NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

October 2, 1990

W. Bladen Lowndes III
Mortgage Supervisor
Tower Federal Credit Union
Box 123
Annapolis Junction, Maryland 20701

Re: Valuations and the Appraisal Regulation
(Your August 21, 1990, Letter)

Dear Mr. Lowndes:

You have asked whether Tower Federal Credit Union's ("FCU") present practice of ascertaining the value of collateral for real estate loans of $50,000 or less is acceptable. The FCU is not in compliance with Part 722 of NCUA Rules and Regulations. A modification of the FCU's current valuation practice will ensure compliance with the regulation.

BACKGROUND

For Home Equity Lines of Credit of $50,000 or less, the FCU determines the market value of the collateral using the following procedure. First, the FCU obtains the current tax assessment and/or tax bill on the member's home and takes 80% of the assessed value. From this figure the FCU subtracts the current balance of the outstanding mortgage to reach the total amount of funds the FCU will lend. In a situation where there is no mortgage on the property the FCU will lend up to 80% of the assessed value.

APPLICABLE LAW

Section 722.3(a)(1) of NCUA's Rules and Regulations (12 C.F.R. 722.3(a)(1)) states that an appraisal is not required for any real estate-related financial transaction in which the transaction value is $50,000 or less. Section 722.3(d) of NCUA's Rules and Regulations (12 C.F.R. 722.3(d)) requires that:

FOIA
Real Estate Loan

> Secured transactions exempted from appraisal requirements pursuant to paragraph (a)(1) of this section (transactions of $50,000 or less) and not otherwise exempted from this regulation shall be supported by a written estimate of market value, as defined in this regulation, performed by an individual having no direct or indirect interest in the property, and qualified and experienced to perform such estimates of value for the type and amount of credit being considered.

The preamble to the final regulation (55 F.R. 30204, 7/25/90) states that :

> . . . . the valuation should be performed by an individual who is qualified and experienced with the type of property being valued and has no direct or indirect interest in the property being evaluated. The valuation should reasonably estimate market value, as defined in section 722.2(f), with sufficient accuracy to protect the credit union's interest throughout the term of the loan.

ANALYSIS

A tax assessment alone is not sufficient to meet the valuation requirement because it may not be a fair representation of market value. Under a valuation procedure based on a tax assessment, the FCU must still verify that the 80% figure is a reasonable estimate of market value for the property. Failing to do so could result in the FCU's interest being less than the remaining value of the collateral. If a tax assessment is used as part of the valuation process, the FCU must also ensure that the collateral is in good condition and that market conditions since the time of the assessment have not deteriorated. This is necessary to reasonably estimate market value as required by the regulation.

There are also alternative methods to meet the valuation requirement of Section 722.3(d). A drive-by and the use of some comparables would satisfy the valuation requirement. An appraisal that does not necessarily conform to the regulatory requirements for a transaction requiring an appraisal, rather than a valuation, may be another acceptable method. Still other methods may be permissible as long as the process reasonably estimates market value.

Sincerely,

for

HATTIE M. ULAN
Associate General Counsel

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