

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

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ROBERT A. O'SULLIVAN
SENIOR VICE PRESIDENT

AT-10777
April 12, 1995

TO: The Chief Executive Officer of Each State Member Bank, Bank Holding Company, and U.S. Branch and Agency of a Foreign Bank

SUBJECT: Real Estate Appraisal Requirements for Other Real Estate Owned (OREO)

The June 1994 amendments to the Board's real estate appraisal regulation¹ revised the appraisal exemption for real estate related transactions involving an existing extension of credit. As a result of this revision, questions have arisen regarding the treatment of other real estate owned (OREO) transactions under this appraisal exemption.

Real estate posted as collateral that has been acquired by an institution through foreclosure, or a deed in lieu of, (collectively referred to as OREO) now qualifies for an appraisal exemption. In such cases, an institution is required to obtain an evaluation in a reasonable amount of time after title to the property is taken.

While an appraisal is not required upon the acquisition of OREO, it is required upon the sale or disposal of OREO. Thus, an institution is required to have a valid appraisal to support the transaction. However, if the sale price of the OREO is below the \$250,000 appraisal threshold, the institution would only be required to obtain an evaluation.

In any OREO transaction, if an institution already has an appraisal (or an evaluation) of the real estate collateral and it is determined to be valid, the institution need not obtain a new appraisal. The determination that an appraisal remains valid (i.e., no material change in the market value reported in the appraisal) should be made by an individual who has appropriate real estate expertise and market knowledge. The individual should provide written documentation for the loan file to support the determination that the appraisal is still valid or that a new

¹ These amendments were issued on June 7, 1994, in the Federal Register (59 FR 29482).

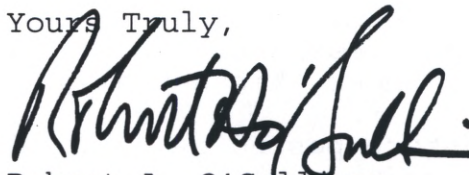
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appraisal is necessary. The basis for determining whether an appraisal continues to be valid will vary depending upon the circumstances of the property and marketplace. Some of the factors that need to be taken into account include: the passage of time; the volatility of the local market; the availability of financing; the inventory of competing properties; new improvements to, or lack of maintenance of, the subject property or competing, surrounding properties; change in zoning; or environmental contamination.

In the course of monitoring OREO assets, financial institutions should have appropriate policies and procedures in place to help determine when a new appraisal or evaluation should be obtained. An institution may be required to substantiate the valuation of the OREO asset for financial reporting purposes². If an institution determines that an appraisal or evaluation should be obtained, the appraisal or evaluation must conform to the requirements of the agencies' appraisal regulations or guidelines.

Should you have any question with regard to this matter, please contact Mr. Dean Ungar, Senior Examiner at (212) 720-2198.

Yours Truly,



Robert A. O'Sullivan
Senior Vice President

² The Accounting standards Division of the American Institute of Certified Public Accountants issued a Statement of Position No. 92-3, "Accounting for Foreclosed Assets." This statement provides guidance on the balance sheet treatment of foreclosed assets after foreclosure.