



KNOWLEDGE. | EXPERIENCE. | INTEGRITY.

COVID-19 – Rapid Response and Latest Developments

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- Doug Potts, MAI, AI-GRS, Chair, Government Relations Committee, Appraisal Institute
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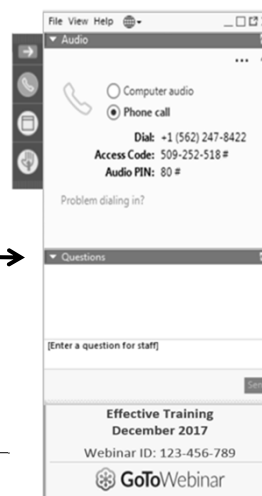
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Getting Started



- 90 minutes
- Questions will be answered at the end of the webinar. Use the Questions box to submit a question.
- Tech Issues:
GoToWebinar (800) 263-6317

Submit your question →



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COVID-19 and Appraisal Practice

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COVID-19 and the Appraisal Report



We're all in this together.

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COVID-19 and the Appraisal Report



What should I say in my appraisal reports about the COVID-19 crisis?

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COVID-19 and the Appraisal Report



Beware of advice
that's not accurate.

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COVID-19 and the Appraisal Report



- Yes, you need to address the COVID-19 crisis in appraisal reports.
- No, it's not a limiting condition, disclaimer, assumption, or extraordinary assumption.

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COVID-19 and the Appraisal Report



- An "appraisal" is an opinion of value.
- "Value" is inherently an opinion.
- So an appraisal is an *opinion of an opinion* of what a property is worth.
- What does THE MARKET think is the value?

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COVID-19 and the Appraisal Report



Careful market analysis is critical, especially now.

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COVID-19 and the Appraisal Report



- Valuation Process
- Economic model, based on economic theory

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COVID-19 and the Appraisal Report



Market value:

- Willing buyer and seller
- Acting in their own best interest
- Knowledgeable, rational market participants

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COVID-19 and the Appraisal Report



Market Imperfections

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COVID-19 and the Appraisal Report



Appraisers aren't uncertain –
the market is!

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COVID-19 and the Appraisal Report



All values reflect market
participant's anticipations.

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COVID-19 and the Appraisal Report



Appraisers aren't expected to have a crystal ball.

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COVID-19 and the Appraisal Report



Questions to ask:

- What's happening with active escrows?
- Are buyers backing out?
- Are sellers holding off on listing properties?
Reducing prices? Offering concessions?
- What are trends with days-on-market?
- What are brokers hearing?
- Are tenants renewing leases?
- Are businesses closing and vacating?
- Are vacant spaces getting leased or remaining vacant?
- Are developers going ahead with development plans, or putting them on hold?

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COVID-19 and the Appraisal Report



Market analysis write-up in appraisal report should include a discussion of the answers to these questions.

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COVID-19 and the Appraisal Report



Significant factor language in letter of transmittal

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COVID-19 and the Appraisal Report



Include a reminder about the significance of *effective date*.

Client might consider getting a new appraisal in near future.

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COVID-19 and the Appraisal Report



Notes of caution:

- Unsupported conclusions
- Use of sales prior to crisis

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COVID-19 and the Appraisal Report



Summary of what we need to do:

- Good research by talking to market participants.
- Good analysis of whatever data is available
- Good market analysis write-up in the appraisal report.
- A significant factor in the letter of transmittal that alerts intended users to the COVID-19 crisis and the uncertainty it has created in the market.
- A discussion about the importance of date of value.

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COVID-19 and the Appraisal Report



- Guide Note 10: *Appraising in the Aftermath of a Disaster*
- Guide Note 12: *Analyzing Market Trends*
- www.appraisalinstitute.org, under "Professional Practice"

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COVID-19 and Government Response

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Government Relations



- Initial Client Reactions - Inspections
- Chasing Real Estate Risk - Existing Regulations
- Federal regulatory actions
 - FNMA & Freddie comments
- Federal legislative actions
- State issues



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How Do We Inspect Property?



- Social distancing
- Shelter-in-Place / Stay-in-Place Orders (
 - California
 - Connecticut
 - Delaware
 - Kentucky
 - Illinois
 - Louisiana
 - New York
 - New Jersey
 - Ohio
 - Oregon
 - Pennsylvania
 - St. Louis & Kansas City, MO
 - Various cities & counties in USA
- More are likely to come.
- Are appraisers an “essential business?”
- What activities are allowed? Go for a walk?
- How can appraisers even drive-by?

