

# DRAFT

ATTACHMENT 2

## DETERMINING MARKET VALUE OF ASSETS

### I. INTRODUCTION

Pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), the RTC has been charged with establishing "an appraisal or other valuation method for determining the market value of real property." [Section 501(b)(12)(D)(ii)] FIRREA imposes certain limitations on the RTC with respect to disposing of real property assets in relationship to market value, especially with regard to disposition of these assets in "distressed areas".

Title V of FIRREA permits some latitude in the method(s) used to determine the market value of properties. Title XI, however, mandates specific appraisal requirements on the RTC. The RTC's proposed regulation 12 C.F.R. Part 1608 - Appraisals, developed pursuant to FIRREA, requires that any real estate-related transaction (with a value greater than \$15,000) including the sale, lease, or purchase of property or the use of real property as security for a loan or investment, requires an appraisal performed in accordance with the RTC's standards.

The RTC will normally rely on independent appraisals for determining a real property's market value. However, the RTC may use alternative valuation methods, such as appraisal reviews, brokers' opinions, competitive market analysis, and market evaluations based on offers received and comparable sales, to supplement appraisals when determining an asset's market value. The alternative techniques should be used on a case-by-case basis in order to maximize the RTC's use of independent and objective sources.

### II. SIGNIFICANCE OF APPRAISED VALUE

The purpose of an appraisal is to provide an objective and realistic opinion of market value. The RTC requires appraisals performed by independent third parties, with the goal of providing objective and independent estimates of market value from individuals not associated with the disposition of the real property asset. Although appraisals do not provide indisputable evidence of value, they do provide a reasonable basis for determining the value for a given property. In particular, the valuation is useful in making the determination whether to sell property for a specific price.

### III. POLICY

The following general policy will be performed by RTC staff and contractors when determining market value:

- 1) One or more appraisals will be obtained for each real estate asset in accordance with RTC's existing Appraisal policy. The appraisals should be reviewed and if appropriate, substantiated by brokers' opinions and other market analysis.
- 2) If the appraisal conforms to the RTC's standards, then the appraised value adjusted for holding costs and other verifiable costs not reflected in the appraisal will be the RTC's established market value.
- 3) If two current appraisals were obtained for the asset pursuant to RTC policy, then the average of the appraised value adjusted for the aforementioned costs will be the RTC's established market value.
- 4) Results of the RTC's marketing of the property should be monitored by RTC asset staff or the RTC's asset management contractor. If the property has been aggressively marketed and either i) no offers were received; or ii) all bona fide offers received were significantly lower than the appraised value, the asset manager should explore revising the RTC's established market value. Other evidence such as recent brokers' opinions or an analysis of recent comparable sales, should be obtained to substantiate a revision of market value.
- 5) Upon analysis of the marketing efforts and other substantiation, the asset manager may recommend revising the established market value. However, a revision greater than 15% of appraised (or average appraised) value adjusted for any savings of holding or other verifiable costs, will not be allowed at any one time. Furthermore, two revisions totaling more than 20% will not be permitted without obtaining new appraisal(s). The first revision will not be allowed if marketing efforts are deemed inadequate and if the asset has not been actively marketed for at least six months (four months for single family homes). Any subsequent revision would require at least three months of additional marketing since the prior revision.
- 6) If the asset manager believes that either i) a revision at any one time greater than 15%; or ii) revisions totaling more than 20%, are substantiated and appropriate, then a new appraisal(s) should be obtained.

#### IV. PROCEDURES

Approval of the revised market value may be made by the level of authority which approved the original sales price.

V. CONCLUSION

The RTC's establishment of market value will rely on sound appraisals, since the appraisal process requires an in-depth market analysis by an independent and objective party. However, appraisals only provide an estimate of market value, and do not necessarily offer indisputable evidence of value. These guidelines allow the RTC some flexibility for determining market value of assets, based on sound appraisal practices and market analysis valuation techniques.