Real Estate Appraisals: Appendices (7303)

**Model Policy Revised Date: 5/6/2025**

**Real Estate Appraisals - Appendix A**

***This Appendix is to be used in conjunction with Policy 7302 to assist the Credit Union in maintaining an effective and compliant real estate appraisal and evaluation program.***

**Appraisal Exemptions**

Under Title XI of FIRREA, the Agencies were granted the authority to identify categories of real estate-related financial transactions that do **not** require the services of an appraiser to protect federal financial and public policy interests or to satisfy principles of safe and sound lending. This appendix provides further clarification on the application of the regulatory exemptions and should be read in the context of Part 722. If a [[CUname]] (Credit Union) has a question as to whether a particular transaction qualifies for an exemption, the credit union should seek guidance from the NCUA. For those transactions qualifying for the appraisal threshold, a credit union is exempted from the appraisal requirement, but still must, at a minimum, obtain an evaluation consistent with these Guidelines.

**Appraisal Threshold**

For transactions with a transaction value equal to or less than $400,000, Part 722, at a minimum, requires an evaluation consistent with safe and sound banking practices. If a credit union enters into a transaction that is secured by several individual properties that are **not** part of a tract development, the estimate of value of each individual property should determine whether an appraisal or evaluation would be required for that property. For example, a credit union makes a loan secured by seven commercial properties in different markets with two properties valued in excess of the appraisal threshold and five properties valued less than the appraisal threshold. A credit union would need to obtain an appraisal on the two properties valued in excess of the appraisal threshold and evaluations on the five properties below the appraisal threshold, even though the aggregate loan commitment exceeds the appraisal threshold.

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| **Appraisal requiring a state certified appraiser** | **Appraisals by either state certified or state licensed appraiser** | **Written estimate of market value** |
| Real estate-related transaction value is $1,000,000 or more (***Commercial Loans***). | If during an appraisal by a state-licensed appraiser, factors identify the transaction meeting the complex definition, the credit union can either:   * Ask the state-licensed appraiser to complete the appraisal and have a state-certified appraiser co-sign; or * Engage a state-certified appraiser to complete the appraisal. | Any real estate-related financial transaction must be supported by a written estimate of market value unless:   * An appraisal performed by a state-certified or state-licensed appraiser was obtained; * An appraisal is not required based on an exemption listed below; **or** * The transaction is fully insured or guaranteed by a US government or government sponsored agency. |
| **Transaction is complex**, involves residential real-estate transaction, $400,000 or more of the transaction value is not insured or guaranteed by a US government agency or sponsored agency. | **Transaction is NOT complex**, involves residential real-estate transaction, $400,000 or more of the transaction value is not insured or guaranteed by a US government agency or sponsored agency. |  |

**Abundance of Caution**

A credit union may take a lien on real estate and be exempt from obtaining an appraisal if the lien on real estate is taken by the lender in an abundance of caution. This exemption is intended to have limited application, especially for real estate loans secured by residential properties in which the real estate is the only form of collateral. In order for a business loan to qualify for the abundance of caution exemption, the NCUA expects the extension of credit to be well supported by the borrower’s cash flow or collateral other than real property. The credit union’s credit analysis should verify and document the adequacy and reliability of these repayment sources and conclude that knowledge of the market value of the real estate on which the lien will be taken as an abundance of caution is unnecessary in making the credit decision.

A credit union should **not** invoke the abundance-of-caution exemption if its credit analysis reveals that the transaction would **not** be adequately secured by sources of repayment other than the real estate, even if the contributory value of the real estate collateral is low relative to the entire collateral pool and other repayment sources. Similarly, the exemption should **not** be applied to a loan or loan program unless the credit union verifies and documents the primary and secondary repayment sources. In the absence of verification of the repayment sources, this exemption should **not** be used merely to reduce the cost associated with obtaining an appraisal, to minimize transaction processing time, or to offer slightly better terms to a borrower than would be otherwise offered.

In addition, prior to making a final commitment to the borrower, the credit union should document and retain in the credit file the analysis performed to verify that the abundance-of-caution exemption has been appropriately applied. If the operating performance or financial condition of the company subsequently deteriorates and the lender determines that the real estate will be relied upon as a repayment source, an appraisal should then be obtained, unless another exemption applies.

