September 20, 1992

Ray C. Burnett
Mid-Minnesota Federal Credit Union
P.O. Box #309
Brainerd, MN 56401

Re: Valuations and the Appraisal Regulation (Your August 6, 1992, Letter)

Dear Mr. Burnett:

You have asked whether a federal credit union that uses a member's estimate of value and a tax assessment for home eq- uity loans under $50,000 is a valid valuation under Section 722.3(d) of NCUA's Rules and Regulations (12 C.F.R. ~722.3(d)). For your valuation method to be in compliance with NCUA's Regulations, the member's estimate cannot be relied upon. You must ensure that the collateral is in good condition and that market conditions since the time of the tax assessment have not deteriorated.

ANALYSIS

Mid-Minnesota Federal Credit Union (FCU) makes home improve- ment loans of up to $35,000 per loan with a maximum of $50,000 per member. The loans are either first or second mortgages with a term not to exceed fifteen years. According to FCU policy, the member is required to estimate the value of the property in writing and supply the tax assessment to the FCU. The FCU adds 50-60% of the costs of improvements to be made to the assessed value and then disburses the loan funds directly to suppliers and contractors. The FCU's ap- praiser estimates that the assessed value is consistently 90% of market value.

As you know, Section 722.3(d) of NCUA's Regulations requires that real estate-related financial transactions in which the transaction value is $50,000 or less require a written esti- mate of market value (a "valuation") instead of an appraisal meeting the standards of Section 722.4 of the Regulations. A member's estimate of value should not be relied on in the valuation process. The individual making the determination must be qualified to make valuations and have no direct or indirect interest in the property. If a tax assessment is used as part of the valuation process, the FCU must ensure that market conditions since the time of the assessment have not deteriorated. The FCU can rely on the appraiser's estimate of the reliability of the tax assessment to determine that market conditions have not changed. The FCU must also ensure that the collateral is in good condition (a drive-by for example). These changes must be made in order for your FCU to comply with the Section 722.3(d) requirements.

Sincerely,

Hattie M. Ulan
Associate General Counsel

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