



**Federal Deposit Insurance
Corporation**

550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter

FIL-29-2017

July 19, 2017

Appraisal Threshold for Commercial Real Estate Transactions

Summary: The FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (the Agencies) are jointly issuing a notice of proposed rulemaking titled Real Estate Appraisals (Appraisal NPR) that will be published in the Federal Register for a 60-day comment period. The Appraisal NPR proposes to increase the current appraisal threshold for commercial real estate (CRE) transactions from \$250,000 to \$400,000. The Appraisal NPR addresses comments received during the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review process, which requires that, not less than once every ten years, the Agencies, along with the Federal Financial Institutions Examination Council, conduct a review of the Agencies' regulations to identify outdated or otherwise unnecessary or burdensome regulatory requirements.

Statement of Applicability to Institutions Under \$1 Billion in Total Assets: This Financial Institution Letter applies to all FDIC-supervised institutions.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Credit Officer
Chief Risk Officer

Related Topics:

Part 323 of the FDIC Rules and Regulations
EGRPRA Report to Congress

Attachment:

Notice of Proposed Rulemaking for Real Estate Appraisals

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Note:

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Highlights:

- Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Title XI) requires the Agencies to adopt regulations prescribing standards for appraisals used in connection with federally related transactions within the jurisdiction of each agency, including that they be performed by certified or licensed appraisers. The Agencies' appraisal regulations were last amended in 1994.
- The Agencies' appraisal regulations identify categories of real estate-related financial transactions that do not require appraisals. In particular, Title XI authorizes the Agencies to establish a threshold level below which an appraisal is not required.
- Under current thresholds, all real estate-related financial transactions with a value of \$250,000 or less, as well as qualifying business loans secured by real estate that are \$1 million or less, do not require appraisals. Qualifying business loans are business loans that are not dependent on the sale of, or rental income derived from, real estate as the primary source of repayment.
- For real estate-related financial transactions at or below the applicable thresholds, the interagency appraisal regulations require financial institutions to obtain an appropriate evaluation of the real property collateral that is consistent with safe and sound banking practices, but that does not need to be performed by a licensed or certified appraiser or meet the other Title XI appraisal standards.
- The Appraisal NPR creates a new definition of, and separate category for, commercial real estate transactions and proposes to raise the threshold for requiring an appraisal from \$250,000 to \$400,000 for those transactions.
- No increase in the qualifying business loan threshold is being proposed, but the Agencies are requesting data and information about this threshold.
- No increase in the residential real estate transaction threshold is being proposed, but the Appraisal NPR requests comment on whether other factors should be considered in evaluating this threshold.