**Liens for Purposes Other Than the Real Estate’s Value**

This exemption allows a credit union to take liens against real estate without obtaining an appraisal to protect legal rights to, or control over, other collateral. Institutions frequently take real estate liens to protect legal rights to other collateral rather than because of the contributory value of the real estate as an individual asset. For example, a credit union making a loan to a logging operation may take a lien against the real estate upon which the timber stands to ensure its access to the timber in the event of default. To apply the exemption, the credit union should determine that the market value of the real estate as an individual asset is **not** necessary to support its decision to extend credit.

**Leases**

A credit union is required to obtain appraisals of leases that are the economic equivalent of a purchase or sale of the leased real estate. For example, a credit union must obtain an appraisal on a transaction involving a capital lease, as the real estate interest is of sufficient magnitude to be recognized as an asset of the lessee for accounting purposes. Operating leases that are **not** the economic equivalent of the purchase or sale of the leased property do **not** require appraisals.

**Renewals, Refinancings, and Other Subsequent Transactions**

Under certain circumstances, renewals, refinancings, and other subsequent transactions may be supported by evaluations rather than appraisals. Part 722 permits an evaluation for a renewal or refinancing of an existing extension of credit at the credit union when:

1. There has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the credit union’s real estate collateral protection after the transaction, even with the advancement of new monies; **or**
2. There is no advancement of new monies, other than funds necessary to cover reasonable closing costs.

For the purposes of these Guidelines, a credit union is considered to have advanced new monies (excluding reasonable closing costs) when there is an increase in the principal amount of the loan over the amount of principal outstanding before the renewal or refinancing. When a credit union advances funds to protect its interest in a property, such as to repair damaged property, a new appraisal or evaluation would **not** be required because these funds would be used to restore the damaged property to its original condition.

To satisfy the condition for no obvious and material change in market conditions or the physical aspects of the property, the current or planned future use of the property should be consistent with the use identified in the existing appraisal or evaluation. For example, if a property has reportedly increased in value because of a planned change in use of the property resulting from rezoning, an appraisal should be performed unless another exemption applies.

If an evaluation is permitted under this exemption, a credit union may use an existing appraisal or evaluation as long as the institution verifies and documents that the appraisal or evaluation continues to be valid. (See the discussion in the *Validity of Appraisals and Evaluations* section of these Guidelines.) Even if a subsequent transaction qualifies for this exemption, a credit union should consider the risk posed by the transaction and may wish to consider obtaining a new appraisal.

**Transactions Involving Real Estate Notes**

This exemption applies to appraisal requirements for transactions involving the purchase, sale, investment in, exchange of, or extension of credit secured by a loan or interest in a loan, pooled loans, or interests in real property, including mortgage-backed securities. If each note or real estate interest meets Part 722 requirements the time the real estate note was originated, the credit union need **not** obtain a new appraisal to support its interest in the transaction. The credit union should employ audit procedures and review a representative sample of appraisals supporting pooled loans or real estate notes to determine that the conditions of the exemption have been satisfied.

Principles of safe and sound banking practices require a credit union to determine the suitability of purchasing or investing in existing real estate-secured loans and real estate interests. These transactions should have been originated according to secondary market standards and have a history of performance. The information from these sources, together with original documentation, should be sufficient to allow a credit union to make appropriate credit decisions regarding these transactions.

A credit union may presume that the underlying loans in a marketable, mortgage-backed security satisfy the requirements of Part 722 whenever an issuer makes a public statement, such as in a prospectus, that the appraisals comply with Part 722. A marketable security is one that may be sold with reasonable promptness at a price that corresponds to its fair value.

If the mortgages that secure the mortgage warehouse loan are sold to Fannie Mae or Freddie Mac, the sale itself may be used to demonstrate that the underlying loans complied with Part 722. In such cases, the NCUA expects a credit union to monitor its borrower’s performance in selling loans to the secondary market and take appropriate steps, such as increasing sampling and auditing of the loans and the supporting documentation, if the borrower experiences more than a minimal rate of loans being put back by an investor.

**Transactions Insured or Guaranteed by a U.S. Government Agency or U.S. Government-sponsored Agency**

This exemption applies to transactions that are wholly or partially insured or guaranteed by a U.S. government agency or U.S. government-sponsored agency. The NCUA expects these transactions to meet all the underwriting requirements of its insurer or guarantor, including its appraisal requirements, in order to receive the insurance or guarantee.

