



August 31, 2015

Mr. Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Comments on Member Business Loans, Commercial Lending

Dear Secretary Poliquin:

On behalf of the nearly 22,000 members of the nation's largest professional organization of real estate appraisers, thank you for the opportunity to comment on the National Credit Union Administration's ("NCUA") proposal to modernize the regulatory requirements that govern credit union commercial lending activities.

We have comments on two general issues outlined in the proposed rule, as follows:

1. Business Loan Expansion

We note that real estate lending is inherently risky and requires robust risk management. If the NCUA is going to allow credit unions to expand business lending, including real estate lending, then it must consider providing meaningful oversight over those credit unions. Our experience is that most credit unions do not have functioning real estate risk management operations, including appraisal departments or operations. This would need to change if credit unions were to expand into this area. It is incumbent upon the NCUA to ensure that such activities are on a par with that of the federal bank regulatory agencies as it relates risk management examinations, which have been revamped and refocused in recent years. Doing anything short of this increases the potential for credit union failures and puts taxpayers at risk.

We note that several agencies have hired professional appraisers to support examination functions, including appraisal policy specialists and appraisal review specialists. We encourage the NCUA to pursue a similar course of action should credit unions expand further into real estate lending and to avoid creating competitive advantages or disadvantages for particular financial institutions.

2. Construction and Valuation Loans

Additionally, we note that the proposal includes new methodologies, definitions and proposals for the treatment of construction and valuation loans. Specifically, the proposal redefines the term "construction loan" and attempts to separate it between "income-producing property and projects built for a commercial purpose." The proposal also describes a second valuation method, which is the prospective market value method. The language in the proposed rule describes two different aspects of this approach, based on whether the property is held for a commercial or an income-producing use. The first method, "as-completed," is for a commercial-purpose building, while the second, "as-stabilized," is for income-producing real estate.

Generally, the "as-completed" value is prepared not only for "commercial-purposed buildings," but also those with a commercial purpose. Financial institutions obtain "as completed" valuations for construction projects to know the value when "construction" is completed and a value, "as stabilized or upon stabilization," for when it is fully operational and leased. The

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proposed rule does not appear to make these distinctions correctly and may be attempting to define the process too narrowly, ultimately increasing the chance that loan results may be skewed.

Relative to this set of loans, we see little value in veering from well-established policies and procedures maintained by the federal bank regulatory agencies. We urge the NCUA to refer to, or reference, work already completed and widely available in this area, including the Office of the Comptroller's Handbook on Commercial Real Estate Lending, which was updated in 2013¹.

Thank you for the opportunity to provide comment on this proposed rule. We look forward to working with the agency to address these and other real estate risk management concerns in the future. Please contact Bill Garber, Director of Government and External Relations, at 202-298-5586, or bgarber@appraisalinstitute.org, if you have any questions or need additional information.

Sincerely,

Appraisal Institute

¹ Available at: <http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/cre.pdf>