MANAGING YOUR CREDIT UNION'S OREO PROPERTY: GUIDANCE & BEST PRACTICES

WASHINGTON STATE DEPARTMENT OF FINANCIAL INSTITUTIONS

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Introduction

New Challenges

The economic cycle in the 21st century presents credit unions with a new challenge: owning and managing real estate as the result of an inability to collect on a loan. For many credit unions, this is a new or infrequent experience. This guidance manual is intended to help credit unions prudently evaluate, manage, and dispose of real property acquired when they are unable to collect on a real estate loan.

How This Guidance Can Help

The primary audience for this document is the board, management and staff of credit unions with limited previous experience handling OREO property. This guidance discusses limited basic issues and has identified additional resources that may assist those with more challenging OREO questions.

This guidance manual is not intended to be a comprehensive resource on all OREO issues. **While we outline basic considerations and provide other sources of information, it is still critical to seek legal, tax, and accounting advice from professionals with experience in this field.** Those professionals will be the most informative resource for your particular circumstances. Consulting with them for specific advice is strongly encouraged. The Washington State Department of Financial Institutions (DFI) does not provide individual credit unions with legal advice.

What is "OREO"?

"OREO" is an acronym for "Other Real Estate Owned." This is a category of assets used by financial institutions to identify real property obtained to satisfy a lien on a real estate loan. Typically this is accomplished by the foreclosure process or the deed in lieu of foreclosure process.

What are the "OREO rules"?

In 2009, DFI's Division of Credit Unions enacted rules to assist credit unions in understanding and managing their OREO in a prudent manner. The full text of the rules is available at www.dfi.wa.gov/cu/rulemaking/oreo-adopted-language.pdf

The rules include a requirement that credit unions closely examine their OREO needs and practices, and develop their own written policies for handing OREO in their particular environment. See WAC 208-476-300.

The rules also help DCU Financial Examiners understand the various OREO management practices expected of credit unions. These rules were developed after extensive input from credit union CEOs and staff, Certified Public Accountants (CPAs), lawyers and other professionals.

Understanding OREO in general

How does a loan become OREO?

There are generally two ways for a credit union loan to become OREO. They both occur when a loan is not collectable by other means. In the first, the credit union may foreclose on the property through court action and establish an ownership interest in the property. In this case, the credit union may have further recourse against the borrower for any deficiency remaining after the sale of the real estate.

The second occurs when a credit union obtains title to real estate through “non-judicial” means. That is when a borrower voluntarily releases their ownership interest in the property. This is commonly called a deed in lieu of foreclosure. In this case the credit union and the borrower reach agreement on the terms of the release, including the handling of any deficiency balances.

Is GAAP accounting necessary?

Regulatory policy (RCW 31.12.569) requires that transactions involving foreclosed property be accounted for according to United States generally accepted accounting principles (GAAP). A web-link to GAAP is provided in the OREO rules.

What level of “materiality” applies to OREO transactions?

CPA principles say that transactions must follow GAAP except if the transaction is not considered “material.” However, credit union examiners will expect that transactions relating to OREO will be recorded following GAAP procedures regardless of any CPA opinion or determination of materiality.

Determinations of materiality will be strictly construed in Washington. (See WAC 208-476-200) In the event that a credit union or its CPA’s opinion differs from that of the DCU as to the materiality of an accounting interpretation, the DCU’s determination will prevail.

How should the credit union board be involved in the OREO process?

The board should:

- ensure development and approval of a **policy** (see WAC 208-476-300 (4)) addressing key decisions to be made regarding OREO management

- ensure the management **expertise** is available and the credit union has adequate staffing to best preserve the assets and capital of the credit union when dealing with OREO
- expect reasonable **plans** for acquiring, handling, and disposing of the property to be in place prior to taking possession of the property
- be **informed** when the credit union anticipates taking possession of OREO property
- be prepared to provide an **independent perspective**, placing a priority on their fiduciary duty to the credit union, and should not become unduly distracted by the feelings of staff or the member
- provide **direction** to management as the process unfolds
- be prepared to **accept that errors** in underwriting and collecting the loan may have occurred
- be prepared to **recognize losses** rather than hope for a miracle

How important is recordkeeping for OREO?

Accurate recordkeeping for OREO property is essential. Accountants and examiners, as well as credit union management, will rely on that information in forming opinions and making decisions about OREO property. Inaccurate, missing or misleading information could be costly for the credit union.

