Residential Appraisals

November 21, 2019
Appraisal Rule Objectives

- Increase the threshold from $250,000 to $400,000 for burden relief and to keep up with inflation.
  - Not create a threat to safety and soundness.
  - Restore level of relief and exemptions on par with previous threshold increases.
- A few cohering amendments.
1989: Title XI of FIRREA directed regulatory agencies to prescribe appropriate appraisal standards and required certified appraisers for federally related transactions $1$ million.

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 Consumer Financial Protection Bureau.

2018: S. 2155 established an appraisal threshold exempting certain rural federally related transactions with values of less than $400,000.


1. Federally related transaction is defined as a real estate-related financial transaction that is regulated or engaged in by a federal financial institutions regulatory agency.
Residential Real Estate Appraisal Thresholds

1. OBA\(^1\)
   Threshold Established 
   $50,000\(^2\)

2 and 3. OBA
   Increased to $100,000 and 
   subsequently $250,000

6. OBA
   Increased 
   to $400,000

1990
1992
1994
1995
2002
2019

1. NCUA\(^2\)
   Threshold 
   $50,000\(^2\)

4. NCUA
   Increased 
   to $100,000

5. NCUA
   Increased 
   to $250,000

7. NCUA
   Proposed 
   to $400,000

1. OBA refers to the other regulatory banking agencies of Office of the Comptroller of the Currency, Federal Reserve System and Federal Deposit Insurance Corporation.
2. Threshold set responsive to 1989 Title XI amendment.
Recent Real Estate Appraisal Updates

- July 2019 final real estate appraisal rule enhanced independence requirements in the regulation.
- Individuals preparing written estimates of market value must be qualified, competent, and independent of the transaction and the loan production function of the institution.
- Proposed rule:
  - Incorporates appraisal review,
  - Removes rural exemption.
Threshold Increase: Keeping pace with Residential Real Estate Appreciation

### NCUA¹

<table>
<thead>
<tr>
<th>Year</th>
<th>NCUA Proposed Threshold</th>
<th>Case-Shiller</th>
<th>FHFA</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>2Q 2019</td>
<td>400,000</td>
<td>455,864</td>
<td>452,218</td>
<td>361,338</td>
</tr>
<tr>
<td></td>
<td>Compound annual growth rate (CAGR)</td>
<td>2.5%</td>
<td>3.2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

### Other Banking Agencies¹

<table>
<thead>
<tr>
<th>Year</th>
<th>OBA Threshold</th>
<th>Case-Shiller</th>
<th>FHFA</th>
<th>CPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>2Q 2019</td>
<td>400,000</td>
<td>660,689</td>
<td>631,576</td>
<td>426,518</td>
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<tr>
<td></td>
<td>Compound annual growth rate (CAGR)</td>
<td>1.8%</td>
<td>3.7%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: S&P/Case-Shiller U.S. National Home Price Index tracks the value of single-family housing within the United States; FHFA House Price Index- tracks changes in residential property prices. CPI Index.

¹. Year-over-year index growth starting from year-end when threshold approved.
Maintaining Relief over Time

% NCUA transactions exempt matches outcome of previous threshold change

1990: Initial $50,000 threshold
1995: Increased to $100,000
2002: Increased to $250,000
2019: Proposed to $400,000

Note: Limited to first-lien, single-family mortgage originations on residential properties by NCUA-insured institutions that are not sold to the GSEs or otherwise insured or guaranteed by a U.S. government agency.
Maintaining Relief over Time (continued)

% NCUA dollar volume exempt is also consistent with previous threshold changes

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial</th>
<th>Exempt</th>
<th>Pro forma</th>
<th>Exempt</th>
<th>Pro forma</th>
<th>Exempt</th>
<th>Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>$50,000</td>
<td>50%</td>
<td></td>
<td>85%</td>
<td></td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>Increased to $100,000</td>
<td>26%</td>
<td>Pro forma Exempt</td>
<td>32%</td>
<td>Pro forma Exempt</td>
<td>55%</td>
<td>Pro forma Exempt</td>
</tr>
<tr>
<td>2002</td>
<td>Increased to $250,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2019</td>
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Note: Limited to first-lien, single-family mortgage originations on residential properties by NCUA-insured institutions that are not sold to the GSEs or otherwise insured or guaranteed by a U.S. government agency.
Residential real estate has performed well through economic cycles and threshold changes.

Source: NCUA FPR data, FDIC data
Note: Real estate figures do not include commercial real estate.
Residential real estate has performed well through economic cycles and threshold changes.

Source: NCUA FPR data, FDIC data
Note: Charge offs are net recoveries. Real estate figures do not include commercial real estate.
New threshold exempts an additional $14 billion of residential mortgages balances from appraisal requirements

$78 billion of CU 2018 first mortgage origination

1. Sold to Fannie/Freddie
   $17.6 billion (23% total)

2. Other Government Guarantee Programs
   $10.8 billion (14% total)

3. Currently Exempted < $250k
   $27.0 billion (35% total)

4. >$400k Covered
   $8.3 billion (11% total)

5. $14.2 billion or 46,000 mortgages relieved of appraisal requirements by proposed rule (18% of total) ~0.9% of credit union assets

* Also, S2155 exempts rural transactions and appraisals may still be conducted
Written Estimates of Market Value

- Transaction under $400,000 require a written estimate.
- Potential time and cost savings for FICUs and borrowers.
- July rule formalized independence expectations by codifying them in the regulation.
- Credits unions can still use appraisals.
The NPR poses several questions for comment relating to consumer protection and safety and soundness.

Request for approval to publish in the Federal Register with a 60 day comment period.