**Board of Governors of the Federal Reserve System**
**Consumer Financial Protection Bureau**
**Federal Deposit Insurance Corporation**
**National Credit Union Administration**
**Office of the Comptroller of the Currency**

**July 18, 2024**

# Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations

## Background

Credible collateral valuations, including appraisals, are essential to the integrity of the residential real estate lending process.[1] Deficiencies identified in valuations, either through an institution's valuation review processes or through consumer-provided information, may be a basis for financial institutions to question the credibility of the appraisal or valuation report. Collateral valuations may be deficient due to prohibited discrimination;[2] errors or omissions; or valuation methods, assumptions, data sources, or conclusions that are otherwise unreasonable, unsupported, unrealistic, or inappropriate. Deficient collateral valuations can keep individuals, families, and neighborhoods from building wealth through homeownership by potentially preventing homeowners from accessing accumulated equity, preventing prospective buyers from purchasing homes, making it harder for homeowners to sell or refinance their homes, and increasing the risk of default. Deficient valuations may pose risks to the financial condition and operations of a financial institution. Such risks may include loan losses, violations of law, fines, civil money penalties, payment of damages, and civil litigation.

## Applicable Statutes, Regulations, and Guidance

The Equal Credit Opportunity Act (ECOA), and its implementing regulation, Regulation B, prohibit discrimination in any aspect of a credit transaction.[3] The Fair Housing Act (FH Act) and its implementing regulation prohibit discrimination in all aspects of residential real estate-related

[1] For the purposes of this guidance, the residential real estate lending process is limited to real estate-related financial transactions that are secured by a single 1-to-4 family residential property.
[2] For the purposes of this guidance, "discrimination" is prohibited discrimination based on protected characteristics in the residential property valuation process. For these purposes, "valuation" includes appraisals, evaluations, and other means to determine the value of residential property.
[3] *See* 15 U.S.C. 1691 *et seq*. and 12 CFR part 1002. While this guidance focuses on residential valuations, ECOA covers all lending, including commercial lending. In addition, Regulation B requires creditors to 1) provide an applicant a copy of all appraisals and other written evaluations developed in connection with an application for credit that is to be secured by a first lien on a dwelling; and 2) provide a copy of each such appraisal or other written valuation promptly upon completion, or three business days prior to consummation of the transaction (for closed-end credit) or account opening (for open-end credit), whichever is earlier. *See* 12 CFR 1002.14(a)(1).

transactions.[4] ECOA and the FH Act prohibit discrimination on the basis of race and certain other characteristics in all aspects of residential real estate-related transactions, including in residential real estate valuations. In addition, section 5 of the Federal Trade Commission Act prohibits unfair or deceptive acts or practices[5] and the Consumer Financial Protection Act prohibits any covered person or service provider of a covered person from engaging in any unfair, deceptive, or abusive act or practice.[6]

The Truth in Lending Act (TILA) and its implementing regulation, Regulation Z, establish certain Federal appraisal independence requirements.[7] Specifically, TILA and Regulation Z prohibit compensation, coercion, extortion, bribery, or other efforts that may impede upon the appraiser's independent valuation in connection with any covered transaction.[8] However, Regulation Z also explicitly clarifies that it is permissible for covered persons[9] to, among other things, request the preparer of the valuation to consider additional, appropriate property information, including information about comparable properties, or to correct errors in the valuation.[10]

The Board of Governors of the Federal Reserve System's (Board), Federal Deposit Insurance Corporation's (FDIC), National Credit Union Administration's (NCUA), and Office of the Comptroller of the Currency's (OCC) appraisal regulations[11] implementing title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989[12] require all appraisals conducted in connection with federally related transactions to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), which requires compliance with all applicable laws and regulations including nondiscrimination requirements.

The Board's, FDIC's, NCUA's, and OCC's appraisal regulations also require appraisals for federally related transactions to be subject to appropriate review for compliance with USPAP.[13] Financial institutions generally conduct an independent review prior to providing the consumer a copy of the appraisal or evaluation; however, additional review may be warranted if the consumer provides information that could affect the value conclusion or if deficiencies are identified in the

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[4] *See* 42 U.S.C. 3601 *et seq*. and 24 CFR part 100. The FH Act defines "residential real estate-related transaction" as 1) the making or purchasing of loans or providing other financial assistance for: purchasing, constructing, improving, repairing or maintaining a dwelling; or secured by residential real estate; or 2) the selling, brokering or appraising of residential real property. *See* 42 U.S.C. 3605(b); 24 CFR 100.115.
[5] *See* 15 U.S.C. 45(a)(1).
[6] *See* 12 U.S.C. 5531, 5536.
[7] *See* 15 U.S.C. 1601 *et seq.* and 12 CFR part 1026.
[8] *See* 12 CFR 1026.42(c)(1).
[9] "Covered persons" include creditors, mortgage brokers, appraisers, appraisal management companies, real estate agents, and other persons that provide "settlement services" as defined in section 3(3) of the Real Estate Settlement Procedures Act (12 U.S.C. 2602(3)) and the implementing regulation. *See* 12 CFR 1026.42(b)(1).
[10] *See* 12 CFR 1026.42(c)(3)(iii).
[11] *See* 12 CFR part 34, subpart C (OCC); 12 CFR part 208, subpart E and 12 CFR part 225, subpart G (Board); 12 CFR part 323 (FDIC); 12 CFR part 722 and 12 CFR 701.31 (NCUA).
[12] Pub. L. 101–73, title XI, 103 Stat. 511 (1989), codified at 12 U.S.C. 3331 *et seq*.
[13] *See* 12 CFR 34.44(a) (OCC); 12 CFR 225.64(c) (Board); 12 CFR 722.4(c) (NCUA); and 12 CFR 323.4(c) (FDIC).

