

SUPPORTING STATEMENT
RECORDKEEPING REQUIREMENTS ASSOCIATED WITH
REAL ESTATE APPRAISALS AND EVALUATIONS
(OMB No. 3064-0103)

INTRODUCTION

The FDIC is requesting OMB approval of an extension, without change, of an existing information collection. Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) directs the FDIC to prescribe appropriate performance standards for real estate appraisals connected with federally related transactions under its jurisdiction. This information collection is a direct consequence of the statutory requirement. It 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.

A. JUSTIFICATION

1. Circumstances that make the collection necessary:

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 Deposit Insurance Fund (DIF).

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 the information:

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 the DIF.

3. Consideration of the use of improved information technology:

The use of improved information technology is not applicable to this collection of information since it only requires banks to maintain records of appraisals and evaluations 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 and evaluation records.

4. Efforts to Identify Duplication

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

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

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. According to data reported as of September 30, 2017 in the Consolidated Reports of Condition and Income¹ (Call Report), the FDIC supervises 3,675 depository institutions, of which 2,950 are defined

¹ See https://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_201703_f.pdf.

as small banking entities by the terms of the Regulatory Flexibility Act.² These 2,950 small entities reported holding some volume of real estate related financial transactions that meet the final rule's definition of a commercial real estate transaction.³ Therefore, 2,950 small entities could be affected by the final rule.

6. Consequences to the Federal program if the collection were conducted less frequently:

The information is collected only as real estate related transactions 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 necessitating collection inconsistent with 5 CFR Part 1320.5(d) (2):

None.

8. Efforts to consult with persons outside the agency:

A notice seeking public comment for a 60-day period was published in the *Federal Register* on February 17, 2021 (86 FR 9935). No comments were received.

9. Payment or gifts to respondents:

None.

10. Any assurance of confidentiality:

The information reported is kept private to the extent allowed by law. Any information deemed to be of a confidential nature is exempt from public disclosure in accordance with the provisions of the Freedom of Information Act (5 U.S.C. 552).

11. Justification for questions of a sensitive nature:

This collection contains no information of a sensitive nature.

12. Estimate of hour burden including annualized hourly costs:

² 5 U.S.C. 601 et seq.

³ The definition of "Commercial Real Estate Transaction" largely captures the following four categories of loans secured by real estate in the Call Report (FFIEC 031; RCFD 1410), namely loans that are: (1) for construction, land development, and other land loans; (2) secured by farmland; (3) secured by residential properties with five or more units; or (4) secured by nonfarm nonresidential properties. However, loans that provide both initial construction funding and permanent financing and are reported as construction, land development, and other land loans during the construction phase are excluded from the definition.

Revisions - For the renewal of this information collection, the FDIC determined that the methodology used to estimate the labor costs associated with estimated total annual burden hours for this collection should be revised. The FDIC has revised its assumptions with respect to the types of professional skills that would be required to complete this information collection, as well as estimates of how the work required for this information collection would likely be apportioned among individuals who possess those professional skills.

Estimated Number of Respondents - Potential respondents to this information collection (IC) include all FDIC-supervised institutions. As of December 31, 2020 there were 3,227 FDIC-supervised institutions, of which 2,380 are considered “small” for the purposes of the Regulatory Flexibility Act (RFA).⁴ FDIC therefore uses 3,227 as the estimate of the annual number of respondents to this IC.

Estimated Number of Responses per Respondent -The estimated number of responses per respondent for this ICR is estimated using the dollar volume, and where available, loan counts of real estate loans held by FDIC-supervised institutions. For each institution, information is gathered from the Call Report on the reported dollar value of 1-4 family residential construction loans, other construction and development loans, loans secured by farmland, open-end loans secured by 1-4 family residential properties, closed-end loans secured by 1-4 family residential properties, loans secured by multifamily (5 or more) residential properties, loans secured by owner-occupied nonfarm nonresidential properties, and loans secured by other nonfarm nonresidential properties. This data is gathered from Call Report Schedule RC-C as of December 31 of each year, or in the case of the most recent 12-month period, the most recent period available.

