

Family First Credit Union

Lending Policy

Appraisal Policy

General Policy Statement:

This real estate appraisal policy is derived, in part, from the Interagency Appraisal and Evaluation Guidelines, dated December 2, 2010, adopted pursuant to Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as well as NCUA Part 722 (Appraisals) and the appraisal and valuation provisions of Regulation Z including the Higher-Priced Mortgage Loans (HPML) Appraisal Rule Issued by the Joint Agencies.

This policy applies to all real estate lending functions and real estate-related financial transactions originated or purchased by Family First Credit Union for its own portfolio or for assets held for sale.

While borrowers' ability to repay their real estate loans according to reasonable terms remains the primary consideration in the lending decision, the Credit Union also must consider the value of the underlying real estate collateral in accordance with the NCUA's appraisal regulation (NCUA Part 722).

Guidelines:

1. **APPRAISAL AND EVALUATION PROGRAM.** Family First Credit Union's Board of Directors is responsible for developing and reviewing the policies and procedures of our appraisal and evaluation program, and for ensuring that this program does the following:
 - a. Provides for the independence of the persons ordering, performing, and reviewing appraisals or evaluations.
 - b. Establishes selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations.
 - c. Ensures that appraisals comply with NCUA Part 722 and are consistent with supervisory guidance.
 - d. Ensures that appraisals and evaluations contain sufficient information to support the credit decision.
 - e. Maintains criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices.
 - f. Provides for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
 - g. Develops criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.
 - h. Implements internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements.

- i. Establishes criteria for monitoring collateral values.
- j. Establishes criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of NCUA Part 722.

2. **INDEPENDENCE OF THE APPRAISAL AND EVALUATION PROGRAM.**

- a. **Collateral Valuation Program.** For both appraisal and evaluation functions, Family First Credit Union will maintain standards of independence as part of an effective collateral valuation program for all of its real estate lending activity. The collateral valuation program is an integral component of the credit underwriting process and, therefore, will be isolated from influence by our loan production staff.
 - i. Family First Credit Union will establish reporting lines independent of loan production for staff who administer its collateral valuation program, including the ordering, reviewing, and acceptance of appraisals and evaluations.
 - ii. Conflicts of Interest.
 - Appraisers will be independent of the loan production and collection processes and have no direct, indirect or prospective interest, financial or otherwise, in the property or transaction. These standards of independence will also apply to persons who perform evaluations.
 - When Family First Credit Union has less than \$250 million in assets as of December 31 for either of the past two calendar years, and absolute lines of independence cannot be achieved, Family First Credit Union will clearly demonstrate that it has prudent safeguards to isolate its collateral valuation program from influence or interference from the loan production process. The Vice President of Lending completes the collateral evaluation program and the loan production process. To ensure independence, the CEO or CFO must underwrite and sign along with the Vice President of Lending for credit decisions. At no time will compensation of the person preparing the valuation or performing valuation management functions be based on the value arrived at in any valuation.
- b. **Communication.** Family First Credit Union will establish procedures to specify the methods for communication between our collateral valuation staff and an appraiser or person performing an evaluation to ensure independence in the collateral valuation function. These procedures will foster timely and appropriate communications regarding the assignment and establish a process for responding to questions from the appraiser or person performing an evaluation.
- c. **Exchange of Information with Appraiser.** Family First Credit Union may exchange information with appraisers and persons who perform evaluations,

which may include providing a copy of the sales contract for a purchase transaction. However, Family First Credit Union will not directly or indirectly coerce, influence, or otherwise encourage an appraiser or a person who performs an evaluation to misstate or misrepresent the value of the property. Consistent with this policy and its procedures, Family First Credit Union may also request the appraiser or person who performs an evaluation to do the following:

- i. Consider additional information about the subject property or about comparable properties.
 - ii. Provide additional supporting information about the basis for a valuation.
 - iii. Correct factual errors in an appraisal.
 - iv. Withhold compensation due to breach of contract or substandard performance of services.
 - v. Take action permitted or required by applicable federal or state statute, regulation, or agency guidance.
- d. **Coercion and the Avoidance of Inappropriate Actions.** Family First Credit Union will ensure that it does not attempt to directly or indirectly cause the value assigned to the member's principal dwelling to be based on any factor other than the independent judgment of the person that prepares valuations, through coercion, extortion, inducement, bribery, or intimidation of, compensation or instruction to, or collusion with a person that prepares valuations or performs valuation management functions. Family First Credit Union will ensure that it avoids inappropriate actions that would compromise the independence of the collateral valuation function, including:
- i. Communicating a predetermined, expected, or qualifying estimate of value, or a loan amount or target loan-to-value ratio to an appraiser or person performing an evaluation.
 - ii. Specifying a minimum value requirement for the property that is needed to approve the loan or as a condition of ordering the valuation.
 - iii. Conditioning a person's compensation on loan consummation.
 - iv. Failing to compensate a person because a property is not valued at a certain amount.
 - v. Implying that current or future retention of a person's services depends on the amount at which the appraiser or person performing an evaluation values a property.
 - vi. Excluding a person from consideration for future engagement because a property's reported market value does not meet a specified threshold.
 - vii. Threatening to report a false allegation of non-compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) to the appropriate authorities in order to influence or coerce an appraiser or a person who performs an evaluation.

