



November 20, 2017

Mr. Gerald Poliquin,  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

RE: Regulatory Reform Agenda Part 722: Appraisals

Dear Mr. Poliquin:

On behalf of the 19,000 members of the largest organization of professional real property appraisers, we write today in response to the National Credit Union Administration's ("NCUA") request for comment on their Regulatory Reform Agenda, which includes considering raising the appraisal threshold, among other things.

As we recommended to the Federal Banking Agencies ("Agencies") in response to the EGRPRA proposal, the Appraisal Institute is strongly opposed to the proposed increase in the appraisal threshold level from \$250,000 to \$400,000 for commercial real estate loans. That proposal exemplified "regulatory arbitrage," and it contradicts federal bank regulators' concerns regarding the state of the commercial real estate market<sup>1</sup> and the quality of evaluation reports. Although the proposal represents a modest increase, as pricing in commercial real estate has increased, so have investment risks in commercial real estate. If anything, federal bank regulators should be calling for *heightened* due diligence by regulated institutions today -- not a loosening of a fundamental risk management activity.

This is particularly true for credit unions, and smaller community and regional banks, which our members report are less likely to have robust collateral risk management policies, practices and procedures. While most large banks with established commercial lending operations have internal appraisal departments that are staffed by qualified appraisers and appraisal reviewers (often professionally designated by organizations like the Appraisal Institute), many smaller banks and credit unions are not paying as close attention to risk management and collateral valuation. This is illustrated by bank failures over the past decade, which overwhelmingly occur amongst smaller institutions and in large part due to poor commercial lending decisions.

Those closest to this issue and assisting risk management activities within regulated financial institutions (bank chief appraiser and appraisal managers) do not support increasing the appraisal threshold levels. A recent survey indicated that an overwhelming majority believe that the appraisal threshold levels should remain at \$250,000. Specifically, 76.6 percent of chief appraisers/appraisal managers strongly or somewhat disagrees with raising the \$250,000 threshold level; 87.5 percent of chief appraisers/appraisal managers strongly or somewhat disagrees with raising the \$1,000,000 owner-occupied commercial real estate threshold level. Further, an overwhelming majority (89.1 percent) of chief appraisers/appraisal managers strongly or somewhat agrees that raising threshold levels could increase risk to lenders.

While the Appraisal Institute appreciates lender concerns about the availability of appraisers in some rural parts of the United States, we strongly caution against tailoring a national policy around isolated conditions. Any one real estate market may experience rapid growth, but that growth may *increase* the

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<sup>1</sup> The Federal Reserve Monetary [Report](#)

importance of appraisals, as real estate is prone to market fluctuations. During the EGRPRA comment period and outreach meetings, it was apparently that many of the appraisal concerns expressed by bank representatives were in relation to *residential* related topics, such as Fannie Mae and Freddie Mac policies or new rules from the Consumer Financial Protection Bureau in relation to implementation of the Dodd-Frank Act. To this point, we note that the number of commercial real estate appraisers has remained relatively steady in recent years, as commercial lending activity has seen slight increases.

For these reasons, we strongly recommend against an increase in the commercial real estate loan threshold level. Should the agencies proceed with the proposal, we urge that the qualifications requirements for those completing evaluations be raised or elevated, to offset the safety and soundness risks caused by the increase in the threshold level.

#### *Business Loan Threshold*

We were pleased the Agencies did not recommend an increase in the business (or owner occupied) loan threshold during the EGRPRA review. This is consistent with statements made by representatives of the banking sector, who expressed little to no concern about the current threshold level during several outreach meetings. We note that many of the loans that would be impacted by a proposed increase in the business loan threshold level are guaranteed by the Small Business Administration. Currently, the SBA requires an appraisal for all loans above \$250,000.

The Appraisal Institute recommends that the NCUA does not need to address the appraisal threshold for business loans in a subsequent rulemaking.

Should you have any questions or need additional information, please contact Bill Garber, Director of Government and External Relations, Appraisal Institute, at 202-298-5586 or [bgarber@appraisalinstitute.org](mailto:bgarber@appraisalinstitute.org), or Brian Rodgers, Manager of Federal Affairs, Appraisal Institute, at 202-298-5597 or [brodgers@appraisalinstitute.org](mailto:brodgers@appraisalinstitute.org).

Sincerely,

Appraisal Institute