**Transactions that Qualify for Sale to, or Meet the Appraisal Standards of, a U.S. Government Agency or U.S. Government-sponsored Agency**

This exemption applies to transactions that either (i) qualify for sale to a U.S. government agency or U.S. government-sponsored agency, or (ii) involve a residential real estate transaction in which the appraisal conforms to Fannie Mae or Freddie Mac appraisal standards applicable to that category of real estate. A credit union may engage in these transactions without obtaining a separate appraisal conforming to Part 722. Given the risk to the credit union that it may have to repurchase a loan that does **not** comply with the appraisal standards of the U.S. government agency or U.S. government-sponsored agency, the credit union should have appropriate policies to confirm its compliance with the underwriting and appraisal standards of the U.S. government agency or U.S. government-sponsored agency.

A credit union that relies on exemption (i) should maintain adequate documentation that confirms that the transaction qualifies for sale to a U.S. government agency or U.S. government-sponsored agency. If the qualification for sale is **not** adequately documented, the transaction should be supported by an appraisal that conforms to Part 722, unless another exemption applies.

To qualify for the (ii) exemption, transactions that do **not** conform to all of Fannie Mae or Freddie Mac underwriting standards, such as jumbo or other residential real estate loans, must be supported by an appraisal that meets these government-sponsored agencies’ appraisal standards for the applicable property type and is documented in the credit file or reproducible.

**Appraisals Not Necessary to Protect Federal Financial and Public Policy Interests or the Safety and Soundness of Financial Institutions**

The Agencies retain the authority to determine when the services of an appraiser are **not** required in order to protect federal financial and public policy interests or the safety and soundness of financial institutions. This exemption is intended to apply to individual transactions on a case-by-case basis rather than broad categories of transactions that would otherwise be addressed by an appraisal exemption. A credit union would need to seek a waiver from the NCUA before entering into the transaction.

**Real Estate Appraisals - Appendix B**

**Evaluations Based on Analytical Methods or Technological Tools**

[Part 722](http://edocket.access.gpo.gov/cfr_2001/janqtr/pdf/12cfr722.3.pdf) permits a credit union to use a written estimate of market value in lieu of an appraisal for certain transactions. A credit union may use a variety of analytical methods and technological tools for developing an evaluation, provided the credit union can demonstrate that the valuation method is consistent with safe and sound banking practices and these Guidelines (see sections on *Evaluation Development and Evaluation Content*). A credit union should **not** select a method or tool solely because it provides the highest value, the lowest cost, or the fastest response or turnaround time.

A credit union should establish policies and procedures that provide a sound process for using various methods or tools. Such policies and procedures should:

* Ensure staff has the requisite expertise and training to manage the selection, use, and validation of an analytical method or technological tool. If a credit union does **not** have the in-house expertise relative to a particular method or tool, then it should employ additional personnel or engage a third party. (See the *Third Party Arrangements* section in these Guidelines.)
* Address the selection, use, and validation of the valuation method or tool.
* Establish criteria for determining whether a particular valuation method or tool is appropriate for a given transaction or lending activity, considering associated risks. These risks include, but are not limited to, transaction size and purpose, credit quality, and leverage tolerance (loan-to-value).
* Specify criteria when a market event or risk factor would preclude the use of a particular method or tool.
* Address standards for the use of multiple methods or tools, if applicable, for valuing the same property or to support a particular lending activity.
* Provide criteria for ensuring that the credit union uses a method or tool that produces a reliable estimate of market value that supports the credit union’s decision to engage in a transaction.
* Address the extent to which:  
  + An inspection or research is necessary to ascertain the property’s actual physical condition, and
  + Supplemental information is needed to assess the effect of market conditions or other factors on the estimate of market value.

A credit union should establish an effective system of controls for verifying that a valuation method or tool is employed in a manner consistent with internal policies and procedures.

Moreover, the credit union’s staff responsible for internal controls should have the skills commensurate with the complexity or sophistication of the method or tool. Examiners will review a credit union’s policies, procedures, and internal controls to ensure that a credit union’s use of a method or tool is appropriate and consistent with safe and sound banking practices.

**Automated Valuation Models (AVMs)**

AVMs are computer programs that estimate a property’s market value based on market, economic, and demographic factors. Credit unions may employ AVMs for a variety of uses such as loan underwriting and portfolio monitoring. A credit union may **not** rely solely on the results of an AVM to develop an evaluation unless the resulting evaluation is consistent with safe and sound banking practices and these Guidelines. (See the *Evaluation Development* and *Evaluation Content* sections.)

Pursuant to Subpart B of NCUA Part 722 (Appraisals), credit unions must establish and maintain policies, practices, procedures, and control systems to ensure that AVMs used by the credit union adhere to quality control standards designed to:

* Ensure a high level of confidence in the estimates produced,
* Protect against the manipulation of data,
* Seek to avoid conflicts of interest,
* Require random sample testing and revies, and
* Comply with applicable nondiscrimination laws.