There are many phases of OREO management. After pre-acquisition analysis and a decision to acquire OREO, the life cycle of foreclosed real estate generally consists of three phases: acquisition, holding period, and disposition. Credit unions should ensure that proper accounting policies and controls are in place to guide each phase.

Management should refer to the applicable accounting standards and the *Instructions for Call Reports* to determine the appropriate regulatory reporting of OREO, based on the specific facts and circumstances involving the property and any related transactions.

Again, credit union management is strongly encouraged to consult with knowledgeable accounting professionals as necessary, especially in those situations where the transaction is uncommon or complex in relation to the credit union's expertise.

The following categories of records will be important in the OREO lifecycle.

1) A separate property file for each OREO property including:
   a) Inspection reports
      i. Inventory of fixtures, equipment, etc. at property
      ii. Documentation of condition of property
   b) Title, tax, and insurance documents
   c) Rental activity and lease documentation
   d) Marketing plan and progress reports
   e) Listing agreements and broker contracts
   f) Capital expenses

2) A calendar for the following important dates:
   a) Tax payments due,
   b) Homeowner's association fees,
   c) Insurance premiums,
   d) New appraisals,
   e) Regulatory waivers, if any

3) Write downs to fair value

4) Accounting for the following expenses by individual property:
   a) Insurance
   b) Physical security (change locks, window repairs, fencing, security service, etc.)
   c) Maintenance (cleaning, mowing, utilities, structural repair, painting, etc.)
   d) Costs of selling / renting the property (typically including marketing, broker's commissions, correction of defects observed at inspection.)

5) Other costs to be considered in any decision:
   a) Opportunity costs to the credit union based on the alternative uses of the sales proceeds.
   b) Cost of providing favorable financing (discount future and probable cash flows to present value).
   c) Anticipated appreciation or depreciation during the holding period.
   d) Benefit when the property is sold at end of the holding period (discount proceeds to present value, determining yield based on current market rates).
   e) Benefit of interim use of the property in a lease or rental arrangement, including which accounting method (full accrual, installment, cost recovery, reduced profit or deposit method) is used.

The Role of Appraisals

When is an appraisal required?

Depending on timing, an appraisal may be required at as many as three points during the lifecycle of an OREO property.

- First, an appraisal is used to evaluate the desirability of taking possession of the property, to determine a suitable bid at the foreclosure sale, and if ownership of the property is chosen, to establish the maximum book value for the property at the time of foreclosure.

- Second, another appraisal may be necessary to establish the current market value during the time the credit union owns and markets the property. This becomes important if the property values in the area are declining while the credit union continues to hold the property. This appraisal is also important to establish a market value that maximizes the return to the credit union in a rising market.

- Third, at the time of sale, an appraisal will be necessary to establish market value to support a loan application from a purchaser. It will also be used at that time to substantiate any gain or loss at the time of the sale. (See below for more information.)

NCUA Rules and Regulations Part 722 will govern the use of appraisals in credit unions. The Uniform Standards of Professional Appraisal Practice (USPAP) provided by the Appraisal Foundation will be guide the professional care necessary in most appraisals.

What are some of the key considerations in an appraisal?

Upon transfer to OREO, fair value must be substantiated by a current appraisal prepared by an independent, qualified appraiser. All instructions from the credit union to the appraiser must be in writing. The appraisal must contain all of the credit union's instructions to the appraiser. The appraiser should estimate the cash price that might be received for the property "as-is" upon exposure to the open market for a reasonable time, considering the property type and local market conditions. The as-is appraisal is important so any proposed improvements can be evaluated as to their potential cost benefit. When it is unlikely that a sale can be completed within 12 months, the appraiser must discount all estimated cash flows generated by the property to obtain an estimate of fair value for the property. Those cash flows include, but are not limited to, those arising from ownership, development, operation, and sale of the property. The discount rate applied should reflect the appraiser's judgment of what a prudent AND knowledgeable purchaser, under no necessity to buy, would be willing to pay for the property in a current sale (i.e., within 12 months). Whenever the appraiser believes that more than one year is necessary for a fair market sale of the property, the appraiser should explain, and justify the estimated time, stating the applicable annual discount rate.