⁴ FDIC Call Report data, December 2020. The Small Business Administration (SBA) defines a small banking organization as having \$600 million or less in assets, where an organization's “assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year.” See 13 CFR 121.201 (as amended by 84 FR 34261, effective August 19, 2019). In its determination, the “SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates.” See 13 CFR 121.103. Following these regulations, the FDIC uses a covered entity’s affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the covered entity is “small” for the purposes of the RFA.

To convert the reported dollar volume of real estate related loans held by FDIC-supervised institutions into loan counts, a more appropriate denomination for estimating appraisal and evaluation activity, the methodology applies estimated or derived information on average loan size for each category of real estate loans. The methodology divides the reported dollar value of 1-4 family residential construction loans, and closed-end loans secured by 1-4 family residential properties, by the U.S. Census Bureau's estimate of the average sales price of new homes in order to derive an estimate of the number of loans for these loan categories.⁵ The methodology assumes that the average loan size of open-end loans secured by 1-4 family residential properties is 20 percent of the U.S. Census Bureau's estimate of the average sales price of new homes. The methodology uses this assumption for the average loan size of open-end loans secured by 1-4 family residential properties based on supervisory experience because the FDIC does not currently have access to information that would enable a more empirical estimate. The methodology divides the reported dollar value of open-end loans secured by 1-4 family residential properties by 20 percent of the U.S. Census Bureau's estimate of the average sales price of new homes in order to derive an estimate of the number of loans for this loan category. The methodology divides the reported dollar value of other construction and land development loans, and loans secured by multifamily (5 or more) residential properties, by the assumed average loan size of \$1 million in order to derive an estimate of the number of loans for these loan categories. The methodology uses an assumption of \$1 million for the average loan size based on supervisory experience because the FDIC does not currently have access to information that would enable a more empirical estimate. Finally, a statistical method is used to derive an estimate of the average loan size for loans secured by farmland and loans secured by owner-occupied and non-owner-occupied nonfarm nonresidential properties. Call Report Schedule RC-C Part II contains information on the dollar volume and number of loans of these loan types for loans above and below specific dollar-value thresholds (\$100,000 and less, \$100,000 to \$250,000, and \$250,000 to \$1 million for loans secured by nonfarm nonresidential properties, and \$100,000 and less, \$100,000 to \$250,000, and \$250,000 to \$500,000 for loans secured by farmland). Assuming that the dollar value of loans secured by farmland and nonfarm nonresidential properties held by FDIC-supervised institutions are normally distributed, the methodology derives an estimate of the average loan amount for each of these loan types as of December 31 of each year, or the most recent reporting period in the case of the most recent 12-month period. For example, as of December 31, 2020 this methodology produces an estimate of \$585,459 as the average loan size for loans secured by farmland, and \$975,836 as the average loan size for loans secured by nonfarm nonresidential properties. The methodology divides the reported dollar value of loans secured by farmland and loans secured by owner-occupied and non-owner-occupied nonfarm nonresidential properties by the derived estimate of average loan size for loans secured by farmland and nonfarm nonresidential properties in order to derive an estimate of the number of loans for these loan categories.

⁵ See U.S. Census Bureau, "Median and Average Sale Price of Houses Sold." Available at https://www.census.gov/construction/nrs/historical_data/index.html

The methodology estimates the number of new loans for each FDIC-supervised institution by assuming that any positive change in the preceding 12-month period in the reported dollar value of a real estate related loan type represents new lending activity. The change in the 12-month dollar value of loans held of each real estate loan type for each FDIC-supervised institution, if positive, is divided by the estimated average loan size for that loan type in order to produce an estimate of the number of new loans issued by each FDIC-supervised institution. However, if the 12-month change in the reported dollar value of a loan type is zero or negative, the methodology assumes that the number of new loans is zero.

