



Appraisal Institute®

Professionals Providing Real Estate Solutions



Autumn Meeting of



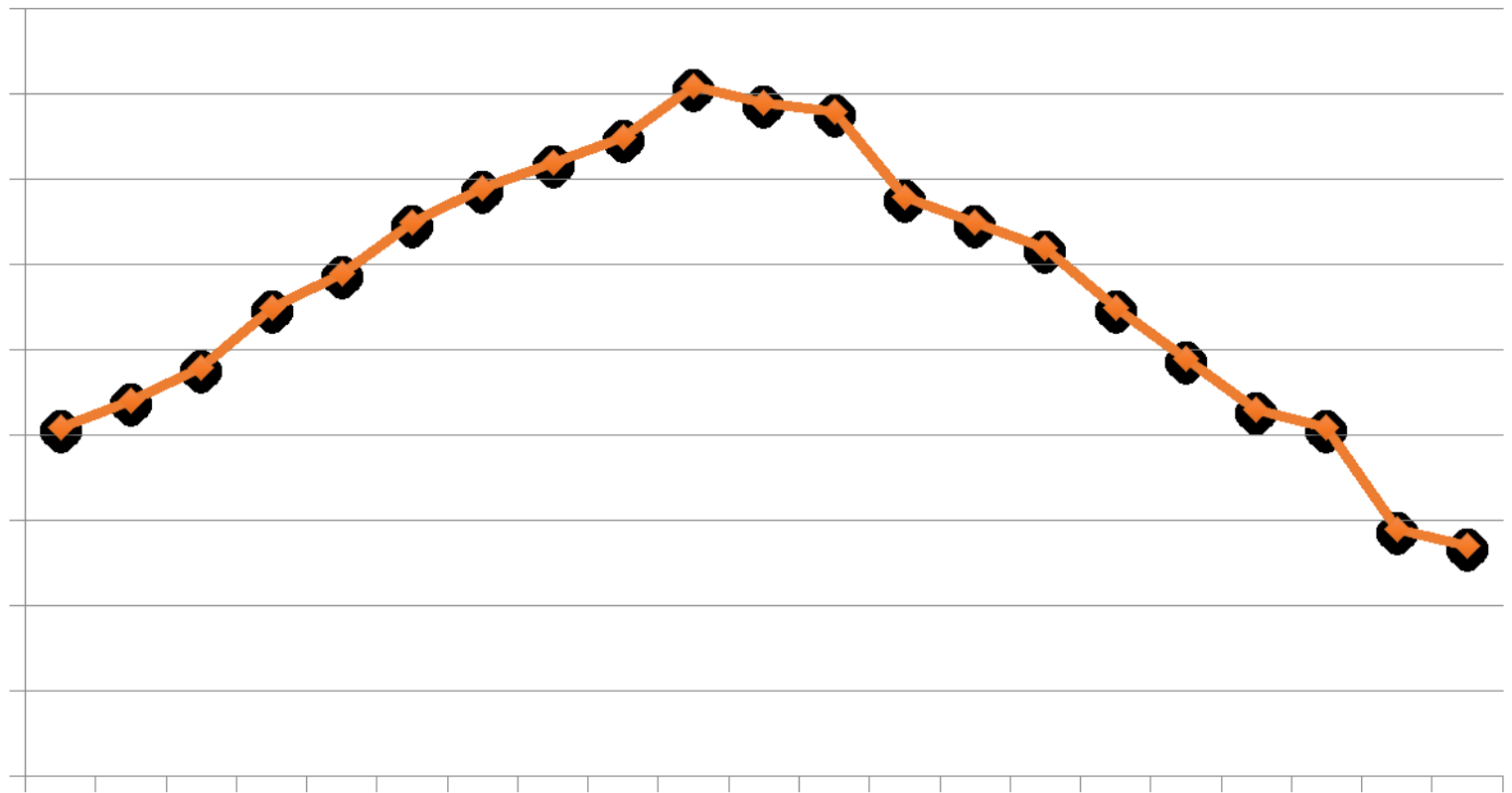
Dublin, Ireland
October 20-22, 2016

Quality Valuations – The Importance in American Property Lending

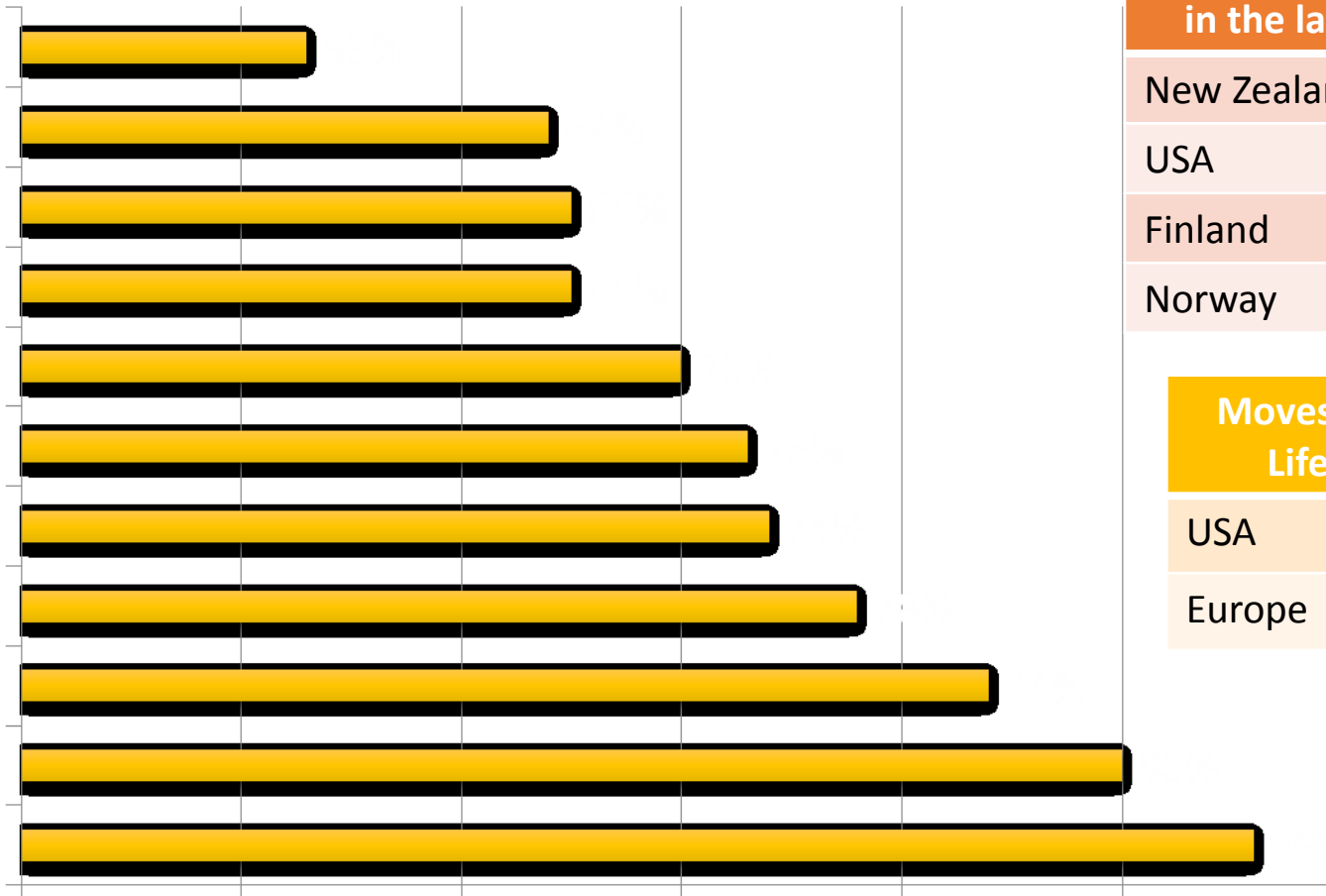
M. Lance Coyle, MAI, SRA
Immediate Past President, Appraisal Institute

Who is the Appraisal Institute?

- A Professional Society of Real Estate Appraisers with an 84 Year History
- About 20,000 members in 60 countries
- Largest publisher of real estate valuation textbooks in the world
- Extensive education curriculum in qualifying education, advanced education and continuing education
- Dedicated to the advancement of the profession and the body of knowledge world wide
- Dedicated to protecting the public trust



