The real estate appraisal policies and guidelines for appraisals (section A) and evaluations (section B) as described below are derived, in part, from the Interagency Real Estate Appraisal Regulations, final revisions (FIL-41-94) and Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994, adopted pursuant to Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The Office of the State Bank Commissioner has concurred, in principle, with these policies and guidelines as they embody the prudent appraisal concepts addressed in prior departmental memorandums (OSBC 8/1/88, 8/1/91). The Office of the State Bank Commissioner has also issued additional interpretive memorandums on recognized exceptions to the appraisal guidelines (OSBC/ABM 3/1/95) and content of evaluations (OSBC 8/24/93).

The Board of Directors is responsible for ensuring the bank's written Loan Policy incorporate guidelines and procedures which establish an effective real estate appraisal and evaluation program and ensure the program's consistent application throughout the appraisal/evaluation process. The program should:

- Establish a process to select, evaluate, and monitor the performance of individuals who perform appraisals or evaluations, with emphasis on education, experience, and competence to render an unbiased opinion;
- Ensure the independence (as defined in K.A.R. 17-11-21) of the individual(s) performing the appraisal or evaluation;
- Determine the appropriate type and content of appraisal for different lending transactions;
- Identify circumstances where an appraisal would be obtained on otherwise exempt transactions; and
- Define procedures to review the accuracy of existing appraisals or evaluations in connection with subsequent lending activity.

SECTION A

MINIMUM APPRAISAL STANDARDS

Transactions of $250,000 or Greater Unless Otherwise Exempt

Required appraisals must:

- Be in conformity with generally accepted appraisal standards as defined in the Uniform Standards of Professional Appraisal Practice (USPAP), unless safe and sound banking practices, as determined by the department, require stricter standards. In any event, the appraiser will not have a direct or indirect interest in the property being appraised. The appraiser must be engaged directly by the bank or its agent, or the bank may also accept an appraisal prepared by an appraiser engaged directly by another financial services institution, provided the appraiser has no direct or indirect interest in the property or the transaction and the bank determines the appraisal conforms to all other requirements;
- Be in written form and contain sufficient information and analysis to support the bank's decision to engage in the transaction. The appraisal should be appropriate for the type of property;
- Should report and provide discussion on appropriate deductions and discounts applicable to the property for any relevant factors affecting market value. The appraisal must include the **current market value** of the property in its actual condition, with consideration given to zoning and any other restrictions in effect as of the date of the appraisal. The bank may also request a **prospective market value** based on events yet to occur, such as construction or renovation, stabilized occupancy level, etc. Therefore, more than one value may be reported in the appraisal, as long as all values are clearly described and reflect projected dates when these events could occur. Factors that may affect value include occupancy levels, non-market lease terms, leasing cost, marketing and holding cost on development projects, etc.;
- Contain an estimate of market value as defined by Federal regulation; and
- Be performed by a state licensed or certified appraiser.

<u>Departure Provision</u>

The departure provision allows limited exceptions to specific USPAP guidelines (i.e. - not use all three approaches to value, etc.) in the preparation of an appraisal, and is generally permissible for appraisals required under K.A.R. 17-11-21 for real estate transactions of $250,000 or more. The bank is cautioned to ascertain whether or not an appraisal prepared in accordance with the departure provision is appropriate for a given transaction and consistent with safe and sound banking practices in view of the risk, size, and complexity of the underlying loan.

SECTION B

MINIMUM EVALUATION STANDARDS

Transactions Greater Than $25,000 but Less Than $250,000; Certain Business Loans of $1 million or Less; and, Certain Transactions Related to Existing Extensions of Credit. (OSBC/ABM 3-1-95)

Minimum evaluation information should include:

- A legal description of the property, including street address (if applicable), its present and projected use;
- The owner(s) of the property;
- The type and general condition of improvements, including approximate age, size, and construction;
- The estimated market value and basis used for determining that value, including a description of the information and analysis used; and
- The date of the appraisal and the signature and address of the appraiser(s).

Evaluations should include any calculations and supporting assumptions necessary to provide the reader an understanding of the analysis and conclusions contained in the evaluation.

The appraisal and evaluation guidelines described above represent minimum documentation standards. Consistent with safe and sound banking practices, banks should, on an individual credit basis, determine whether or not additional information should be obtained in order to make an informed and prudent credit decision. In any event, the department may require a complete appraisal on any real estate related transaction to address safety and soundness concerns.