- viii. Causing or attempting to cause the value assigned to the property to be based on a factor other than the independent judgment of an appraiser, by compensating, coercing, extorting, colluding with, instructing, inducing, bribing, or intimidating a person conducting or involved in an appraisal.
- ix. Mischaracterizing, or suborning any mischaracterization of, the appraised value of the property securing the extension of credit.
- x. Seeking to influence an appraiser or otherwise to encourage a targeted value in order to facilitate the making or pricing of the transaction.
- e. **Additional Appraisals.** After obtaining an appraisal or evaluation, or as part of its business practice, Family First Credit Union may find it necessary to obtain another appraisal or evaluation of a property. In this event, Family First Credit Union will select the most credible appraisal or evaluation, rather than the appraisal or evaluation that states the highest value.
- f. **Mischaracterization of Value.** A misrepresentation is material if it is likely to significantly affect the value assigned to the member's principal dwelling. A bona fide error is not a misrepresentation. Family First Credit Union will not induce a person to mischaracterize the value of property.
- g. **Reasonable Diligence When Violations Occur.** Extensions of credit based on the valuation will not be provided when Family First Credit Union knows, at or before consummation that a violation of this policy has occurred, unless Family First Credit Union documents that it has acted with reasonable diligence to determine that the valuation does not materially misstate or misrepresent the value of the member's principal dwelling.

3. **SELECTION OF APPRAISERS OR PERSONS WHO PERFORM EVALUATIONS.**

- a. **Selection Criteria.** Family First Credit Union's collateral valuation program criteria to select, evaluate, and monitor the performance of appraisers and persons who perform evaluations will ensure that:
 - i. The person selected possesses the requisite education, expertise, and experience to competently complete the assignment.
 - ii. The work performed by appraisers and persons providing evaluation services is periodically reviewed by Family First Credit Union.
 - iii. The person selected is capable of rendering an unbiased opinion.
 - iv. The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction.
 - v. The appraiser selected to perform an appraisal holds the appropriate state certification or license at the time of the assignment. Persons who perform evaluations should possess the appropriate appraisal or collateral valuation education, expertise, and experience relevant to the type of property being valued. Such persons may include appraisers, real estate lending professionals, agricultural extension agents, or foresters.

- b. **Selection Process.** Family First Credit Union or its agent will directly select and engage appraisers (unless NCUA Part 722.5(b) applies, allowing Family First Credit Union to use an appraisal prepared for another financial services institution provided certain conditions are met). Family First Credit Union or its agents will also directly select and engage persons who perform evaluations. Independence is compromised when a borrower recommends an appraiser or a person to perform an evaluation. Independence is also compromised when loan production staff selects a person to perform an appraisal or evaluation for a specific transaction. For certain transactions, Family First Credit Union will also comply with the provisions addressing valuation independence in Regulation Z (Truth in Lending).
 - i. Family First Credit Union's selection process will ensure that a qualified, competent and independent person is selected to perform a valuation assignment.
 - ii. Family First Credit Union will maintain documentation to demonstrate that the appraiser or person performing an evaluation is competent, independent, and has the relevant experience and knowledge for the market, location, and type of real property being valued. Further, the person who selects or oversees the selection of appraisers or persons providing evaluation services will be independent from the loan production area.
 - iii. FFCU will not use a borrower-ordered or borrower-provided appraisal in violation of NCUA Part 722. However, a borrower can inform Family First Credit Union that a current appraisal exists, and Family First Credit Union may request it directly from the other financial services institution.
- c. **Approved Appraiser List.** If Family First Credit Union establishes an approved appraiser list for selecting an appraiser for a particular assignment, it will have appropriate procedures for the development and administration of the list.
 - i. These procedures will include a process for qualifying an appraiser for initial placement on the list, as well as periodic monitoring of the appraiser's performance and credentials to assess whether to retain the appraiser on the list.
 - ii. Further, there will be periodic internal review of the use of the approved appraiser list to confirm that appropriate procedures and controls exist to ensure independence in the development, administration, and maintenance of the list.
 - iii. For residential transactions, loan production staff may use a revolving, pre-approved appraiser list, provided the development and maintenance of the list is not under their control.
- d. **Engagement Letters.** Family First Credit Union will use written engagement letters when ordering appraisals, particularly for large, complex, or out-of-area commercial real estate properties. In addition to the other

information, the engagement letter will identify the intended use and user(s), as defined in USPAP. An engagement letter also may specify whether there are any legal or contractual restrictions on the sharing of the appraisal with other parties.

- i. Family First Credit Union will include the engagement letter in its credit file.
- ii. To avoid the appearance of any conflict of interest, appraisal or evaluation development work will not begin until Family First Credit Union has selected and engaged a person for the assignment.

4. **CUSTOMARY AND REASONABLE COMPENSATION.** Family First Credit Union will ensure that appraisers will be compensated at a rate that is customary and reasonable for comparable appraisal services performed in the geographic market of the property being appraised.