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Bank Requirements Disclosures for Inspections?



- Verbiage – “inspect” v “visit” v “data collection”
- Check with jurisdiction about “essential” activities?
- Limitation on travel requirements – use local firms?
- Alternative data
 - Borrower provided data
 - Phone interview w borrowers, agents, other sources
 - Photos and/or MLS photos
 - Virtual inspection – mobile, Skype, Facetime, etc.
 - Prior appraisal reports
 - Building inspections/PCAs
 - Seller disclosure forms
 - Other reports – contractors, architect, etc.

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"Inspection" Required -- Interagency Guidelines



Section XII & XIII – Applies to Evaluations/Validations

- "institution should establish criteria for determining the level and extent of research or inspection necessary to ascertain the property's actual physical condition"
- "institution should consider performing an inspection to ascertain the actual physical condition of the property and market factors that affect its market value."
- "When an inspection is not performed, an institution should be able to demonstrate how these property and market factors were determined."
- "Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed."
- Clear description of extent and methods of data collection
- Proper citation of UA/LC on information from others

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Has the Perfect Storm Finally Arrived?



- Economic cycle now ended – the long run is OVER
- Real estate bubble fully matured
- SARS-CoV19 – massive systemic shock
- Problem loans will fester & grow – SEVERELY?
- Decline in bank earnings / stocks – SEVERELY?
- Regulatory pressure – preserve loan quality
- Portfolio loan management – regulatory pressure – extreme cost sensitivity & time pressure



Tremendous pressure to **preserve loan incumbency**

- Loan Renewal – **only maintains loan base**. Doesn't **grow it**.
- **Appraiser Supply** – getting work done timely & economically
- Huge (tidal wave?) of demand coming at banks?
- How to manage analysis?
 - Is internal staff sufficiently independent?

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Chasing Risk in Collateral Valuations



• New Loan Risk

- Appraisals give excellent point values.
- Appraisals struggle to identify long-term trend.
- Evaluation products share the same problem.

• What About Existing Loans?

- Yesterday's values for yesterday's originations.
- Might have looked lofty back then. But (surprise!) look at today!
- Do today's even higher values make yesterday feel safer?

• What About Subsequent Transactions?

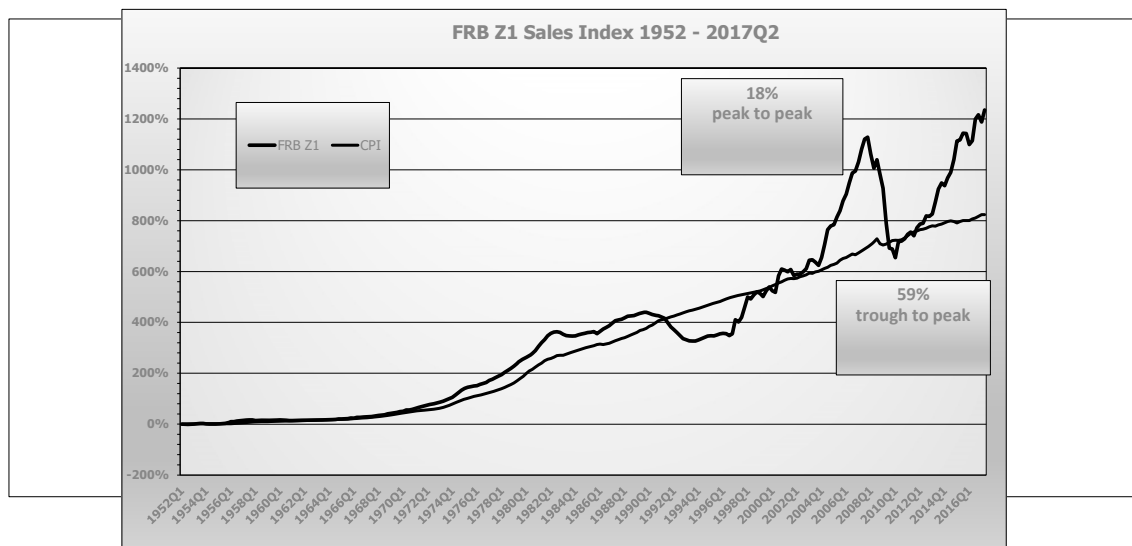
- Get new value opinions?
- Won't we be subject to the same risk as originations?

