

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10398**
November 7, 1990]

APPRAISAL OF PERSONAL PROPERTY
Request for Comment

Comments Due December 24, 1990

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council (FFIEC) is requesting comment in connection with the feasibility and desirability of extending the provisions of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to the appraisal of personal property. It is the Subcommittee's intention to create a regulatory framework for personal property evaluations similar to the supervisory action taken recently with respect to real estate appraisals. Real estate appraisal standards issued by the Board of Governors of the Federal Reserve System amending its Regulations H and Y were announced in our Circular No. 10362, dated July 24, 1990.

Following is the text of the statement issued by the FFIEC in this matter:

The Appraisal Subcommittee of the Federal Financial Institutions Examination Council ("Appraisal Subcommittee") is issuing a request for comments on the feasibility and desirability of extending the provisions of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to the function of personal property appraising and personal property appraisers. The comment period extends 60 days from the date of publication in the *Federal Register*.

The purpose of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 is to promote the safety and soundness of insured institutions by requiring that real estate appraisals utilized in connection with federally related transactions be performed in writing in accordance with uniform standards by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision. Section 1122 of Title XI directs the Appraisal Subcommittee of the Federal Financial Institutions Examination Council to conduct a study to determine the feasibility and desirability of extending the provisions of Title XI to the function of personal property appraising and personal property appraisers in connection with Federal financial and public policy interests. The Appraisal Subcommittee is to report its findings to Congress in February 1991.

Printed on the following pages is the text of the Council's notice, containing a series of questions on the subject, which has been reprinted from the *Federal Register* of October 24. Comments thereon should be submitted by December 24, 1990, and directed to the FFIEC at the address set forth in the notice. Questions concerning this matter may be directed to the FFIEC's Jim Porter (Tel. No. 202-906-5743).

E. GERALD CORRIGAN,
President.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Request for Comment on Personal Property Appraising

AGENCY: Appraisal Subcommittee, Federal Financial Institutions Examination Council.

ACTION: Request for comments.

SUMMARY: The Appraisal Subcommittee of the Federal Financial Institutions Examination Council ("Appraisal Subcommittee") is issuing a request for comments on the feasibility and desirability of extending the provisions of title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to the function of personal property appraising and personal property appraisers.

This request for comments affords all interested parties an opportunity to provide substantive comments and data on the possibility of creating an appraisal regulatory framework for personal property evaluations similar to the supervisory scheme for real estate appraisals. The Appraisal Subcommittee will carefully review and consider the comments received within the context of completing its study.

DATES: Comments must be received on or before December 24, 1990.

ADDRESSES: All comments should be sent to the Appraisal Subcommittee, Federal Financial Institutions Examination Council, 1776 G Street NW., suite 850B, Washington, DC 20006 or delivered to the same address between the hours of 9 a.m. and 5 p.m. on business days.

FOR FURTHER INFORMATION CONTACT: Jim Porter at (202) 906-5743.

SUPPLEMENTARY INFORMATION: The purpose of title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 is to promote the safety and soundness of insured institutions by requiring the real estate appraisals utilized in connection with federally related transactions be performed in writing in accordance with uniform standards by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision. Section 1122 of title XI directs the Appraisal Subcommittee of the Federal Financial Institutions Examination Council to conduct a study to determine the feasibility and desirability of extending the provisions of title XI to the function

of personal property appraising and personal property appraisers in connection with Federal financial and public policy interests. The Appraisal Subcommittee is to report its findings to Congress in February 1991.

For the purposes of this Notice for Public Comment, "personal property" is defined as:

identifiable portable and tangible objects with are considered by the general public as being "personal," e.g. furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all property that is not classified as real estate. (Source: Uniform Standards of Professional Appraisal Practice published by The Appraisal Foundation.)

As part of this study the Appraisal Subcommittee is seeking, from all interested parties, substantive comments on issues surrounding the costs and benefits of extending the real estate appraisal regulatory scheme to personal property evaluation. The following questions raise significant issues on which comment is sought, but are not intended to be limiting in nature. Comments are invited on any substantive issue relating to personal property appraising and personal property appraisers. The Subcommittee is especially interested in any factual supporting information or examples that serve as the basis for comments, in particular, information presented in the form of lists, charts, graphs, and tables, which detail specific data. Please respond to as many of the following questions as you consider appropriate.

