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Regulators loosen appraisal standards during COVID-19 - by Christopher Yates

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Federal regulators have thrown another lifeline to a slowing housing market by further loosening the rules around appraisals. On April 14th, 2020, the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), and the Consumer Financial Protection Bureau (CFPB) issued an interagency statement to defer temporarily the requirement for real estate-related appraisals and evaluations associated with financing existing real estate ("existing" real estate excludes new construction). This move allows regulated institutions to extend funds to creditworthy households and businesses that have a heightened need for additional liquidity due to U.S. economic strains from the declared COVID-19 national emergency.

Link to Press Release https://www.fdic.gov/news/news/press/2020/pr20051.html

The joint statement highlights temporary changes to appraisal regulations for certain qualifying loans (including residential properties underwritten by Fannie Mae and Freddie Mac) to address social distancing protocols in various states and cities. The agencies have moved to allow exterior-only appraisals (known as drive-by appraisals) or, in some cases, desktop appraisals, where the appraiser doesn't inspect the property or comparable sales. Instead, the appraiser relies on public records, multiple listing service (MLS) information, and other third-party data sources to identify the property characteristics. There are at least fourteen types of transactions that may qualify for exterior only or desktop appraisals; here are three of the most common:

• Residential real estate transactions of $400,000 or less;

• Commercial real estate transactions of $500,000 or less; and

• Business loans of $1 million or less where the loan is not dependent on other factors for repayment, such as rental income.

The agencies have also issued an interim final rule (IFR), that temporarily allows regulated institutions to close qualified commercial or residential real estate loans without the required appraisal or evaluation, provided that such evaluation or appraisal is completed within a grace period of 120 calendar days following closing. These qualified real estate loans do not include financing in connection with the acquisition, development, or construction of real estate, as these loans present heightened risks not associated with the financing of existing real estate. Refinance transactions, for example, may qualify for exterior only or desktop appraisals if the owner's equity position in the property is great enough to reduce the lender's risk sufficiently.

Institutions are instructed to make best efforts to obtain a credible valuation of real property collateral prior to loan closing, consistent with the underwriting principles in the agencies' Standards for Safety and Soundness and Real Estate Lending Standards. The agencies also expect institutions to develop an appropriate risk mitigation strategy if the appraisal or evaluation ultimately reveals a market value significantly lower than the expected market value.

These temporary provisions will expire on December 31st, 2020 (meaning a transaction closed on or before this date is eligible for deferral), unless the deadline is extended by the agencies. The agencies believe that this limited time frame for the deferral will, in some respects, help manage potential risk by balancing the need for immediate relief due to the national emergency, against the safety and soundness concerns for risk to lenders. The regulators conclude the interim final rule by stating that they believe the change will help ensure credit goes to deserving borrowers and protects all involved.

For more details on the specific guidelines and qualifications, please see the Interagency Statement on Appraisals (https://www.fdic.gov/news/news/press/2020/pr20051b.pdf)

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