

Corporate & Financial Weekly Digest

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Banking Agencies Issue Final Appraisal and Evaluation Guidelines

On December 2, the federal financial regulatory agencies issued final supervisory guidance on sound practices by financial institutions for real estate appraisals and evaluations. The *Interagency Appraisal and Evaluation Guidelines*, which replace 1994 guidelines, explain the agencies' minimum regulatory standards for appraisals. The guidelines incorporate the agencies' recent supervisory issuances on appraisal practices, address advancements in information technology used in collateral valuation practices, and clarify standards for the industry's appropriate use of analytical methods and technological tools in developing evaluations. The agencies recommend that financial institutions review their appraisal and evaluation programs to ensure they are consistent with the guidance, which discourages institutions from using automated valuation models in transactions requiring an appraisal.

The guidelines emphasize that financial institutions are responsible for selecting appraisers and people performing evaluations based on their competence, experience and knowledge of the market and type of property being valued. Under the guidelines, institutions should demonstrate the independence of their processes for obtaining property values, and adopt standards for appropriate communications and information-sharing with appraisers and people performing evaluations. In promoting sound credit decisions, the guidelines also emphasize the importance of institutions maintaining strong internal controls to ensure reliable appraisals and evaluations. Institutions also are responsible for monitoring and periodically updating valuations of collateral for existing real estate loans and for transactions, such as modifications and workouts.

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