

The Property Sciences Group presented a Webinar:

**Chief Appraiser Roundtable**

## **Proposed Interagency Appraisal and Evaluation Guidelines**



**Date** January 7, 2009  
**Time** 10:00 AM PDT  
**Duration** 2 hrs.

Below is a summary of key comments from the webinar.

### **GENERAL COMMENTS**

*by Stewart Heller, Director of Financial Institution Services, Property Sciences*

The webinar session lasted two hours and, amazingly, not one of the hundreds of attendees left early. The reason for this attentiveness was the crucial nature of these proposed appraisal guidelines in creating a more effective system to protect the financial system from the kinds of abuses we have seen since the last guidelines were approved in 1994.

The majority of the issues presented by the speakers and the questions raised by the attendees revolved around the long-standing battleground of appraiser independence and the lack of definitions for crucial terminology. The Agencies have asked for your comments, and your input is very important to getting it right for the future of the mortgage industry. So, we all urge you to take the time to get your comments in to your governing agency before the Jan. 20, 2009 deadline. We will have to live with these guidelines for many years to come. Good Luck and Happy New Year!

### **OVERVIEW**

*by Jerry Germanetti, SVP, Chief Appraiser, City National Bank*

#### **Items of change the OCC highlighted in their Dec. 5, 2008 webinar:**

- USPAP
- Technology Changes
- Independence Issues
- Compliance Section
- Appraisal Reviews
  - 1 to 4 Low Risk Mortgage (AVM's)
  - Other Low Risk Level Reviews
  - Lack of Proper Due Diligence (Time vs. Quality)
  - Compliance
- Portfolio Management
  - Portfolio Monitoring
  - Collateral Valuations
- "Market Value" (Hypothetical vs. Prospective)
- Appraisal Exemptions

## **OCC list of item changes that are considered the most important:**

- Independence Issues
- Appraisal Reviews
- Portfolio Management

## **HVCC COMPLIANCE**

*by Joan Trice, Publisher, Appraisal Buzz*

The essence of this section is similar to the Home Valuation Code of Conduct (HVCC) that was established by FANNIE MAE, FREDDIE MAC and the NY State Attorney General to govern the conduct of appraisers and lenders using appraisers, and which goes into effect on May 1, 2009. In brief, the ordering of an appraisal cannot involve any loan personnel and must be done by a bank officer who is familiar with the appraisal process. The appraiser must not be pressured in any fashion to come up with a target value and cannot be threatened in any way with repercussions or future business in order to reach a certain conclusion.

Here is an important quote from the HVCC, Section III, on Appraiser Engagement:

*“The lender or any third party specifically authorized by the lender (including, but not limited to, appraisal companies, appraisal management companies, and correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. The lender will not accept any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including mortgage brokers and real estate agents). The lender may accept an appraisal prepared by an appraiser for a different lender, including where a mortgage broker has facilitated the mortgage application (but not ordered the appraisal), provided the lender: (1) obtains written assurances that such other lender follows this Code of Conduct in connection with the loan being originated; and (2) determines that such appraisal conforms to its requirements for appraisals and is otherwise acceptable.”*

Also of note, a 10% QC function must be performed by the lender as part of an independent annual audit.

## **MINIMUM APPRAISAL STANDARDS & APPRAISAL DEVELOPMENT & REPORTS**

*by Douglas La Rocca, Chief Appraiser, Property Sciences Inc.*

Essential elements of these sections relate to how lenders can “avoid having appraisals prepared with unrealistic assumptions and inappropriate methods” - in other words, a realistic, unfettered “As Is” Value to go with any prospective, stabilized or prospective values for such items as Proposed Construction, Renovation, Partially Leased Properties, Non-Market Lease Terms, Subdivisions that are incomplete, etc. A key consideration is the description of the current physical condition, use, and zoning as of the date of the appraisal. Deductions for these perspective values are enumerated in the Guidelines and should be followed. The “future” values must be based on reasonable assumptions.

It is essential when hiring an appraiser for an assignment to consider not only licensing status, but also appraiser’s experience and education. The Risk, Size, Complexity and Type of Property must be considered and explained by the lender in selecting a certain type of report or appraiser.

