§ 34.46 Professional association membership; competency.

(a) Membership in appraisal organizations. A State certified appraiser or a State licensed appraiser may not be excluded from consideration for an assignment for a federally related transaction solely by virtue of membership or lack of membership in any particular appraisal organization.

(b) Competency. All staff and fee appraisers performing appraisals in connection with federally related transactions must be State certified or licensed, as appropriate. However, a State certified or licensed appraiser may not be considered competent solely by virtue of being certified or licensed. Any determination of competency shall be based upon the individual's experience and educational background as they relate to the particular appraisal assignment for which he or she is being considered.

§ 34.47 Enforcement.

Institutions and institution-affiliated parties, including staff appraisers and fee appraisers, may be subject to removal and/or prohibition orders, cease and desist orders, and the imposition of civil money penalties pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1811 et seq., as amended, or other applicable law.
Federal bank and thrift supervisory agencies.

APPENDIX A TO SUBPART D OF PART 34—
INTERAGENCY GUIDELINES FOR REAL
ESTATE LENDING

The agencies' regulations require that each insured depository institution adopt and maintain a written policy that establishes appropriate limits and standards for all extensions of credit that are secured by liens on or interests in real estate or made for the purpose of financing the construction of a building or other improvements.1 These guidelines are intended to assist institutions in the formulation and maintenance of a real estate lending policy that is appropriate to the size of the institution and the nature and scope of its individual operations, as well as satisfies the requirements of the regulation.

Each institution's policies must be comprehensive, and consistent with safe and sound lending practices, and must ensure that the institution operates within limits and according to standards that are reviewed and approved at least annually by the board of directors. Real estate lending is an integral part of many institutions' business plans and, when undertaken in a prudent manner, will not be subject to examiner criticism.

LOAN PORTFOLIO MANAGEMENT
CONSIDERATIONS

The lending policy should contain a general outline of the scope and distribution of the institution's credit facilities and the manner in which real estate loans are made, serviced, and collected. In particular, the institution's policies on real estate lending should:

• Identify the geographic areas in which the institution will consider lending.
• Establish a loan portfolio diversification policy and set limits for real estate loans by type and geographic market (e.g., limits on higher risk loans).
• Identify appropriate terms and conditions by type of real estate loan.
• Establish loan origination and approval procedures, both generally and by size and type of loan.
• Establish prudent underwriting standards that are clear and measurable, including loan-to-value limits, that are consistent with these supervisory guidelines.
• Establish review and approval procedures for exception loans, including loans with loan-to-value percentages in excess of supervisory limits.
• Establish loan administration procedures, including documentation, disbursement, collateral inspection, collection, and loan review.
• Establish real estate appraisal and evaluation programs.
• Require that management monitor the loan portfolio and provide timely and adequate reports to the board of directors.

The institution should consider both internal and external factors in the formulation of its loan policies and strategic plan. Factors that should be considered include:

• The size and financial condition of the institution.
• The expertise and size of the lending staff.
• The need to avoid undue concentrations of risk.
• Compliance with all real estate related laws and regulations, including the Community Reinvestment Act, anti-discrimination laws, and for savings associations, the Qualified Thrift Lender test.
• Market conditions.

The institution should monitor conditions in the real estate markets in its lending area so that it can react quickly to changes in market conditions that are relevant to its lending decisions. Market supply and demand factors that should be considered include:

• Demographic indicators, including population and employment trends.
• Zoning requirements.
• Current and projected vacancy, construction, and absorption rates.
• Current and projected lease terms, rental rates, and sales prices, including concessions.
• Current and projected operating expenses for different types of projects.
• Economic indicators, including trends and diversification of the lending area.
• Valuation trends, including discount and direct capitalization rates.

UNDERWRITING STANDARDS

Prudently underwritten real estate loans should reflect all relevant credit factors, including:

• The capacity of the borrower, or income from the underlying property, to adequately service the debt.
• The value of the mortgaged property.
• The overall creditworthiness of the borrower.
• The level of equity invested in the property.
• Any secondary sources of repayment.
• Any additional collateral or credit enhancements (such as guarantees, mortgage insurance or takeout commitments).

1The agencies have adopted a uniform rule on real estate lending. See 12 CFR part 365 (FDIC); 12 CFR part 208, subpart C (FRB); 12 CFR part 34, subpart D (OCC); and 12 CFR 563.100-101 (OTS).