



**NCUA**  
National Credit Union Administration

Office of Examination and Insurance  
Office of General Counsel

# Residential Appraisals

November 21, 2019

# Appraisal Rule Objectives

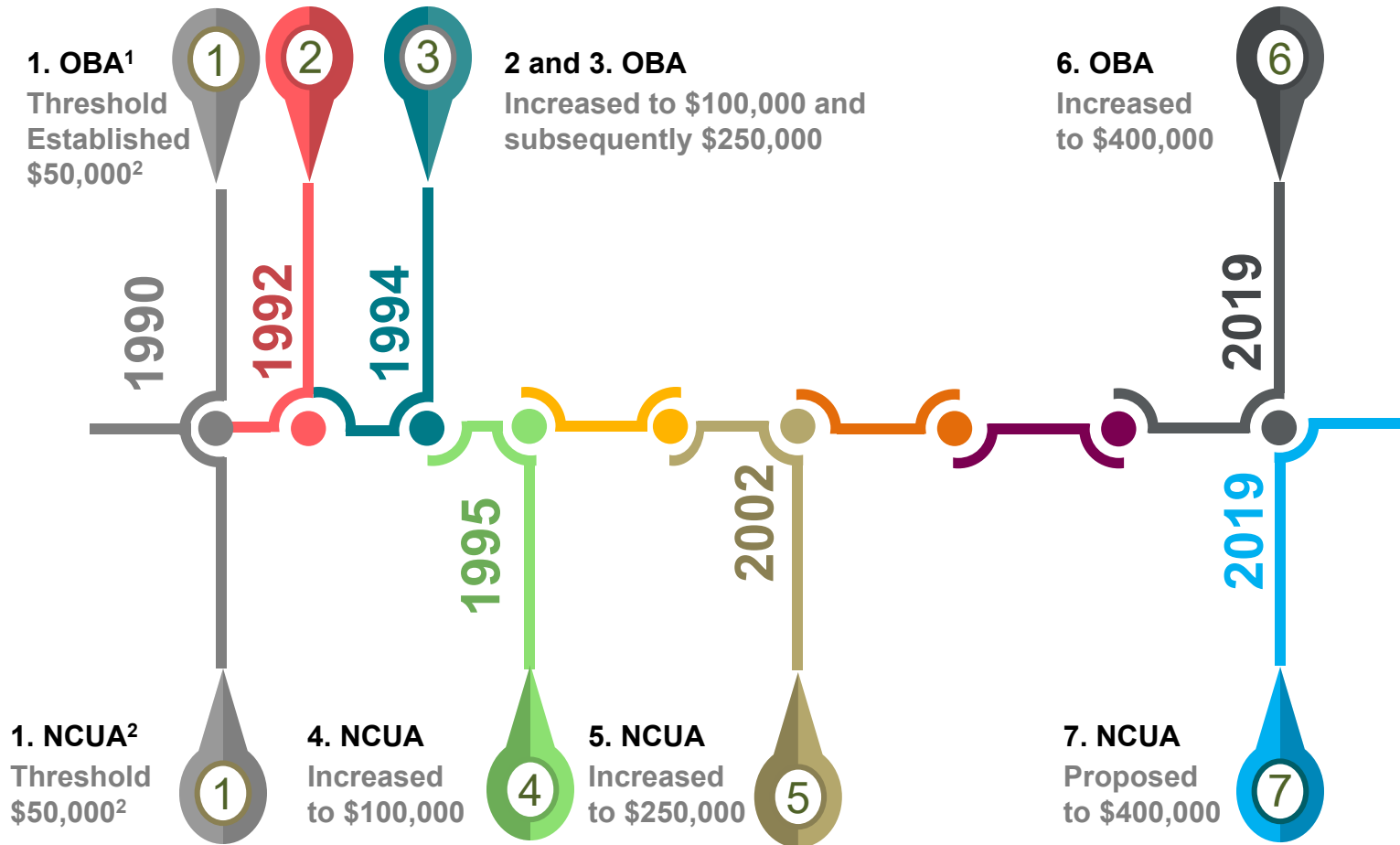
- **Increase the threshold from \$250,000 to \$400,000 for burden relief and to keep up with inflation.**
  - Not create a threat to safety and soundness.
  - Restore level of relief and exemptions on par with previous threshold increases.
- **A few cohering amendments.**