- a. **Presumption of Compliance.** Family First Credit Union will be presumed to comply with this requirement in the following cases:
 - i. Family First Credit Union compensates the fee appraiser in an amount that is reasonably related to the recent rates paid for comparable appraisal services performed in the geographic market of the property being appraised.
 - ii. Family First Credit Union does not engage in any anticompetitive acts in violation of state or federal law that affect the compensation paid to fee appraisers, including the following:
 - Entering into any contracts or engaging in any conspiracies to restrain trade through methods such as price fixing or market allocation, as prohibited under Section 1 of the Sherman Antitrust Act, 15 U.S.C. 1, or any other relevant antitrust laws.
 - Engaging in any acts of monopolization such as restricting any person from entering the relevant geographic market or causing any person to leave the relevant geographic market, as prohibited under Section 2 of the Sherman Antitrust Act, 15 U.S.C. 1, or any other relevant antitrust laws.
- b. **Alternative Presumption of Compliance.** As an alternative, Family First Credit Union will be presumed to comply with this requirement when Family First Credit Union determines the amount of compensation paid to the fee appraiser by relying on information about rates that is based on objective third-party information, including fee schedules, studies, and surveys prepared by independent third parties such as government agencies, academic institutions, and private research firms.

5. **MINIMUM APPRAISAL STANDARDS.** Family First Credit Union will ensure that its appraisals meet the following requirements:

- a. Conform to generally accepted appraisal standards as evidenced by the USPAP promulgated by the Appraisal Standards Board of the Appraisal

- Foundation, unless safety and soundness requires compliance with stricter standards. Although allowed by USPAP, NCUA Part 722 does not permit an appraiser to appraise any property in which the appraiser has an interest, direct or indirect, financial or otherwise in the property or transaction.
- b. Contain an opinion of market value as defined NCUA Part 722.2.
 - c. Contain a certification that the appraiser has complied with USPAP. Family First Credit Union may refer to the appraiser's USPAP certification in its assessment of the appraiser's independence concerning the transaction and the property.
 - d. Be written and contain sufficient information and analysis to support Family First Credit Union's decision to engage in the transaction.
 - e. Scope of Work. As provided by the USPAP Scope of Work Rule, appraisers are responsible for establishing the scope of work to be performed in rendering an opinion of the property's market value. Family First Credit Union will ensure that the scope of work is appropriate for the assignment. The appraiser's scope of work will be consistent with the extent of the research and analyses employed for similar property types, market conditions, and transactions. Therefore, Family First Credit Union will be cautious in limiting the scope of the appraiser's inspection, research, or other information used to determine the property's condition and relevant market factors, which could affect the credibility of the appraisal. Family First Credit Union will ensure the following:
 - i. The appraisal analyzes and reports appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units.
 - ii. Appraisers analyze, apply, and report appropriate deductions and discounts when providing an estimate of market value based on demand for real estate in the future.
 - iii. The appraisal is based upon the definition of market value set forth in NCUA Part 722.2. Value opinions such as going concern value, value in use, or a special value to a specific property user may not be used as market value for federally-related transactions. An appraisal may contain separate opinions of such values so long as they are clearly identified and disclosed.
 - iv. The estimate of market value will consider the real property's actual physical condition, use, and zoning as of the effective date of the appraiser's opinion of value. For a transaction financing construction or renovation of a building, Family First Credit Union will generally request an appraiser to provide the property's current market value in its "as is" condition, and, as applicable, its prospective market value upon completion and/or prospective market value upon stabilization.
 - v. Prospective market value opinions are based upon current and reasonably expected market conditions. When an appraisal includes

prospective market value opinions, there should be a point of reference to the market conditions and time frame on which the appraiser based the analysis. Family First Credit Union will understand the real property's "as is" market value and consider the prospective market value that corresponds to the credit decision and the phase of the project being funded, if applicable.

- vi. Be performed by state certified or licensed appraisers in accordance with requirements set forth in NCUA Part 722.3.
 - In determining competency for a given appraisal assignment, Family First Credit Union will consider an appraiser's education and experience, with a state certification or license as a minimum credentialing requirement.
 - Appraisers will be selected for individual assignments based on their competency to perform the appraisal, including knowledge of the property type and specific property market.
 - In communicating an appraisal assignment, Family First Credit Union will convey to the appraiser that the agencies' minimum appraisal standards must be followed.

6. **APPRAISAL DEVELOPMENT.** While an appraiser must comply with USPAP and establish the scope of work in an appraisal assignment, Family First Credit Union is responsible for obtaining an appraisal that contains sufficient information and analysis to support its decision to engage in the transaction.

