Appraisal Rules for Higher-Price Mortgages Released by Regulators

By: Jann Swanson | Fri, Jan 18 2013, 1:09 PM

Eighteen months after the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed, the rules shaping its implementation have begun to rain down from the designated regulators. For the third time this a week a new rule affecting the mortgage industry has been released, this time one promulgated by six federal agencies to govern certain appraisals.

The new rule applies only to **appraisals for "higher-priced mortgage loans."** Under the Dodd-Frank Act a higher-priced loan is one secured by an owner-occupied residence and with an interest rate above the following thresholds: "If the APR exceeds the APOR by 1.5 percent for first-lien conventional or conforming loans, 2.5 percent for first-lien jumbo loans, and 3.5 percent for subordinate-lien loans." There are several additional exceptions to the rule which will be outlined below.

According to a summary of the **333 page rule** from the Board of Governors of the Federal Reserve, the Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, National Credit Union Administration and the Comptroller of the Currency these are its principal features.

- Creditors must use a **licensed or certified appraiser** who prepares a written appraisal report based on an interior inspection of the property. The credit must disclose information about the purpose of the appraisal to the mortgage applicant and provide them with a free copy of any appraisal report. The consumer must be provided this report at least three days prior to closing on the loan.
- A second requirement applies where a sale is occurring within six months of its acquisition by the seller and at a higher price. There are **two triggering benchmarks** for the requirement: If the resale is within 90 days of the seller acquiring the property and the resale price exceeds the acquisition price by more than 10 percent; or if the resale is within 91 to 180 days of acquisition and the resale price exceeds the seller's acquisition price by more than 20 percent.

Under either of these circumstances, creditors will have to obtain a second appraisal at no cost to the applicant. This requirement is intended to ensure that property values have legitimately increased and that there is no fraudulent property flipping.

The new rule **exempts several types of loans**, such as qualified mortgages, temporary bridge loans and construction loans, loans for new manufactured homes, and loans for mobile homes, trailers and boats that are dwellings. The rule also has exemptions from the second appraisal requirement to facilitate loans in rural areas and other tr

The six agencies will also publish a supplemental proposal to request additional comment on possible exemptions for "streamlined" refinance programs and small dollar loans, as well as to seek clarification on whether the rule should apply to loans secured by existing manufactured homes and certain other property types. This is being done in response to earlier public comments.

Like two other rules released this week which defined Qualified Mortgages, laid out requirements for determining borrowers' ability to repay, and established standards for mortgage servicers, the appraisal rule will go into effect in **January 2014**.

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