



November 14, 2018

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

Via Email: regcomments@ncua.gov

Dear Mr. Poliquin:

On behalf of our 579 credit union clients, CU Business Group, LLC (CUBG) appreciates the NCUA's effort to modernize the appraisal rule, and the opportunity to provide comment upon the proposed rule.

CUBG's basic position is that matching the credit union's appraisal rule to the new one recently approved for banks may be a better approach for several reasons described below.

After years of fighting to obtain parity with other financial institutions, credit unions finally made great strides with the 2016 revision to Part 723. It would be unfortunate for this traction to be reversed with the creation of a new inequity that could start another round of political turmoil with other financial institutions.

The data in the Proposed Rule shows that the proposed revision will have a positive impact based on the number of transactions that will be affected by the change. However, CUBG does not believe the number of loans impacted is the best measurement. Based on our experience and the opinion of several of our credit unions, a \$1 million appraisal threshold for commercial real estate investment property loans is too high. While \$1 million would be considered a small loan in markets like Southern California or New York, it would be a sizable loan in other markets, where \$1 million could represent significant exposure if the property value is not properly supported by an appraisal. CUBG believes the \$500,000 threshold granted to banks would also be the most appropriate threshold for credit unions.

If the NCUA Board does decide to lower the appraisal threshold to \$500,000, credit unions should be allowed to achieve parity with the \$1 million Qualified Business Loan (QBL) limit banks currently enjoy, as these loans have the additional support of an operating business. Accordingly, CUBG and our credit union clients request the Board consider adding the \$1 million QBL limit to Part 722.

Another topic on which CUBG recommends adopting an identical rule to the one used by banks is the determination of when an evaluation can be used in lieu of an appraisal in granting a modification on an existing loan. While the current rule does leave some room for subjectivity, it may allow for fewer mistakes than having individual loan officers trying to interpret ASC 310's definition of a "new loan" and applying it to the refinancing request under consideration. While the FASB definition may be precise, it can often require a rather complicated calculation that could lead to errors. Accordingly, CUBG believes retaining the current rule would be simpler, and any loan officer excesses in how the rule is

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applied would still be subject to review by the regulatory examiners. Once again, this would result in maintaining parity with banks.

Similarly, the Proposed Rule encourages credit unions to use a risk-based common-sense approach that would encourage them to order an appraisal even in some situations when the loan request is eligible for the use of an evaluation. This is typically when the request is rather complex, or a maximum leverage request raises the question of whether there is adequate collateral coverage. CUBG believes this suggestion should be worded more strongly. This would help avoid having loan officers use the less complex valuation approach to rush a deal through or save their borrower the additional cost of an appraisal when a full report is called for by the nature of the individual transaction.

Another area that will be impacted by an increase in the appraisal threshold is reviewer independence for evaluations. Many credit unions currently use loan officers other than the one handling the loan to perform evaluations internally, as staff members from other parts of the credit union are not qualified to do so. Obviously, this does not meet the independence test in the new rule—at least on the surface—as the evaluators are part of the loan production team. CUBG believes that with a higher appraisal threshold for new loans, an outside review would be prudent, but we would also maintain that on modifications, renewals, and workouts, an internal review would remain appropriate. CUBG would ask the NCUA to clarify what they consider to be “prudent safeguards” to ensure independence and isolate the review function from the loan production process. Would it be sufficient to eliminate the performance of evaluations from the reviewing officer’s compensation matrix and performance goals?

CUBG also questions allowing the use of an evaluation in lieu of an appraisal on new loans that will be participated out to other credit unions when the amount falls under the \$1 million threshold. Since the purchasing credit union would not be as familiar with the market as the originating lender’s evaluator, CUBG believes it would be a best practice to have an appraisal performed at origination on new loans being participated out, in order to provide market information. If the threshold is lowered to \$500,000 this would be less of an issue, as loans of that size are more likely to be retained by the originating lender. The Proposed Rule seems to recognize this issue, indicating that an appraisal would be required on loans that are “transferred” to another party unless that party is a federally insured financial institution, in which case an evaluation would be permitted as long as the receiving lender retains the loan in its portfolio. CUBG questions whether the latter requirement would invalidate the classification of this loan transfer as a true non-recourse participation.

CUBG’s final appeal for parity is regarding appraisal requirements for government guaranteed loans. Congress is also weighing in on this issue, and it would seem prudent to stay consistent with other lenders, so credit unions can react in a similar fashion to any new governmental mandates and use the same threshold for any valuations performed. This too, is an area where CUBG believes that obtaining an appraisal is prudent and a best practice on loans over \$500,000, regardless of the amount of the government guarantee provided.

You will notice that CUBG has made no comment on residential appraisal requirements, as our clientele consists of commercial lenders. We do, however, applaud the use of a state licensed appraiser for all commercial real estate appraisals over the final threshold and the use of the \$250,000 threshold for residential construction and takeout loans.



Thank you again for your work in updating the appraisal rule; CUBG and our client credit unions look forward to a rule that works for all federally insured lenders, and continuing to achieve further parity with banks.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Stone".

Jeffrey A. Stone
Vice President/Senior Business Services Officer
CU Business Group, LLC