Are there alternatives?

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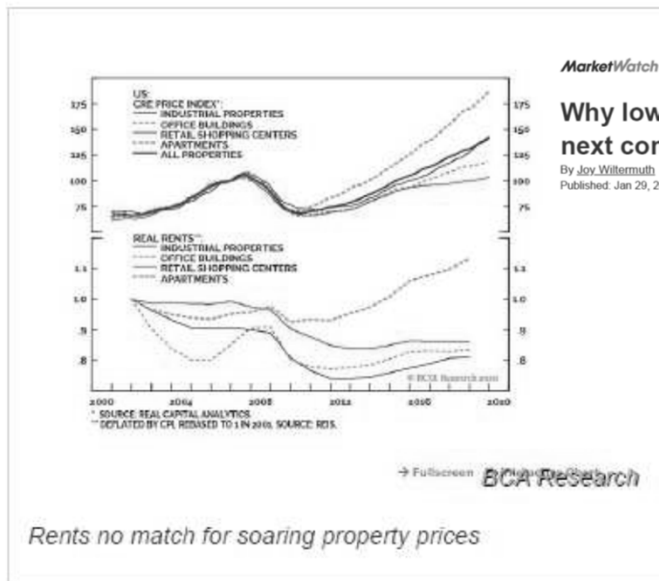
History Repeats? Bubbles & Reversion to Mean



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Waiting for the Shoe to Drop?



MarketWatch

Why low rates are raising questions about the next commercial real estate unwind

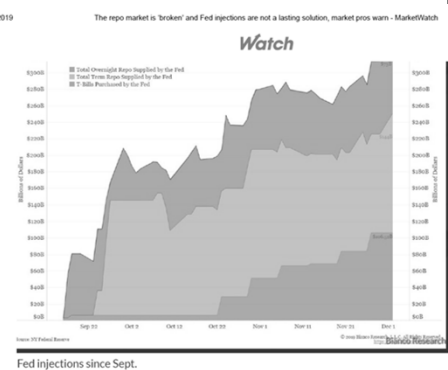
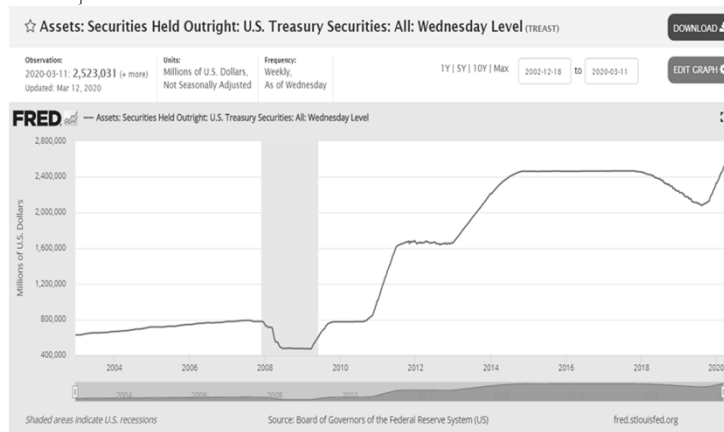
By Joy Willemuth

Published: Jan 29, 2020 7:19 p.m. ET

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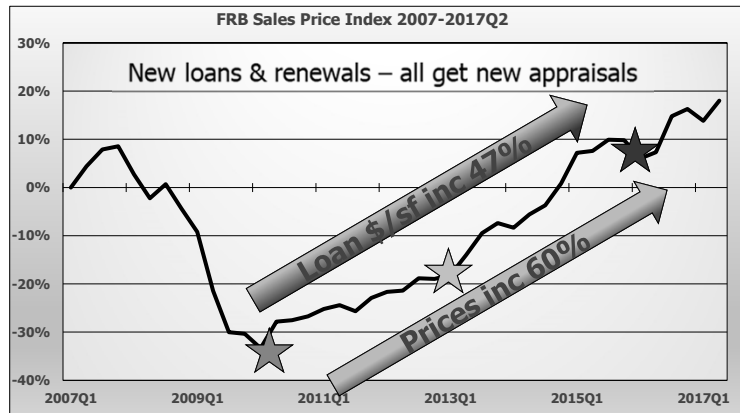
Bullets in the Gun?