Managing the Three Phases of OREO

Look before you leap

Credit unions are strongly encouraged to consider whether taking ownership of an OREO property is the "best" or least cost course of action. Do not underestimate the expenses and other costs, including management and staff time involved in OREO supervision. The purpose of a credit union is not to be in the real estate "business." In fact, credit union investment in real property is limited by law. (see RCW 31.12.438)

What financial analysis should be completed before foreclosure?

Financial institutions of all kinds tend to lose money in liquidating OREO, despite the apparent adequacy of the appraised value. A credit union's acquisition of the property through foreclosure usually indicates a lack of market demand. As time lapses, the lack of demand becomes more apparent, and the wisdom of holding real estate for which there is no demand becomes more questionable. A group of professionals with years of experience in the field recently revealed only one instance when the financial institution came out ahead in the OREO process. OREO is usually a losing proposition.

In recognition of this reality, credit unions should carefully analyze the costs in management time, anticipated expenses, and lost opportunity costs against the possibility of recovery of the loan value. Each of the expenses noted below should be incorporated in a written analysis.

As painful as it may be, working with the borrower, or writing off the loan without foreclosure may be in the best interests of the credit union.

At a minimum, the following OREO costs or benefits should be considered:

1. Cost to secure and maintain the property.
2. Costs to insure and pay taxes.
3. Costs of selling the property
    a. marketing
    b. broker's commissions
    c. correction of property defects observed at inspection.
4. Lost opportunity costs to the credit union: for example, the alternative uses of management time or the sales proceeds.
5. Costs of providing favorable financing (discount future and probable cash flows to present value).
6. Anticipated property depreciation during the holding period.
7. The benefit of interim use of the property in a lease or rental arrangement..

What are some of the key considerations in owning OREO?

- **Responsibility.** Management should assign responsibility for the OREO to one individual, with suitable oversight of that individual. Does the credit union have someone the expertise for this responsibility? Also consider the magnitude of time commitment for this responsibility.

- **Maintenance.** OREO should be maintained in a manner that secures the property from further deterioration (such as weather damage, squatters, theft of appliances and wiring, or use as a meth lab etc.) and complies with local property laws and fire codes. Other requirements, such as homeowner association covenants, may also require time and careful attention. Efforts to ensure an OREO property is maintained in a marketable condition not only improves an institution's ability to obtain the best price for the property, but it also minimize liability and reputation risk.

- **Insurance**. A review of a credit union's umbrella insurance policies should be performed to determine if adequate hazard and liability coverage for OREO exists. If not, management should consider obtaining policies on each parcel of OREO. If a credit union decides to self-insure, this decision should be documented in the OREO file and be approved by the board. Be aware that some insurers do not cover vacant properties after a certain period of time.

- **Property Management.** Will this be performed by a property management company or the credit union? Will the property be rented? Who will handle this?

- **Other Ongoing Expenses**. Management should implement procedures for managing <u>**all other miscellaneous expenses**</u> the institution may incur during the OREO holding period. These expenses may include, but are not limited to: security services, sewer and water fees, utility charges, property management fees, homeowners' fees, and interest on prior liens.

<u>*Are potential environmental hazards on a prospective OREO property of concern?*</u>

Yes, potential environmental hazards should be considered in the decision to take title to OREO property. As owner of OREO property with an environmental hazard, not only will the property be more difficult to sell but the credit union could increase its potential liability for cleaning up the hazard. It is possible to become liable for cleaning up environmental hazards that will cost much more that writing off the loan balance. Environmental risks can be hidden, such as a ruptured buried heating fuel tank, so a careful risk assessment is in order.

If a credit union has reason to suspect environmental risk, it needs to obtain competent professional advice to evaluate the risk, as well as legal advice regarding risk mitigation, <u>before</u> making the decision to take possession.

Does a lender have to foreclose on a property?

No! A credit union is not required to foreclose on a property. Foreclosure should only be undertaken when careful written analysis demonstrates a clear advantage to the credit union. This is particularly true when the lender holds a second deed of trust behind a much larger first deed of trust. Other examples that indicate a risky foreclosure include prior use as a meth lab, flood damage, stripping of fixtures/wiring, or if costs to perfect a title exceed any benefit.

What steps can be taken to work with the borrower and hopefully avoid OREO?

Many borrowers may only need a brief period of reduced monthly payments to get themselves back on their feet financially. Reaching out to them may help relieve them of a great source of stress, and may make your job easier. Discuss with the borrower the sources of their financial problems, verify their income levels, pull a credit report, and determine an achievable debt-to-income ratio for any modified loan. Once you understand the borrower's limitations, you may be able to develop alternatives that will meet their needs, while preserving the credit union's loan repayment.