# Legislative Background

- **1989: Title XI of FIRREA directed regulatory agencies to prescribe appropriate appraisal standards and required certified appraisers for federally related transactions<sup>1</sup> ≥ \$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.**

Source: Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. 12 U.S.C. 3331 et seq.  
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 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

## NCUA<sup>1</sup>

Year	NCUA Proposed Threshold	Case-Shiller	FHFA	CPI
2002	250,000	250,000	250,000	250,000
<b>2Q 2019</b>	<b>400,000</b>	<b>455,864</b>	<b>452,218</b>	<b>361,338</b>
Compound annual growth rate (CAGR)	2.5%	3.2%	3.2%	2.0%

## Other Banking Agencies<sup>1</sup>

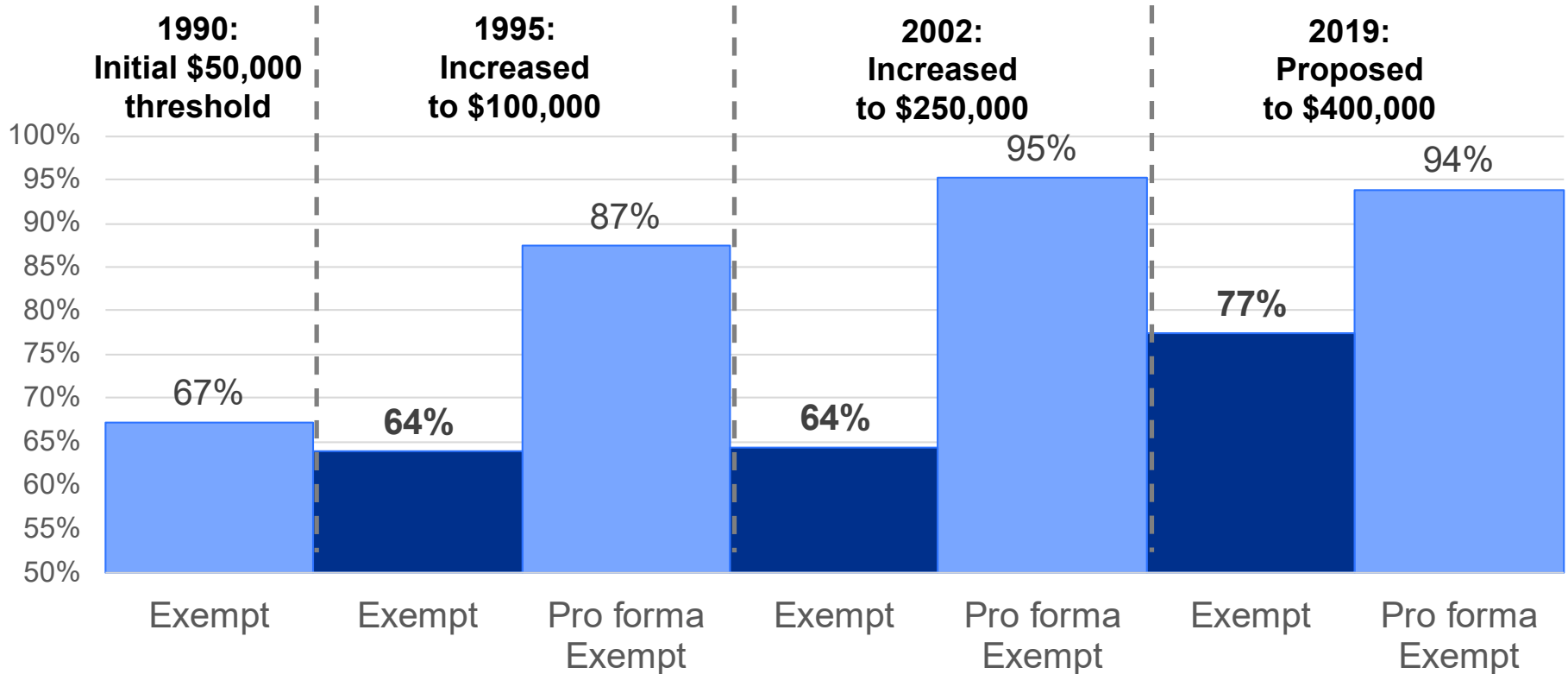
Year	OBA Threshold	Case-Shiller	FHFA	CPI
1994	250,000	250,000	250,000	250,000
<b>2Q 2019</b>	<b>400,000</b>	<b>660,689</b>	<b>631,576</b>	<b>426,518</b>
Compound annual growth rate (CAGR)	1.8%	3.7%	3.5%	2.0%