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Point Values Chasing Prices?

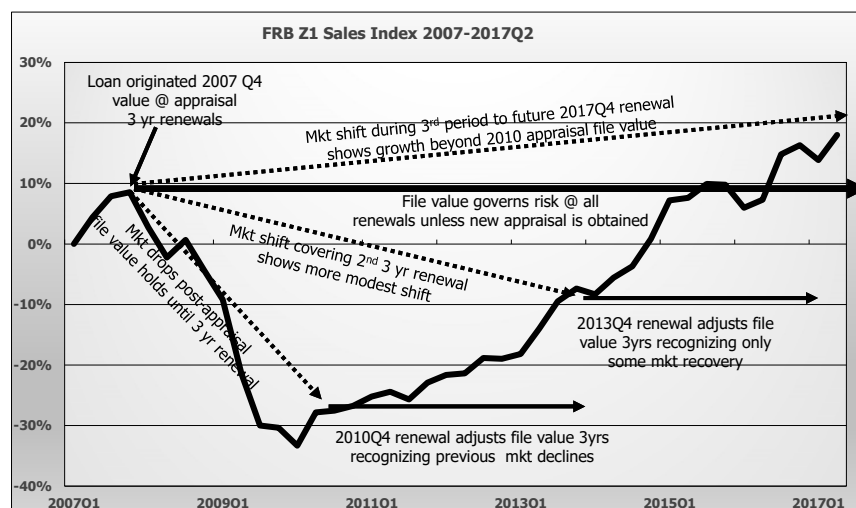


- ★ Loan origin 2010Q1; value @ \$100/sf; 60% LTV = loan \$60/sf
- ★ Loan renew 2013Q1; value @ \$120/sf; 60% LTV = loan \$72/sf
- ★ Loan renew 2016Q1; value @ \$160/sf; 55% LTV = loan \$88/sf

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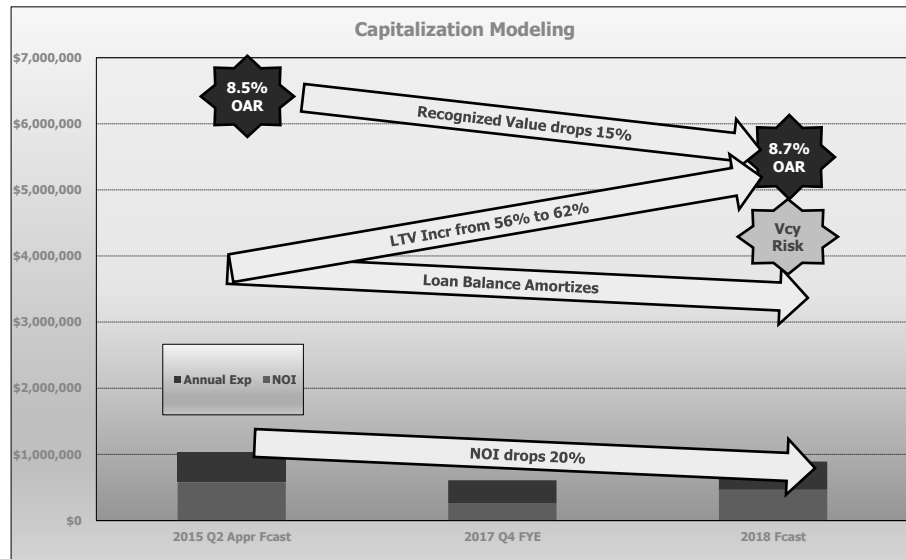
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Control the Chase – Down View



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Income Stress Test - Declining



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Federal Regulatory Actions



• FHFA Directive

News Release

FHFA Directs Enterprises to Grant Flexibilities for Appraisal and Employment Verifications

FOR IMMEDIATE RELEASE

3/23/2020

Washington, D.C. – Today, to facilitate liquidity in the mortgage market during the coronavirus national emergency, the Federal Housing Finance Agency (FHFA) directed Fannie Mae and Freddie Mac (the Enterprises) to provide alternative flexibilities to satisfy appraisal requirements and employment verification requirements through May 17, 2020.

