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Residential Appraisals Threshold Increase and Other COVID-19 Related Relief Measures

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

Date

April 2020

Letter No

20-CU-10

20-CU-10 / April 2020

Residential Appraisals Threshold Increase and Other COVID-19 Related Relief Measures

To

Federally Insured Credit Unions

Subject

Appraisals

Status

Active

To

Federally Insured Credit Unions

Subj

Appraisals

Dear Boards of Directors and Chief Executive Officers:

The [NCUA Board approved](#) a final rule on April 16, 2020, to increase the residential appraisal threshold from \$250,000 to \$400,000. The raised threshold provides long-term regulatory relief to credit unions and members. The rule also increases flexibility for credit unions struggling with mortgage pipeline delays due to appraisals during the COVID-19 pandemic.

In addition to the [final rule \(opens new window\)](#) on appraisal thresholds, the Board also approved an [interim final rule \(opens new window\)](#) to temporarily allow credit unions to defer appraisals and written estimates of market value for up to 120 days after the closing of a loan. This flexibility will expire on December 31, 2020. This deferral is intended to provide liquidity and relief to property owners affected by disruptions to property valuations caused by COVID-19 mitigation efforts. Both rules will become effective upon publication in the *Federal Register*.

This letter explains these two rules and provides guidance on the appropriate use of the appraisal and written estimate of market value deferral. It also summarizes additional appraisal relief and flexibility measures put forth by Fannie Mae, Freddie Mac, and other federal agencies in response to the disruptions of the real estate valuation process caused by the COVID-19 pandemic.

Residential Threshold Increased to \$400,000

The [final rule \(opens new window\)](#) increases the appraisal threshold for residential real estate from \$250,000 to \$400,000. The \$250,000 residential threshold was set in 2002, but as inflation and residential real estate prices increased in the intervening years, the intended relief eroded. Increasing the threshold reduces burdens and restores flexibility to credit unions and their members. It also provides credit unions parity with their banking peers.¹

Unless specifically exempted from valuation requirements,² the new threshold requires residential real estate transactions of \$400,000 or more to obtain an appraisal from a state-certified appraiser if the transaction is complex, and from a state-licensed appraiser if the transaction is not complex.³ Appraisals must comply with the Uniform Standards of Professional Appraisal Practice (USPAP). Current USPAP standards may be satisfied by a desktop or exterior-only appraisal (also referred to as a “drive-by” appraisal) completed by a properly licensed professional.

With the implementation of this rule, credit unions have the flexibility to obtain either an appraisal *or* a written estimate of market value for residential transactions below \$400,000.

Because written estimates of market value (also referred to as evaluations) are not subject to USPAP and can be less rigorous and formal than an appraisal, they may be more economical and faster to produce than an appraisal. Credit unions that use this flexibility should be aware that written estimates of market value must still comply with safe and sound practices. A written estimate of market value:

- Must be conducted by an individual who is qualified and experienced to perform such valuations and is independent of the transaction;⁴
- Should contain a reliable estimate of the property’s market value with sufficient information and analysis to support the valuation, including information about the property’s condition supported by a physical inspection; and
- Should contain sufficient information for the credit union to make a prudent credit decision.

For more information on the appropriate use of written estimates of market value, see the [2010 Interagency Appraisal and Evaluation Guidelines \(opens new window\)](#).

Interim Final Rule to Defer Appraisals and Evaluations

At the April 2020 meeting, the NCUA Board also approved an [interim final rule \(opens new window\)](#) to allow credit unions to defer appraisals and written estimates of market value for transactions requiring such valuations for up to 120 days after the closing of a real estate loan. The interim final rule is consistent with the [interim final rule approved by other banking agencies on April 10, 2020 \(opens new window\)](#).

The key provisions established in the interim final rule are:

- **Deferral period**—Up to 120 days after loan closing.
- **Expiration**—This flexibility expires on December 31, 2020. For example, a transaction that closes on December 31, 2020, would have until April 30, 2021, to obtain an appraisal or written estimate of market value.
- **Covered transactions**—All residential real estate loans, and all commercial real estate loans *except* acquisition, development, construction loans.⁵ There is no limit on transaction size.

It is important to note that the interim final rule *does not waive* the collateral valuation — it only *defers* it. **The NCUA strongly encourages credit unions to make every effort to obtain an appraisal or written estimate of market value during the early stages of a real estate loan transaction.** The deferral delays the required

appraisal or written estimate of market value by 120 days, and such a delay could lead to issues related to loan-to-value levels.

