

April 22, 1996
James H. Turner, Esq.
Turner and O'Connell
258 North St.
P.O. Box 1123
Harrisburg, PA 17108-1123

Re: Appraisals for Home Equity Loans (Your March 19, 1996, Letter)

Dear Mr. Turner:

You represent a federally insured state-chartered credit union ("FISCU") that wants to implement a credit scoring system (System) which can also determine whether the FISCU must appraise or inspect a property, or could use tax assessments and homeowner's insurance policies to estimate the property's value. The FISCU specifically wants the National Credit Union Administration's (NCUA) permission to use the System to advise if it needs to perform appraisals for home equity loans under \$100,000. Neither the FCU Act nor NCUA Regulations requires the FISCU to obtain approval to implement the System since NCUA's appraisal regulation states when an appraisal is required. 12 C.F.R. Part 722.

NCUA's regulation directs the FISCU to obtain an appraisal to support a real estate-related financial transaction when the loan amount exceeds \$100,000, unless the regulation exempts the transaction. 12 C.F.R. §§722.3(a)(1) - (8). If the loan amount is \$100,000 or less, section 722.3(d) of NCUA Regulations requires the FISCU to obtain a written estimate of the collateral's market value. 12 C.F.R. §722.3(d). Instead of mandating specific valuation procedures, NCUA provides credit unions with "the flexibility to use various methods to measure market value." 60 Fed. Reg. 51889, 51890 (October 4, 1995). These procedures may involve a physical inspection of the property, however, the FISCU can rely on a tax assessment or other written evidence if it fully documents its procedures and demonstrates that the failure to inspect the collateral does not present an unacceptable risk. *Id.* We cannot advise you whether the procedures used by the System are adequate to meet safety and soundness concerns. For that advice, the FISCU should consult its state regulator and NCUA's Region II office.

Finally, we caution you that requiring an appraisal based on a credit score may have a discriminatory effect that violates the Equal Credit Opportunity Act, 15 U.S.C. §1691, and Regulation B, 12 C.F.R. Part 202. To avoid a possible violation, you should ensure that the credit score does not reflect the applicant's race, sex or any other prohibited factor.

Sincerely,

Richard S. Schulman
Associate General Counsel

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