To allow for homes to be bought, sold, and refinanced as our nation deals with the challenges of the coronavirus, the Enterprises will leverage appraisal alternatives to reduce the need for appraisers to inspect the interior of a home for eligible mortgages.

• GSE Lender Letters

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Federal Regulatory Actions



- Lender Letters (LL-2020-04 & Bulletin 2020-5)
 - Effective through May 17, 2020
 - Additional FAQs, guidance expected
 - Exterior Only and Desktop appraisals
 - Revisions to Scope of Work
 - Waivers

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Federal Regulatory Actions



- Lender Letter (LL-2020-04)

| Loan purpose | LTV ratio | Occupancy | Ownership of loan being refinanced | Permissible appraisals (in order of preference) |
|----------------------------|-------------------------------|---------------------------|------------------------------------|---|
| Purchase* | Per <i>Eligibility Matrix</i> | Principal residence | N/A | Traditional appraisal Desktop appraisal Exterior-only appraisal |
| | ≤ 85% | Second home Investment | | Traditional appraisal Desktop appraisal Exterior-only appraisal |
| | > 85% | Second home | | Traditional appraisal |
| Limited cash-out refinance | Per <i>Eligibility Matrix</i> | All | Fannie Mae-owned | Traditional appraisal Exterior-only appraisal |
| | | | Not Fannie Mae-owned | Traditional appraisal |
| Cash-out refinance | | | Fannie Mae or not | Traditional appraisal |

*Excludes new construction and construction



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Federal Regulatory Actions



- 3/22 - FRB, CMBS Market Functioning
- 3/19 - Interagency FAQ on Coronavirus

12. Real Property Inspections. How should financial institutions respond to COVID-19 related issues relative to inspections of real property?

Financial institutions should consult with appraisers and other persons performing real estate inspections about alternative arrangements if the property owner does not want to permit access to the interior of a property due to concerns related to COVID-19.

13. Real Property Appraisals. How should COVID-19 related issues be addressed in appraisal reports?

Financial institutions should consult with appraisers about how to address any short-term, temporary reduction in the income stream produced by income-producing real estate that has been affected by COVID-19.

- 3/22 Guidance on Loan Modifications

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Federal Regulatory Actions



- Policy Updates Expected for
 - Federal Housing Administration
 - Veterans Administration

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Congressional Actions



- Congress – “Round III” Package
 - Senate package
 - House Discussions & Appraiser Inspections
 - Agency applicability
 - Stipulation of Extraordinary Assumption

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State Actions



- State Compliance – ASC
- Classroom - Online Conversion – TAF/AQB
- 3/26 - TAF hosting state regulators meeting
- Stay-at-home/Shelter orders
- Business Closure & Other orders

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State Actions



- CA Executive Order – N-33-20
- Critical Infrastructure

Sector Overview



The Financial Services Sector includes thousands of depository institutions, providers of investment products, insurance companies, other credit and financing organizations, and the providers of the critical financial utilities and services that support these functions. Financial institutions vary widely in size and presence, ranging from some of the world's largest global companies with thousands of employees and many billions of dollars in assets, to community banks and credit unions with a small number of employees serving individual communities. Whether an individual savings account, financial derivatives, credit extended to a large organization, or investments made to a foreign country, these products allow customers to:

1. Deposit funds and make payments to other parties
2. Provide credit and liquidity to customers
3. Invest funds for both long and short periods
4. Transfer financial risks between customers

FINANCIAL SERVICES

- Workers who are needed to process and maintain systems for processing financial transactions and services (e.g., payment, clearing, and settlement; wholesale funding; insurance services; and capital markets activities)
- Workers who are needed to provide consumer access to banking and lending services, including ATMs, and to move currency and payments (e.g., armored cash carriers)
- Workers who support financial operations, such as those staffing data and security operations centers

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State Actions



- NY State on PAUSE
- Closing of "in-office personnel functions"

7. Financial Institutions, Including:

- banks
- insurance
- payroll
- accounting
- services related to financial markets

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State Actions



- IL Executive Order No. 8
 - Essential Businesses and Operations

f. Financial institutions. Banks, currency exchanges, consumer lenders, including but not limited, to payday lenders, pawnbrokers, consumer installment lenders and sales finance lenders, credit unions, appraisers, title companies, financial markets, trading and futures exchanges, affiliates of financial institutions, entities that issue bonds, related financial institutions, and institutions selling financial products;