- a. **Discussion of Needs and Expectations.** To ensure that an appraisal is appropriate for the intended use, Family First Credit Union will discuss its needs and expectations for the appraisal with the appraiser, without unduly influencing the appraiser.
 - i. Family First Credit Union will not allow lower cost or the speed of delivery time to inappropriately influence its appraisal ordering procedures or the appraiser's determination of the scope of work for an appraisal supporting a federally-related transaction.
- b. **Valuation.** As required by USPAP, the appraisal must include any approach to value (that is, the cost, income, and sales comparison approaches) that is applicable and necessary to the assignment. Family First Credit Union will ensure that the following is included in appraisals:
 - i. The rationale for the omission of a valuation approach. The appraiser must analyze and reconcile the information from the approaches to arrive at the estimated market value.
 - ii. A discussion on market conditions, including relevant information on property value trends, demand and supply factors, and exposure time. Other information might include the prevalence and effect of sales and financing concessions, the list-to-sale price ratio, and availability of financing.

- iii. An analysis of the property's sales history and an opinion as to the highest and best use of the property. USPAP requires the appraiser to disclose whether the subject property was inspected and whether anyone provided significant assistance to the appraiser signing the appraisal report.

7. **APPRAISAL REPORTS.** Family First Credit Union is responsible for identifying the appropriate appraisal report option to support its credit decisions. Family First Credit Union will consider the risk, size, and complexity of the transaction and the real estate collateral when determining the appraisal report format to be specified in its appraisal engagement instructions to an appraiser.

- a. **Report Option.** USPAP provides various appraisal report options that an appraiser may use to present the results of appraisal assignments. Regardless of the report option, Family First Credit Union will ensure that the appraisal report contains sufficient detail to allow Family First Credit Union to understand the scope of work performed.
 - i. Sufficient information includes the disclosure of research and analysis performed, as well as disclosure of the research and analysis typically warranted for the type of appraisal, but omitted, along with the rationale for its omission.

8. **TRANSACTIONS THAT REQUIRE EVALUATIONS.**

- a. Family First Credit Union will consider obtaining an appraisal as its portfolio risk increases or for higher risk real estate-related financial transactions, such as those involving:
 - i. Loans with combined loan-to-value ratios in excess of the supervisory loan-to-value limits.
 - ii. Atypical properties.
 - iii. Properties outside the institution's traditional lending market.
 - iv. Transactions involving existing extensions of credit with significant risk to Family First Credit Union.
 - v. Borrowers with high risk characteristics.
- b. **Exceptions.** Family First Credit Union will obtain an appropriate evaluation of real property collateral in lieu of an appraisal for transactions that qualify for certain exemptions under NCUA Part 723. These exemptions include a transaction that:
 - i. There has been no obvious and material change in market conditions or physical aspects of the property that threaten the adequacy of the institution's real estate collateral protection after the transaction, even with the advancement of new monies; or
 - ii. There is no advancement of new monies other than funds necessary to cover reasonable closing costs

9. HIGH PRICED LOAN APPRAISAL REQUIREMENTS

- a. **High Priced Mortgage Loans.** Mortgage loan is a Higher Priced Mortgage Loan (HPML) if they are secured by a consumer's principal dwelling and have interest rates above certain thresholds:
 - i. The loan is a first-lien mortgage with an annual percentage rate (APR) that exceeds the Average Prime Offer Rate (APOR) published by the Federal Financial Institutions Examination Council (FFIEC) at the time the APR is set by 1.5 percentage points or more.
 - ii. The loan is a first-lien jumbo loan with an APR that exceeds the APOR at the time the APR is set by 2.5 percentage points or more. Or
 - iii. The loan is a subordinate-lien with an APR that exceeds the APOR at the time the APR is set by 3.5 percentage points or more.
- b. **High Priced Mortgage Loan Exemptions.** Family First Credit Union is not required to meet the High Priced Mortgage Loan Appraisal Rule requirements if the loan falls into the following classifications:
 - i. Qualified mortgages.
 - ii. Reverse mortgages.
 - iii. Bridge loans (for 12 months or less).
 - iv. Loans for initial construction of a dwelling.
 - v. Loans secured by new manufactured homes and land will be exempt from the requirement that the appraisal include a physical inspection of the interior of the property. All other High Priced Mortgage Loan appraisal requirements under section C will apply (loan secured by existing or used manufactured homes and land are subject to all of the High Priced Mortgage Loan appraisal requirements).
 - vi. Loans secured by boats, trailers, and mobile homes.
 - vii. An extension of credit for which the amount of credit extended is equal to or less than the applicable threshold amount, which is adjusted every year to reflect increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers, as applicable, and published in the official staff commentary to 12 CFR 1026.35(c).
 - viii. Additionally, an extension of credit that is a refinancing secured by a first lien (except that the creditor need not be the original creditor or a holder or servicer of the original obligation), provided that the refinancing meets the following criteria:
 - The refinancing occurs when an existing obligation is satisfied and replaced by a new obligation undertaken by the same consumer. A refinancing is a new transaction requiring new disclosures to the consumer. The new finance charge shall include any unearned portion of the old finance charge that is not credited to the existing obligation.
 - Either:
 - a. The credit risk of the refinancing is retained by the person that held the credit risk of the existing obligation

