

NCUA Board Raises Commercial Real Estate Loan Appraisal Threshold to \$1 Million

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The NCUA's Board just approved a final rule "increasing the threshold below which appraisals are not required for commercial real estate transactions from \$250,000 to \$1,000,000."^[1] This rule goes into effect October 22, 2019. As credit unions continue to increase their role in funding commercial real estate loans, this increase of the appraisal threshold will lower their costs – and speed up their penetration into -- the market for non-residential loans of \$1 million and under.

This decision by the NCUA – which drew criticism from the appraisal and community banking industries -- is in contrast to the other banking agencies (OCC, Federal Reserve, FDIC) which, in early 2019, issued a final rule increasing the commercial real estate appraisal threshold to \$500,000.^[2] However, those who supported the higher appraisal threshold for credit unions made the regulatory relief argument that the valuation process for commercial real estate loans had simply become too slow, and that \$250,000 was a low and dated threshold (causing a backup in the pipeline in some regions). This sentiment was echoed in the text of the final rule as follows:

The Board also believes that the final rule benefits both members and credit unions as it reduces regulatory burden and may increase access to credit.

The NCUA last modified the threshold for exempt transactions in 2001 and used the same threshold for both residential and commercial real estate. Since 2001, the values of commercial property have increased and the current threshold requires credit unions to obtain Title XI appraisals on a larger proportion of commercial real estate transactions than in 2001. This increase in the number of appraisals required likely has contributed to the increased burden in time and cost described by some of the commenters.^[3]

Under the final rule, for commercial real estate transactions below the \$1,000,000 threshold, written estimates from independent sources are still

required (in those instances when credit unions decide full appraisals are not necessary).

For commercial real estate transactions with transaction values below \$1 million, credit unions are able to use their judgment, consistent with safe and sound lending practices, to determine whether to use an appraisal or a written estimate of market value... the person conducting the written estimate of market value must be capable of rendering an unbiased opinion and be independent. Specifically, the person performing the written estimate cannot have a direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction.^[4]

The NCUA Board approved the proposal to amend its rule relating to appraisals for certain transactions (including this four-fold increase below which appraisals are not required for non-residential loans) in September 2018, so this has been in the works for nearly a year. Credit unions are continuing to increase their business lending and, according to data from a May 2019 Credit Union Times article, commercial loans backed by real estate held by credit unions at the end of 2018 were up 16.5% from a year earlier.^[5] However, while credit unions continue to expand their commercial lending, they face growing competition in this space from fintech lenders in addition to banks.

[1] NCUA Final Rule – 12 CFR Part 722 – Real Estate Appraisals;
<https://www.ncua.gov/files/agenda-items/AG20190718Item4b.pdf>

[2] 83 FR 1509 (April 9, 2018)

[3] NCUA Final Rule – 12 CFR Part 722 – Real Estate Appraisals

[4] Id.

[5] Credit Union Times Article (May 3, 2019): *Credit Union Business Lending Rises*

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