These policies, practices, procedures, and control systems should address, at a minimum, the credit union’s selection of an AVM vendor, establishing criteria for when an AVM may be used, and conducting ongoing random sample testing to validate AVM results.

**Selecting an AVM Vendor**

When selecting an AVM vendor, a credit union should:

* Perform the necessary level of due diligence on AVM vendors and their models, including how model developers conducted performance testing as well as the sample size used and the geographic level tested (such as, county level or zip code).
* Establish acceptable minimum performance criteria for a model prior to and independent of the validation process.
* Perform a detailed validation of the model(s) considered during the selection process and document the validation process.
* Evaluate underlying data used in the model(s), including the data sources and types, frequency of updates, quality control performed on the data, and the sources of the data in states where public real estate sales data are not disclosed.
* Assess modeling techniques and the inherent strengths and weaknesses of different model types (such as hedonic, index, and blended) as well as how a model(s) performs for different property types (such as condominiums, planned unit developments, and single family detached residences).
* Evaluate the vendor’s scoring system and methodology for the model(s). Determine whether the scoring system provides an appropriate indicator of model reliability by property types and geographic locations.

**Determining AVM Use**

A credit union should establish policies and procedures for determining whether an AVM can be used for a particular transaction. The credit union should:

* Maintain AVM performance criteria for accuracy and reliability in a given transaction, lending activity, and geographic location.
* Establish internal confidence score minimums, or similar criteria, for when each model can be used.
* Implement controls to preclude “value shopping” when more than one AVM is used for the same property.
* Establish procedures for obtaining an appraisal or using a different valuation method to develop an evaluation when an AVM’s resulting value is **not** reliable to support the credit decision. For example, in areas that have experienced a high incidence of fraud, the credit union should consider whether the AVM may be relied upon for the transaction or another valuation method should be used.
* Identify circumstances under which an AVM may not be used, including:  
  + When market conditions warrant, such as during the aftermath of a natural disaster or a major economic event;
  + When a model’s performance is outside of specified tolerances for a particular geographic market or property price-tier range; or
  + When a property is non-homogeneous, such as atypical lot sizes or property types.

**Validating AVM Results**

A credit union should establish standards and procedures for independent and ongoing monitoring and model validation, including the testing of multiple AVMs, to ensure that results are credible. A credit union should be able to demonstrate that the depth and extent of its validation processes are consistent with the materiality of the risk and the complexity of the transaction. Validation can be performed internally or with the assistance of a third party, as long as the validation is conducted by qualified individuals that are independent of the model development or sales functions. A credit union should **not** rely solely on validation representations provided by an AVM vendor. A credit union should perform appropriate model validation regardless of whether it relies on AVMs that are supported by value insurance or guarantees. If there are insurance or guarantee components of any particular AVM, the credit union is responsible for understanding the extent and limitations of the insurance policy or guarantee, and the claim process and financial strength of the insurer.

A credit union should ensure that persons who validate an AVM on an ongoing basis are independent of the loan production and collection processes and have the requisite expertise and training. In the AVM validation procedures, a credit union should specify, at a minimum:

* Expectations for an appropriate sample size.
* Level of geographic analysis.
* Testing frequency and criteria for re-testing.
* Standards of performance measures to be used.
* Range of acceptable performance results.

To ensure unbiased test results, a credit union should compare the results of an AVM to actual sales data in a specified trade area or market prior to the information being available to the model. To assess the effectiveness of its AVM practices, a credit union should verify whether loans in which an AVM was used to establish value met the credit union’s performance expectations relative to similar loans that used a different valuation process. A credit union should document the results of its validation and audit findings. A credit union should use these findings to analyze and periodically update its policies and procedures for an AVM(s) when warranted.

**Tax Assessment Valuations (TAVs)**

A credit union may **not** rely solely on the data provided by local tax authorities to develop an evaluation unless the resulting evaluation is consistent with safe and sound banking practices and these Guidelines. (See the *Evaluation Development* and *Evaluation Content* sections.) Because analytical methods such as TAVs generally need additional support to meet these Guidelines, credit unions should develop policies and procedures that specify the level and extent of supplemental information that should be obtained to develop an evaluation. Such policies and procedures also should require the use of an alternate valuation method when such information does **not** support the transaction.