The alternatives could include such things as:

- reducing the interest rate for a limited number of months
- forgiving a portion of the debt
- extending the loan maturity date
- changing the interest rate from variable to fixed
- changing the balloon payment options
- waiving late fees

It may be appropriate to ask for additional collateral when the credit union modifies the loan.

A word of caution: When modifying the terms of a loan due to the adverse financial condition of the borrower, the loan becomes a "Troubled Debt Restructuring," requiring specific accounting treatment.

Phase One of OREO: Acquisition

What should the credit union do during the acquisition phase?

If pre-acquisition analysis shows that it is advisable to take ownership of the property, a credit union should inform staff responsible for management of the OREO and should ensure that the credit union has a written OREO policy with adequate recordkeeping in place.

How does a credit union establish the "book" value of a piece of OREO property at acquisition?

Credit unions must initially record OREO assets at the lower of the following two amounts:

- recorded book value of the loan
- fair value less costs to sell the foreclosed asset

This lower amount becomes the "cost" or "book" value of the OREO property.

As noted elsewhere, the fair value will be established using an independent, qualified appraiser's value.

The costs to sell an asset include the estimated additional direct costs to transact the sale of the asset. This includes such costs as broker commissions, legal and title transfer fees, and closing costs. Costs to sell generally exclude insurance, security service, and utility costs.

A credit union must charge off any amount in excess of recorded investment over fair value, less costs to sell. The credit union cannot simply provide a valuation allowance (FAS 114 reserve in the ALLL) instead of recognizing this loss.

How long does a credit union have before charging off the loss identified at the time the OREO is acquired?

A credit union will have a reasonable amount of time to obtain appraisals and record the loss. (Generally the appraisal will have been obtained during the analysis phase, to guide the decision to take ownership). Typically this action should take a few **days** or **weeks**. In no event should it exceed the next quarter end.

Can expenses prior to foreclosure be added to the loan balance?

No. Legal fees and direct costs of acquiring title to OREO property are expensed when they are incurred and may not be included as an asset of the credit union. To do so overstates both the assets and equity of the credit union. All costs of analyzing the value and acquiring title to the property should be recorded in the appropriate expense account during the accounting period in which they were incurred.

Phase Two of OREO: Holding Period

How do you establish the fair value of a piece of OREO property during the holding period?

Since the market for real estate will fluctuate, a periodically updated appraisal will be necessary when general market conditions indicate declining market values.

After foreclosure, each foreclosed real estate asset must be carried at the lower of (1) the fair value of the asset minus the estimated costs to sell the asset or (2) the "cost" of the asset. This determination must be made on an asset-by-asset basis.

To substantiate the carrying value, a new appraisal, or certification of value in letter form from an independent appraiser must be obtained annually (or more frequently if market conditions have materially changed).

If the new appraisal reflects a permanent impairment of the value of the parcel, the credit union may record the decline by a charge against current earnings. However, if a decline is not judged to be permanent, the credit union must establish a valuation reserve in an amount at least equal to the excess of book value over fair value of the property. When a subsequent appraisal indicates that fair value of the parcel has increased, the reserve for that parcel may be reduced, but not below zero.

What are the typical expenses incurred while holding OREO?

Expenses relating to holding OREO will depend on the type of property, and may be surprising. Do not underestimate them, or fail to account for all of them.

These expenses will likely include:

1. Cost to restore or prepare the property for sale.
2. Cost to prevent deterioration of the asset during the anticipated holding period.
3. Insurance and taxes.
4. Physical security (fencing, security service, etc.).
5. Maintenance costs (mowing, utilities, repair, etc.).
6. Marketing costs.

Can expenses incurred during the holding period for OREO be added to the balance of the OREO?

Generally, the answer is no. Costs for normal expenses paid to third parties must be expensed on the income statement during the period in which they are incurred. To add them to the OREO asset balance will overstate both the assets and equity of the credit union.

Can payment of taxes be deferred until sale of the OREO?

No. As a best practice, taxes on OREO should be paid in a timely manner to avoid unnecessary penalties and interest and to maintain the reputation of the credit union.

Is it a good idea to rent the property while looking for a buyer?

