

# Evaluations



Tony Pistilli  
Axios Valuation Solutions  
817-872-7366  
[tpistilli@myaxios.com](mailto:tpistilli@myaxios.com)

# Evaluations

## What is an Evaluation?

**Definition:** A valuation performed by an individual, that is not an appraisal

- A valuation performed by an individual

# Evaluations

When can you use evaluations?

- Regulations allow for evaluations instead of an appraisal
  - Transaction value less than or equal to the \$250,000 appraisal threshold
  - Business loans with a transaction value of \$1,000,000 or less
  - Existing extensions of credit
    - No obvious and material change in market conditions or physical aspects of the property
    - No advancement of new monies-other than closing costs

# Evaluations

Transaction value: 12 CFR 34.42 - Definitions

For loans or other extensions of credit, the amount of the loan or extension of credit;

- Appraisals required instead of evaluations due to increased risks
  - Atypical properties
  - Loans with combined LTVs in excess of limits
  - Properties outside of traditional lending market
  - Existing extensions of credit with significant risk
  - Borrowers with high risk characteristics



# Evaluations

- 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.

# Evaluations

- Identify the location of the property
  - Property Identification Number
  - Legal Description
  - Street Address
  
- Provide a description of the property and its current and projected use
  - Single Family Residence
  - Highest & Best Use

# Evaluations

- It is not acceptable for an institution to base an evaluation on unsupported assumptions, such as a property is in average condition, the zoning has not changed, or the property is not now affected by adverse market conditions
  - Must have documented data to support the analysis
- Provide an estimate of the property's market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation (that is, the date that the analysis was completed), with any limiting conditions
  - **Actual Physical Condition**
  - Zoning Designation
  - Effective Date
  - Limiting Conditions

# Evaluations

- Actual Physical Condition
  - “Should consider performing an inspection to ascertain the actual physical condition of the property and market factors that affect its market value”
  - Describe the method(s) the institution used to confirm the property’s actual physical condition and the extent to which an inspection was performed.
    - Property Condition Report
    - Recent Appraisal
    - Point of Sale Inspection



# Evaluations

An evaluation should contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision.

# Evaluations

- Describe the analysis that was performed and the supporting information that was used in valuing the property
  - How was the evaluation developed?
  - What was the methodology used in the analysis?
  - What data was used in the analysis?

# Evaluations

- Describe the supplemental information that was considered when using an analytical method or technological tool.
  - If using an AVM or other tool as the basis for the evaluation, what other information was considered
  - Reinforces an AVM alone is not sufficient

# Evaluations

- Indicate all source(s) of information used in the analysis, as applicable, to value the property, including:
  - External data sources (such as market sales databases and public tax and land records);
  - Property-specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information);
  - Evidence of a property inspection;
  - Photos of the property;
  - Description of the neighborhood; or
  - Local market conditions.



# Evaluations

- Include information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature (electronic or other legally permissible signature) of the preparer.
  - Name
  - Contact Information
  - Signature

# Evaluations

Darrin Benhart, Deputy Comptroller for Credit and Market Risk Before the Mortgage Bankers Association's Risk Management and Quality Assurance Forum 2013

- We also found shortcomings in the development, reporting, and review of evaluations. Prepackaged products, some of which claimed to be “guidelines compliant,” lacked even the basics—no opinion of “market value,” unsigned and undated reports, even generic assumptions about the actual physical condition of the property, items we specifically addressed in the 2010 guidelines.
- We saw the output of an automated valuation model or AVM stapled to a third-party report without any real evaluation, analysis, or validation of the automated valuation model itself, placed in the file.

# Evaluations

A valuation method that provides a sales or list price, such as a broker price opinion, cannot be used as an evaluation because, among other things, it does not provide a property's market value.

- No Broker Price Opinions

# Evaluations

Information on local housing conditions and trends, such as a competitive market analysis, does not contain sufficient information on a specific property that is needed, and therefore, would not be acceptable as an evaluation.

- Housing Price Index Reports
- Data and Analytical Products



# Evaluations

The information obtained from such sources, (CMA, BPO, AVM's) while insufficient as an evaluation, may be useful to develop an evaluation or appraisal.

AVM

+ Property Inspection

Is NOT an Evaluation

# Evaluations

The information obtained from such sources, while insufficient as an evaluation, may be useful to develop an evaluation or appraisal.

AVM

+ BPO

+ Property Inspection

+ Market Data

+ Analysis by a person

Evaluation

# Evaluations

## Compliant Evaluations

The person selected possesses the requisite education, expertise, and experience to competently complete the assignment.

## Geographic Competence?

Persons completing evaluations “must have real estate related training or experience and knowledge of the market”

*FDIC Compliance Manual – December 2012*

# Evaluations

Evaluation done by an appraiser

– Appraisal Institute - Guide Note 13

- Individuals who perform evaluations need not be state licensed or certified appraisers. However, state licensed and certified appraisers are not precluded from providing them. Because appraisers are independent and qualified to provide valuations of real property, they are often called upon to provide evaluations.



# Evaluations

Evaluation done by an appraiser

– Appraisal Foundation

- **Draft White Paper** – Alternative Valuation Products and the *Uniform Standards of Professional Appraisal Practice*

Alternative Valuation Product Definition:

A product that communicates an opinion of value (or price) *other* than a “traditional” appraisal.

# Evaluations

## Appraisal Foundation

- *What are some common examples of Alternative Valuation Products*
  - Appraiser Price Opinions
    - » Similar to BPOs, there is no single form or format for APOs.
- Desktop Valuations
  - Desktop valuations are permitted in USPAP
  - USPAP does not require a physical inspection of the subject property or the comparable sales
  - State Licensing concerns?

# Evaluations

## Compliant Solution / Industry Best Practice

- Desktop Appraisal with a Property Inspection
  - Combines the local market expertise of an appraiser with the inspection performed by a real estate professional in the market

*Compliant, Credible and Cost Effective*

# Evaluations

## Uses for Evaluations

- A replacement or alternative to a BPO
  - Default Management, REO, Short Sales, Loan modifications
  - Valuation cascade
- A replacement for a full appraisal for loans not sold to the GSE's
  - Home Equity Lending, Private Client / Affluent Banking
- Quality Assurance Programs
  - Value disputes
  - Value reconciliation
- Portfolio Monitoring



Tony Pistilli  
EVP, Chief Appraiser

9151 Boulevard 26, Suite 400  
North Richland Hills, TX 76180

Direct: 817.872.7366  
Cell: 763.228.1867  
tpistilli@myaxios.com  
www.myaxios.com



# CRN

Collateral Risk Network

## Welcome to Fort Lauderdale, FL

Special Thanks To Our Sponsors:



Protecting the Future of America's Lenders