specific parameters on the valuation procedures that credit unions may employ.

1. Exemptions

The Board proposed amendments to clarify and expand the circumstances in which a Title XI appraisal is not required. The Board addressed the following areas: (1) The "abundance of caution'' provision; (2) liens for purposes other than the real estate's value; (3) requirements for renewals, refinancings and other subsequent transactions; (4) transactions involving real estate notes; (5) transactions insured or guaranteed by a United States Government Agency or United States Government Sponsored Agency; and (6) transactions that meet the qualification for sale to a United States Government Agency or United States Government Sponsored Agency.

The "Abundance of Caution" Provision

NCUA's appraisal regulation currently provides that an appraisal is not required when a lien on real estate has been taken as collateral "solely" through an abundance of caution and where the terms of the transaction as a consequence have not been made more favorable than they would have been in the absence of a lien. See 12 CFR 722.3(a)(2). To emphasize the broader scope of the abundance of caution exemption, the Board proposed to delete the word "solely" from the current exemption. Seven commenters supported and one opposed this amendment. The supporters believed it would add flexibility to credit union's lending policies. One of these commenters suggested that the final regulation also eliminate the requirement that "the terms of the transaction have not been made more favorable than they would have been in the absence of the lien." This commenter stated that if this requirement is not eliminated credit unions would be at a competitive disadvantage with banks and thrifts.

The Board is unwilling to further expand the abundance of caution provision. When the terms of a loan are more favorable than they would have been in the absence of a lien, the more favorable terms are warranted because of the value of the collateral. Without a certified or licensed appraisal (or a valuation if the transaction is below the de minimus level) the credit union has no assurance that the collateral is of sufficient value to provide the necessary risk protection.

The opposing commenter believes this amendment may lead to unwarranted risk. However, this amendment will only affect a small number of transactions and cannot be used when the terms of the transaction have been made more favorable than they would have been in the absence of the lien. A loan falling into this category will not carry any additional risk. Therefore, the Board is adopting this amendment as proposed.

Liens for Purposes Other Than the Real Estate's Value

The Board proposed a new exemption for transactions in which a credit union takes a lien on real estate for purposes other than the value of the real estate, such as when it takes a lien on real estate to protect the legal rights to other collateral. In such cases an appraisal would not be required. Seven commenters supported this amendment. One of these commenters stated that this new exemption would benefit credit unions since it would allow them to take additional security without adding the burden of obtaining an appraisal. Accordingly, the Board is adopting the amendment as proposed.

Requirements for Renewals, Refinancing and Other Subsequent Transactions

The Board proposed exempting from the appraisal requirement subsequent transactions provided no new monies were advanced other than funds necessary to cover reasonable closing costs and where there has been no obvious and material change in the market conditions or physical aspects of the property which would threaten the credit union's collateral protection. Fifteen commenters supported this proposal. One of these commenters stated that this amendment would be beneficial to credit unions and members who wish to refinance an existing mortgage with the same credit union, in order to take advantage of a lower interest rate, but not incur the added expenses of another appraisal.

One commenter recommended even greater flexibility to situations in which an appraisal is not required for renewals, refinancings, and other subsequent transactions. This commenter would exempt a transaction which involves an existing extension of credit provided it meets one of two criteria: (i) There is no advancement of new money except to cover reasonable closing costs or (ii) 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. This commenter stated that banks and thrifts have this exemption and credit

unions would be at a competitive disadvantage without it. The Board believes that an appraisal is necessary if new funds are advanced. The Board believes that safety and soundness concerns outweigh the possible minimal affects on competition.

One commenter supports the proposal but would also require a drive-by appraisal to confirm there had been no material change in the collateral. The Board believes that credit unions should retain the flexibility on how best to determine whether there has been any material change in the collateral. Three commenters objected to this amendment believing an appraisal is necessary because market conditions may have changed since the loan was originally granted. The Board disagrees. If the credit union has made the loan being refinanced and no additional funds are advanced, the risk is only associated with the extension of the repayment period. The Board believes that in most cases this risk will be minimal. In addition, the Board believes that the credit unions will be aware of the deteriorating market trends and will seek a new appraisal if they believe it is necessary. The Board is adopting in final the amendment as proposed. This exemption is not applicable if a member refinances a mortgage with a new lender.

Transactions Involving Real Estate Notes

The Board proposed to allow credit unions to purchase, sell, invest in, exchange, or extend credit secured by real estate notes or interests in real estate notes or interests in real estate without obtaining a new Title XI appraisal if each note or real estate interest is supported by an appraisal that meets the regulatory appraisal requirements for the institution at the time the real estate-secured note was originated. (The transaction would, of course, have to meet other statutory and regulatory requirements applicable to federally-insured credit unions.) The Board believes that this amendment will serve federal public policy interests by helping to ensure that the appraisal regulation does not unnecessarily inhibit secondary mortgage market transactions that involve real estatesecured loans and real estate interests. Six commenters supported this proposal. Most of these commenters believe that this change would permit credit unions to buy or sell loans more easily on the secondary market. Consequently, the Board is adopting this amendment as proposed.