Appraisal Threshold Levels, Exemptions & Waivers

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Intro of ABA Position

• Speaking on behalf of the ABA, my views are not necessarily the position of the ABA or our all of our members. We do not have a position in many cases, but discuss the issues openly with all of members which represent all segments of federally regulated banks.

• Slides and Presentation were prepared by S Whitaker and B Garber.
Residential & Commercial Impact

• How the appraisal process and key elements impact the bank, the mortgage and the asset on the balance sheet during the life of the loan

• Appraisals and evaluations are used as part of the Risk Management Practices. Federal Examination procedures check procedures at the Bank to ensure compliance of Regulatory Guidance. Are you fully complying with the regulation, through policy and procedures?

• In the mortgage origination process, an appraisal and the appraisal review process can create a delay or prevent a loan from going to closing
The prudential regulators focus on the following:

- Review individual files and appraisals. Challenge appraisal finding.
- Review internal review and external review processes and findings.
- Challenge how robust is the review process in appraisal review department. How experienced is the review staff?
- Review internal valuations for small dollar HE LOCs. Challenge the formulas and forms.
- Review the Evaluations. Challenge the assumptions, forms and reviews.
- Review AVMs or BPOs, Challenge the assumptions and reviews.
Residential & Commercial Impact

• Critical to know your markets. Critical you know your portfolio performance. Critical to know decline in real estate values.

• Oral discussions as well as memos to files

• It is the M in CAMELS rating at the bank. Management. You are rating on the Credit Management Information Systems – A Forward Looking Approach … Slice and dice the performance, the exceptions in the portfolio & present to the Board Quarterly for trends and performance.
Commercial Real Estate Appraisal Threshold Levels

- Increase from $250,000 to $500,000
- Does not include single 1-to-4 residential or construction
- Final rule requires state certified appraiser to be used for FRT that are CRE transactions above the threshold
- Requires completion of evaluation
- QBL/Residential retained

- What is the impact to the market place?
- Qualified Business Loan exemption provides flexibility
S.2155 - Section 103: Exemption from Appraisals of Real Property Located in Rural Areas

Appraisal not required: defines

- In connection with any Federally Related Transaction
- If real property is located in rural area, as described in
- Section 1026.35(b)(2)(iv)(A) of title 12 Code of Fed Reg
- No later than 3 days after the CD Form … is given to the consumer ..
S.2155 - Section 103: Exemption from Appraisals of Real Property Located in Rural Areas

Transaction value is less than $400,000

• Has contacted as least 3 State Certified or State Licensed Appraisers on the Mortgage Originator (or it’s agent’s) approved appraiser list in the market area

• Has documented that no ‘appraiser’ was available w/in 5 business days beyond customary and reasonable fee and timeliness standards for comparable appraisal assignments as documented by mortgage originator* or its agent

*Mortgage originator is subject to oversight by a Federally financial institutions regulatory agency
Section 103: Exemption from Appraisals of Real Property Located in Rural Areas

- A loan without an appraisal … shall not sell, assign or otherwise transfer legal title to the loan unless
- Bankruptcy or bank failure
- Can be transferred to another lender (regulated by federal regulatory agency), so long as it is held in portfolio
- Merger
- Sale to a subsidiary
- This exemption was effective upon EGRRCPA’s enactment. The agencies are reviewing the statutory provisions to determine whether further action is necessary.

Excludes, High Cost Mortgage Loans.
Regulatory Appraisal Relief

- **Temporary Waiver Requests:**
  - FFIEC, Joint Regulators sent out May 31st a reminder this option is available for rural communities in response to “shortage”
  - Position – ABA position is to educate our members of this option
  - November 2017 TriStar Bank – first application in over 20 years
  - 2018 -Small bank from Oklahoma withdrew application
  - TriStar application denied April 2018
  - Will there be others, with the comment “nuclear option”?
Major Disaster Relief to FIRREA:

• Under DIDRA, Allows appraisal waivers in areas impacted by Hurricane Harvey, Irma, and Maria for three years from date President declared these areas a disaster. (October 2017)
State Reciprocity:

- Allows appraisers to transfer to another state without the state license. Issue, bankers need to hire appraisers with experience in that market per regulatory Appraisal Guidance.
Two bills have been approved by the House Small Business Committee to increase SBA 7(a) and 504 appraisal threshold levels to an amount equal to or less than the Federal banking regulators appraisal threshold. Currently statutorily set at $250,000. Goal is to harmonize requirements with Agencies. Evaluation question/suggestion.
Fannie Mae /Freddie Mac

- Fannie Mae: Property Inspection Waiver – PIA
- Freddie Mac: Automated Collateral Evaluations – ACE
- Purchase & Refis
- Offer and acceptance rates

- Future Use of Desktop Appraisals/Evaluations
Questions?

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