- and there is no commitment, at consummation, to transfer the credit risk to another person; or
- b. The refinancing is insured or guaranteed by the same Federal government agency that insured or guaranteed the existing obligation.
- The regular periodic payments under the refinance loan do not:
 - a. Cause the principal balance to increase.
 - b. Allow the consumer to defer repayment of principal.
 - c. Result in a balloon payment.
- The proceeds from the refinancing are used solely to satisfy the existing obligation and amounts attributed solely to the costs of the refinancing.
- ix. Loans solely secured by a manufactured home and not land will be exempt from the rules if Family First Credit Union gives the member one of three types of information about the home's value:
 - The manufacturer's invoice of the unit cost (for loans secured by a new manufactured home).
 - An independent cost service unit cost. Or
 - A valuation conducted by an individual who has no financial interest in the property or loan, and has training in valuing manufactured homes.
- c. **High Priced Mortgage Loan Appraisal Requirements.** When Family First Credit Union originates a higher-priced first-lien or subordinate-lien mortgage loan Family First Credit Union will:
 - i. Use a licensed or certified appraiser who certifies the appraisal complies with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989, as amended, 12 U.S.C. 3331 et seq., and any implementing regulations.
 - ii. Have the appraiser physically visit the property and view the interior and produce a written appraisal report.
 - iii. Provide a disclosure within three business days of application explaining the consumer's rights with regard to appraisals.
 - iv. Give consumers free copies of the appraisal reports performed in connection with the loan at least three days before consummation of the transaction.
 - v. Obtain an additional appraisal at its own expense if the property's seller acquired the dwelling within the past 180 days (flipped property) and is reselling it for a price that exceeds certain thresholds.
- d. **Flipped Property.** Family First Credit Union will:
 - i. Obtain an additional appraisal from a separate independent appraiser if a member is purchasing a property that the property's seller acquired within the past 180 days (flipped property) and is reselling it for a price that exceeds certain thresholds:

- More than a 10% price increase over the last sale price if the seller acquired the property in the past 90 days. Or
 - More than a 20% price increase the last sale price if the seller acquired the property in the past 91 to 180 days.
- ii. Family First Credit Union will cover the cost of the additional appraisal and not pass the additional appraisal cost on to the member.
- iii. Family First Credit Union is not required to provide an additional appraisal for property acquired from:
 - A local, state, or federal government agency.
 - A person who acquired title from the holder of a defaulted mortgage on the property via foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure through exercise of the holder's rights in the defaulted loan.
 - A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure.
 - A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets.
 - An employer or relocation agency in connection with an employee relocation.
 - A service member who received a deployment or permanent change of station order after purchasing the property.
- iv. FFCU is not required to provide an additional appraisal for property:
 - Located in a presidentially-declared disaster area during any time period during which the federal financial institutions regulatory agencies, waive the requirements in Title XI of FIRREA and any implementing regulations in that area. Or
 - Located in a rural county.
- e. **High Priced Mortgage Loan Appraisal Disclosure.** Family First Credit Union will provide an appraisal disclosure to members:
 - i. Promptly after a member applies for a higher-priced first-lien or subordinate-lien mortgage loan, and at the latest with the Loan Estimate.
 - ii. The disclosure will state: "We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."

10. EVALUATION DEVELOPMENT.

- a. **Reliability.** Family First Credit Union will ensure that it will be able to demonstrate that an evaluation, whether prepared by an individual or supported by an analytical method or a technological tool, provides a reliable estimate of the collateral's market value as of a stated effective date prior to the decision to enter into a transaction. (Refer to Policy 7303, Appendix B, Evaluations Based on Analytical Methods or Technological Tools.)
 - i. A valuation method that does not provide a property's market value or sufficient information and analysis to support the value conclusion is not acceptable as an evaluation. Likewise, information on local housing conditions and trends, such as a competitive market analysis, does not contain sufficient information on a specific property that is needed. The information obtained from such sources, while insufficient as an evaluation, may be useful to develop an evaluation or appraisal.
- b. **Valuation Method.** Family First Credit Union will establish procedures to address the process for selecting the appropriate valuation method for a transaction rather than using the method that renders the highest value, lowest cost, or fastest turnaround time.
 - i. Family First Credit Union will ensure the valuation method addresses the property's actual physical condition and characteristics as well as the economic and market conditions that affect the estimate of the collateral's market value.
 - ii. Family First Credit Union will ensure an inspection is performed to determine the actual physical condition of the property and market factors that affect its market value. When an inspection is not performed, Family First Credit Union will ensure it can demonstrate how these property and market factors were determined.
- c. **Evaluation Content.** Family First Credit Union will ensure the evaluation will contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision. An evaluation's content will be documented in the credit file or electronically in a reproducible format. Family First Credit Union will ensure that the evaluation, at a minimum:
 - i. Identifies the location of the property.
 - ii. Provides a description of the property and its current and projected use.
 - iii. Provides an estimate of the property's market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation (that is, the date that the analysis was completed), with any limiting conditions.
 - iv. Describes the method(s) Family First Credit Union used to confirm the property's actual physical condition and the extent to which an inspection was performed.
 - v. Describes the analysis that was performed and the supporting information that was used in valuing the property.

