appraisal Management Companies (AMCs)**
 - ◆ Comment period closed June 9, 2014
 - ◆ Agencies received about 250 comments
 - ◆ Agencies working to finalize

Dodd-Frank Act Update

- **Appraisal Management Companies (AMCs)**
 - ◆ Minimum Requirements for non-federally regulated AMCs –
 - Register with and be subject to state supervision
 - Engage only state certified and state licensed appraisers for federally related transactions
 - Ensure appraiser independence and competence
 - Direct appraisers to comply with USPAP
 - Ensure services comply with TILA 129E

Regulatory Guidance

- **Regulatory Guidance with appraisal implications:**
 - **Outsourcing risk in the appraisal process**
 - Modeling risk in the appraisal process
 - Valuation requirements for properties held as Other Real Estate Owned (OREO)

Appraisal Review

- Guidance on reviews is in Section XV of Interagency Appraisal and Evaluation Guidelines (FIL-82-2010)
 - Reviewer qualifications - Criteria for who is eligible to review appraisals and evaluations
 - Depth of review - Risk-focused approach
 - Resolution of deficiencies
 - Documentation of review

Appraisal Review

Expectations

- Ensure compliance with appraisal regulation and consistency with guidelines
- Assess reasonableness and validity
- Perform before the final credit decision
- May reflect a risk-focused approach to deciding the depth of the review
- Ensure person performing the review is qualified and independent

Depth of Review

- The methods, assumptions, data sources, and conclusions should be reasonable, well-supported, and appropriate for the transaction, property, and market
- The review process should consider whether the appraisal or evaluation was obtained by the institution or from another financial services institution
- An institution generally should not rely on an evaluation prepared by or for another institution
- With prior approval from its primary federal regulator, an institution may employ automated tools or sampling methods for performing pre-funding reviews of appraisals or evaluations supporting lower-risk residential mortgages

Resolution of Deficiencies

- Communicate the noted deficiencies to, and request correction of, such deficiencies by the appraiser or person who prepared the evaluation
- Implement adequate internal controls to ensure that communications with an appraiser do not result in any coercion or undue influence
- Address 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 Standards Rule 3 of USPAP, including the reviewer's opinion of value
- Replace evaluations prior to the credit decision that do not provide credible results or lack sufficient information to support the final credit decision

Evaluations

- Must be consistent with safe and sound banking practices – that means that it must provide a Credible Value
- Should be prepared by a competent individual who:
 - Possesses RE-related training or experience and knowledge of the market
 - Provides a supported and credible determination of market value
 - Is independent of the transaction

Evaluations

Transactions that Require at a Minimum an Evaluation

- A transaction value equal to or less than the appraisal threshold of \$250,000
- A business loan equal to or less than \$1 million
- Transaction involves an existing extension of credit
- Note: An institution should consider obtaining an appraisal as an institution's portfolio risk increases or for higher-risk real estate-related financial transactions

Evaluation Development

- An evaluation must be consistent with safe and sound banking practices and support the institution's decision to engage in the transaction
- A valuation method should address the property's actual physical condition and characteristics as well as the economic and market conditions that affect the estimate of the collateral's market value
- An evaluation should not be based on unsupported assumptions
- An institution should establish criteria for determining the level and extent of research or inspection necessary to ascertain the property's actual physical condition, and economic and market factors

Evaluation Content

- Contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision
- Be documented in the credit file or reproducible
- Appendix B of the Interagency Appraisal and Evaluation Guidelines provides guidance on the use of analytical methods and technological tools in developing an evaluation

Evaluations

- **State appraiser credential requirements**
 - ◆ Providing an opinion of value
 - ◆ Adhering to USPAP
- **Georgia permits “Evaluation Appraisal”**
- **USPAP AO 13 “ An evaluation, when performed by an individual acting as an appraiser, is an appraisal.”**

Referrals

- **Financial Institutions File Complaints**
 - ◆ File with appropriate State appraiser regulatory agency when:
 - Failed to comply with USPAP
 - Failed to comply with applicable laws
 - Engaged in unethical or unprofessional conduct
 - ◆ ASC National Appraisal Complaint Hotline:
<http://refermyappraisalcomplaint.asc.gov/>
- **Mandatory per DFA in TILA 1026.42(g)**
- **Suspicious Activity Report with FinCEN**

Questions?

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