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

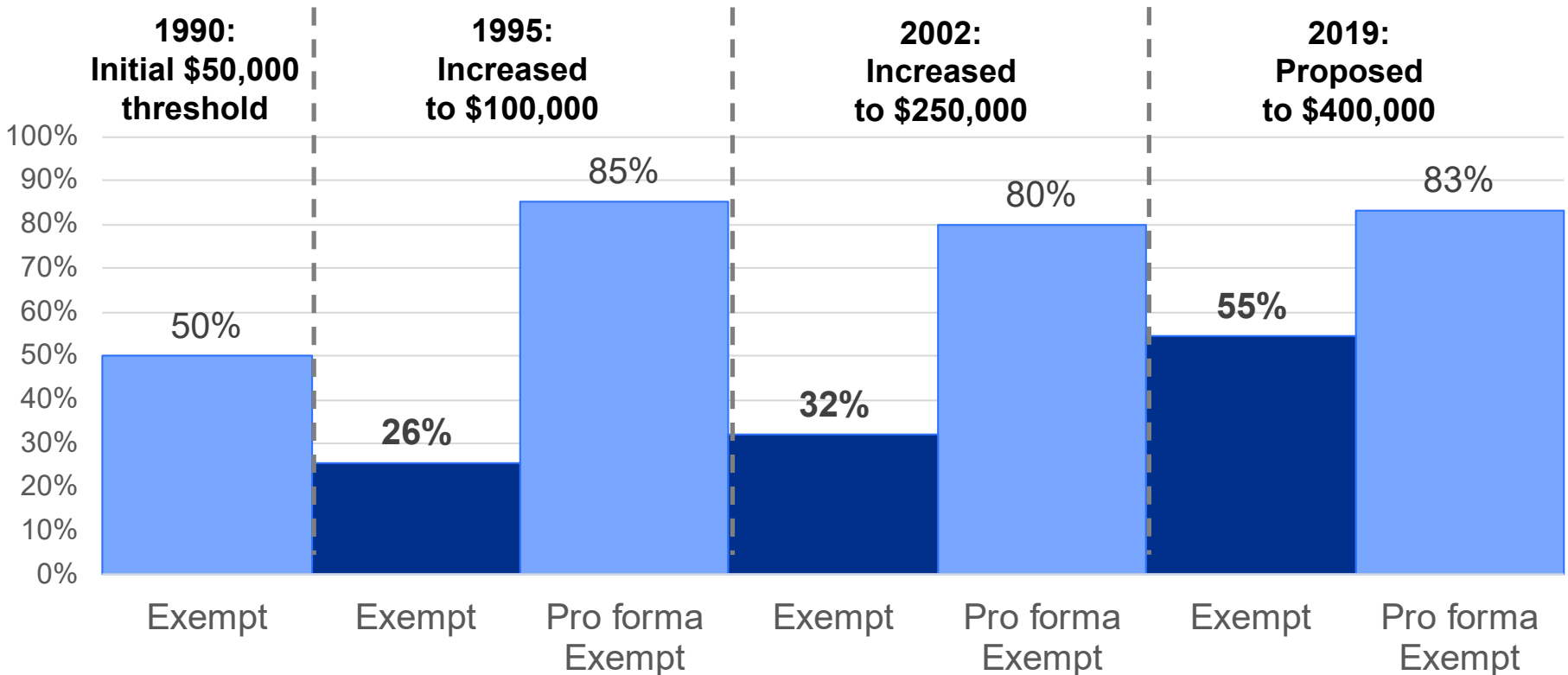


Source: HMDA data for NCUA for 1990, 1994, 2001, 2018.

