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## Media Release

FOR IMMEDIATE RELEASE

### NCUA Issues Guidance on Using Automated Valuation Methods to Evaluate Collateral

*NCUA opines in-house review of market valuations provided by an AVM meets regulatory requirements for written estimate of value*

**January 26, 2007, Alexandria, Va.** -- NCUA has reiterated that credit unions can use automated valuation methods (AVMs) to determine the value of real property for smaller mortgages. Credit unions can use AVMs in the lending process provided each market valuation calculated by the AVM is reviewed by an individual with knowledge, training, and experience in the local real estate market. This individual can be a credit union employee, such as a loan officer.

NCUA's appraisal rule exempts certain transactions from the requirement of a formal appraisal but requires a "written estimate of market value." As compared to formal appraisals, AVMs are computer-generated estimates of value, generally based on tax and comparable sales data.

Last October, NCUA's Office of General Counsel issued a letter stating credit unions could use AVMs. Based on inquiries about the October letter, NCUA issued OGC Opinion 06-1219 this week to provide additional clarification on regulatory requirements related to use of AVMs. The letter clarifies AVMs can be used by credit unions for mortgage or home equity transactions with a value of \$250,000 or less when the market valuations provided by the AVM are reviewed by an individual with "knowledge, training, and experience in the local real estate market," and that the reviewer can be an employee of the credit union.

The letter also notes related guidance on managing credit risks associated with home equity lending from the Federal Financial Institution Examination Council (FFIEC). The FFIEC guidance addresses (1) the due diligence an institution should undertake in evaluating whether or not to use an AVM product, and (2) that sound business practice prescribes appraisals and evaluations be independent from the loan production staff whenever possible. (See NCUA Letters to Credit Union 05-CU-07 and 05-CU-06)

The letter recommends that credit unions with questions about the use of AVMs in

meeting the requirement for a written estimate of market value should consult their examiner, regional office or state supervisory authority.

The National Credit Union Administration charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, operates and manages the National Credit Union Share Insurance Fund, insuring the accounts of over 85 million account holders in all federal credit unions and the majority of state-chartered credit unions. NCUA is funded by credit unions, not federal tax dollars.