League of Southeastern Credit Unions & Affiliates

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Gerard Poliquin
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1775 Duke St.
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Re: Real Estate Appraisals

12/03/18

Mr. Poliquin,

The League of Southeastern Credit Unions & Affiliates (LSCU) appreciates the opportunity to comment on Real Estate Appraisals. Mortgage lending plays an important role in growth for our credit unions' assets and our communities, making appraisals an important tool in managing mortgage operations. The LSCU is a trade association that represents 244 credit unions in Alabama and Florida. Our mission is "to create an environment that enables credit unions to grow and succeed." We believe that this rulemaking will further that mission by clarifying the appraisal regulation and in conforming the regulation to the recent statutory changes made by Congress to exemption appraisal requirements in rural areas when an appraiser is unavailable, thereby making mortgage lending cheaper and easier for both consumers and credit unions.

LSCU supports the changes to the definitions found in 722.2, the reorganization of 722.3, and the increase of the appraisal-exempt threshold for non-residential real estate transactions from $250,000 to $1 million in alignment with Congressional intent. We have the following input on NCUA's request for comments:

1. Whether NCUA should adopt a rule that exempts from appraisal transactions that are not new loans under GAAP?

   An exemption of this kind makes senses when there is not a new loan but simply a refinance or some similar transaction that reduces costs to the borrower or puts the lender in a more secure position. While this may be technically different than the exemption found in 722.3(5), it is similar in spirit and should save the consumer some additional costs, particularly if the transaction is a refinance made to reduce the general cost of borrowing to the consumer.

2. Whether the current approach in in the regulation (proposed 722.3(6)) should be maintained. Specifically, how a credit union's use of government agency's guarantee would be affected.

   In my discussions with credit union officials, there is no indication that any change to the appraisal requirement for a government-backed lending program, thereby leaving only NCUA's appraisal requirement, would impact how credit unions utilize those programs.

3. Whether other factors should be considered in evaluating the threshold for complex (or non-complex), residential real estate transactions and whether the threshold should be raised?

   One thing NCUA should consider is allowing a variable threshold so that credit unions have the option to use a multiplier, based on one of the house price indexes (HouseCanary or FHFA for example). The multiplier would adjust the $250,000 threshold to a higher amount based on the local real estate market (by zip code). Allowing an option like this would account for the great variation in price of residential real estate in communities across the country, particularly the divergence between rural and urban pricing.[1] This option should apply to appraisals regardless of whether they are complex or not. The benefit of this is to give some cushion to credit unions and consumers in communities with high-priced housing as those living in less costly communities with comparable homes. While it is pure speculation that a variable threshold

[1] Alexander Hermann, *Rural Home Prices are Dynamic and Growing in Most of the Country*, Qualified Remodeler, December 2017, at 8.

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wouldn't pose a substantially greater risk to the Share Insurance Fund, the fact that the banking regulators have proposed moving their threshold for appraisals to $400,000[2] would indicate the risk is minimal. Also, a threshold would reduce, perhaps in a minor way, the competitive advantage banks would enjoy regarding the disparity in appraisal requirement thresholds upon adoption of their proposed rule threshold increase.

4. Whether there should be a de minimis threshold for written estimate of market value?

   We don't have specific input on this. However, whether or not there is a de minimis threshold, the focus on the written estimate of market value is not as important as the totality of the analysis on the evaluation of property value in relation to the amount of the loan. Competent employees, following good policies and procedures (based primarily on the Interagency Guidance on Appraisals[3], whether or not an appraisal is used in the valuation), should be able to properly analyze an accurate estimate of value for a loan. The de minimis threshold may be a good option, assuming the considerations above, especially considering the assumption of rigorous analysis of real estate loans by examiners and auditors.

One a final note, the LSCU thinks there are several other considerations for NCUA to consider regarding appraisals as it is reviewing this regulation. The first involves the great challenges facing the appraisal industry, one of which is the increase of the appraisal workload as the number of appraisers is declining.[4] Presumably this is one reason Congress included the exemption for rural property NCUA is including in this proposed regulation. While there is some criticism of appraisers over valuing property (particularly in rural areas where 25% of the appraisals are at least 5% above contract price[5]),

[2] Ryan Dezember and Cezary Podkul, *OK, Computer: How Much Is My House Worth?*, The Wall Street Journal, Nov. 29, 2018, https://www.wsj.com/articles/ok-computer-how-much-is-my-house-worth-1543492800?mod=searchresults&page=1&pos=2.
[3] Interagency Appraisal and Evaluation Guidelines, https://www.fdic.gov/regulations/laws/rules/5000-4800.html.
[4] Amy Hoak, *The number of real estate appraisers is falling. Here's why you should care*, MarketWatch, Nov 18, 2015, https://www.marketwatch.com/story/the-number-of-real-estate-appraisers-is-falling-heres-why-you-should-care-2015-11-18.
[5] Alexander Bogin and Jessica Shul, *Appraisal Accuracy*, *Automated Valuation Models*, *And Credit Modeling in Rural Areas*, FHFA Staff Working Paper Series, April 2018, at 3.

this can be explained by fewer comparable sales and more diverse homes.[6] The trend in this industry seems to be to heading toward relying on Automated Valuation Models. Whether this model formula will ever perform as well as a person, considering how subjective many elements of an appraisal are, remains to be seen. As does whether that human factor in an appraisal is worth its additional costs. A GAO report from 2011 indicated that widespread use of appraisals in mortgage lending indicates their advantages over a variety of other methods[7] (including AVM). The report discusses the distinctions in how the different methods[8] calculate the home price and what data they use. This comment is only meant to encourage NCUA to continue to consult closely with representatives of the appraisal industry, who are a great source of knowledge and whose services protect consumers, the credit union, the Share Insurance Fund, and the economy.

Thank you for taking the time to review our thoughts on the topic of Real Estate Appraisals. We support the changes proposed by NCUA. Please contact me if I can be of any I can be of any further assistance.

Sincerely,

Mike Lee

[6] *Id*. at 11.
[7] *Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry*, Before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, House of Representatives, 112th Congress, (Statement of William B. Shear, Director, Financial Markets and Community Investment).
[8] *See generally*, Andrea J. Boyack, *Lessons in Price Stability from the U.S. Real Estate Market Collapse*, 2010 Mich. St. L. Rev. 925 (2010)(for an overview of the methods in determining market value.)