Credit unions that exercise this deferral must continue to underwrite real estate loans prudently, which includes an analysis of the borrower's repayment capacity and a reasonable method to establish collateral value in the absence of an appraisal or written estimate of market value. Furthermore, credit unions should have a risk mitigation plan to address the possibility that the final property value assessment is significantly below expectations. The plan should maintain a reasonable balance between safety and soundness and the credit union's mission to serve members, especially during this challenging period.

As detailed further, existing USPAP principles provide appraisers the flexibility to conduct their work with minimal contact with property owners. In addition, recent announcements from Fannie Mae, Freddie Mac, and other federal agencies provide flexibility for desktop appraisals and exterior-only appraisals for certain real estate loan transactions.

Given these flexibilities, if a credit union is able to engage an appraiser to conduct a desktop or exterior-only appraisal that meets USPAP standards, it should seek those services at the time of the loan rather than delay obtaining an appraisal. The NCUA also recognizes the COVID-19 pandemic has affected many areas of the country, but there may be areas where appraisers and evaluators are able to safely complete their work. Credit unions should only use a delayed appraisal decision when these options and flexibilities are not possible within the scheduled closing date.

Interagency Statement on Appraisal and Evaluation Flexibilities

On April 14, 2020, the NCUA and other banking agencies [released an interagency statement \(opens new window\)](#) on existing and new flexibilities for appraisals and evaluations available to financial institutions during the COVID-19 pandemic. In particular, the statement highlights flexibilities offered by:

- **USPAP**—USPAP does not specifically require interior inspections as part of its standards. An appraiser can determine a property's characteristics using alternative methods or can bypass a physical inspection provided the appraiser notes appropriate disclosures, and the absence of an interior inspection does not diminish the credibility of the appraisal report.
- **Fannie Mae and Freddie Mac**—Certain residential mortgages that qualify for sale to Fannie Mae and Freddie Mac can utilize appraisals with exterior-only inspections, desktop appraisals, and appraisal waivers.
- **Existing Regulations**—Certain real estate related transactions are exempt from appraisal and evaluation requirements under each regulator's existing appraisal regulations.

Updated Appraisal Flexibilities From Other Federal Agencies

The [U.S. Department of Housing and Urban Development \(opens new window\)](#), [U.S. Department of Veterans Affairs \(opens new window\)](#), and [United States Department of Agriculture \(opens new window\)](#) have also updated their appraisal flexibilities for residential mortgages that they insure or guarantee. These new measures closely align with the appraisal flexibilities offered by Fannie Mae and Freddie Mac, including desktop appraisals and exterior-only inspections for certain real estate transactions. Credit unions that originate residential mortgages insured or guaranteed by these federal agencies should review the updated guidance for further details.

The NCUA is committed to providing maximum flexibility and relief during these challenging times while maintaining a safe and sound credit union system. The NCUA will continue to provide guidance as the economic impact of the COVID-19 pandemic evolves. If you have any questions about appraisals and evaluations, please contact your NCUA regional office or state supervisory authority.

Sincerely,

/s/

Rodney E. Hood
Chairman

¹ The Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation approved a final rule that increased the residential appraisal threshold to \$400,000 in October 2019.

² NCUA appraisal regulations contain six exemptions from appraisal requirements. See § 722.3, [Appraisals and written estimates of market value requirements for real estate-related financial transactions \(opens new window\)](#).

³ § 722.2, [Definitions \(opens new window\)](#). *Complex* means a transaction in which the property to be appraised, the form of ownership, or market conditions are atypical. A credit union may presume that appraisals of 1-to-4 family residential properties are not complex unless the institution has readily available information that a given appraisal will be complex.

⁴ See §722.3, [Appraisals and written estimates of market value requirements for real estate-related financial transactions \(opens new window\)](#).

⁵ § 723.6. Construction and development loans. A construction or development loan means any financing arrangement to enable the borrower to acquire property or rights to property, including land or structures, with the intent to construct or renovate an income producing property, such as residential housing for rental or sale, or a commercial building, such as may be used for commercial, agricultural, industrial, or other similar purposes. It also means a financing arrangement for the construction, major expansion or renovation of the property types referenced in this section. The collateral valuation for securing a construction or development loan depends on the satisfactory completion of the proposed construction or renovation where the loan proceeds are disbursed in increments as the work is completed. A loan to finance maintenance, repairs, or improvements to an existing income producing property that does not change its use or materially impact the property is not a construction or development loan.

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