CELEBRATING 55 YEARS

# Valuation due diligence process up to the task? - by Derek Ezovski

October 05, 2018 - Front Section

Derek Ezovski

Since the late 2000s financial crisis, regulators have applied greater scrutiny to the property valuation arena. If your financial institution is engaged in residential or commercial property lending, it is critical to stay on top of the latest regulatory guidance for engaging valuation professionals and ensuring the quality and accuracy of those valuations. Start with the most recent Interagency Appraisal and Evaluation Guidelines, adopted in December 2010 and further enhanced in April 2018, when the appraisal threshold for commercial real estate loans was raised from $250,000 to $500,000. CRE loans that fall below the new $500,000 threshold are subject to an evaluation “that is consistent with safe and sound banking practices.” However, CRE loans covered by an SBA guarantee program are still subject to the lower $250,000 appraisal threshold.

Here are the keys to maintaining a strong and compliant valuation due diligence program:

1. Ensure you are meeting all experience requirements. Per the Uniform Standards of Professional Appraisal Practice (USPAP), and the Interagency Guidelines, “a state certified or licensed appraiser may not be considered competent solely by virtue of being certified or licensed.” Likewise, internal or external individuals performing non-appraisal evaluations must have “the requisite experience and training for the assignment, and thorough knowledge of the subject property’s market.” Examples of qualified evaluators include: appraisers (where states allow for appraisers to complete evaluations without complying with USPAP), foresters, ag extension agents, and real estate lending professionals.

2. Ensure proper separation of duties in the valuation and review functions. If you use internal staff to perform evaluations, you must ensure they work independently of the loan production operation. The same goes for internal staff that review external appraisals.

3. Use technology to streamline the process. A range of easy-to-use and cost-effective technological innovations for valuation ordering, processing, and tracking are available on the market. It’s worth exploring these tools to improve the efficiency of your internal appraisal and evaluation program. (Note that tools like automated valuation models (AVMs) do not qualify as formal appraisals or evaluations by themselves but may be used as part of an ongoing collateral monitoring program.)

If the above steps seem challenging, consider engaging a third-party firm to assist. For community institutions with fewer resources, maintaining rigorous oversight and separation of duties within the valuation ordering and review functions can be daunting.

Derek Ezovski is president of ORMS, LLC, West Hartford, Conn.