Depending on the type of property a credit union may own, there may be an opportunity to derive some income through rent, while holding the property for sale. This is an opportunity that should not be overlooked. However, there are additional complexities, if the credit union decides to rent the property.

Those who rent property from the credit union will have certain rights that must be respected. The credit union will need to comply with Washington State's landlord-tenant laws. For example, if the property is residential property, the credit union must avoid discriminating against certain protected classes of people in the marketing and rental of the property. Guidance from competent legal and real estate professionals with experience in handling your type of OREO property will help avoid the many pitfalls. Credit Unions should refer to RCW 59.18, the Residential Landlord Tenant Act at
http://apps.leg.wa.gov/RCW/default.aspx?cite=59.18

How should rental income be handled?

If the property generates revenue during the holding period, the credit union should recognize the rent generated from the property as income in the period in which it is earned.

How long can OREO be held for sale?

NCUA guidance expects OREO be sold within one year. Current rules for state credit unions in Washington (WAC 208-476-100) may allow a credit union to hold the property as long as five years, if it is having difficulty selling it. Credit unions need to recognize the drain of ongoing OREO expenses and of managing and account for a non-earning asset. Typically it is in the best interest of the credit union to sell the property as soon as reasonably possible. Holding property in speculation that values may soon recover is <u>not</u> an authorized activity for credit unions in Washington.

Phase Three of OREO: Disposition of OREO

How do you market an OREO property?

Depending on management time constraints, and the type of property, the credit union may have the opportunity to market it informally to members and the public. More frequently, a contractual relationship with a real estate sales professional will be necessary, and is usually expected by DCU. The real estate professional approach will generally require less time from credit union management, allowing them to continue with other duties. That approach may also get the property sold more quickly, and provide an improvement in the return on assets sooner.

What is a typical cost for marketing a property?

There is no one answer for this. Most frequently this cost will be 10-15 percent of the sales price received. All real estate is unique and markets vary by location and timing. Credit unions should do a survey of real estate professionals in their area, and contract with those who provide good value for the type of property to be sold. "Best practice" will avoid contracting with someone just because they are known to credit union management.

It is DCU's expectation that credit unions will generally hire bona fide real estate professionals, unless they have sufficient, experienced in-house staff to handle aggressive marketing of the OREO.

<u>Can a credit union finance its own OREO to facilitate the sale?</u>

Yes, the sale of OREO property may be financed by a loan from the credit union. However, special accounting rules may apply. For example, a loan may be made at a discount to current market interest rates. In this situation, GAAP requires that the loan be discounted to bring its yield to a market rate. The effect of this discount will be either to increase the loss, or to reduce the gain that results from the sales transaction. Interest income is then recognized at a constant yield over the life of the loan. The advice of an accounting professional may be necessary to properly account for this.

<u>Can a credit union offer more generous loan terms to facilitate the sale?</u>

Again, the answer is yes. Loan terms that are more generous than those available to other borrowers with similar credit characteristics may be used to facilitate the sale of OREO. When this occurs special accounting treatment requiring additional charge-offs, or delaying the removal of the asset from OREO may be required. Check with your CPA to evaluate the impact of such terms.

<u>Do the "loans to one borrower" rules apply to credit union financing of OREO?</u>

Loans to facilitate the sale of real property do not fall under the loans to one borrower rule, if the credit union takes a purchase money mortgage note from the purchaser and meets the following two conditions:

- The credit union does not advance any new funds to the borrower.
- The credit union is not in a more detrimental position as a result of the sale.

The “loans to one borrower rule” can be found at RCW 31.12.428.

<u>How do you establish the fair value of a piece of OREO property at the time of sale?</u>

The fair value of OREO should generally be established as the result of yet another appraisal prepared by a qualified appraiser with experience in the type of property and in the market the property is located. Property with value of less than $250,000 may be valued through alternative means such as tax value.

<u>What happens when there is a loss at the time of the sale of the OREO?</u>

GAAP requires that if the sale of OREO results in a loss, a credit union must account for the loss in the period it is sustained. It is an unsafe and unsound practice for a credit union to fail to recognize a loss from the sale of OREO.

In like manner, credit unions may not inflate the sales price above the appraised market value to avoid booking a loss. Inflated sales prices (that a borrower may be willing to accept) may be a result of favorable terms the credit union provided in a loan to facilitate the sale. GAAP requires discounting sales prices to reflect market interest rates for loans of similar terms and risk. The advice of an accounting professional would be appropriate when this occurs.

