

National Credit Union Administration  
**SUPPORTING STATEMENT**

**Appraisals, 12 CFR 722**  
OMB No. 3133-0125

Summary of Regulatory Action

This submission is being made in association with a notice of proposed rulemaking published in the *Federal Register* on October 3, 2018, 83 FR 49857, amending current Part 722 of NCUA's regulations which implements a portion of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Title XI of FIRREA is designed to provide protection for federal financial and public policy interests by requiring real estate appraisals used in connection with federally related transactions to be performed in writing, in accordance with uniform standards, by an appraiser whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.

The rule is proposing to (1) increase the threshold below which appraisals would not be required for non-residential real estate transactions from \$250,000 to \$1,000,000. For non-residential real estate transactions that would be exempted from the appraisal requirement as a result of the revised threshold, federally insured credit unions would still be required to obtain a written estimate of market value of the real estate collateral that is consistent with safe and sound lending practices. (2) Restructure §722.3 of the NCUA's appraisal regulation to clarify its requirements for the reader. The NCUA's intent is to more clearly indicate for the reader when a written estimate of market value, an appraisal conducted by a state-licensed appraiser, or an appraisal conducted by a state-certified appraiser is required for a real estate-related financial transaction. (3) Exempt from the NCUA's appraisal regulation certain federally related transactions involving real estate where the property is located in a rural area, valued below \$400,000, and no state certified or licensed appraiser is available. (4) Finally, the proposed rule makes certain conforming amendments to the definitions section.

**A. JUSTIFICATION**

**1. Circumstances that make the collection of information necessary.**

Title XI of the Financial Institutions, Reform, Recovery and Enforcement Act of 1989 (FIRREA) was enacted to protect federal financial and public policy interests in real estate related transactions. To achieve this purpose, the statute directed the National Credit Union Administration (NCUA), as one of the federal financial institutions regulatory agencies, to adopt standards for the performance of real estate appraisals in connection with federally related transactions. FIRREA requires that appraisals be maintained in writing and meet certain minimum standards. NCUA's regulation Part 722 carries out the statutory requirements. The information collection activity requires a credit union to obtain a written appraisal on federally related transactions or maintain written support of the estimated market value for transactions not required to have an appraisal. These information collections are attributable to the regulation and are a direct consequence of the legislative intent and statutory requirements.

## **2. Purpose and use of the information collection.**

Federally insured credit unions use the information in determining whether and upon what terms to enter into a federally related transaction, such as making a loan secured by real estate. In addition, NCUA uses this information in its examinations of federally insured credit unions to ensure that extensions of credit by the federally-insured credit union that are collateralized by real estate are undertaken in accordance with appropriate safety and soundness principles. The use of their information by credit unions and NCUA helps ensure that federally insured credit unions are not exposed to risk of loss from inadequate appraisals. A federally insured credit union (FICU) must obtain an appraisal if the transaction value is in excess of \$1million unless otherwise exempt. Transactions that are exempt must be supported by a written valuation of the market value.

The use of this information will help ensure that FICU are not exposed to risk of loss from inadequate appraisals. A FICU's failure to engage in the information collection activities included in the regulation will, in some cases, (1) result in a violation of the provisions of Title XI, (2) impede the NCUA in carrying out its statutory obligation to ensure that its regulated institutions conduct their activities in accordance with safe and sound principles, and (3) increase the risk of loss to the National Credit Union Share Insurance Fund (NCUSIF).

## **3. Use of information technology.**

Title XI of FIRREA requires real estate appraisals used in connection with federally related transactions to be performed in writing, in accordance with uniform standards, by competent appraisers. This regulation does not require submission of appraisals or evaluations, but credit unions must maintain these records. Under NCUA regulation §749.5, credit unions may use any format, electronic or other, as long as records are accessible and accurately reflect the information in the record.

## **4. Duplication of information.**

There is no regulatory duplication; each appraisal and/or evaluation is unique to the individual property appraised. No similar information is available to the regulated institution or NCUA.

## **5. Effect to reduce burden on small entities.**

Loans under \$1,000,000 are proposed to be exempt from the appraisal requirements. Smaller credit unions generally make smaller loans; therefore, this exemption minimizes the impact to small business or other small entities.

**6. Consequences of not conducting collection.**

The information is collected only as real estate related transactions arise. Less frequent collection is inconsistent with the underlying statute and would not promote safety and soundness for federally insured credit unions.

**7. Inconsistencies with guidelines in 5 CFR 1320.5(d)(2).**

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

**8. Consultations with person outside the Agency.**

A notice of proposed rulemaking was published on October 3, 2018, at 83 FR 49857, soliciting comments from the public, including the information collection requirements. Comments received in response to the information collection requirements contained in this rule will be addressed in the final rulemaking PRA submission.

**9. Payment or gifts to respondents.**

There is no intent by NCUA to provide payment or gifts for information collected.

**10. Assurance of confidentiality.**

Credit union examination reports and any documents related thereto are exempt from the Freedom of Information Act disclosure, pursuant to exemption 8, 5 U.S.C. 552(b)(8). There is no assurance of confidentiality other than that provided by law.

**11. Questions of a sensitive nature.**

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

**12. Burden of information collection,**

Based on current call report data, approximately 3,449 federally insured credit unions offered real estate loans. On average, credit unions make 477 real estate loans per year, which would require written appraisals or valuations. NCUA estimates it will take each credit union 5 minutes per real estate loan to meet the recordkeeping requirement. This results in a total annual estimated burden of 137,098 hours.

| Information Collection Activity                                                   | # Respondents | Frequency | Total Number of Responses | Hours per Response | Total Annual Burden |
|-----------------------------------------------------------------------------------|---------------|-----------|---------------------------|--------------------|---------------------|
| Recordkeeping requirements associated with real estate appraisals and evaluations | 3,449         | 477       | 1,645,173                 | 0.083333           | 137,098             |

Based on the labor rate of \$35 per hours, the total cost to respondents is \$4,798,430.

**13. Capital start-up or on-going operation and maintenance costs.**

There are no capital start-up or maintenance costs.

**14. Costs to the Federal Government.**

This is a recordkeeping requirement; therefore, there is no cost to the Federal government.

**15. Reason for changes in burden.**

The reduction of 142,902 burden hours is the result of agency adjustments. The NCUA is using a more accurate methodology for calculating the burden of the information collections based on the experience of the NCUA and the other financial institution regulators (OCC, FDIC, Federal Reserve). The NCUA is now using 5 minutes, as opposed to the previously reported 15 minutes, as the average time required to document the file for an appraisal or an evaluation.

**16. Information collection planned for statistical purposes.**

Not applicable. The information collection is not used for statistical purposes.

**17. Request non-display the expiration date of the OMB Control Number.**

The OMB control number and expiration date associated with this PRA submission will be displayed on the Federal government's electronic PRA docket at [www.reginfo.gov](http://www.reginfo.gov).

**18. Exceptions to Certification for Paperwork Reduction Act Submissions.**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.