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William E. Malkasian
Chief Advocacy Officer/Senior Vice President

Shannon McGahn
Senior Vice President Government Affairs

500 New Jersey Avenue, NW
Washington, DC 20001-2020
Phone 202-383-1194
WWW.NAR.REALTOR

December 3, 2018

The Honorable J. Mark McWatters
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Comments on Proposed Rule part 722, Real Estate Appraisals

Submitted via Email: regcomments@ncua.gov

Dear Chairman McWatters:

On behalf of the 1.3 million members of the National Association of REALTORS® (NAR), I thank you for the opportunity to comment on the National Credit Union Administration's (NCUA) proposed rule to increase the threshold for non-residential real estate transactions from \$250,000 to \$1,000,000. NAR does not agree with the proposed threshold increase to \$1,000,000, but believes that a more reasonable increase is appropriate at this time.

The commercial real estate market is a major driver of the American economy. In addition to the economic growth spurred by commercial real estate sales and investment, the greater commercial real estate industry employs millions of people and produces a significant amount of tax revenue that local governments use to maintain essential public services. Ensuring that specific commercial real estate transactions are able to function effectively and efficiently is of vital importance, but not at the expense of the safety and soundness of the market as a whole. According to NCUA, "[a]nalysis of supervisory information concerning losses on commercial real estate transactions suggests that faulty valuations of the underlying real estate collateral have not been a material cause of losses." While NCUA feels this suggests that appraisals are unnecessary in many transactions, removing the appraisal element when it could be the most reliable factor in evaluating a transaction is concerning. Many transactions should continue to require Uniform Standards of Professional Appraisal Practice (USPAP) conforming appraisals due to the collateral risk involved to consumers, lenders and investors.

Currently, the biggest issue facing the commercial market is tight inventory, rather than appraisal problems. According to NAR's *Commercial Real Estate Outlook 2018.Q3* the shortage of available inventory was the top concern for REALTORS®, with almost half of survey respondents citing the lack of inventory as the biggest issue in their market. Appraisal concerns have actually been decreasing in the past few years. From 2014 to 2016, the incidence of failed sales due solely to appraised values declined from 22 percent to 16 percent.¹ As such, the proposed drastic increase in the appraisal threshold would not actually solve the real issue facing the commercial real estate market.



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¹ National Association of REALTORS® Commercial Real Estate Lending Trends 2017.

NCUA states in the analysis of the proposed rule that the dollar volume for commercial real estate transactions would increase from 1.8 percent to 13 percent, but the number of commercial real estate transactions that are exempt from appraisal requirements would increase from 27 percent to 66 percent. From an investor perspective this might be tolerable, but for the towns and cities that could potentially see roughly two-thirds of their commercial properties being sold without a full collateral evaluation, the risk could be substantial. REALTORS® are supportive of enabling a strong secondary market for mortgage backed securities, but not at the cost of the financial security of the businesses and people in their local communities.

In addition, while the dollar volume of commercial sales has been increasing over the past few years, the total number of transactions has been decreasing. The median number of commercial transactions for REALTORS® decreased from eight in 2016 to seven in 2017. In 2014, the median number of commercial transactions was 11, demonstrating an ongoing decline.² Given the drop in transactions, there should be an alleviation of appraiser wait times and availability issues that has been noted in many areas of the country. For rural areas, which have been particularly vocal on the issue of appraiser shortages and long appraisal wait times, the Economic Growth, Regulatory Relief, and Consumer Protection Act that passed Congress earlier this year provides for a rural appraisal exemption. The implementation of that exemption is a non-controversial element of this proposed rule.

NAR urges NCUA to adopt the appraisal threshold value determined by the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (collectively “the Agencies”) in their final rule issued on April 9, 2018. The final rule exempts commercial real estate transactions of \$500,000 or less from appraisal requirements. The threshold level determined by the Agencies took into consideration price changes due to inflation, public comment, and reasonable assessment of the current state of the commercial real estate market. The Agencies assessment led to the reasonable increase of the appraisal threshold to \$500,000, which NAR believes would alleviate any overdue burdens for credit unions, without putting consumers at risk. Having conforming standards would also create less confusion for all industry stakeholders.

A functional and profitable commercial real estate market is important to the greater American economy, but not at the expense of the safety and soundness of local communities. NAR thanks you for the opportunity to comment on these matters.

Sincerely,



John Smaby

2019 President, National Association of REALTORS®

² National Association of REALTORS® 2018 Commercial Member Profile.