A credit union may use a TAV in developing an evaluation when it can demonstrate that a valid correlation exists between the tax assessment data and the market value. In using a TAV to develop an evaluation, a credit union should:

* Determine and document how the tax jurisdiction calculates the TAV and how frequently property revaluations occur.
* Perform an analysis to determine the relationship between the TAV and the property market values for properties within a tax jurisdiction.
* Test and document how closely TAVs correlate to market value based on contemporaneous sales at the time of assessment and revalidate whether the correlation remains stable as of the effective date of the evaluation.

**Real Estate Appraisals - Appendix C**

**Deductions and Discounts**

[Part 722](http://edocket.access.gpo.gov/cfr_2001/janqtr/pdf/12cfr722.4.pdf) requires an appraiser to analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units. For such transactions, an appraisal must include the market value of the property, which should reflect the property’s actual physical condition, use, and zoning designation (referred to as the “as is” value of the property), as of the effective date of the appraisal. Therefore, if the highest and best use of the property is for development to a different use, the cost of demolition and site preparation should be considered in the analysis.

**Proposed Construction or Renovation**

For properties where improvements are to be constructed or rehabilitated, a credit union may request a prospective market value upon completion and a prospective market value upon stabilization. While a credit union may request the appraiser to provide the sum of retail sales for a proposed development, the result of such calculation is **not** the market value of the property for purposes of Part 722.

**Partially Leased Buildings**

For proposed and partially leased rental developments, the appraiser must make appropriate deductions and discounts to reflect that the property has not achieved stabilized occupancy. The appraisal analysis also should include consideration of the absorption of the unleased space. Appropriate deductions and discounts should include items such as leasing commission, rent losses, tenant improvements, and entrepreneurial profit, if such profit is **not** included in the discount rate.

**Non-market Lease Terms**

For properties subject to leases with terms that do **not** reflect current market conditions, the appraisal must clearly state the ownership interest being appraised and provide a discussion of the leases that are in place. If the leased fee interest is being appraised and contract rent is less than market rent on one or more long term lease(s) to a highly rated tenant, the market value of the leased fee interest would be less than the market value of the unencumbered fee simple interest in the property. In these situations, the market value of the leased fee interest should be used.

**Tract Developments with Unsold Units**

A tract development is defined in [Part 722](http://edocket.access.gpo.gov/cfr_2001/janqtr/pdf/12cfr722.2.pdf) as a project of five units or more that is constructed or is to be constructed as a single development. Appraisals for these properties must reflect deductions and discounts for holding costs, marketing costs, and entrepreneurial profit supported by market data. In some cases entrepreneurial profit may be included in the discount rate. The applicable discount rate is developed based on investor requirements and the risk associated with the physical and financial characteristics of the property. In some markets, entrepreneurial profit is treated as a line item deduction while in other markets it is reflected as a component of the discount rate. Regardless of how entrepreneurial profit is handled in the appraisal analysis, an appropriate explanation and discussion should be provided in the appraisal report. The projected sales prices and absorption rate of units should be supported by anticipated demand at the time the units are expected to be exposed for sale. Anticipated demand for the units should be supported and presented in the appraisal. A reader of the appraisal report should be able to understand the risk characteristics associated with the subject property and the market, including the anticipated supply of competing properties.

**Raw Land.** The appraiser must provide an opinion of value for raw land based on its current condition and existing zoning. If an appraiser employs a developmental approach to value the land that is based on projected land sales or development and sale of lots, the appraisal must reflect appropriate deductions and discounts for costs associated with developing and selling lots in the future. These costs may be incurred during the permitting, construction or selling stages of development. Appropriate deductions and discounts should include items such as feasibility studies, permitting, engineering, holding costs, marketing costs, and entrepreneurial profit and other costs specific to the property. If sufficient market data exists to perform both the sales comparison and developmental approaches to value, the appraisal report should detail a reconciliation of these two approaches in arriving at a market value conclusion for the raw land.

**Developed Lots.** For existing or proposed developments of five or more residential lots in a single development, the appraiser must analyze and report appropriate deductions and discounts. Appropriate deductions and discounts should reflect holding costs, marketing costs, and entrepreneurial profit during the sales absorption period for the sale of the developed lots. The estimated sales absorption period should reflect the appraiser’s estimate of the time frame for the actual development and sale of the lots, starting on the effective date of value and ending as of the expected date of the last lot sale. The absorption period should be based on market demand for lots in light of current and expected competition for similar lots in the market area.