Rate of Homeownership – Select Countries

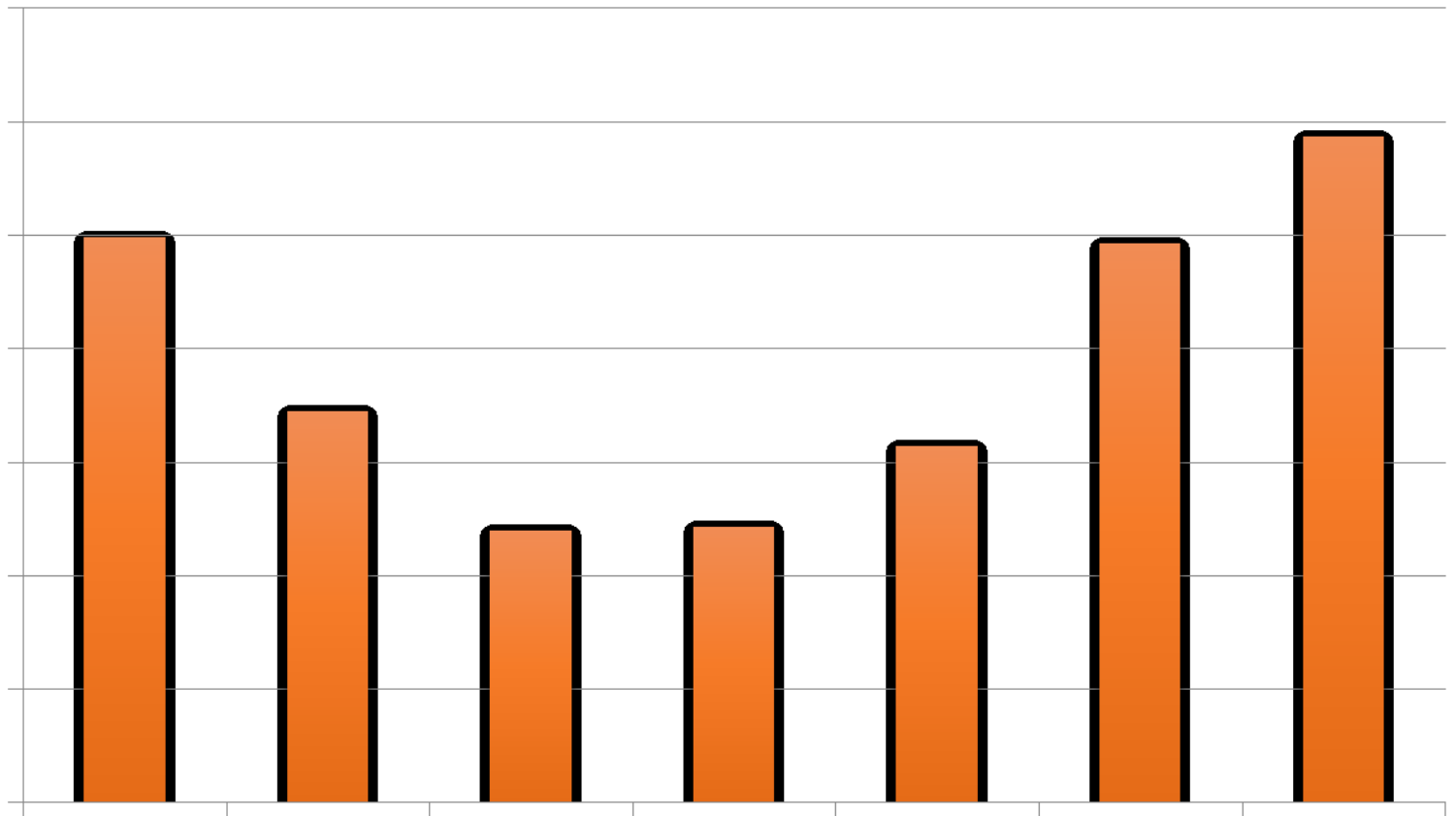


Number who moved in the last 5 years

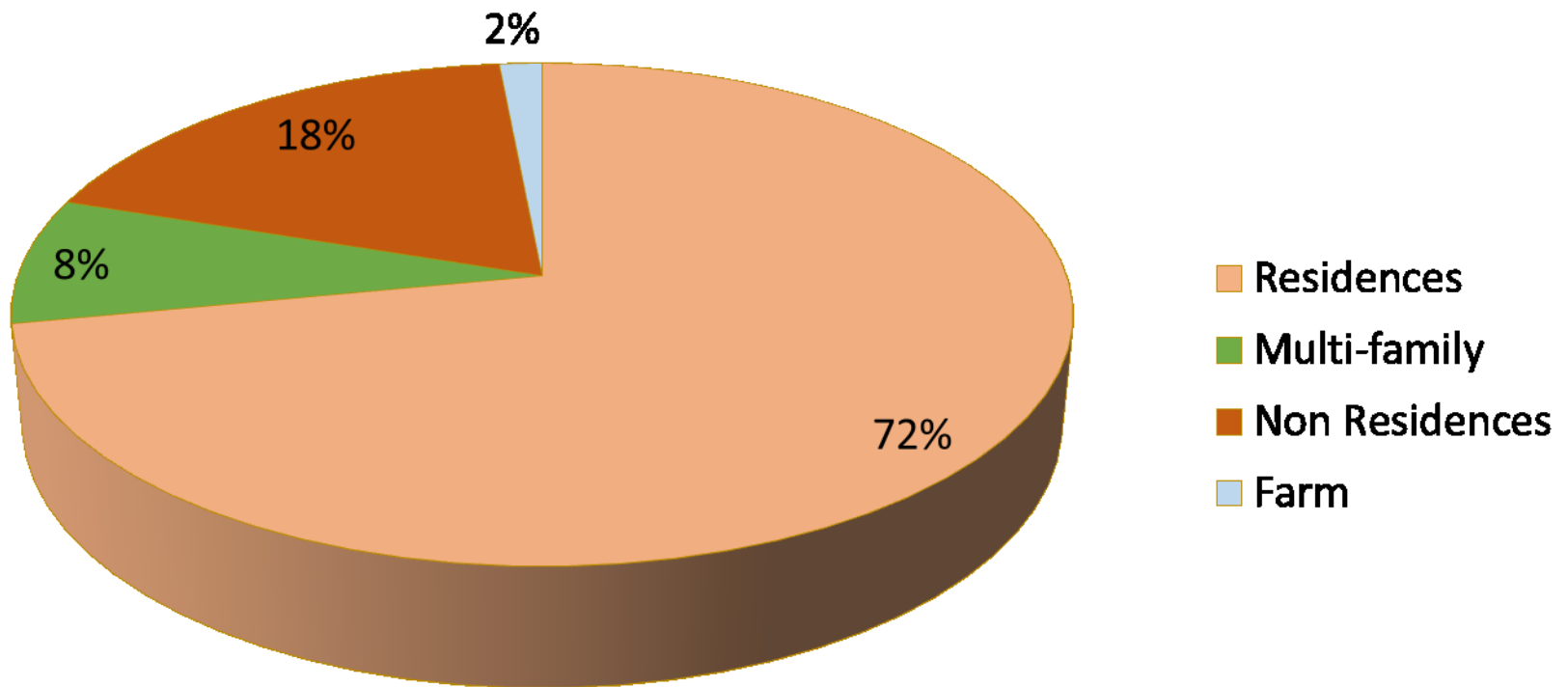
New Zealand	26%
USA	24%
Finland	23%
Norway	22%

