



NCUA
National Credit Union Administration

Office of Examination and Insurance
Office of General Counsel

Part 722 – Appraisals NPR

Board Briefing
September 20, 2018

Legislative Background

- **1989:** FIRREA directed regulatory agencies to prescribe appropriate appraisal standards and required certified appraisers for federally related transactions of \$1 million or more.
- **1992:** FIRREA amended to expressly authorize agencies to set thresholds levels at which no appraisal is required.
- **2010:** Dodd Frank Act amended the threshold provision to include concurrence from the Bureau of Consumer Financial Protection.
- **2018:** S. 2155 established an appraisal threshold exempting certain rural federally related transactions with values of less than \$400,000.

Regulatory Appraisal Thresholds

NCUA thresholds compared to Other Banking Agencies

Year	NCUA	Other Banking Agencies
1989	\$50,000	\$50,000
1992	\$50,000	\$100,000
1994	\$50,000	\$250,000 (non-QBL and residential) \$1,000,000 (QBLs)
1995	\$100,000	\$250,000 (non-QBL and residential) \$1,000,000 (QBLs)
2002	\$250,000	\$250,000 (non-QBL and residential) \$1,000,000 (QBLs)
April 2018	\$250,000	\$250,000 (residential) \$500,000 (non-QBL) \$1,000,000 (QBLs)

QBL = qualifying business loan

NCUA NPR Objectives

- **Make the commercial real estate appraisal standards for credit unions more consistent with those for banks.**
- **Restructure the regulation to make it easier to determine what is required.**
- **Incorporate the rural exemption provided by the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155).**
- **Make various other conforming adjustments.**

NCUA's Proposed Appraisal Rule

Key Changes and Enhancements

Appraisal Requirement			
	NCUA Current Rule	NCUA Proposed Rule	Other Banking Agencies
Non-Residential (Commercial)			
<\$250K			
≥ \$250K	Certified		
≥ \$500K	Certified		Certified (non-QBL)
≥ \$1M	Certified	Certified	Certified
Residential			
<\$250K			
Complex ≥ \$250K	Certified	Certified	Certified
Not Complex ≥ \$250K	Licensed or Certified	Licensed or Certified	Licensed or Certified

The exemption in S. 2155 for certain federally related transactions involving real property located in a rural area with a transaction value less than \$400,000 will only affect residential loans under the other banking agencies rule and NCUA's proposed rule because non-residential transactions with values less than \$500,000 and \$1 million would not require an appraisal.

Risk Considerations for Proposed New Threshold for Commercial Real Estate

- QBL and Non-QBL commercial real estate: Cash-flow and resiliency of the business (not the real estate collateral) are the primary underwriting factors.
- Even the most precise value estimates are as of a point in time and can change with market conditions.
- Greater market transparency and innovation over the last 20 years provide significant information about rental and sales market trends.
- Credit union exposure to both loan types is limited. The collateral valuation method is not a key driver of risk.
- Most credit unions are subject to a statutory cap on business lending.

Proposed New Structure for the Regulation (722.3)

- **722.3(a) Exemptions**
- **722.3(b) Appraisal by state-certified appraiser**
- **722.3(c) Appraisal by state-licensed or certified appraiser**
- **722.3(d) Written estimate of market value**
- **722.3(e) Appraisals to address safety and soundness concerns**
- **722.3(f) Rural exemption**

NCUA's Proposed Appraisal Rule

Other Changes and Enhancements

No Written Estimate or Appraisal Required

	NCUA Current Rule	NCUA Proposed Rule	Other Banking Agencies' Rule
Lien taken as abundance of caution	X	X	X
Lien taken for purpose other than value of real estate	X	X	X
Lease*	X	X	X
Purchasing a real estate investment pool (e.g., MBS)	X	X	X
Qualifies for sale to USG or USG sponsored agency	X	X	X
Appraisal conforms to FNMA and/or FHLMC	X	X	X
Existing extension of credit (and not fully insured)**	Written Estimate	X	Evaluation
Regional Director waiver (non-residential)	X	N/A***	

*Unless the lease is the economic equivalent of a purchase or sale.

**Under the current rule, this is defined as no new monies and no material change in market conditions. Under the proposed rule, this language was amended to use the GAAP definition of a new loan.

***Under the proposal, the non-residential threshold is \$1 million, which is statutory and cannot be waived.

NCUA's Proposed Appraisal Rule

Other Changes and Enhancements (cont'd)

No Written Estimate or Appraisal Required

	NCUA Current Rule	NCUA Proposed Rule	Other Banking Agencies Rules
Fully insured or guaranteed by U.S. Gov't			
Transaction Value ≥ \$1M	X	Only if the insurer/guarantor obtained an appraisal	X
Transaction Value < \$1M	X	X	X
Partially insured or guaranteed by U.S. Gov't (non-residential)			
Transaction Value ≥ \$1M	X	Only if the insurer/guarantor obtained an appraisal	X
Transaction Value < \$1M	X	Written Estimate	X
Partially insured or guaranteed by U.S. Gov't (residential)			
Uninsured or unguaranteed portion ≥ \$250K	X	Appraisal	X
Uninsured or unguaranteed portion < \$250K	X	Written Estimate	X

Specific Questions for Comment

- Whether there are other factors that should be considered in evaluating the current threshold for 1-to-4 family residential transactions and whether the threshold can and should be raised, consistent with consumer protection, safety and soundness, and reduction of unnecessary regulatory burden.
- Proposed §722.3(a)(1), linking the definition of a new loan to Generally Accepted Accounting Principles, and whether the current language in the regulation should be maintained.
- If and how a credit union's current use of a U.S. government agency's or sponsored agency's insurance or guarantee program(s) would be affected by proposed §722.3(b)(2) and proposed §722.3(c)(1).
- Whether a de minimis dollar amount (for example, \$50,000) should be established at which transactions would be exempt from the requirement of obtaining a written estimate of market value; and if so, what level is appropriate?
- Whether the proposed changes achieve the intended goal of clarifying the types of transactions that require an appraisal or written estimate of market value.

Approval Request

Request Board Approval to Publish the Proposed Rule 722 - Appraisals in the Federal Register for a 60-day comment period