**Attached or Detached Single-family Homes**. For proposed construction and sale of five or more attached or detached single-family homes in the same development, the appraiser must analyze and report appropriate deductions and discounts. Appropriate deductions and discounts should reflect holding costs, marketing costs, and entrepreneurial profit during the sales absorption period of the completed units. If a credit union finances construction on an individual unit basis, an appraisal of the individual units may be used if the credit union can demonstrate through an independently obtained feasibility study or market analysis that all units collateralizing the loan can be constructed and sold within 12 months. However, the transaction should be supported by an appraisal that analyzes and reports appropriate deductions and discounts if any of the individual units are **not** completed and sold within the 12-month time frame.

**Condominiums**. For proposed construction and sale of a condominium building with five or more units, the appraisal must reflect appropriate deductions and discounts. Appropriate deductions and discounts should include holding costs, marketing costs, and entrepreneurial profit during the sales absorption period of the completed units. If a credit union finances construction of a single condominium building with less than five units or a condominium project with multiple buildings with less than five units per building, the credit union may rely on appraisals of the individual units if it can demonstrate through an independently obtained feasibility study or market analysis that all units collateralizing the loan can be constructed and sold within 12 months. However, the transaction should be supported by an appraisal that analyzes and reports appropriate deductions and discounts if any of the individual units are not completed and sold within the 12-month time frame.

**Real Estate Appraisals - Appendix D**

**Glossary of Terms**

**Agent** – While Part 722 does **not** specifically define this term, it is generally intended to refer to one who undertakes to transact business or to manage business affairs for another. According to Part 722, fee appraisers must be engaged directly by the federally regulated institution or its agent (unless an exception applies), and have no direct or indirect interest, financial or otherwise, in the property or the transactions. The NCUA does **not** limit the arrangements that credit unions have with their agents, provided those arrangements do **not** place the agent in a conflict of interest that prevents the agent from representing the interests of the credit union.

**Appraisal** – A written statement independently and impartially prepared by a qualified appraiser (state licensed or certified) setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information.

**Appraisal Management Company** – For purposes of these Guidelines, an appraisal management company includes, but is not limited to, a third-party entity that provides real property valuation-related services, such as selecting and engaging an appraiser to perform an appraisal based upon requests originating from a regulated institution. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) has a specific definition for this term in connection with transactions secured by a consumer’s principal dwelling or mortgage secondary market transactions. See the *Third Party Arrangements* section in these Guidelines.

**Appraisal Report Options** – Refer to the definitions for Restricted Use Appraisal Report, Self-Contained Appraisal Report, and Summary Appraisal Report.

**Appraisal Threshold** – An appraisal is **not** required on transactions with a transaction value of $400,000 or less. As specified in Part 722, a credit union must obtain an evaluation of the real property collateral, if no other appraisal exemption applies.

**Approved Appraiser List** – A listing of appraisers who a credit union has determined to be generally qualified and competent to perform appraisals and may address the appraiser’s expertise in a particular market and property type.

**Automated Valuation Model (AVM)** – A computer program that estimates a property’s market value based on market, economic, and demographic factors. Hedonic models generally use property characteristics (such as square footage and room count) and methodologies to process information, often based on statistical regression. Index models generally use geographic repeat sales data over time rather than property characteristic data. Blended or hybrid models use elements of both hedonic and index models.

**Broker Price Opinion (BPO)** – An estimate of the probable sales or listing price of the subject property provided by a real estate broker, sales agent, or sales person. A BPO generally provides a varying level of detail about a property’s condition, market, and neighborhood, as well as comparable sales or listings. A BPO is **not** by itself an appraisal or evaluation, but could be used for monitoring the collateral value of an existing loan, when deemed appropriate. Further, the Dodd-Frank Act provides “(i)n conjunction with the purchase of a consumer’s principal dwelling, broker price opinions may not be used as the primary basis to determine the value of a piece of property for the purpose of loan origination of a residential mortgage loan secured by such piece of property.”

**Client** – According to USPAP (as defined below), the party or parties who engage(s) an appraiser by employment or contract for a specific appraisal assignment. For the purposes of these Guidelines, the appraiser should be aware that the client is the regulated institution. (Refer to the section on *Third Party Arrangements* in these Guidelines.)

**Complex** – A transaction in which the property to be appraised, the form of ownership, or market conditions are atypical. A credit union may presume that appraisals of 1-to-4 family residential properties are not complex unless the institution has readily available information that a given appraisal will be complex.

