SUPPORTING STATEMENT
APPRAISAL STANDARDS
OMB No. 3064-0103

INTRODUCTION

The FDIC is requesting OMB approval to continue using the currently approved collection of information, which expires on August 31, 2016, contained in 12 CFR Part 323 ("Appraisals") of FDIC's regulations. Part 323 implements a portion of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Title XI of FIRREA is designed to provide protection for federal financial and public policy interests by requiring real estate appraisals used in connection with federally related transactions to be performed in writing, in accordance with uniform standards, by an appraiser whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.

Section 1110 of FIRREA mandates that the Federal financial institutions regulatory agencies ("Agencies") prescribe appropriate standards for the performance of real estate appraisals in connection with federally related transactions under the jurisdiction of each agency. The majority of the provisions of Part 323 are specifically mandated by FIRREA and do not represent discretionary requirements.

A. JUSTIFICATION

1. Circumstances and Need

   Title XI of FIRREA was enacted to protect federal financial and public policy interests in real estate related transactions. Many loans and other transactions entered into by federally insured financial institutions are collateralized by liens on real estate. While repayment ability stands as the primary criteria for determining creditworthiness, the value of collateral provides some protection against loss. Faulty, incompetent or fraudulent appraisals of real estate have caused large loan losses, can contribute to the failure of financial institutions, and may result in losses to the Federal Insurance Funds.

   FIRREA directs FDIC and other Agencies to prescribe appropriate standards for the performance of real estate appraisals in connection with federally related transactions under its jurisdiction. It mandates that the regulations promulgated by the FDIC require, at a minimum, that appraisals conform to the standards of the Appraisal Standards Board of the Appraisal Foundation, and that they be in writing. Moreover, the statute specifically authorizes FDIC to require compliance with additional appraisal standards if such additional standards are required in order to properly carry out its statutory mission. FDIC has included additional standards in the rule to carry out the legislative intent that appraisals in federally related transactions provide accurate information that adequately reflects the market value of the real estate being appraised. The information collection activities attributable to the rule are a direct consequence of the statutory requirements and the legislative intent.
2. Use of Information Collected

   Each financial institution regulated by FDIC will use the information in connection with determining whether and upon what terms to enter into a federally related transaction, such as making a loan on commercial real estate or purchasing property for its operations. In addition, the FDIC will use this information in its examination of regulated institutions to ensure that extensions of credit made by the examined institution which are collateralized by real estate, and that permissible direct investments in real estate, are undertaken in accordance with safe and sound banking principles.

The use of this information will help ensure that regulated institutions are not exposed to risk of loss from inadequate appraisals. A regulated institution's failure to engage in the information collection activities included in the regulation will, in some cases, (1) result in a violation of the provisions of Title XI, (2) impede the FDIC in carrying out its statutory obligation to ensure that its regulated institutions conduct their activities in accordance with safe and sound banking principles, and (3) increase the risk of loss to insurance funds of the FDIC.

3. <u>Use of Technology to Reduce Burden</u>

The use of improved information technology is not applicable to this collection of information since it only requires banks to maintain records of appraisals that meet specific standards; no information in this collection is forwarded to the FDIC. The banks are free to utilize any technology they wish in order to lessen the burden of maintaining the appraisal records.

4. <u>Efforts to Identify Duplication</u>

There is no regulatory duplication; each appraisal is unique to the individual property appraised. No similar information is available to the regulated institution or the FDIC.

5. <u>Minimizing the Burden on Small Banks</u>

The burden for this collection of information has been reduced to the minimum possible under the governing statute and in keeping with FDIC's supervisory responsibilities. Only the information necessary for regulated institutions to make an informed decision and for the FDIC to fulfill its statutory responsibilities for all institutions, regardless of size, is requested.

6. <u>Consequences of Less Frequent Collection</u>

The information is collected only as real estate related situations arise. Less frequent collection is inconsistent with the underlying statute and would not promote safety and soundness for individual banks or the banking system.

7. Special Circumstances

There are no special circumstances.

8. Consultation with Persons Outside the FDIC

A Federal Register notice seeking public comment for a 60-day period was published on May 24, 2016 (81 FR 35752). No comments were received.

9. Payment or Gift to Respondents

There are no payments or gifts to respondents.

10. Confidentiality

The appraisal reports will become part of the bank's loan file and as such no information is submitted directly to the FDIC. The FDIC would have access to the information during an examination or on site investigation that would be accorded the same degree of confidentiality provided to all other bank records.

11. Information of a Sensitive Nature

No information on matters that are commonly considered to be private is required.

12. Estimate of Hour Burden and Annual Costs

The FDIC's additional appraisal standards create a regulatory burden relative to the review of appraisals. Each appraisal will need to be reviewed by the institution's staff to determine if it contains all required information. It is estimated that the time burden per review will range from 10 minutes to 4 hours, depending upon the type of property being appraised, with an average of 45 minutes. The FDIC did not revise the estimated review time per appraisal, as many FDIC-supervised institutions are continuing to engage in more complex commercial real estate lending activities, and these types of appraisals require more time to review.

There are approximately 3,947 financial institutions supervised by the FDIC. Each of these institutions will have approximately 105.6394 appraisals to review for compliance with the appraisal standards. The FDIC increased the number of appraisals expected to be reviewed due to an increase in real estate lending activity. The estimated burden per year is 312,719 hours, an increase of 115,469 hours from the previous estimated burden of 197,250 hours. (The new estimated burden will average 79.23 hours per institution.) Banks may include the appraisal in the applicable loan or other file for the life of the asset, or for a longer period for tax or other business purposes

13. Capital, Start-Up and Maintenance Costs

There are no capital, start-up or maintenance costs.

14. Estimated Annual Cost to the Federal Government

There is no additional cost to the Federal Government.

15. Reason for Change in Burden

The change in burden is primarily due to the Agency's change in its estimate of the number of appraisals that supervised institutions will be required to review due to an increase in real estate lending activity. While the number of FDIC-supervised institutions has declined from 4,460 in 2013 to approximately 3,947 currently, the estimated average number of appraisals each of these institutions will be reviewing has increased from 58.9686 in 2013 to 105.6394 currently. The estimated average time required for review of an appraisal remains unchanged at 45 minutes.

16. Publication.

Not applicable. No publication is made of the information collected.

17. Display of Expiration Dates

No special request is made regarding display of expiration dates.

18. Exceptions to Certification

There are no exceptions to the certifications.

B. Statistical Methods

Not applicable.