

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: June 20, 2024
To: Board of Governors
From: Staff¹
Subject: Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations

ACTIONS REQUESTED: Approval of the attached draft final *Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations* (interagency guidance). Staff also seek authority to make technical, non-substantive changes to the interagency guidance prior to publication in the Federal Register.

EXECUTIVE SUMMARY:

- A reconsideration of value (ROV) is a request from a financial institution to the appraiser or other preparer of the valuation report to re-assess the report based upon potential deficiencies or other information that may affect the value conclusion. Valuations that are deficient may pose risks to the financial condition and operations of a financial institution.
- The interagency guidance² highlights those risks, describes how financial institutions may incorporate ROV processes into established risk management functions, and provides examples of policies and procedures that financial institutions may choose to implement to help identify, address, and mitigate the risk of discrimination impacting residential real estate valuations.
- The interagency guidance would finalize the proposed guidance on ROVs issued on July 21, 2023 and would include several clarifying edits in response to comments, including a

¹ Michael Gibson, Art Lindo, Andrew Willis, Devyn Jeffereis, and Matthew McQueeney, Division of Supervision and Regulation; Eric Belsky, Ben Olson, Drew Kohan, Susan Torzilli, Mandie Aubrey, Katrina Blodgett, and Keshia King, Division of Consumer and Community Affairs; Mark Van Der Weide, Jay Schwarz, Trevor Feigleson, Matt Suintag, Derald Seid, and David Imhoff, Legal Division.

² The interagency guidance would be jointly issued by the Board of Governors of the Federal Reserve System (Board), the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC) (together, the agencies).

clarification that the interagency guidance applies to financial transactions that are secured by 1-to-4 family residential real estate.

DISCUSSION:

A. Background

Collateral valuations, including appraisals, are important to the integrity of the residential real estate lending process. Collateral valuations that are deficient may pose risks (such as loan losses, violations of law, and civil litigation) to the financial condition and operations of a financial institution.³

The Board, FDIC, NCUA, and OCC have previously issued guidance that describes actions a financial institution may take to correct deficiencies identified in collateral valuations.⁴ The agencies have received feedback from a wide range of parties on ROVs, highlighting uncertainty about how ROVs intersect with appraisal independence requirements and compliance with applicable laws and rules.

On July 21, 2023, the agencies published for comment proposed guidance on ROVs of residential real estate valuations (proposal).⁵ The proposal described how financial institutions may create or enhance ROV processes consistent with safety and soundness requirements, while complying with applicable laws and regulations, preserving appraiser independence, and remaining responsive to consumers. The 60-day comment period ended on September 19, 2023.

³ Deficient collateral valuations can contain inaccuracies due to errors, omissions, or discrimination that affect the value conclusion.

⁴ See Interagency Appraisal and Evaluation Guidelines, 75 FR 77450 (Dec. 10, 2010).

⁵ Proposed Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations, 88 FR 47071 (July 21, 2023).

B. Comments Received

The agencies collectively received approximately 45 unique comment letters from banking organizations, real estate companies, trade associations, nonprofits, The Appraisal Foundation (TAF), an automated valuation model (AVM) developer, loan officers, appraisers, and other individuals. The comments included comments on the proposal generally, terminology and scope, a prescriptive versus principles-based approach to the guidance, and the burden of the proposal. Specifically, some commenters requested adding more prescriptive elements to the guidance. Commenters also noted that the guidance could be overly burdensome for institutions or place undue pressure on appraisers which could lead to overvaluation.

C. Interagency Guidance

The interagency guidance describes the risks of deficient collateral valuations and outlines applicable laws, regulations, and existing guidance relating to the appraisal review process and the correction of valuation deficiencies. The interagency guidance also explains how financial institutions may incorporate ROV processes into existing risk management functions such as appraisal review and complaint management. Finally, the interagency guidance provides examples of policies, procedures, and control systems that financial institutions may choose to adopt when developing risk-based ROV-related policies, procedures, control systems, and complaint processes that identify, address, and mitigate the risk of deficient valuations.

Agency staff have reviewed the comments received on the proposal and are recommending finalizing the interagency guidance largely as proposed, with the addition of several clarifying edits. The interagency guidance is intended to provide a flexible, risk-based approach to ROV processes that can be adjusted to the unique profile of each institution.

Institutions may apply the considerations discussed in this guidance to their specific circumstances.

RECOMMENDATIONS:

Staff recommend that the Board approve the attached draft interagency guidance. Staff further recommend that the Board grant staff authority to make technical, non-substantive changes to the interagency guidance prior to publication in the Federal Register.