original appraisal. An appraisal does not comply with USPAP if it relies on a prohibited basis set forth in either ECOA or the FH Act[14] or contains material errors including errors of omission or commission.[15] If a financial institution determines through the appraisal review process, or after consideration of information later provided by the consumer, that the appraisal does not meet the minimum standards outlined in the agencies' appraisal regulations and if the deficiencies remain uncorrected, the appraisal cannot be used as part of the credit decision.[16]

The Board, FDIC, NCUA, and OCC have issued interagency guidance describing actions that financial institutions may take to resolve valuation deficiencies.[17] These actions include resolving the deficiencies with the appraiser or preparer of the valuation report; requesting a review of the valuation by an independent, qualified, and competent state certified or licensed appraiser; or obtaining a second appraisal or evaluation. Deficiencies may be identified through the financial institution's valuation review or through consumer-provided information. The regulatory framework permits financial institutions to implement reconsideration of value (ROV) policies, procedures, and control systems that allow consumers to provide, and the financial institution to review, relevant information that may not have been considered during the appraisal or evaluation process.[18]

**Use of Third Parties**

A financial institution's use of third parties in the valuation review process does not diminish its responsibility to comply with applicable laws and regulations.[19] Moreover, whether valuation review activities and the resolution of deficiencies are performed internally or via a third party,

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[14] *See* Nondiscrimination Section of the USPAP's Ethics Rule (2024 edition).

[15] An error of omission is neglecting to do something that is necessary, *e.g.*, failing to identify the subject property's relevant characteristics. An error of commission is doing something incorrectly, *e.g.*, incorrectly identifying the subject property's relevant characteristics.

[16] *See* 12 CFR 34.44 (OCC); 12 CFR 225.64 (Board); 12 CFR 323.4 (FDIC); and 12 CFR 722.4 (NCUA). In addition, under TILA, if at any point during the lending process the financial institution reasonably believes, through appraisal review or consumer-provided information, that an appraiser has not complied with USPAP or ethical or professional requirements for appraisers under applicable state or Federal statutes or regulations, the financial institution is required to refer the matter to the appropriate state appraisal regulatory agency if the failure to comply is material. *See* 12 CFR 1026.42(g).

[17] *See* Interagency Appraisal and Evaluation Guidelines, 75 FR 77450 (December 10, 2010).

[18] The agencies note that institutions that choose to implement ROV policies described in this guidance would not be precluded or excused from complying with other relevant legal and contractual requirements related to ROVs, as applicable.

[19] *See* OCC Bulletin 2023-17, "Third-Party Relationships: Interagency Guidance on Risk Management" (June 6, 2023); CFPB Compliance Bulletin and Policy Guidance; 2016-02, Service Providers (October 2016); FDIC FIL-29-2023, "Interagency Guidance on Third-Party Relationships: Risk Management" (June 6, 2023); Board SR Letter 23-4, "Interagency Guidance on Third-Party Relationships: Risk Management" (June 7, 2023). The Board, FDIC, and OCC also issued "Third-Party Relationships: A Guide for Community Banks," which is intended to assist community banks when developing and implementing their third-party risk-management practices. *See* OCC Bulletin 2024-11 (May 3, 2024); FDIC FIL-19-2024 (May 3, 2024); SR Letter 24-2 (May 7, 2024). The NCUA does not currently have supervisory or enforcement authority over third-party credit union vendors and service providers. The NCUA issued LTR 07-CU-13 "Evaluating Third Party Relationships" to communicate guidance to examiners on a standard framework for reviewing third party relationships.

financial institutions supervised by the Board, FDIC, NCUA, and OCC are required to operate in a safe and sound manner and in compliance with applicable laws and regulations, including those designed to protect consumers.[20] In addition, the CFPB expects financial institutions to oversee their business relationships with service providers in a manner that ensures compliance with Federal consumer protection laws, which are designed to protect the interests of consumers and avoid consumer harm.[21] A financial institution's risk management practices include managing the risks arising from its third-party valuations and valuation review functions.