## **EVALUATION CONTENT**

*by George Mann, Former Chief Appraiser of Sun Trust and Fifth Third Banks,  
Co-Founder Collateral Evaluation Services, LLC*

This Section has changed somewhat since the last Guidelines were last approved in 1994, particularly in areas such as a minimum requirements, inspections, independence and risk criteria. For example, the experience and background of the evaluator has many important qualifications criteria to fill, and the evaluation must be independently ordered and reviewed just like an appraisal.

Evaluations are still limited to under \$250,000 for residential properties, under \$1,000,000 for business loans – but the business loan criteria for using evaluations has many limitations – e.g. not dependent on sale, rental income, etc.

There are several new criteria used for when “a more detailed evaluation” must be employed: e.g. high LTV's; atypical properties; if property is outside institution's lending area; in transitional markets; and if higher risk of borrower or property is present.

## **REVIEWING APPRAISALS AND EVALUATIONS**

*by Chris Butcher, VP, Chief Appraiser, Manufacturers Bank*

New elements in this section address the use of automated tools or sampling for reviews e.g. prior approval of primary regulator, low risk SFR mortgages, sufficient data, AND most importantly, the appraiser's work must be periodically reviewed. The problems that immediately present themselves are the lack of definitions for the nearly all of the key terms mentioned above.

Also, the Interagency group is specifically asking for comments on the following: *Are automated tools appropriate for other low risk mortgage transactions such as commercial loans?* There is a larger question of whether appropriate constraints should be put on these tools to insure the integrity of the appraisal process?

## **PORTFOLIO MONITORING AND UPDATING COLLATERAL VALUATIONS**

*by Crispin Bennett, Chief Appraiser, MDA Solutions*

When is a new appraisal needed? Change in Market Conditions, Credit deteriorations, or “other” conditions.

Re-assessment of Collateral in Portfolio can and should be based on property type, current market conditions, current property use type, and age of original valuation.

It is important to note that agency examiners can explicitly require a new appraisal or evaluation.

Institutions are expected to report violations of USPAP, state laws, and unethical or unprofessional conduct to their supervisory office.

## **APPENDIX A – APPRAISAL EXEMPTIONS**

*by Patrick Jackson, VP, City National Bank Appraisal Dept.*

Exemptions include considerations such as: Appraisal Threshold; an Abundance of Caution; Non-real estate secured loans; Business Loans; Leases; Real Estate Notes; Underwriting Mortgage Securities; Government Guaranteed Transactions; and in general, a rather broad statement that exemptions can be exercised when appraisals are not necessary to protect Federal Financial and Public Policy Interests. The entire list is on the web site slide or in the Guidelines, themselves.

## **APPENDIX B – EVALUATION ALTERNATIVES**

*by Paul Chandler, MAI, Pres. and CEO, Property Sciences*

In this section, the evaluation alternatives involve use of AVMs under very limited circumstances. Firstly, one must choose the appropriate AVM model, which may be a very difficult task to those unfamiliar with the process. The knowledgeable use of an AVM must be predicated on demonstrating an understanding of the model's techniques as primary criteria for using an AVM, and the administrator of the AVM program must be able to be qualified in this way.

There are three types of AVMs: Hedonic, Index and Mixed. There are other criteria for using AVMs, such as:

- a homogeneous neighborhood
- strong sales activity
- the neighborhood is free of adverse conditions.

Also, other criteria include: the AVM results must be validated; standards and procedures for testing AVMs must be established; and performance criteria must be maintained by the institution.

## **APPENDIX C – GLOSSARY OF TERMS**

*by Mitch Kreeger, VP, Chief Appraiser, Affinity Bank*

The major critique of this fundamental section of terminology is the presence of many undefined terms or phrases that will create unending challenges for each institution. Examples of these terms that require more specific definition include: higher risk real estate related financial transactions: portfolio risk increases; prior approval from primary regulator; and other low risk mortgage transactions.

There is also a need for more specifics with respect to defining such areas of concern as; Workout and OREO situations; subdivision situations; adverse and declining life cycle issues.