



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 16-15

October 28, 2016

TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK AND TO EACH FINANCIAL INSTITUTION SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: Exception to Appraisal Regulation Requirements in Areas Affected by Flooding in Louisiana

Applicability to Community Banking Organizations: This guidance applies to state member banks and bank holding companies and their nonbank subsidiaries, including those with \$10 billion or less in consolidated assets that finance transactions secured by real property located in the affected areas.

The Federal Reserve and the other federal financial institutions regulatory agencies¹ have granted an exception to their appraisal regulations² to certain regulated financial institutions regarding their financing of real estate secured transactions in parishes declared major disaster areas due to storms and flooding in Louisiana.³ The exception is expected to reduce loan processing times and therefore may assist institutions in responding to the financial needs of borrowers affected by the disaster.⁴ See the attached *Federal Register* notice.⁵

¹ The other federal financial institutions regulatory agencies include the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation; and the National Credit Union Administration.

² Refer to 12 CFR 208 subpart E and 12 CFR 225 subpart G.

³ See <https://www.fema.gov/disaster/4277>.

⁴ Refer to SR letter 13-6/CA letter 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."

⁵ This action is being taken pursuant to the federal financial institutions regulatory agencies' authority under the Depository Institutions Disaster Relief Act (DIDRA) of 1992 to grant exceptions to the appraisal requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the agencies' appraisal regulations for up to 36 months when the President, pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, determines that a major disaster exists and the agencies determine that such an exception would both facilitate recovery in the disaster area and be consistent with safety and soundness.

Whether or not an institution elects to take advantage of the waiver is a business decision that may be determined by the institution on a case-by-case basis. When an institution decides to rely on the exception for a particular transaction, the institution should maintain sufficient documentation in the loan file to estimate the collateral's value and support the credit decision. For example, sufficient documentation in a disaster area may include an insurance adjustor's estimate of value. For properties in the disaster areas, the documentation required for excepted transactions will also be sufficient to meet the Board's evaluation standards for the duration of the exception.⁶ Institutions should continue to extend credit for real estate related transactions on terms that are consistent with safe and sound banking practices. The exception expires on December 31, 2017.

Federal Reserve Banks are asked to distribute this letter to the financial institutions in their Districts, as well as to supervisory and examination staff. For questions related to this guidance, please contact the following staff in the Board's Risk Policy Section: Carmen Holly, Senior Supervisory Financial Analyst, at (202) 973-6122; or, Peter Clifford, Manager, at (202) 785-6057. In addition, questions may be sent via the Board's public website.⁷

Michael S. Gibson
Director

Attachment:

- *Federal Register Notice: Temporary Exceptions to FIRREA Appraisal Requirements in Areas Affected by Severe Storms and Flooding in Louisiana*

Cross References to:

- SR letter 13-6/CA letter 13-3, "Supervisory Practices Regarding Banking Organizations and their Borrowers and Other Customers Affected by a Major Disaster or Emergency."
- SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines."

⁶ Refer to SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines."

⁷ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.