- vi. Describes the supplemental information that was considered when using an analytical method or technological tool.
- vii. Indicates all source(s) of information used in the analysis, as applicable, to value the property, including:
 - External data sources (such as market sales databases and public tax and land records).
 - Property-specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information).
 - Evidence of a property inspection.
 - Photos of the property.
 - Description of the neighborhood. Or
 - Local market conditions.
- viii. Includes information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature (electronic or other legally permissible signature) of the preparer.

11. VALIDITY OF APPRAISALS AND EVALUATIONS. When Family First Credit Union uses an existing appraisal or evaluation to support a later transaction, the documentation in the credit file will provide the facts and analysis to support this decision. A new appraisal or evaluation is necessary if the originally reported market value has changed due to factors such as:

- a. Passage of time.
- b. Volatility of the local market.
- c. Changes in terms and availability of financing.
- d. Natural disasters.
- e. Limited or over-supply of competing properties.
- f. Improvements to the subject property or competing properties.
- g. Lack of maintenance of the subject or competing properties.
- h. Changes in underlying economic and market assumptions, such as capitalization rates and lease terms.
- i. Changes in zoning, building materials, or technology.
- j. Environmental contamination.

12. REVIEWING APPRAISALS AND EVALUATIONS.

- a. **Consistency with Regulations and Supervisory Guidance.** As part of the credit approval process and prior to a final credit decision, Family First Credit Union will review appraisals and evaluations to ensure they comply with NCUA Part 722 and are consistent with supervisory guidance and its own internal policies. This review will also ensure that an appraisal or evaluation contains sufficient information and analysis to support the decision to engage in the transaction.

- b. **Evaluation of Appraiser Competency.** Family First Credit Union will use the review findings to monitor and evaluate the competency and ongoing performance of appraisers and persons who perform evaluations.
- c. **Second Opinions of Market Value.** When Family First Credit Union identifies an appraisal or evaluation that is inconsistent with NCUA Part 722 and the deficiencies cannot be resolved with the appraiser or person who performed the evaluation, Family First Credit Union will obtain an appraisal or evaluation that meets the regulatory requirements prior to making a credit decision. Family First Credit Union may rely on the second opinion of market value obtained through an acceptable USPAP-compliant appraisal review to support its credit decision.
- d. **Reviewer Qualifications.** Persons who review appraisals and evaluations will be independent of the transaction and have no direct or indirect interest, financial or otherwise, in the property or transaction, and be independent of and insulated from any influence by loan production staff.
 - i. Reviewers must also possess the requisite education, expertise, and competence to perform the review commensurate with the complexity of the transaction, type of real property, and market. Further, reviewers must be capable of assessing whether the appraisal or evaluation contains sufficient information and analysis to support Family First Credit Union's decision to engage in the transaction.
 - ii. In the event this cannot be achieved (due to limited staff), Family First Credit Union will implement prudent safeguards for reviewing appraisals and evaluations. Under these circumstances, the Vice President of Lending completes the collateral evaluation program and the loan production process. To ensure independence, the CEO or CFO must underwrite and sign along with the Vice President of Lending for credit decisions.
 - iii. Family First Credit Union will assess the level of in-house expertise available to review appraisals for complex projects, high-risk transactions, and out-of-market properties, but may find it appropriate to employ additional personnel or engage a third party to perform the reviews. When using a third party, Family First Credit Union remains responsible for the quality and adequacy of the review process, including the qualification standards for reviewers.
- e. **Depth of Review.** Family First Credit Union will implement a risk-focused approach for determining the depth of the review needed to ensure that appraisals and evaluations contain sufficient information and analysis to support Family First Credit Union's decision to engage in the transaction. This process will differentiate between high- and low-risk transactions so that the review is commensurate with the risk. The depth of the review will be sufficient to ensure that the methods, assumptions, data sources, and conclusions are reasonable, well-supported, and appropriate for the transaction, property, and market. The review will also consider the process

through which the appraisal or evaluation is obtained, either directly by Family First Credit Union or from another financial services institution. The review process should be commensurate with the type of transaction as discussed below:

- i. Commercial Real Estate. Transactions involving complex properties or high-risk commercial loans (i.e., large-dollar credits, loans secured by complex or specialized properties, and properties outside Family First Credit Union's traditional lending market) will be reviewed more comprehensively to assess the technical quality of the appraiser's analysis. Persons performing such reviews must have the appropriate expertise and knowledge relative to the type of property and its market. Family First Credit Union will establish criteria for when to expand the depth of the review.
- ii. 1-to-4 Family Residential Real Estate. The reviews for residential real estate transactions will reflect a risk-focused approach that is commensurate with the size, type, and complexity of the underlying credit transaction, as well as loan and portfolio risk characteristics. These risk factors will include debt-to-income ratios, loan-to-value ratios, level of documentation, transaction dollar amount, or other relevant factors.
- iii. Sampling. With prior approval from NCUA, Family First Credit Union may employ various techniques, such as automated tools or sampling methods, for performing pre-funding reviews of appraisals or evaluations supporting lower risk residential mortgages. When using such techniques, Family First Credit Union will maintain sufficient data and employ appropriate screening parameters to provide adequate quality assurance and will ensure that the work of all appraisers and persons performing evaluations is periodically reviewed. In addition, Family First Credit Union will establish criteria for when to expand the depth of the review.
- iv. Family First Credit Union may use sampling and audit procedures to verify the seller's representations and warranties that the appraisals for the underlying loans in a pool of residential loans satisfy NCUA Part 722 and are consistent with supervisory guidance and Family First Credit Union's internal policies. If Family First Credit Union is unable to confirm that the appraisal meets NCUA Part 722, Family First Credit Union will obtain an appraisal prior to engaging in the transaction.
- v. Appraisals from Other Financial Services Institutions. Family First Credit Union will assess whether to use the appraisal prior to making a credit decision. Family First Credit Union will subject such appraisals to at least the same level of review that it performs on appraisals it obtains directly for similar properties and document its review in the credit file. The documentation of the review will support Family First Credit Union's reliance on the appraisal.

