Joint Release

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board
Office of Thrift Supervision

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APPRAISED MARKET VALUE VALUE CLARIFIED
FOR AFFORDABLE HOUSING LOANS

WASHINGTON, D.C., March 10, 1995 -- Federal banking regulators today said certain types of financial assistance should be considered in the determination of market value for an affordable housing project.

In a joint policy statement, the Office of Thrift Supervision, Comptroller of the Currency, Federal Deposit Insurance Corporation and Federal Reserve Board clarified that lenders should ensure that appraisals of affordable housing projects identify, consider and discuss the effect of certain types of financial assistance, such as low-income housing tax credits, subsidies and grants, sometimes referred to as intangible items, on the estimate of market value for such projects.

The policy statement, which covers affordable housing construction projects and permanent mortgage loans, promotes community development through prudent extensions of credit.

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Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board
Office of Thrift Supervision

Interagency Statement on Appraisals
for Affordable Housing Loans

March 10, 1995

Purpose

This statement clarifies the position of the Office of the Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of Thrift Supervision (collectively, the agencies) on the inclusion of various types of financial assistance, sometimes referred to as intangible items, in the determination of market value when a federally regulated financial institution obtains an appraisal for an affordable housing construction or permanent mortgage loan.

Background

The agencies have long encouraged financial institutions to extend prudent credit to promote community development. By taking the initiative in community development, institutions may establish new markets, reinforce their identity as community institutions, and enhance their performance.

An institution that extends credit for development of an affordable housing project should consider the financial assistance that frequently accompanies these projects, such as low-income housing tax credits (LIHTC), subsidies, and grants. Such financial assistance creates an incentive for developers and investors to undertake the project.

The agencies understand that some institutions have received appraisals where the appraiser has not appropriately considered the various types of financial assistance that is provided to affordable housing projects in the estimate of the project's market value. When the benefits of such financial assistance is not appropriately reflected in a project's appraisal, the estimated cash flow of the project is negatively affected, resulting in a lower market value. Consequently, a proposed affordable housing loan may not have a loan-to-value ratio sufficient to satisfy the standards of the agencies' real estate lending guidelines or to receive favorable treatment under the agencies' risk-based capital rules.

Statement

When a regulated financial institution obtains an appraisal for an affordable housing project, the appraisal should contain a market value estimate that reflects the real estate collateral and typical interests in the real estate on a cash or cash equivalent basis.[1] The agencies' appraisal regulations permit the appraiser to include in the market value estimate any significant financial assistance that would survive sale or foreclosure, such as the value of LIHTC, subsidies, and grants.

An institution should ensure that an appraiser engage to appraise an affordable housing project is competent to perform such an appraisal: is knowledgeable about the various types of financial assistance and programs that are associated with an affordable housing project; and identifies and considers the effect on value of any significant amount of the financial assistance. Consequently, the appraisal should contain a discussion of the value of the financial assistance that would survive sale or foreclosure and how it effects the market value estimate of the project. In addition, while certain types of financial assistance such as tenant-based rent subsidies do not necessarily transfer to new ownership upon sale or foreclosure, the lender should ensure that the appraiser appropriately considers the effect of these items in the cash flow analysis, when applicable.

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[1]OCC 12 C.F.R. Part 34; FRB 12 C.P.R. Part 225; FDIC 12 C.F.R. Part 323: and OTS 12 C.F.R. Part 564.