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**



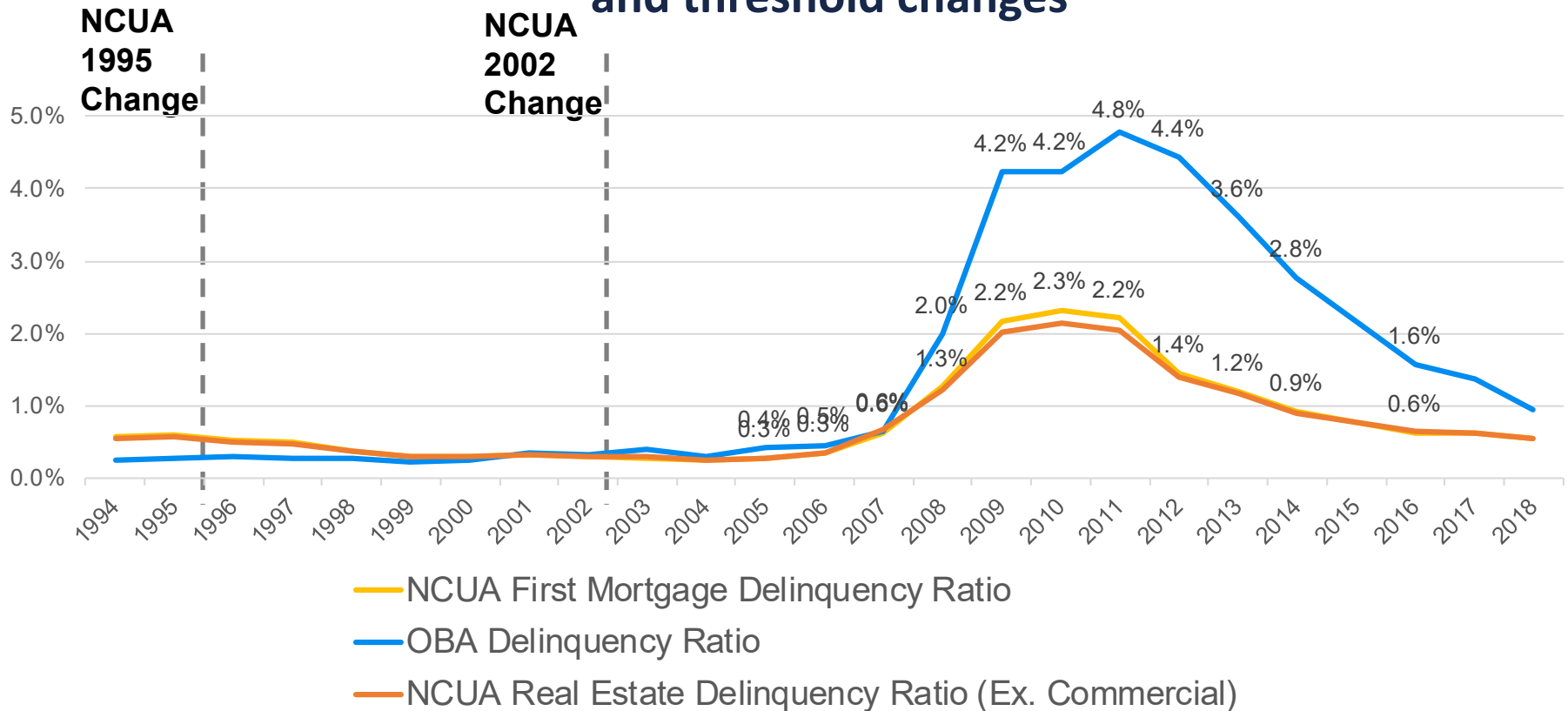
Source: HMDA data for NCUA for 1990, 1994, 2001, 2018.