- f. **Resolution of Deficiencies.** Family First Credit Union will establish procedures for resolving any inaccuracies or weaknesses in an appraisal or evaluation identified through the review process, including procedures for:
 - i. Communicating the noted deficiencies to and requesting correction of such deficiencies by the appraiser or person who prepared the evaluation. Family First Credit Union will implement adequate internal controls to ensure that such communications do not result in any coercion or undue influence on the appraiser or person who performed the evaluation.
 - ii. Addressing significant deficiencies in the appraisal that could not be resolved with the original appraiser by obtaining a second appraisal or relying on a review that complies with Standards Rule 3 of USPAP and is performed by an appropriately qualified and competent state certified or licensed appraiser prior to the final credit decision.
 - iii. Replacing evaluations prior to the credit decision that do not provide credible results or lack sufficient information to support the final credit decision.
- g. **Documentation of the Review.** Family First Credit Union will establish procedures for documenting the review of appraisals and evaluations in the credit file. The documentation will describe the resolution of any appraisal or evaluation deficiencies, including reasons for obtaining and relying on a second appraisal or evaluation. The documentation will also provide an audit trail that documents the resolution of noted deficiencies or details the reasons for relying on a second opinion of market value.

13. **THIRD PARTY ARRANGEMENTS.**

- a. **Oversight.** When Family First Credit Union engages a third party to perform certain collateral valuation functions on its behalf, it will follow its Vendor Due Diligence & Oversight policy.
 - i. **Internal Controls.** Family First Credit Union will have internal controls for identifying, monitoring, and managing the risks associated with using a third party arrangement for valuation services, including compliance, legal, reputational, and operational risks.
 - ii. **Written Contract.** Consistent with safe and sound practices, Family First Credit Union will execute a written contract that clearly defines the expectations and obligations of both Family First Credit Union and the third party, including that the third party will perform its services in compliance with NCUA Part 722 and consistent with supervisory guidance.
 - iii. **Assessment of Risk.** Prior to entering into any arrangement with a third party for valuation services, Family First Credit Union will compare the risks, costs, and benefits of the proposed relationship to those associated with using another vendor or conducting the activity in-house. The decision to outsource any part of the collateral

valuation function will not be unduly influenced by any short-term cost savings. Family First Credit Union will take into account all aspects of the long-term effect of the relationship, including the managerial expertise and associated costs for effectively monitoring the arrangement on an ongoing basis.

- iv. Due Diligence. When Family First Credit Union outsources any part of the collateral valuation function, it will exercise appropriate due diligence in the selection of a third party. This process will include sufficient analysis by Family First Credit Union to assess whether the third party provider can perform the services consistent with Family First Credit Union's performance standards and regulatory requirements.
- v. Third Party Selection of Appraiser. Family First Credit Union will ensure that a third party selects an appraiser or a person to perform an evaluation who is competent and independent, has the requisite experience and training for the assignment, and thorough knowledge of the subject property's market. Family First Credit Union will ensure that the third party conveys to that person the intended use of the appraisal or evaluation and that the regulated institution is the client.
- vi. Monitoring. Family First Credit Union's risk management system will reflect the complexity of the outsourced activities and associated risk. Family First Credit Union will document the results of ongoing monitoring efforts and periodic assessments of the arrangement(s) with a third party for compliance with applicable regulations and consistency with supervisory guidance and its performance standards. If deficiencies are discovered, Family First Credit Union will take remedial action in a timely manner.

14. PROGRAM COMPLIANCE.

- a. **Internal Controls.** Family First Credit Union will ensure that its internal controls to promote an effective appraisal and evaluation program will do the following:
 - i. Maintain a system of adequate controls, verification, and testing to ensure that appraisals and evaluations provide credible market values.
 - ii. Insulate the persons responsible for ascertaining the compliance of Family First Credit Union's appraisal and evaluation function from any influence by loan production staff. The Vice President of Lending completes the collateral evaluation program and the loan production process. To ensure independence, the CEO or CFO must underwrite and sign along with the Vice President of Lending for credit decisions.
 - iii. Ensure Family First Credit Union's practices result in the selection of appraisers and persons who perform evaluations with the appropriate qualifications and demonstrated competency for the assignment.

