



January 16, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

RE: Proposed Interagency Appraisal and Evaluation Guidelines

On behalf of the California and Nevada Credit Union Leagues, I appreciate the opportunity to comment on the proposed appraisal and evaluation guidelines issued jointly by the NCUA and other federal financial institution regulators (Agencies). The proposed Interagency Guidelines (Guidelines) are intended to clarify and provide more details on the appropriate risk management principles and internal controls for ensuring that real estate appraisals and other evaluations are reliable and support the real estate transaction. By way of background, the California and Nevada Credit Union Leagues (Leagues) are the largest state trade associations for credit unions in the United States, representing the interests of more than 400 credit unions and their 9 million members.

The Leagues are pleased to support the proposed Guidelines—which would replace the current Guidelines issued in 1994—as a reasonable and practical means to address heightened concerns regarding appraisal independence and undue influence upon property valuations. We believe that the Guidelines accomplish their stated purpose of reinforcing the importance of sound collateral valuation practices mandated by the Agencies' appraisal regulations. In addition, we appreciate that the new Guidelines incorporate recent regulatory actions, while also reflecting changes that have taken place in industry practices, uniform appraisal standards, and available technologies.

We agree with comments already provided to NCUA by credit unions that the use of automated tools and sampling methods as allowed in the proposed Guidelines for reviews of appraisals supporting lower-risk single-family mortgage transactions would also be appropriate for other low-risk mortgage transactions. Our opinion is that the use of an automated valuation model (AVM) for such transactions is a reasonable and sound practice, subject to safeguards to ensure that the AVM being relied upon yields a true representation of the value of the subject property. These safeguards should include the use of AVMs which include “confidence scores” as a separate result from the automated property value (i.e., a low score would indicate a need for further value analysis).

Further, while the proposed Guidelines do not contain—and the Agencies did not specifically request comment on—a definition of “low or lower risk” mortgage transactions, the Leagues would like to respectfully caution the Agencies from including such a “bright-line” in the final Guidelines. Mortgage loan underwriting involves the analysis of many factors in combination (e.g., a borrower’s assets, income/income stability, debt-to-income ratio, past credit performance, in addition to market factors, marketability and value of subject property collateral, etc.). Simply utilizing loan-to-value or FICO scores, for example, as primary determiners of “low risk” may exclude mortgage loan transactions for members who utilize a credit union as their primary financial institution, or that have significant cash assets with a credit union (and/or other institutions), in combination with other factors mentioned above.

We are also concerned that the proposal’s provisions regarding loan workouts or modifications omit any terminology referencing “relevant market conditions” concerning the validity of the existing appraisal or evaluation being taken into consideration. This section of the Guidelines discusses an institution advancing funds beyond closing costs and not requiring an appraisal or evaluation if there are no material changes in the physical aspects of the property. This issue is particularly important when a credit union attempts to correctly calculate the allowance for loan loss on workouts and modifications. The Leagues request additional guidance from the Agencies on this point.

Finally, the Leagues would like to suggest that a sample uniform appraisal review checklist (and an AVM/TAV checklist) be drafted for inclusion in the Guidelines. Such a uniform checklist would provide some assurance that collateral valuation and mortgage loan underwriting of the collateral valuation be accomplished with consistency, prudence, and forethought, and could assist credit unions—and examiners—in situations where staff expertise differs within the credit union industry, as well as within a particular credit union or market area.

I would like to thank the Agencies for the opportunity to comment on this issue. We appreciate your consideration of our views.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bill Cheney', with a long horizontal flourish extending to the right.

Bill Cheney
President/CEO
California and Nevada Credit Union Leagues