



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 10-16

December 2, 2010

**TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY
AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK**

SUBJECT: Interagency Appraisal and Evaluation Guidelines

The federal financial institution regulatory agencies¹ (collectively, the agencies) are issuing the attached *Interagency Appraisal and Evaluation Guidelines* (Guidelines) to clarify the agencies' real estate appraisal regulations and to provide institutions and examiners with supervisory guidance for a prudent appraisal and evaluation program. The Guidelines incorporate recent developments regarding appraisals and evaluations and supersede existing guidance.²

The new Guidelines are based on the core principles of the 1994 Guidelines and incorporate other appraisal-related guidance documents. In summary, the Guidelines address:

- Independence of an institution's appraisal and evaluation program from influence by the loan production process and borrower.
- Minimum appraisal standards that an appraisal must meet to comply with the Board's appraisal regulation.
- An explanation of the Uniform Standards of Professional Appraisal Practice (USPAP), which are incorporated by reference in the agencies' appraisal regulations, and the USPAP Scope of Work Rule.³

¹ The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration.

² The following guidance documents continue to be in effect: (1) *Interagency FAQs on Residential Tract Development Lending* (SR letter 05-14) and (2) *Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions* (SR letter 05-5). The following guidance documents are rescinded: (1) the 1994 *Interagency Appraisal and Evaluation Guidelines* (SR letter 94-55); (2) *Interagency Statement on Independent Appraisal and Evaluation Functions* (SR letter 03-18); and (3) *Interagency Statement on the 2006 Revisions to the Uniform Standards of Professional Appraisal Practice* (SR letter 06-9).

³ See USPAP Scope of Work Rule, USPAP Advisory Opinions 28 and 29.

- Expectations for the content of an evaluation, including the use of analytical methods or technological tools in the development of an evaluation.
- Clarification that broker price opinions (BPOs) and other similar valuation methods, in and of themselves, do not comply with the minimum appraisal standards in the agencies' appraisal regulations and are not consistent with the minimum supervisory expectations for evaluations.
- Supervisory expectations for an institution's review of appraisals and evaluations.
- An institution's policies and procedures for monitoring collateral values of its existing real estate loan portfolio and for establishing criteria for replacing or updating appraisals and evaluations, including collateral valuation requirements for loan modifications and workouts.
- Referrals by institutions to state appraisal regulatory authorities of state-licensed or -certified appraisers who are suspected of failing to comply with USPAP or applicable state laws or of engaging in unethical or unprofessional conduct.
- A commentary on each of the real estate transaction types which are exempt from the agencies' appraisal regulations.
- Expectations for evaluations based on analytical methods and technological tools, including the use of automated valuation models and tax assessment valuations.
- Minimum appraisal standards for determining the market value of a residential tract development.

The Guidelines are consistent with the Board's recent amendments to Regulation Z (Truth in Lending) on appraisal independence.⁴ Further, future revisions to the guidelines may be necessary after regulations are adopted to implement certain provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Federal Reserve Banks are asked to distribute this letter to state member banks and bank holding companies in their districts as well as to their own supervisory and examination staff as appropriate. Questions about these guidelines may be directed to Virginia M. Gibbs, Senior Supervisory Financial Analyst, at (202) 452-2521, or T. Kirk Odegard, Manager, Policy Implementation and Effectiveness, at (202) 530-6225, Division of Banking Supervision and Regulation; or Walter R. McEwen, Senior Counsel, at (202) 452-3321, and Benjamin W. McDonough, Counsel, at (202) 452-2036, Legal Division. In addition, questions may be sent via the Board's public website.⁵

⁴ See 73 FR 44522, 44604 (July 30, 2008) and 75 FR 66554 (October 28, 2010).

⁵ See <http://www.federalreserve.gov/feedback.cfm>.

Maryann F. Hunter
Acting Director

Attachments:

Interagency Appraisal and Evaluation Guidelines
Federal Register Notice

Cross References To:

- SR letter 05-14, “Interagency FAQs on Residential Tract Development Lending”
- SR letter 05-5, “Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions”

Supersedes:

- SR letter 06-9, “Revisions to the Uniform Standards of Professional Appraisal Practice”
- SR letter 03-18, “Independent Appraisal and Evaluation Functions”
- SR letter 94-55, “Interagency Appraisal and Evaluation Guidelines”