**Credible (Appraisal) Assignment Results** – According to USPAP, credible means “worthy of belief” used in the context of the Scope of Work Rule. Under this rule, credible assignment results depend on meeting or exceeding both (1) the expectations of parties who are regularly intended users for similar assignments, and (2) what an appraiser’s peers’ actions would be in performing the same or a similar assignment.

**Credit File** – A hardcopy or electronic record that documents all information necessary to (1) analyze the credit before it is granted and (2) monitor the credit during its life. A credit union may use a computerized or manual system to manage the information in its credit files.

**Date of the Appraisal Report** – According to USPAP, the date of the appraisal report indicates when the appraisal analysis was completed.

**Effective Date of the Appraisal** – USPAP requires that each appraisal report specifies the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value opinion. Three categories of effective dates—retrospective, current, or prospective—may be used, according to the intended use of the appraisal assignment.

**Effective Date of the Evaluation –** The date that the analysis is completed.

**Engagement Letter** – This letter documents the expectations of each party to the appraisal assignment. For example, an engagement letter may specify, among other items: (i) the property’s location and legal description; (ii) intended use and users of the appraisal; (iii) the requirement to provide an opinion of the property’s market value; (iv) the expectation that the appraiser will comply with applicable laws and regulations, and be consistent with supervisory guidance; (v) appraisal report format; (vi) expected delivery date; and (vii) appraisal fee.

**Evaluation** – A valuation permitted by Part 722 for transactions that qualify for the appraisal threshold exemption or subsequent transaction exemption.

**Exposure Time** – As defined in USPAP, the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is always presumed to precede the effective date of the appraisal. Exposure time is a function of price, time, and use – not an isolated opinion of time alone. (See USPAP Standard 1-2(c) and Statement 6.)

**Extraordinary Assumption** – As defined in USPAP, an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions regarding the property’s market value. An example of an extraordinary assumption is when an appraiser assumes that an application for a zoning change will be approved and there is no evidence to suggest otherwise.

**Federally Related Transaction** – Any real estate-related financial transaction entered into on or after August 9, 1990 that: (1) the NCUA or any federally insured credit union engages in or contracts for; and requires the services of an appraiser.

**Going Concern Value** – The value of a business entity rather than the value of the real property. The valuation is based on the existing operations of the business and its current operating record, with the assumption that the business will continue to operate.

**Hypothetical Condition** – As defined in USPAP, a condition that is contrary to what exists but is supposed for the purpose of analysis. An example of a hypothetical condition is when an appraiser assumes a particular property’s zoning is different from what the zoning actually is.

**Loan Production Staff** – Generally, all personnel responsible for generating loan volume or approving loans, as well as their subordinates and supervisors. These individuals would include any employee whose compensation is based on loan volume (such as processing or approving of loans). An employee is **not** considered loan production staff just because part of their compensation includes a general bonus or profit sharing plan that benefits all employees. Employees responsible solely for credit administration or credit risk management are **not** considered loan production staff.

**Marketing Time** – According to USPAP Advisory Opinion 7, the time it might take to sell the property interest at the appraised market value during the period immediately after the effective date of the appraisal. A credit union may request an appraiser to separately provide an estimate of marketing time in an appraisal. However, this is **not** a requirement of Part 722.

**Market Value** – The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

* Buyer and seller are typically motivated;
* Both parties are well informed or well advised, and acting in what they consider their own best interests;
* A reasonable time is allowed for exposure in the open market;
* Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
* The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Presold Unit** – A unit may be considered presold if a buyer has entered into a binding contract to purchase the unit and has made a substantial and non-refundable earnest money deposit. Further, the credit union should obtain sufficient documentation that the buyer has entered into a legally binding sales contract and has obtained a written prequalification or commitment for permanent financing.

**Prospective Market Value “as Completed” and “as Stabilized”** – According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report. Prospective value opinions are intended to reflect the current expectations and perceptions of market participants, based on available data. Two prospective value opinions may be required to reflect the time frame during which development, construction, and occupancy will occur. The prospective market value “as completed” reflects the property’s market value as of the time that development is expected to be completed. The prospective market value “as stabilized” reflects the property’s market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties. (See USPAP Statement 4 and Advisory Opinion 17.)

**Put Back** – Represents the ability of an investor to reject mortgage loans from a mortgage originator if the mortgage loans do **not** comply with the warranties and representations in their mortgage purchasing agreement.