How does a credit union account for a gain on the sale of OREO?

A credit union may recognize all gains at the time of sale as long as the sale meets the following two conditions:

1. The credit union did not finance the sale
2. The credit union has no continuing involvement with the property

Financing the Sale: When a credit union makes a loan to facilitate the sale of OREO, it may recognize the full gain if the sale meets all of the following conditions:

a. The credit union and buyer consummate the sale.
b. The buyer has adequate initial and continuing investments that demonstrate a commitment to pay for the property.
c. The seller's receivable is not subject to future subordination.
d. The seller transfers to the buyer the usual risks and rewards of ownership in a transaction that is, in substance, a sale and does not have a substantial continuing involvement with the property.

In the event that a credit union facilitates the sale of foreclosed property by requiring little or no down payment, GAAP requires that the profit on sales of the foreclosed property be deferred until an adequate down payment (depending on the type of property, up to 25 percent of the discounted sales price) has been received. In this case the property continues to be reported as OREO until the adequate down payment has been received. However, losses should be recorded immediately regardless of the amount of down payment.

It is recommended that a credit union obtain the professional advice of a CPA in processing this type of sale.

"Continuing Involvement" Credit unions generally may not recognize a gain for accounting purposes if they retain some type of continuing involvement in the property, without transferring the risks and rewards of ownership to the buyer. "Continuing involvement" includes any of the following situations:

i. The selling credit union makes an obligation to repurchase the property.
ii. The selling credit union retains an equity interest in the property.
iii. The selling credit union guarantees an investment return to the purchaser.
iv. The selling credit union must initiate or support operations or continue to operate the property at the seller's own risk.

Therefore, if a credit union retains some type of continuing involvement in the property, subsequent to its sale, the transaction may not qualify for gain recognition because some risk has been retained. The credit union must defer any gain, and credit to an account descriptive of unearned gain on the sale of real estate. A credit union should also obtain the advice of a CPA in processing this type of sale.

Examiner Expectations

DCU will not routinely adversely classify all OREO assets. To determine quality, the DCU examiner may evaluate each parcel of OREO on a case by-case basis, and classify or pass the property as appropriate.

Examiners will consider the extent of sound value, conformity with the OREO rules, the credit union's marketing plan, and the credit union's actual performance in disposing of the OREO. The credit union should be prepared for the examiner to review all relevant factors to determine the quality and risk of the parcel of OREO, and the degree of probability that its carrying value will be realized. In conducting the analysis, some of the factors the DCU examiner may consider include:

1. The property's carrying value relative to its appraised value, the asking price, and offers received.
2. The length of time the property has been on the market and local market conditions for the type of property involved, e.g., history and trend of recent sales for comparable properties.
3. Credit union management's ability and track record in liquidating OREO.
4. Income generated by the property and other economic factors affecting the probability of loss exposure.
5. The plan or manner in which the credit union intends to dispose of the property.
6. The source and quality of the appraisal.
7. Other pertinent factors, including the title, statutory. redemption privileges, zoning, other liens, tax status, and insurance, etc.

What if you still have OREO questions?

Prudent handling of OREO is complex. You should work with your real estate professionals, accountants and attorneys to resolve specific issues. You may have occasional basic questions about what to do about your credit union's OREO property. While DCU cannot provide individual legal advice, we can answer general questions, interpret the OREO rule, and update our website to reflect industry-wide concerns. You may contact the Division at 360-902-8701.

Appendix

1. Accounting Literature

   Accounting and reporting standards for OREO are set forth in:

   a. Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings (FAS 15),*
   b. Statement of Financial Accounting Standards No. 114, *Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 114).*
   c. In addition, certain provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position 92-3, *Accounting for Foreclosed Assets (SOP 92-3),* have been retained because they represented prevalent and safe and sound credit union practices. The provisions retained from AICPA SOP 92-3 include that when a credit union receives OREO from a borrower in full satisfaction of a loan, the long-lived asset is presumed to be held for sale, and the institution should initially record the OREO at its fair value less cost to sell.

2. Appraisal Literature

   a. NCUA Rules & Regulations Part 722
   b. Uniform Standards of Professional Appraisal Practices (USPAP) provided by the Appraisal Standards Board of the Appraisal Foundation

3. Washington Literature

   a. WAC 208-476
   b. Interpretive Letter I-10-04