The methodology estimates refinancing activity by assuming that a fixed percentage of the estimated count of existing real estate loans of each loan type is representative of those loans in the portfolio that were refinanced in the preceding 12-month period. For each institution, and each real estate-related loan type, the methodology subtracts the dollar volume of new loans from the reported dollar volume of loans as of each 12-month period end-date, divides that figure by the applicable estimate of average loan size, and multiplies that figure by 15 percent to derive an estimate of the number of existing loans that were refinanced in the preceding 12-month period. The 15 percent estimate is based on supervisory experience since the FDIC does not currently have access to information that would enable a more empirical estimate.

The methodology also estimates the number of appraisals and evaluations commissioned by FDIC-supervised institutions over the previous 12-month period in order to monitor their real estate loan portfolios for credit risk. The methodology assumes that three percent of the estimated loan count for existing loans secured by farmland, five percent of the estimated loan count for existing 1-4 family residential construction loans, eight percent of the estimated number of existing closed-end loans secured by 1-4 family residential properties, loans secured by multifamily (5 or more) residential properties, and loans secured by owner-occupied nonfarm nonresidential properties, and ten percent of the estimated number of existing other construction and development loans, open-end loans secured by 1-4 family residential properties, and loans secured by non-owner-occupied nonfarm nonresidential properties is representative of the number of loans for which the institution commissioned an appraisal or evaluation in the preceding 12-month period. These estimates are based on supervisory experience since the FDIC does not currently have access to information that would enable a more empirical estimate.

To calculate the total estimated volume of appraisals and evaluations associated with a real estate loan for which an FDIC-supervised institution would have to comply with the applicable recordkeeping requirements of Part 323, the methodology sums the estimated count of new loans, existing loans that were refinanced, and loans for which the institution commissioned an appraisal or an evaluation over the preceding 12-month period and assumes that all of these loans would require an appraisal or evaluation. Using this methodology, I estimate that there will be 227 responses per respondent per year for this IC. This represents an increase of 84 (59 percent) from the prior Information Collection submission (143). This increase is driven primarily by a change in the methodology used for estimating the number of responses per respondent.

The methodology used to estimate responses per respondent described above differs from the methodology used to estimate the PRA burden of this information collection when it was last approved by the OMB in 2018. The previous submission used dollar volume information for real estate loan categories aggregated for all FDIC-supervised institutions, rather than for each institution as described above. Consequently, even if the total dollar value of a particular loan type decreased among FDIC-supervised institutions in aggregate, the estimated number of new loans of that type would be still be positive if it increased for at least one institution, whereas it would have been assumed to be zero under the methodology used for the previous submission. Additionally, the methodology used to estimate the number of responses per respondent in the last information collection submission used average loan value estimates for loans secured by farmland and loans secured by owner- and non-owner-occupied nonfarm nonresidential properties of \$1 million, rather than the statistical method just described, to derive average loan size estimates for these loan categories. Over the time period from year-end 2014 to year-end 2020, the statistical method produced estimates ranging from \$563,385 to \$663,766 for the average loan size of loans secured by farmland, and \$813,999 to \$975,836 for loans secured by nonfarm nonresidential properties. Since the average loan size estimates for both loan types were lower than \$1 million for the whole time period, the estimated number of existing and new loans for these loan types increased relative to the estimates used for the previous submission. These methodological changes led to more accurate, and generally larger, estimates for responses per respondent than the estimates used in the previous submission.

Estimated Time per Response –The FDIC is not revising its estimate of the time required to complete the recordkeeping requirements in this IC and will retain an estimated hourly burden per response of 5 minutes, or 0.083 hours.

Table 1. Summary of Estimated Annual Burdens (OMB No. 3064-0103)						
IC Description	Type of Burden (Obligation to Respond)	Frequency of Response	Number of Respondents	Number of Responses / Respondent	Hours per Response	Annual Burden (Hours)
Recordkeeping Requirements Associated with Real Estate Appraisals and Evaluations	Recordkeeping (Mandatory)	On occasion	3,227	227	0.083	60,800
Total Annual Burden Hours:						60,800
Source: FDIC.						

