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| **Release Date: April 14, 2020**  <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20200414a1.pdf> | **COVID-19 Appraisal &**  **Evaluation Deferrals**  **Interim Final Rule Summary** |
| **Overview**  The OCC, Board, and FDIC (the Agencies) issued an interim final rule (Rule) to amend their regulations requiring appraisals for certain real estate transactions. This Rule defers appraisal and evaluation requirements for up to 120 days after the closing of a transaction for certain residential and commercial real estate transactions. This deferral excludes, however, transactions for acquisition, development, and construction of real estate. Institutions are still expected to make best efforts to obtain a credible valuation of real property collateral before the loan closing, and otherwise underwrite loans consistent with the Agencies’ principles. The purpose of this relief is to quickly extend liquidity to creditworthy households and businesses in light of recent strains on the U.S. economy in connection with COVID-19.  **Timing**  Effective Date: The Interim Final Rule is effective on the date of publication in the Federal Register through December 31, 2020. (As of publication of this summary, the Rule has not been published in the Federal Register).  Comment Period: Comments on the Interim Final Rule must be received within 45 days of publication in the Federal Register. (As of publication of this summary, the Rule has not been published in the Federal Register).  **Background**  Due to the impact of COVID-19, businesses and individuals need additional liquidity and being able to quickly access real estate could help with this need. However, government restrictions (e.g. social distancing) have hindered the ability to perform appraisals and evaluations in compliance with the Agencies’ regulations. As a result, many borrowers have experienced delays in obtaining funds for immediate needs.  Under Title XI, Agencies have to publish appraisal regulations for federally related transactions within their jurisdictions. Title XI requires that an appraisal be:   1. Performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP); 2. A written appraisal, as defined by the statute; and 3. Subject to appropriate review for compliance with USPAP.   All federally related transactions must have Title XI appraisals. The Agencies have authority to determine those real estate-related financial transactions that are not required to have Title XI appraisals. The Agencies have exempted certain categories of real estate-related financial transactions from the appraisal requirements and have also required only evaluations for a subset of transactions, rather than full appraisals.  **Summary**  This Interim Final Rule allows a temporary deferral of the appraisal and evaluation requirements under the Agencies’ regulations. The deferrals apply to both residential and commercial real estate-related financial transactions, but excludes transactions for acquisition, development, and construction of real estate. The reasoning is that these three types of loans have heightened risks that are not otherwise associated with financing existing real estate. For example, repayment of these transactions is generally dependent on the completion or sale of the property being held as collateral as opposed to repayment generated by existing collateral or the borrower.  The Rule essentially creates a 120-day grace period for obtaining an appraisal or evaluation. This means that institutions may close a real estate loan without an appraisal or evaluation, as long as they obtain the appraisal or evaluation, 120 days after closing. While this is a clear allowance to defer obtaining appraisals and evaluations, the agencies expect institutions to use best efforts and available information to develop a well-informed estimate of the collateral to the extent possible.  For purposes of risk-weighting residential mortgage exposures, institutions can use their own “prudent underwriting estimation” of the collateral value of the subject property. The Rule indicates that this estimate will be considered to meet the Agencies’ appraisal and evaluation requirements during the deferral period. It’s important to note that institutions are expected to continue their internal underwriting standards for assessing borrower creditworthiness and repayment capacity, and to develop procedures for estimating the collateral’s value for the purposes of extending or refinancing credit.  Institutions are also expected to develop an appropriate risk mitigation strategy if the appraisal or evaluation obtained after closing ultimately shows that the market value is significantly lower than was expected. This risk mitigation strategy should consider both safety and soundness risk to the institution and mitigation of financial harm to COVID-19-affected borrowers.  Note that these deferrals are not a waiver authority by the Agencies, since appraisals and evaluations are being deferred, not waived. The deferrals are also not a waiver of USPAP requirements, since (1) USPAP does not require completion of an appraisal before the lending decision; and (2) the deferred appraisal must be conducted in compliance with USPAP. While appraisals are usually completed before closing, there is no specific requirement in USPAP that appraisals be completed at a specific time relative to the loan closing.  This temporary provision will expire on December 31, 2020 unless it’s extended by the Agencies. This means that a transaction has to be closed on or before December 31, 2020 to be eligible for a deferral. By the end of the deferral period, institutions must obtain appraisals or evaluations that are consistent with safe and sound banking practices, and the Agencies’ appraisal regulations. The Agencies believe that this limited timeframe will help to manage risk by balancing the need for immediate relief due to COVID-19 with safety and soundness concerns for risk to lenders. | |
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