 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10317</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Real Estate Appraisals and Evaluations</b>	<b>PAGE(S)</b>
	<b>Page 1 of 4</b>

## I. PURPOSE


Examiners review real estate appraisal and evaluation policies and procedures to ensure consistency with principles of safety and soundness. The real estate lending program must include an appropriate real estate appraisal and evaluation program and provide an effective and reliable method of determining the value of collateral securing real estate loans.

## II. PRIMARY REFERENCES


1. [NCUA Letter to Credit Unions 10-CU-23](#)
2. [NCUA Rules and Regulations, Part 722](#): Appraisals

## III. MINIMUM PROCEDURES


1. For both appraisal and evaluation functions, management should maintain standards of independence as part of an effective collateral valuation program for all real estate lending activity. The policies and procedures should ensure that inappropriate actions which could compromise the independence of the collateral valuation function are *not* present including:
  - a. Communication of a target value or loan-to-value ratio;
  - b. Specification of a minimum value requirement for the property that is needed to approve the loan;
  - c. Condition of a person's compensation on loan consummation;
  - d. Failure to compensate a person because a property is not valued at a certain amount;
  - e. Implication that a current or future retention of a person's services depends on the amount at which the appraiser or person performing an evaluation values a property;
  - f. Exclusion of a person from consideration for future engagement because a property's reported market value does not meet a specified threshold.
2. A credit union's collateral valuation procedures should establish criteria to select, evaluate, and monitor the performance of appraisers and persons who perform evaluations. The criteria should ensure:
  - a. The person selected possesses the requisite education, expertise, and experience to competently complete the assignment;
  - b. The work of appraisers and persons providing evaluation is periodically reviewed;

 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10317</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Real Estate Appraisals and Evaluations</b>	<b>PAGE(S)</b>
	<b>Page 2 of 4</b>

- c. The person selected is capable of rendering an unbiased opinion;
  - d. The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction;
  - e. The appraiser holds the appropriate state certification or license at the time of the assignment.
3. The valuation policies and procedures should include Appraisal Standards which ensures appraisals, at minimum:
- a. Conform to generally accepted appraisal standards as evidenced by the [Uniform Standards of Professional Appraisal Practice](#) (USPAP);
  - b. Are written and contain sufficient information and analysis to support the institution’s decision to engage in the transaction;
  - c. Analyze and report appropriate deductions and discounts for proposed construction or renovation;
  - d. Are based upon the definition of market value set forth in the appraisal regulation including:
    - i. A market value which is not affected by undue stimulus which would allow the value of the property to be increased by favorable financing or seller concessions.
    - ii. Value opinions such as ‘going concern value”, “value in use”, or a special value to a specific property user may not be used as market value for a federally related transaction.
  - e. Are performed by a State certified or licensed appraiser for all real estate related financial transactions exceeding \$250,000 as required in [Part 722](#) of NCUA’s Rules and Regulations.
4. A credit union that engages a third party to perform collateral valuation functions on its behalf is responsible for understanding and managing the risks associated with the arrangement. Management should use caution if they engage a third party to administer any part of its appraisal valuation function. Management is responsible for ensuring any services performed by a third party, both affiliated and unaffiliated entities, comply with applicable laws and regulations and are consistent with supervisory guidance. Consistent with safe and sound practices, the credit union should have the following:
- a. A written contract which clearly defines expectations and obligations of both the credit union and the third party;
  - b. Written agreement specifying the third party will perform its services in compliance with regulations and supervisory guidance.

 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10317</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Real Estate Appraisals and Evaluations</b>	<b>PAGE(S)</b>
	<b>Page 3 of 4</b>

- c. Comparison of the risks, costs, and benefits of the proposed relationship and those associated with using another vendor or conducting the activity in-house.
  - d. Appropriate due diligence in the selection of the third party.
  
5. Examiners must determine the Board of Directors and management have developed and implemented policies to ensure appropriate collateral valuation methods for various transactions. These policies should address the process for selecting the appropriate valuation method for a transaction rather than using the method that renders the highest value, lowest cost, or fastest turnaround time. Policies should include valuation methods for all types of real estate lending, including modifications and workouts of existing loans.
  
6. Examiners should review a sample of real estate evaluations. The evaluations should, at a minimum contain the following information:
  - a. Location of the property;
  - b. Description of the property and its current and projected use;
  - c. Estimate of the property's market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation with any limiting conditions;
  - d. Estimate of the property's market value in its actual physical condition and the extent to which the inspection was performed;
  - e. Description of the analysis that was performed and the supporting information that was used in valuing the property;
  - f. Description of the supplemental information that was considered when using an analytical method or technological tool;
  - g. Indication of all sources of information used in the analysis, as applicable, to value the property, including:
    - i. External data sources;
    - ii. Property specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information).
    - iii. Evidence of property inspection:
      - Photos of the property;
      - Description of the neighborhood; or
      - Local market conditions.

 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10317</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Real Estate Appraisals and Evaluations</b>	<b>PAGE(S)</b>
	<b>Page 4 of 4</b>

iv. Information on the preparer including:

- Name and contact information;
- Signature (electronic or other legally permissible signature);
- License or certification information.