Moves During Lifetime

USA	11.4
Europe	4



Source: Federal Reserve Bank



Source: Federal Reserve Bank

Underwriting Environment for U.S. Lending Institutions

- Lending Institutions are heavily regulated by both Federal and State Law
- The extent of regulatory control has increased in the last few years
- Deposits at regulated lending institutions are insured by the Federal Deposit Insurance Corporation (FDIC)
- Mortgage loans are often insured by entities of the Federal Government
- Quasi-governmental entities will purchase loans from the originating bank, packaged, and re-sold
- Thus, the government has a regulatory interest in underwriting standards, and thus, valuation quality

How it all fits together....

- It's a really big market
- Because Americans move a lot, there are many mortgage transactions
- Americans tend to carry more mortgage debt
- The government has a stake:
 - Deposit insurance
 - Directly insuring some loans
 - Guarantees in the secondary loan market



The Government mandates certain practices for appraisers preparing value opinions for financial institutions, all with the goal of attaining a certain level of quality.

U.S. Bank Regulatory Structure

There are many regulators.....

- Federal Reserve Bank
- Federal Deposit Insurance Corporation
- Office of the Comptroller of the Currency
- National Credit Union Administration
- Office of Housing and Urban Development
- Federal Housing Finance Authority
- Consumer Financial Protection Bureau
- Federal Financial Institutions Examinations Council

...All are involved in valuation regulation to ensure quality

General Requirements in Banking Regulations for Valuation Quality



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- Valuer must be competent for the assignment
- Must be objective, independent – no bias – no advocacy
- May not accept contingent compensation
- Must create & maintain a workfile (auditable)
- Must disclose any interest in the property and any services previously performed on the property
- Must prepare a Scope of Work
- Must use recognized methods and techniques (AI role)

Mandatory Minimums for Reporting

- Identify client
- Identify any additional intended users
- Identify intended use
- Identify the real estate
- State the real property interest valued
- Cite the source of market value
- State effective date
- State date of report
- Summarize the Scope of Work
- Summarize the information analyzed
- Discuss methods & techniques used
- Reasoning that supports the analysis & conclusions must be included
- Explain why any of the 3 major approaches has been excluded
- Include enough information to enable the Client & users to understand
- Perform a reconciliation among approaches used.
- Provide a sales history of the subject property
- Explain rationale for the opinion of Highest & Best Use
- State all Extraordinary Assumptions
- State all Hypothetical Conditions
- Include enough information for all users to understand
- Include a signed certification
- Name those providing assistance in the preparation of the report

Enforcement

Authority

- States issue licenses to practice
- States enforce laws, regulations, and standards requirements
- States conduct investigations and disciplinary hearings
- No audits – investigation is triggered by a complaint
- States report enforcement activities to Federal agency database

Possible outcomes (varies by State)

- Counseling
- Admonishment
- Education alternative
- Censure
- Temporary suspension
- Loss of license



The Appraisal Institute also has a similar process in addition to the above.



Questions?