General

- (1) Respondent Affiliation:
 - (a) A financial institution with federally insured deposits.
 - (b) A financial institution with trade association.
 - (c) A personal property appraisal firm or individual.
 - (d) A personal property appraiser trade association.
 - (e) A real estate appraisal firm or individual.
 - (f) A real estate appraiser trade association.
 - (g) Law firm or individual.
 - (h) Accounting firm or individual.
 - (i) Governmental agency.
 - (j) Other.
- (2) What are the major categories of personal property used as collateral for loans and what are the methods for evaluation of each category?
- (3) What types of loans collateralized by personal property have caused the largest losses to financial institutions?

(4) What role have weaknesses in the personal property evaluation process had in the losses on loans collateralized by personal property? If possible, segregate losses associated with failure to perfect an interest in collateral and losses from assets that are expected to depreciate more rapidly than the related loan amortizes from losses caused by faulty evaluation.

(5) What types of loans collateralized by personal property have a good record of performance and how has the collateral evaluation process assisted in maintaining the favorable record?

(6) What factors should be used in determining the level of detail required in a personal property evaluation?

(7) What are the similarities and differences between personal property lending and real estate lending? (For example, loan terms, loan-to-value ratios, emphasis on collateral protection, payment sources, methods for evaluating collateral and other pertinent aspects of the credit decision process.)

Personal Property Appraisal Standards

(8) Considering the diversity of categories of personal property, is it feasible to have one set of uniform appraisal standards for all possible types of non-real assets or would there have to be different standards for major categories of personal property?

(9) What would be the direct and indirect cost of requiring federally mandated uniform personal property appraisal standards and how can these costs be measured?

(10) How would public policy interests benefit from the creation of uniform personal property appraisal standards and how can these benefits be quantified?

Personal Property Licensing Procedures and Qualification Criteria

(11) If there is licensing, should there be one licensing process for all categories of personal property appraisers or should there be different licensing procedures for each major category of personal property?

(12) What should be the minimum qualifications criteria for appraisers that conduct personal property evaluations for insured financial institutions?

(13) What would be the direct and indirect costs of federally mandated licensing and how can these costs be measured?

(14) Would financial institutions and the federal deposit insurance system

benefit from the creation of a licensing process and how can these benefits be qualified?

Regulation and Supervision of Personal Property Appraisers

(For discussion purposes only, questions #15 through #23 assume that uniform personal property appraisal standards and licensing of personal property appraisers are both feasible and desirable.)

(15) Who should establish the uniform evaluation standards—financial institution trade associations, personal property appraiser trade associations, regulatory agencies, federal or state legislative bodies, or others?

(16) What type of procedure should be required to initially formulate uniform standards and what would be the process for amending the standards?

(17) Who should establish the qualification and testing criteria—financial institution trade associations, personal property appraiser trade associations, regulatory agencies, federal or state legislative bodies, or others?

(18) Should the licensing and testing boards be state or federal agencies, trade associations, or some other form of organization?

(19) What type of procedures should be required initially to formulate licensing qualification benchmarks and what should be the process for amending the criteria?

(20) If uniform personal property appraisal standards are developed, what level of supervisory enforcement is required—should standards be made into regulations carrying the force of law, be informational safety and soundness guidelines, or have some other form?

(21) Should the standards, licensing requirements, and regulatory structure be imposed on a financial institution's purchase of, and investment in, personal property, or limited only to lending collateralized by personal property?

(22) If the licensing body is not a federal agency, should it be subject to federal monitoring and supervision and what type of disciplinary powers should the federal agency have, if any?

(23) If licensing is implemented, should registry fees for personal property appraiser be the same as those levied on real property appraisers?

Other Comments

(24) Please discuss other issues

concerning the feasibility and desirability of extending the provisions of title XI to the function of personal property appraising and personal property appraisers not addressed in the previous questions.

(25) In summary, do you believe that uniform personal property standards and licensing of personal property appraisers are:

(a) Desirable and—

(b) Feasible?

Why?

Information generated from the comments received will be used to augment other sources of data available to the Appraisal Subcommittee and ensures that the Subcommittee's findings reflect the broadest range of possibilities.

Dated: October 19, 1990.

Fred D. Finke,

*Acting Chair of the Appraisal Subcommittee
of the Federal Financial Institutions
Examination Council.*

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