



Troubled Asset Forum Valuations Panel

Wally Young
Credit Risk Coordinator
Federal Reserve Bank of San Francisco



Troubled Asset Forum - Appraisals

■ Agenda

- Appraisal Regulation
- Regulatory Guidance
- Examination Findings & Issues
- Good Practices
- Home Valuation Code of Conduct (HVCC)
- Q&A

Troubled Asset Forum - Appraisals

- Appraisal Regulation
 - FRB: Regulation H, subpart E (12 CFR 208)
Regulation Y, subpart G (12 CFR 225)
 - FDIC: 12 CFR part 323
 - OCC: 12 CFR 34

Troubled Asset Forum - Appraisals

■ Regulatory Guidance

- 1994: Interagency Appraisal and Evaluation Guidelines
- 2005: Interagency FAQs – Appraisals
- 2005: Interagency FAQs – Tract Developments
- 2006: Interagency Revisions to the Uniform Standards of Professional Appraisal Practice
- TBD: **Proposed** Interagency Appraisal and Evaluation Guidelines

Troubled Asset Forum - Appraisals

■ Key Requirements

- ❑ An appraisal is required for all real-estate secured transactions in excess of \$250,000 when the bank originates the loan.
- ❑ An appraisal is required for an existing real-estate secured transaction if there has been an obvious and material change in market conditions or physical aspects of the property, and if the bank advances additional funds.
- ❑ In certain cases, even if the bank is not required to obtain an appraisal, it must still obtain or prepare an appropriate evaluation of the collateral.

Troubled Asset Forum - Appraisals

- Examination Findings & Issues
 - Appraisal Violations are Increasing
 - Lack of Adherence to Internal Policies
 - Lack of Familiarity with Appraisal/Evaluation Requirements
 - Appraisal Requirements vs. FAS 114 Requirements
 - Stale Appraisals
 - Optimistic Evaluations

Troubled Asset Forum - Appraisals

■ Common Violations

□ 12 CFR 225.63(a)

- Failure to obtain an appraisal when required.

□ 12 CFR 225.63(b)

- Failure to obtain an appropriate evaluation when required.

□ 12 CFR 225.64(c)

- AV did not include appropriate deductions and discounts for tract developments with unsold units.

Troubled Asset Forum - Appraisals

■ Evaluation Requirements

- ❑ Describe the collateral (condition & current use).
- ❑ Describe the sources of information used in the analysis.
- ❑ Describe the analysis and supporting information.
- ❑ Provide an estimate of the market value, with any limiting conditions.
- ❑ In writing, signed, dated, and include the preparer's name.
- ❑ Preparer should be independent & qualified.

Troubled Asset Forum - Appraisals

- FAS 114
 - Impaired Loans
 - Impairment Measurement Methods:
 - Present Value of Cash Flows
 - Observable Market Price
 - Fair Value of Collateral
 - Required if Loan is “Collateral Dependent”

An updated appraisal may be necessary to determine collateral value for impairment measurement purposes, even if one is not required per regulation.

Troubled Asset Forum - Appraisals

■ Common Questions

- “How often should banks obtain updated appraisals on CRE Properties?”
 - Focus: Bank Policy
- “How does LTV impact the examiner’s classification of a real estate secured loan?”
 - Focus: Primary Source of Cash Flow

Troubled Asset Forum - Appraisals

■ Good Practices

- ❑ Revisit Policies & Procedures
- ❑ Revisit Regulatory Standards & Guidance
- ❑ Review Approved Appraiser List
- ❑ Ensure Independence of Appraisal Function
- ❑ Provide Training to Credit/Appraisal Staff
- ❑ Ensure all Assumptions are Reasonable and Well-Supported
- ❑ Remember the Evaluation Requirements

Troubled Asset Forum - Appraisals

A few words on the new Home Valuation Code of Conduct (HVCC)...

Troubled Asset Forum - Appraisals

Q & A

Wally Young
Senior Manager, Credit Risk Coordination
Risk Monitoring & Analysis Group
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105
(415) 974-3166
wallace.young@sf.frb.org