The currently-approved ICR estimates annual costs associated with this information collection of \$2,946,881.44. This estimate was obtained by multiplying the then estimated total annual burden hours associated with this IC (43,794 hours) by \$67.29, reflecting the estimated total hourly compensation rate of Loan Officers in the Depository Credit Intermediation sector.⁶ The FDIC has revised the allocation of labor for this IC and now assumes that 90 percent of the total estimated labor hours will be performed by Clerical occupations, five percent would be performed by Compliance Officers, while the remaining five percent of the work would be performed by IT Specialists. A reasonable estimate of the hourly compensation rate for Clerical occupations is \$33.44.⁷ A reasonable estimate of the hourly compensation rate for Compliance Officers is \$67.35,⁸ and a reasonable estimate of the hourly compensation rate for IT Specialists is \$92.30.⁹ The hourly cost estimate for this IC is therefore \$38.08.¹⁰

Multiplying \$38.08 by the current estimated total annual burden hours of 60,800 gives an

6 Estimated total hourly compensation of Loan Officers in the Depository Credit Intermediation sector as of September 2017. The hourly compensation estimate is based on published compensation rates for Credit Counselors and Loan Officers (\$43.40). The estimate includes the September 2017 75th percentile hourly wage rate reported by the Bureau of Labor Statistics, National Industry-Specific Occupational Employment and Wage Estimates for the Depository Credit Intermediation sector. The reported hourly wage rate is grossed up by 155.0 percent to account for non-monetary compensation as reported by the 3rd Quarter 2017 Employer Costs for Employee Compensation Data.

7 Estimated hourly compensation of Office and Administrative Support Occupations in the Credit Intermediation and Related Activities sector as of December 2020. This estimate includes the May 2019 75th percentile hourly wage rate reported by the Bureau of Labor Statistics, National Industry-Specific Occupational Employment and Wage Estimates. This wage rate has been adjusted for changes in the Consumer Price Index for all Urban Consumers between May 2019 and December 2020 (1.71 percent) and grossed up by 34 percent to account for non-monetary compensation as reported by the December 2020 Employer Costs for Employee Compensation Data.

8 Estimated hourly compensation of Compliance Officers in the Credit Intermediation and Related Activities sector as of December 2020. This estimate includes the May 2019 75th percentile hourly wage rate reported by the Bureau of Labor Statistics, National Industry-Specific Occupational Employment and Wage Estimates. This wage rate has been adjusted for changes in the Consumer Price Index for all Urban Consumers between May 2019 and December 2020 (1.71 percent) and grossed up by 34 percent to account for non-monetary compensation as reported by the December 2020 Employer Costs for Employee Compensation Data.

9 Estimated hourly compensation of Computer and Mathematical Occupations in the Credit Intermediation and Related Activities sector as of December 2020. This estimate includes the May 2019 75th percentile hourly wage rate reported by the Bureau of Labor Statistics, National Industry-Specific Occupational Employment and Wage Estimates. This wage rate has been adjusted for changes in the Consumer Price Index for all Urban Consumers between May 2019 and December 2020 (1.71 percent) and grossed up by 34 percent to account for non-monetary compensation as reported by the December 2020 Employer Costs for Employee Compensation Data.

10 $(0.90 * \$33.44) + (0.05 * \$67.35) + (.05 * \$92.30) = \38.08

estimated annual cost of \$2,315,264, which is \$631,617 less than the estimate of \$2,946,881.44 that was used for the 2018 submission of this ICR. The estimated annual cost declined due to the change in the labor compensation rate estimate. Although the estimated annual burden hours increased to 60,800 from 43,794 as a result of the change in methodology for estimating the annual number of appraisals and evaluations described above, the lower wage estimate led to a net decrease in the estimated annual cost burden of this IC.

13. Estimate of start-up cost to respondents:

None.

14. Estimate of annualized costs to the government:

None.

15. Analysis of change in burden:

See discussion in Section 12 above.

16. Information regarding collections whose results are planned to be published for statistical use:

No publication is made of this collection of information.

17. Exceptions to Display of Expiration Date

Not applicable.

18. Exceptions to Certification

None.

B. STATISTICAL METHODS

Not applicable.