- iv. Establish procedures to test the quality of the appraisal and evaluation review process.
- v. Use, as appropriate, the results of Family First Credit Union's review process and other relevant information as a basis for considering a person for a future appraisal or evaluation assignment.
- vi. Report appraisal and evaluation deficiencies to appropriate internal parties and, if applicable, to external authorities in a timely manner.
- b. **Monitoring Collateral Values.** Family First Credit Union will monitor collateral risk on a portfolio and on an individual credit basis. Family First Credit Union will obtain current collateral valuation information to understand its collateral position over the life of a loan and effectively manage the risk in its real estate credit portfolios. Current valuation information for collateral will be obtained in order to support an existing loan that may be modified or considered for a loan workout.
- c. Family First Credit Union will ensure it can demonstrate that it has sufficient, reliable, and timely information on market trends to understand the risk associated with its lending activity. Among other considerations, the criteria for determining when to obtain a new appraisal or evaluation will address deterioration in the loan since origination or changes in market conditions.
 - i. Changes in market conditions could include material changes in current and projected vacancy, absorption rates, lease terms, rental rates, and sale prices, including concessions and overruns and delays in construction costs. Fluctuations in discount or direct capitalization rates also are indicators of changing market conditions.
 - ii. In assessing whether changes in market conditions are material, Family First Credit Union will consider the individual and aggregate effect of these changes on its collateral protection and the risk in its real estate lending programs or credit portfolios.
 - iii. Moreover, as Family First Credit Union's reliance on collateral becomes more important, Family First Credit Union will do the following:
 - Ensure that timely information is available to management for assessing collateral and associated risk.
 - Specify when new or updated collateral valuations are appropriate or desirable to understand collateral risk in the transaction(s).
 - Delineate the valuation method to be employed after considering the property type, current market conditions, current use of the property, and the relevance of the most recent appraisal or evaluation in the credit file.

15. **MODIFICATIONS AND WORKOUTS OF EXISTING CREDITS.** Family First Credit Union will consider current collateral valuation information to assess its collateral risk and facilitate an informed decision on whether to engage in a modification or workout of an existing real estate loan.

- a. **Loan Modifications.** Family First Credit Union is not required to obtain an appraisal for a loan modification to an existing loan that involves a limited change(s) in the terms of the note or loan agreement and that does not adversely affect Family First Credit Union's real estate collateral protection after the modification. However, Family First Credit Union will ensure that it has an understanding of its collateral risk (i.e., through the use of automated valuation models (AVMs) or other valuation techniques).
 - i. Family First Credit Union will establish procedures for ensuring an alternative collateral valuation method provides reliable information. In addition, Family First Credit Union will ensure it is able to demonstrate that a modification reflects prudent underwriting standards and is consistent with safe and sound lending practices.
 - b. **Loan Workouts.** Family First Credit Union will maintain current information on the value of real estate collateral supporting a loan workout.
 - i. If the loan workout does not include the advancement of new monies other than reasonable closing costs, Family First Credit Union may obtain an evaluation in lieu of an appraisal.
 - ii. For loan workouts that involve the advancement of new monies, Family First Credit Union may obtain an evaluation in lieu of an appraisal provided there has been no obvious and material change in market conditions and no change in the physical aspects of the property that threatens the adequacy of Family First Credit Union's real estate collateral protection after the workout. In these cases, Family First Credit Union will support and document its rationale for using this exemption.
16. **REFERRALS.** Family First Credit Union will file a complaint with the appropriate state appraiser regulatory officials when it suspects that a state certified or licensed appraiser failed to comply with USPAP, applicable state laws, or engaged in other unethical or unprofessional conduct. Family First Credit Union will also file a suspicious activity report (SAR) with the Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) when suspecting fraud or identifying other transactions meeting the SAR filing criteria.
17. **PROVIDING APPRAISALS TO APPLICANTS.** Family First Credit Union must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations, developed in connection with the application, whether or not the applicants request copies.
- a. **Notification Requirements.** After receiving the member's application Family First Credit Union has three business days to notify the member of their right to receive a copy of the appraisal.
 - i. Family First Credit Union must promptly share copies of appraisals and other written valuations with the applicant. Promptly means promptly upon completion, or at least three business days before consummation

(for closed-end credit) or account opening (for open-end credit), whichever is earlier.

- b. **Content of the Appraisal Notice.** Family First Credit Union's Appraisal Notice will state: "We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."
- c. **Waive Appraisal Right.** The applicant can waive the right to receive copies of the appraisal or other written valuations in advance of the closing, but in those cases, Family First Credit Union must still deliver the copies at or prior to consummation or account opening.
- d. **No Fee for Appraisal Copy.** Family First Credit Union cannot charge a fee for the copy of the appraisal.
- e. **Handling Loans That Do Not Close.** If Family First Credit Union does not consummate the loan or open the account and the applicant has provided a waiver, Family First Credit Union has 30 days after determining that the loan will not consummate or open to send the applicant a copy of the appraisal and other written valuations.