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 Delinquencies

Residential real estate has performed well through economic cycles and threshold changes

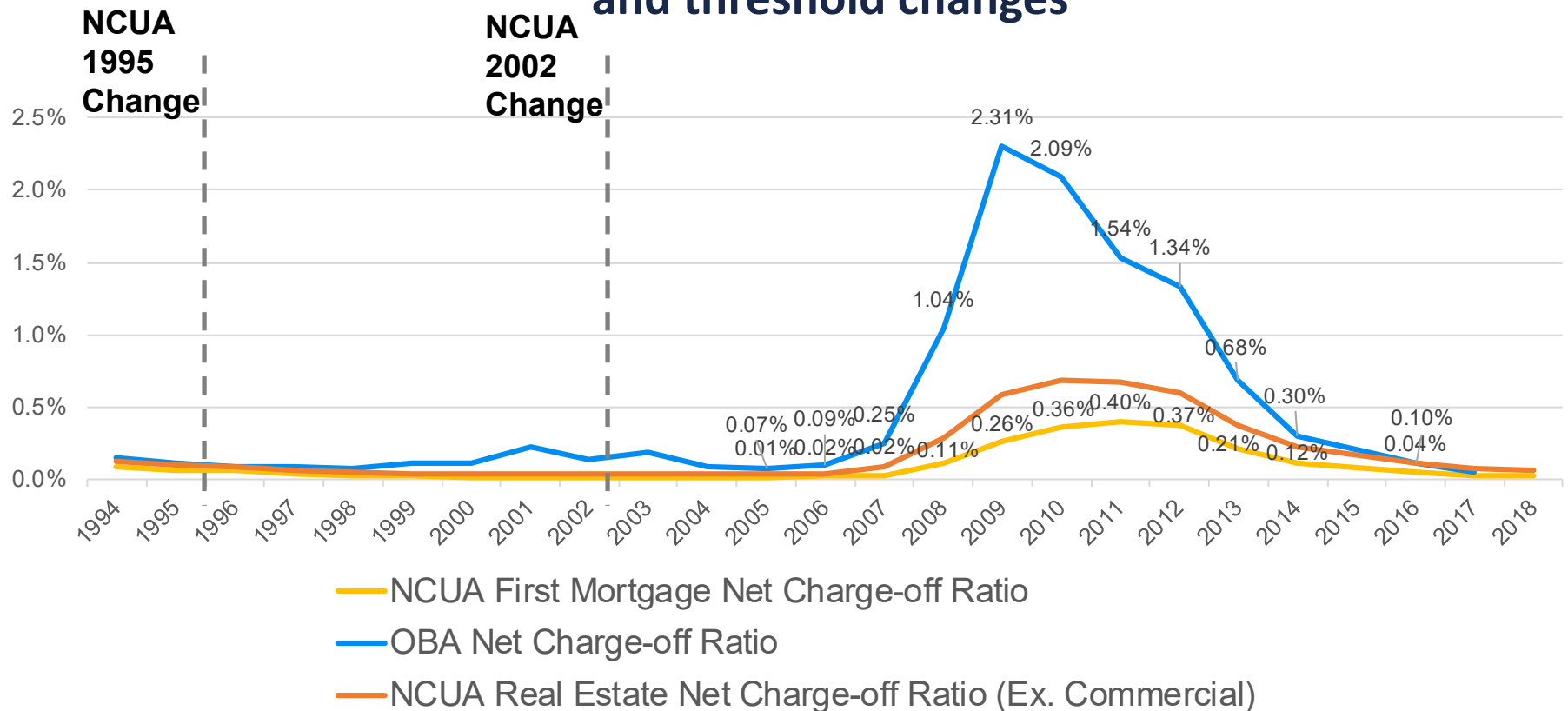


Source: NCUA FPR data, FDIC data

Note: Real estate figures do not include commercial real estate.