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State Actions



- NJ Executive Order 107
 - Remain home at place of residence
 - Social distancing

5) reporting to, or performing, their job;

h. Retail functions of banks and other financial institutions;

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State Actions



- CT Executive Order 7h
 - Suspend In-Person Operations
 - Excludes Critical Infrastructure like CA

Not later than 8 p.m. on March 22, 2020, the Department of Economic and Community Development ("DECD") shall issue lawfully binding guidance about which businesses are essential. Those business shall include, but not be limited to, the 16 critical infrastructure sectors as defined by the Department of Homeland Security and available at <https://www.cisa.gov/critical-infrastructure-sectors>, essential health care operations including hospitals, clinics, dentists, pharmacies, elder care and home health care workers, companies and institutions involved in the research and development

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State Actions



- OH Stay and Home Order
 - Non-essential cease
 - Similar to IL, 2 Weeks

- i. **Financial and insurance institutions.** Bank, currency exchanges, consumer lenders, including but not limited, to pawnbrokers, consumer installment lenders and sales finance lenders, credit unions, appraisers, title companies, financial markets, trading and futures

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exchanges, payday lenders, affiliates of financial institutions, entities that issue bonds, related financial institutions, and institutions selling financial products. Also insurance companies, underwriters, agents, brokers, and related insurance claims and agency services;

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State Actions



- DE Shelter in Place Order
- Excludes essential activities

| | | | | | | |
|------------------------------------|-------------|---|------|--|-----|---|
| Real Estate and Rental and Leasing | Real Estate | Lessors of Real Estate | 5311 | | No | Permitted to work from home and can do showings but no open houses, can do what is necessary to complete sales in final stages prior to state of emergency. |
| | | | | | | |
| | | Offices of Real Estate Agents and Brokers | 5312 | | Yes | Permitted to work from home and can do showings but no open houses, can do what is necessary to complete sales in final stages prior to state of emergency. |
| | | Activities Related to Real Estate | 5313 | | | |

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State Actions



- KY Emergency Declaration
- Business closure
- Remote operations & inspections
- Life sustaining businesses

Banks, Credit Unions, Check Cashing, Wire Transfer, and Other Financial Services ☒ Yes

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State Actions



- LA Stay-at-Home Proclamation
 - Nonessential services
 - No mention of appraisal or bank affiliations

Any business not covered by the guidance from the CISA discussed in Section 3 and not ordered temporarily closed in Section 4 shall reduce operations to continue with minimum contact with members of the public and essential employees, while requiring proper social distancing. Further, the 10-person limitation on gathering size shall apply to such business operations. Early learning centers and child care facilities adhering to the guidance issued by the Louisiana Department of Education and Office of Public Health may continue to operate.

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State Actions



- MI Stay Home - Stay Safe Order
 - Leans heavy on CISA information like CA
 - Through April 13
 - Heavy restrictions – "No person or entity shall operate a business or conduct operations that require workers to leave their homes or places of residence" unless you're on the CISA list.

**MORE STAY AT HOME ORDERS
EXPECTED**

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State Actions



- PA Cease Business Order
 - Remote operations seem to be allowed
 - List of Life Sustaining Businesses

| | | | |
|---------------|-------------|---|----|
| Rental ing | Real Estate | Lessors of Real Estate | No |
| | | Offices of Real Estate Agents and Brokers | No |
| | | Activities Related to Real Estate | No |

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State Actions



- GA Building Inspections
 - Waiving city/county code inspections
 - Builder alternatives

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State Actions



- Advice on Orders
 - Contact state appraiser regulatory agency for guidance, clarification
 - Governor's or AG's offices
 - Communicate with your client

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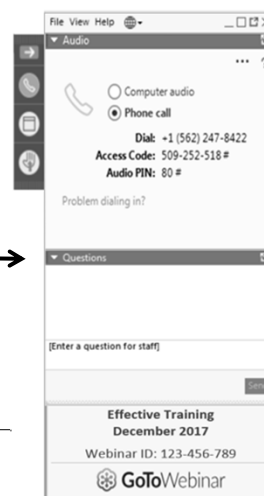
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Q & A



Use the Questions box to submit a question.

Submit your question



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Recording



This webinar presentation is being recorded, and the recording will be posted for all on our coronavirus page at:

<https://www.appraisalinstitute.org/news/coronavirus/>

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Thank You!

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