**Raw Land** – A parcel or tract of land with no improvements, for example, infrastructure or vertical construction. When an appraisal of raw land includes entitlements, the appraisal should disclose when such entitlements will expire if improvements are **not** completed within a specified time period and the potential effect on the value conclusion.

**Real Estate-Related Financial Transaction** – Any transaction involving:

* The sale, lease, purchase, investment in or exchange of real estate, including interests in property, or the financing thereof; or
* The refinancing of real estate or interests in real estate; or
* The use of real estate or interests in property as security for a loan or investment, including mortgage-backed securities.

**Residential real estate transaction** – A transaction means a real estate-related financial transaction that is secured by a single 1-to-4 family residential property.

**Restricted Use Appraisal Report** – According to USPAP Standards Rule 2-2(c), a restricted use appraisal report briefly states information significant to solve the appraisal problem as well as a reference to the existence of specific work-file information in support of the appraiser’s opinions and conclusions. The Agencies believe that the restricted use appraisal report will **not** be appropriate to underwrite a significant number of federally related transactions due to the lack of supporting information and analysis in the appraisal report. However, it may be appropriate to use this type of appraisal report for ongoing collateral monitoring of a credit union’s real estate transactions and other purposes.

**Sales Concessions** – A cash or noncash contribution that is provided by the seller or other party to the transaction and reduces the purchaser’s cost to acquire the real property. A sales concession may include, but is not limited to, the seller paying all or some portion of the purchaser's closing costs (such as prepaid expenses or discount points) or the seller conveying to the purchaser personal property which is typically not conveyed with the real property. Sales concessions do **not** include fees that a seller is customarily required to pay under state or local laws. In developing an opinion of market value, an appraiser must take into consideration the effect of any sales concessions on the market value of the real property. (See "market value" above and USPAP Standards Rule 1-2(c).)

**Sales History and Pending Sales** – According to USPAP Standards Rule 1-5, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business, analyze: (1) all current agreements of sale, options, and listings of the subject property as of the effective date of the appraisal, and (2) all sales of the subject property that occurred within three years prior to the effective date of the appraisal.

**Scope of Work** – According to USPAP Scope of Work Rule, the type and extent of research and analyses in an appraisal assignment. (See the Scope of Work Rule in USPAP.)

**Self-contained Appraisal Report** – According to USPAP Standards Rule 2-2(a), a self-contained appraisal report is the most complete and detailed appraisal report option.

**Staff appraiser** – A state-certified or a state-licensed appraiser that is an employee of the credit union.

**Sum of Retail Sales** – A mathematical calculation of the sum of the expected sales prices of several individual properties in the same development to an individual purchaser. The sum of retail sales is **not** the market value for purposes of meeting the minimum appraisal standards in Part 722.

**Summary Appraisal Report** – According to USPAP Standards Rule 2-2(b), this report summarizes all information significant to the solution of an appraisal problem while still providing sufficient information to enable the client and intended user(s) to understand the rationale for the opinions and conclusions in the report.

**Tract Development** – As defined in the Agencies’ appraisal regulations, a project of five units or more that is constructed or is to be constructed as a single development. For purposes of these Guidelines, a “unit” refers to: a residential or commercial building lot, a detached single-family home, an attached single-family home, and a residence in a condominium, cooperative, or timeshare building.

**Transaction Value** – As defined [Part 722.2](http://edocket.access.gpo.gov/cfr_2001/janqtr/pdf/12cfr722.2.pdf):

* For loans or other extensions of credit, the amount of the loan or extension of credit; and
* For sales, leases, purchases, and investments in or exchanges of real estate, the market value of the real estate interest involved; and
* For the pooling of loans or interests in real estate for resale or purchase, the amount of the loan or market value of the real estate calculated with respect to each such loan or interest in real estate.

For purposes of this definition, the transaction value for loans that permit negative amortization should be the credit union’s total committed amount, including any potential negative amortization.

**Uniform Standards of Professional Appraisal Practice (USPAP)** – USPAP identifies the minimum set of standards that apply in all appraisal, appraisal review, and appraisal consulting assignments. These standards are promulgated by the Appraisal Standards Board of the Appraisal Foundation and are incorporated as a minimum appraisal standard in the Agencies’ appraisal regulations.

**Unsold Units** – An unsold unit is a unit that does not meet the conditions listed in the definition of Presold Units.

**Value of Collateral (for Use in Determining Loan-to-Value Ratio)** – The term “value” means an opinion or estimate set forth in an appraisal or evaluation, whichever may be appropriate, of the market value of real property, prepared in accordance with Part 722 and these Guidelines.