



FEDERAL RESERVE BANK *of* KANSAS CITY

April 27, 2018

Amendment to Regulation Y, §225.63, “Appraisals required; transactions requiring a State certified or licensed appraiser”

Attention: Chief Executive Officer of Each Tenth District State Member Bank

In Brief: Effective April 9, 2018, the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) adopted a final rule that increases the threshold for commercial real estate transactions requiring an appraisal to greater than \$500,000.

Highlights: The final rule allows a financial institution to use an evaluation rather than an appraisal for commercial real estate transactions of \$500,000 or less. Evaluations provide a market value estimate of the real estate pledged as collateral, but do not have to comply with the Uniform Standards of Professional Appraiser Practices and do not require completion by a state licensed or certified appraiser.

The final rule defines a commercial real estate transaction as a real estate-related financial transaction that is not secured by a single 1-to-4 family residential property. Thus, the rule excludes all transactions, including construction loans, that are secured by a single 1-to-4 family residential property.

The final rule responds, in part, to concerns raised by financial industry representatives that the current threshold level had not kept pace with price appreciation in the commercial real estate market in the 24 years since the threshold was established, and to regulatory burden concerns expressed during the Economic Growth and Regulatory Paperwork Reduction Act review process completed in March 2017.

Contact: Please direct any questions concerning the revised rule to your Federal Reserve Bank of Kansas City central point of contact at (800) 333-1010.

Internet A copy of the Federal Register publication is available at:

Link: <https://www.federalregister.gov/documents/2018/04/09/2018-06960/real-estate-appraisals>