# Residential Real Estate Charge-offs

Residential real estate has performed well through economic cycles and threshold changes



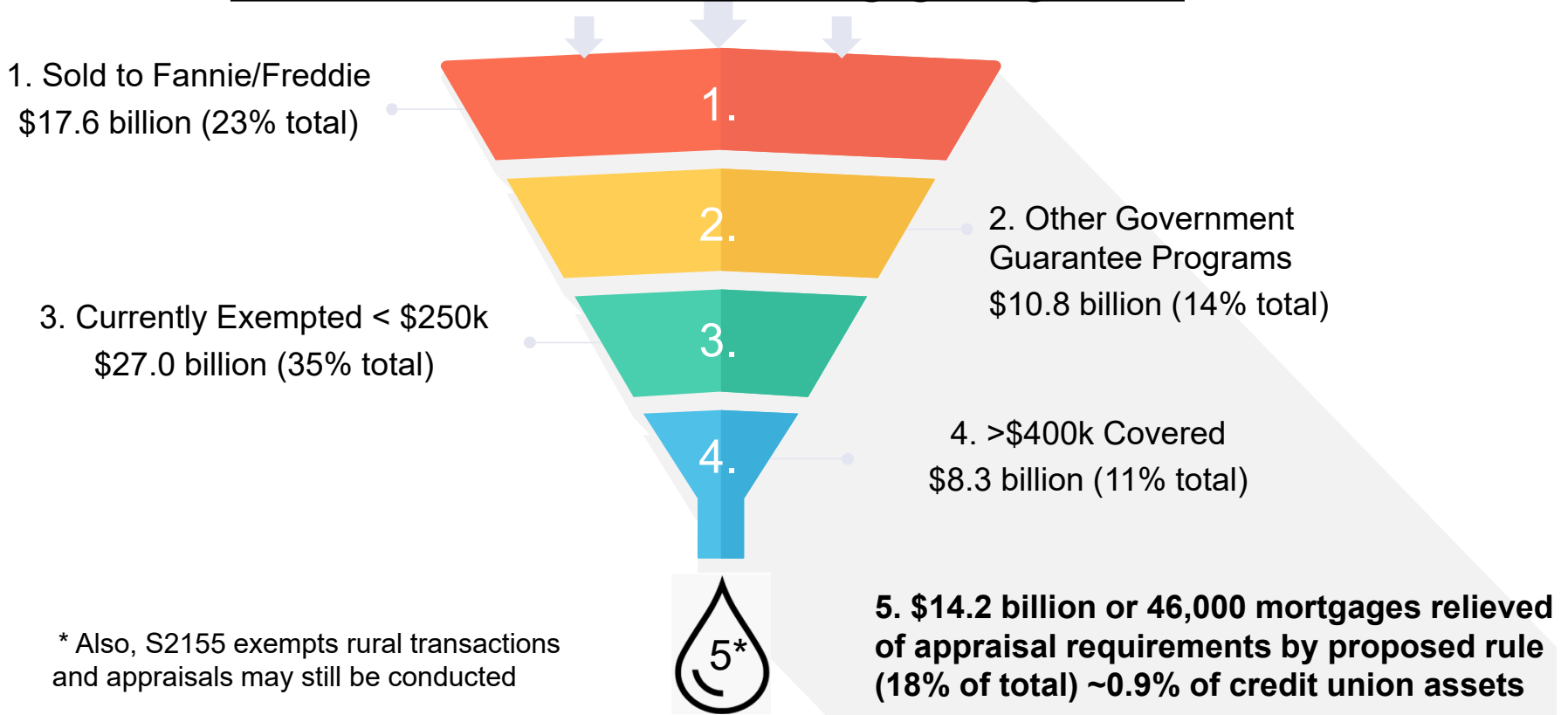
Source: NCUA FPR data, FDIC data

Note: Charge offs are net recoveries. Real estate figures do not include commercial real estate.

# Funnel: Incremental Relief

**New threshold exempts an additional \$14 billion of residential mortgages balances from appraisal requirements**

## \$78 billion of CU 2018 first mortgage origination



# 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.**

# Public Comment

---

**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.**