**Reconsiderations of Value**

An ROV request made by the financial institution to the appraiser or other preparer of the valuation report encompasses a request to reassess the report based upon deficiencies or information that may affect the value conclusion. A financial institution may initiate a request for an ROV because of the financial institution's valuation review activities or after consideration of information received from a consumer through a complaint, or request to the loan officer or other lender representative.[22]

A consumer inquiry or complaint regarding a valuation would generally occur after the financial institution has conducted its initial appraisal or evaluation review and resolved any issues that it has identified. Given this timing, a consumer may provide specific and verifiable information that may not have been available or considered when the initial valuation and review were performed. Regardless of how the request for an ROV is initiated, a consumer inquiry or complaint could be resolved through a financial institution's independent valuation review or other processes to ensure credible appraisals and evaluations.

An ROV request may include consideration of comparable properties not previously identified, property characteristics, or other information about the property that may have been incorrectly reported or not previously considered, which may affect the value conclusion. To resolve deficiencies, including those related to potential discrimination, financial institutions can communicate relevant information to the original preparer of the valuation and, when appropriate, request an ROV.

**Complaint Resolution Process**

[20] *See* section 39 of the Federal Deposit Insurance Act (12 U.S.C. 1831p-1) (which requires each appropriate Federal banking agency to prescribe safety and soundness standards for insured depository institutions). The Federal banking agencies implemented section 1831p-1 by rule through the "Interagency Guidelines Establishing Standards for Safety and Soundness." *See* 12 CFR part 30, appendix A (OCC); 12 CFR part 208, appendix D-1 (Board); and 12 CFR part 364, appendix A (FDIC). *See also* 12 U.S.C. 1786(b); 12 U.S.C. 1789; and 12 CFR 741.3 (NCUA).

[21] CFPB Compliance Bulletin and Policy Guidance; 2016-02, Service Providers (October 2016).

[22] *See* Interagency Appraisal and Evaluation Guidelines, 75 FR 77450, 77463 (December 10, 2010).

Financial institutions can capture consumer feedback regarding potential valuation deficiencies through existing complaint resolution processes. The complaint resolution process may capture complaints and inquiries about the financial institution's products and services offered across all lines of business, including those offered by third parties, as well as complaints from various channels (such as letters, phone calls, in person, transmittal from regulators, third-party valuation service providers, emails, and social media). Depending on the nature and volume, appraisal and other valuation-based complaints and inquiries can be an important indicator of potential risks and risk management weaknesses. Appropriate policies, procedures, and control systems can adequately address the monitoring, escalating, and resolving of complaints including a determination of the merits of the complaint and whether a financial institution should initiate an ROV.

**Examples of Policies, Procedures, and Control Systems**

Financial institutions may consider developing risk-based ROV-related policies, procedures, control systems, and complaint resolution processes[23] that identify, address, and mitigate the risk of deficient valuations, including valuations that involve prohibited discrimination, and that:

- Consider ROVs as a possible resolution for consumer complaints or inquiries related to residential property valuations. If a complaint or inquiry includes allegations of discrimination, the institution may consider, in addition to processing the ROV, separately initiating the process the institution may have to respond to allegations of discrimination.
- Consider whether any information or other process requirements related to a consumer's request for a financial institution to initiate an ROV create unreasonable barriers or discourage consumers from requesting the institution initiate an ROV.
- Establish a process that provides for the identification, management, analysis, escalation, and resolution of valuation-related complaints or inquiries across all relevant lines of business, from various channels and sources (such as letters, phone calls, in person, regulators, third-party service providers, emails, and social media).
- Establish a process to inform consumers how to raise concerns about the valuation early enough in the underwriting process for any errors or issues to be resolved before a final credit decision is made. This may include educating consumers on the type of information they may provide when communicating with the financial institution about potential valuation deficiencies.
- Identify stakeholders and clearly outline each business unit's roles and responsibilities for processing an ROV request (e.g., loan origination, processing, underwriting, collateral valuation,

[23] Risk-based ROV-related policies, procedures, control systems, and complaint processes may necessarily vary according to the size and complexity of the financial institution. Smaller financial institutions that choose to implement the guidance may have policies and procedures that differ from those at larger and midsize institutions.

compliance, customer experience, or complaints).

- Establish risk-based ROV systems that route the request to the appropriate business unit (e.g., requests that include concerns or inquiries that allege discrimination could be routed to the appropriate compliance, legal, and appraisal review staff that have the requisite skills and authority to research and resolve the request).
- Establish standardized processes to increase the consistency of consideration of requests for ROVs:
    - Use clear, plain language in notices to consumers of how they may request the ROV;
    - Use clear, plain language in ROV policies that provide a consistent process for the consumer, appraiser, and internal stakeholders;
    - Establish guidelines for the information the financial institution may need to initiate the ROV process;
    - Establish timelines in the complaint or ROV processes for when milestones need to be achieved;
    - Establish guidelines for when a second appraisal could be ordered and who assumes the cost; and
    - Establish protocols for communicating the status of the complaint or ROV and the lender's determination to consumers.
- Ensure relevant lending and valuation-related staff, inclusive of third parties (e.g., appraisal management companies, fee-appraisers, mortgage brokers, and mortgage servicers) are trained to identify deficiencies (including practices that may result in discrimination) through the valuation review process.