SUPPORTING STATEMENT
Appraisals for Higher-Price Mortgage Loans
(3064-0188)

INTRODUCTION

The FDIC is seeking to renew the collection of information entitled "Appraisals for Higher Priced Mortgages" (OMB Control Number 3064-0188) which currently expires on July 31, 2016. The collection of information was the result of amendments made to Regulation Z mandated by provisions added to the Truth-in-Lending Act by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

A. JUSTIFICATION

1. Circumstances and Need

Section 1471 of the Dodd-Frank Act established a new Truth in Lending (TILA) section 129H, which contains appraisal requirements applicable to *higher-risk mortgages* and prohibits a creditor from extending credit in the form of a higher-risk mortgage loan to any consumer without meeting those requirements. A *Higher-risk mortgage* is defined as a residential mortgage loan secured by a principal dwelling with an annual percentage rate (APR) that exceeds the average prime offer rate (APOR) for a comparable transaction as of the date the interest rate is set by certain enumerated percentage point spreads. 12 CFR §1026 allows a creditor to make a higher-risk mortgage loan only if the following conditions are met:

- The creditor obtains a written appraisal;
- The appraisal is performed by a certified or licensed appraiser;
- The appraiser conducts a physical property visit of the interior of the property;
- At application, the applicant is provided with a statement regarding the purpose of the appraisal, that the creditor will provide the applicant a copy of any written appraisal, and that the applicant may choose to have a separate appraisal conducted at the expense of the applicant; and
- The creditor provides the consumer with a free copy of any written appraisals obtained for the transaction at least three business days before closing.

In addition, the rule requires a higher-risk mortgage loan creditor to obtain an additional written appraisal, from a different licensed or certified appraiser, at no cost to the borrower, under the following circumstances:

- The higher-risk mortgage loan will finance the acquisition of the consumer's principal dwelling;

- The seller who is selling what will become the consumer's principal dwelling acquired the home within 180 days prior to the consumer's purchase agreement (measured from the date of the consumer's purchase agreement); and
- The consumer is acquiring the home for a higher price than the seller paid.

The additional written appraisal generally must include the following information:

- An analysis of the difference in sale prices (i.e., the sale price paid by the seller and the acquisition price of the property as set forth in the consumer's purchase agreement);
- Changes in market conditions; and
- Any improvements made to the property between the date of the previous sale and the current sale.

The information collection requirements are needed to protect consumers and promote the safety and soundness of creditors making higher-risk mortgage loans. This information is used by creditors to evaluate real estate collateral in higher-risk mortgage loan transactions and by consumers entering these transactions. The collections of information are mandatory for creditors making higher-risk mortgage loans.

2. <u>Use of the information:</u>

The information is needed to protect consumers and promotes the safety and soundness of creditors making higher-risk mortgage loans. This information will be used by creditors to evaluate real estate collateral in higher-risk mortgage loan transactions and by consumers entering these transactions. The collections of information are mandatory for creditors making higher-risk mortgage loans.

The rule requires that, within three days of application, a creditor provide a disclosure that informs consumers regarding the purpose of the appraisal, that the creditor will provide the consumer a copy of any appraisal, and that the consumer may choose to have a separate appraisal conducted at the expense of the consumer (Initial Appraisal Disclosure).[1] If a loan meets the definition of a higher-risk mortgage loan, then the creditor would be required to obtain a written appraisal prepared by a certified or licensed appraiser who conducts a physical visit of the interior of the property that will secure the transaction, and send a copy of the written appraisal to the consumer (Written Appraisal).[2] To qualify for the safe harbor provided under the rule, a creditor is required to review the written appraisal as specified in the text of the rule and appendix A.[3] If a loan is

1 12 CFR 34.203(c).
2 See 12 CFR 34.203(b)(1) and (d).
3 See 12 CFR 34.203(b)(2).

classified as a higher-risk mortgage loan that will finance the acquisition of the property to be mortgaged, and the property was acquired within the previous 180 days by the seller at a price that was lower than the current sale price, then the creditor is required to obtain an additional appraisal that meets the requirements described above (Additional Written Appraisal).[4]

3. Use of Technology to Reduce Burden

Institutions are free to use whatever methods are the least burdensome to them for recording and retaining the necessary information for FDIC review.

4. Efforts to Identify Duplication

Similar information is not available from any other single source.

