

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: May 24, 2023
To: Board of Governors
From: Staff¹
Subject: Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations

ACTIONS REQUESTED: Approval to publish in the Federal Register the attached draft proposed *Interagency Guidance on Reconsiderations of Value of Residential Real Estate Valuations*. Staff also seeks authority to make technical, non-substantive changes to the proposal prior to publication in the Federal Register.

EXECUTIVE SUMMARY:

- A reconsideration of value (ROV) is a request that a financial institution may make to the appraiser or other entity that developed a valuation report for a property being used as collateral for a loan to re-assess the report based upon potential deficiencies or information that may affect the value conclusion.
- Collateral valuations that are deficient may pose risks to the financial condition and operations of a financial institution. The agencies have received feedback from a wide range of parties on ROVs, highlighting uncertainty about how ROVs intersect with appraisal independence requirements and compliance with applicable laws and rules.
- The proposed interagency guidance² highlights those risks, describes how financial institutions may incorporate ROV processes into established risk management functions, and provides examples of policies and procedures that financial institutions may choose to help identify, address, and mitigate valuation discrimination risk.

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² The interagency proposed guidance would be jointly issued by the Board of Governors of the Federal Reserve System (Board), the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC) (together, the agencies).

DISCUSSION:

A. Background

Collateral valuations, including appraisals, are important to the integrity of the residential real estate lending process. Collateral valuations that are deficient may pose risks (such as loan losses, violations of law, and civil litigation) to the financial condition and operations of a financial institution.³

The Board, FDIC, NCUA, and the OCC have previously issued guidance that describes actions a financial institution may take to correct deficiencies identified in collateral valuations.⁴ The agencies have received feedback from a wide range of parties on ROVs, highlighting uncertainty about how ROVs intersect with appraisal independence requirements and compliance with applicable laws and rules.

With the CFPB, these agencies are issuing this proposed interagency guidance to describe how financial institutions may create or enhance ROV processes consistent with safety and soundness requirements, while complying with applicable laws and regulations, preserving appraiser independence, and remaining responsive to consumers.

B. Proposed Guidance

The proposed interagency guidance describes the risks of deficient collateral valuations and outlines applicable laws, regulations, and existing guidance relating to ROVs and collateral valuations. The proposed interagency guidance also explains how financial institutions may incorporate ROV processes into existing risk management functions such as

³ Deficient collateral valuations can contain inaccuracies due to errors, omissions, or discrimination that affect the value conclusion.

⁴ See Interagency Appraisal and Evaluation Guidelines, 75 FR 77450 (Dec. 10, 2010).

appraisal review and complaint management. Finally, the proposed interagency guidance provides examples of policies and procedures that financial institutions may choose to adopt when developing ROV policies, procedures, control systems, and processes to better identify, address, and mitigate risks relating to deficient valuations.

RECOMMENDATIONS:

Staff recommends that the Board approve the attached draft notice of proposed interagency guidance in the Federal Register with a 60-day comment period. Staff further recommends that the Board grant staff authority to make technical, non-substantive changes to the proposal prior to publication in the Federal Register.