



Submitted via email to: regcomments@ncua.gov

Dec. 3, 2018

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428

Re: Comments on Proposed Rule Part 722, Real Estate Appraisals; RIN 3133-AE79

Dear Mr. Poliquin:

The Wisconsin Credit Union League, representing Wisconsin's credit unions® and their 3 million plus members, is pleased to comment on the National Credit Union Administration's (NCUA's) proposal to amend part 72 of its regulations, Real Estate Appraisals.

We support nearly all of the proposed changes, particularly increasing the threshold – from \$250,000 to \$1 million – at which non-residential real estate-related financial transactions would be exempt from appraisal requirements. As proposed, §722.3(b)(1) would require an appraisal by a state-certified appraiser for transactions that are not exempt under paragraph (a) if the transaction value is \$1 million or more. Below that level, credit unions could use their judgment, consistent with safe and sound lending practices, to determine whether to use an appraisal or a written estimate of market value. We agree with NCUA that “statutory limits, combined with appropriate prudential and supervisory oversight, offset any potential risk” from raising the appraisal threshold.

We also favor the adoption of §722.3(f), which would incorporate into the regulations an exemption that has already been made law by the Economic Growth, Regulatory Relief, and Consumer Protection Act. Appraisals would not be required for certain federally related, rural real-estate transactions valued below \$400,000 if no state-certified or state-licensed appraiser is available. This change is needed for NCUA regulations to conform to existing federal law.

In addition, we support the proposal to reorganize §722.3. That section generally requires real estate-related financial transactions to have a state-certified or state-licensed appraisal, unless the transaction qualifies for a listed exemption. The proposed changes would make it easier for credit unions to navigate the rules and determine 1) whether an appraisal or a written estimate of market value is needed, and 2) if an appraisal is required, whether it must be completed by a state-certified appraiser or can be done by a state-licensed appraiser.

However, we do not support a particular substantive change proposed within §722.3(a). Paragraph (a) describes various circumstances under which an appraisal or written estimate of market value is not required for a real estate-related financial transaction. Section 722.3(a)(1) currently exempts a loan that involves an existing extension of credit if:

- There is no advancement of new monies, other than funds necessary to cover reasonable closing costs; *or*
- There has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the credit union's real estate collateral protection after the transaction, even with the advancement of new monies.

The Wisconsin Credit Union League

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The proposal would exempt a loan that involves an existing extension of credit if it is not considered a new loan under Generally Accepted Accounting Principles (GAAP). We oppose this change, for several reasons:

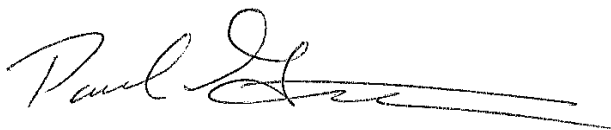
- We disagree with NCUA when it says that “the current §722.3(a)(5) conditions can involve significant subjectivity, may be difficult to apply in practice, and do not necessarily align with financial reporting standards.” On the contrary, we believe that the regulation’s current language should be retained, since we are not aware that any of our credit unions have had difficulty understanding or applying it.
- The change would reduce flexibility provided by the current rule. It now exempts a transaction involving an existing extension of credit under two separate prongs: 1) no advancement of new monies, *or* 2) no change in market or physical aspects of the property. The proposal would permit the exemption under only a single scenario.
- Banking regulators did not tie this exemption to GAAP in recent amendments to their rules. NCUA’s current §722.3(a)(5) exemption is identical to that of the banking regulators. Maintaining the current language would help ensure a level playing field between banks and credit unions.
- Lending staff and compliance officers are not necessarily CPAs. They should not be expected to apply the types of FASB Accounting Standards Codification provisions quoted in the proposal. (See footnote 45.) Cross-referencing GAAP standards would do more to muddy the standards of §722.3(a)(5) than to clarify them.

We also cannot support the proposed change to §722.3(a)(9). It would eliminate the option for an NCUA Regional Director to grant a waiver from the appraisal requirement for a category of loans meeting the definition of member business loans. The NCUA proposes to remove this waiver option in light of its proposal to increase the appraisal threshold for non-residential real estate-related financial transactions to \$1 million. Such a change obviously reduces regulatory flexibility and discretion. While it *may* be appropriate, we do not believe that the NCUA has provided data to support the need for such a change or to allow us and other commenters to adequately weigh its merits.

In summary, we favor increasing the threshold – from \$250,000 to \$1 million – at which non-residential real estate-related financial transactions would be exempt from appraisal requirements. We also generally support the proposed revisions to §722.3, which would clarify and streamline the appraisal rules. However, we urge the NCUA to retain the language in 722.3(a)(1) and to provide more statistical support for its proposal to eliminate waivers under §722.3(a)(9).

Thank you.

Sincerely,



Paul E. Guttormsson
Vice President of Legal & Compliance
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