5. Minimizing Burden on Small Entities

The information required is the minimum necessary for the FDIC to determine the effect of these higher risk mortgages relating to the safety and soundness of the bank.

6. Consequences of Less Frequent Collections

The collection of information is required only when higher risk mortgages are sought.

7. Special Circumstances

None.

8. Consultation with Persons Outside the FDIC

On April 6, 2016 (81 FR 19971), the FDIC solicited public comment for a 60-day period on the renewal of the collection of information entitled ‘‘Appraisals for Higher-Priced Mortgage Loans’’ (OMB No. 3064–0188). No comments were received.

9. Payment or Gift to Respondents

None.

10. Confidentiality

Information collected will be kept private to the extent allowed by law.

4 See 12 CFR 34.203(b)(3).

11. Information of a Sensitive Nature

None.

12. Estimate of Annual Burden

Under the Initial Appraisal Disclosure, the creditor is required to provide a short, written disclosure within three days of application. Because the disclosure may be classified as a warning label supplied by the Federal government, the FDIC is not assigning it any burden for purposes of this PRA analysis.[5] In addition, with the implementation of the TILA-RESPA integrated disclosure forms (TRID), the appraisal-related disclosure is given as part of those forms. As such, this disclosure should not impose additional costs on creditors.

The estimated burden for the Written Appraisal requirements includes the burden the creditor bears to review for completeness the written appraisal in order to satisfy the safe harbor criteria set forth in the rule and to send a copy of the written appraisal to the consumer.

Under the Additional Written Appraisal requirement, if a loan is classified as a higher-risk mortgage loan that will finance the acquisition of the property to be mortgaged, and that property was acquired within the previous 180 days by the seller at a price that was lower than the current sale price, then the creditor would be required to obtain an additional written appraisal containing additional analyses. The additional written appraisal would have to be prepared by a certified or licensed appraiser different from the appraiser performing the other written appraisal for the higher-risk mortgage loan, and a copy of the additional appraisal must be sent to the consumer. It would also be required to meet the standards of the other written appraisal for the higher-risk mortgage loan. Thus, in order to qualify for the safe harbor provided in the Rule, the written appraisal would also have to be reviewed for completeness.

The FDIC estimates that respondents would take, on average, 15 minutes per appraisal to comply with the disclosure requirements under the Written Appraisal requirement. The FDIC estimates further that respondents would take, on average, 15 minutes per high risk mortgage to investigate and verify the need for a second appraisal; and then an additional 15 minutes to comply, where necessary, with the disclosure requirements of the Second Written Appraisal. For the small fraction of loans requiring a second appraisal, the burden is similar to the prior information collection. The FDIC estimates two-thirds of institutions will automate the appraisal process for such loans after conducting the initial review of the requirements. The FDIC estimates a future burden of 15 minutes for meeting all requirements at institutions with automated process.

5 The public disclosure of information originally supplied by the Federal government to the recipient for the purpose of disclosure to the public is not included within the definition of "collection of information." 5 CFR 1320.3(c)(2).

Respondents will also have to review the instructions and legal guidance associated with the rule and train loan officers regarding the rule.

	No. of Respondents	***No. of Responses***	***Hours per Response***	***Total Burden Hours***
Review and Provide Copy of Full Interior Appraisal *(reporting burden)*				
Non-automated responders	809	13	.25	2,629
Automated responders	1,619	13	.08	1,684
Subtotal	**2,428**			***4,313***
Investigate and Verify Requirement for Second Appraisal *(record keeping burden)*				
Non-automated responders	809	8	.25	1,618
Automated responders	1,619	8	.08	1,036
Subtotal	**2,428**			***2,654***
Conduct and Provide Second Appraisal *(reporting burden)*				
Non-automated responders	809	1	.25	202
Automated responders	1,619	1	.08	129
Subtotal	**2,428**			***331***
Total Annual Burden				***7,298***

13. Capital, Start-up, Operating, and Maintenance Cost Burden

None.

14. Estimated Annual Cost to Federal Government

None

15. Reason for Change in Burden

The FDIC's prior estimate included a one-time burden of 10,284 hours assuming a fixed burden per institution to review the regulations, to provide loan officer training, and to automate the appraisal process at approximately two-thirds of institutions. FDIC estimates that the program will by this time be automated at most institutions. The burden for institution's future training is considered nominal. Thus, no additional burden is allocated for future training.

16. Publication

No publication will be made of this information.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. STATISTICAL METHODS

Not Applicable