From: Dale Leitzke [mailto:spade@new.rr.com]
Sent: Saturday, November 22, 2008 10:28 AM
To: Comments
Subject: FDIC Proposed Interagency Appraisal and Evaluation Guidelines

RE: Agencies proposed guidelines.

"An institution should establish reporting lines independent of loan production for staff that order, accept, and review appraisals and evaluations"

RESPONSE: The institution has a vested interst in making the loan. So long as the institution orders and reviews the loan, the evolution of the conduct of the institution will favor the interest of the institution to the detriment of the holder of the mortgage backed securities. Appraisals are ordered from appraisers that are more likely to accommodate the interest of the borrower and the lender. The appraisal reviewer's paycheck comes from the lender and the reviewer may be biased by this arrangement.

"Selection of Persons Who May Perform Appraisals and Evaluations
An institution's collateral valuation program should establish criteria to select, evaluate, and monitor the performance of persons who perform an appraisal or evaluation. The criteria should ensure that:
• The institution's selection process is nonpreferential and unbiased"

RESPONSE: Selection is critical. Nothing is preventing the institution from always selecting the appraiser who is willing to work for the lowest fee and accommodate the bank's interest.

• "The person selected possesses the requisite education, expertise, and competence to complete the assignment"

RESPONSE: For residential appraisal work, this means that anyone who got his or her license yesterday is equally as qualified as a person who has a professional designation, the highest level of licensing, and has 25 years experience.

• "The work performed by persons providing appraisal and evaluation services is periodically reviewed by the institution;
• The person selected is capable of rendering an unbiased opinion;
• The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction; and
• The person selected to perform an appraisal holds the appropriate state certification or license."

RESPONSE: In determining competency for a given appraisal assignment, institutions should consider an appraiser's education and experience. For residential assignments, the key word is should. Without mandated rules, the word should translates to 'may choose to never'.

"Therefore, to ensure that an appraisal is appropriate for the intended use, an institution should discuss its needs and expectations for the appraisal with the appraiser. Such discussions should assist the appraiser in establishing the scope of work and form the basis of the institution's engagement letter, as appropriate."

RESPONSË: These two sentences were written by someone who is out of touch with current reality. Again, the word shoud is replaced by appraisal management companies with the words 'may choose to never' Most AMC's strictly do not allow any discussion of scope of work prior to the ' tape recorded verbal' or written acceptance of the fee.

"An institution should not allow lower cost or the speed of delivery time to influence the appraiser's determination of an appropriate scope of work for an appraisal supporting a federally related transaction."

RESPONSE: This is a useless comment. Today's reality is that fee is always determined prior to any discussion of scope of work and is not negotiable. In practical terms, the fee is determined solely by the appraisal management company.

"An institution is responsible for identifying the appropriate appraisal reporting option to support its credit decisions. The institution should consider the risk, size, and complexity of the transaction and the real estate collateral when determining its appraisal engagement instructions to an appraiser."

RESPONSE: With AMC's the engagement intructions are simple. Here's the fee, if the work is not completed on time the order will be reassigned and the fee will not be paid. Complexity of the assignment and scope of work are not revealed until after the fee agreement.

RESPONSE SUMMARY: The point is being missed. Appraiser lists are stacked with accomodating appraisers. Fee pressures reduce the likelihood of hiring the most competent appraisers. Those appraisers with a solid reputation of reliable competent appraisals will find appraisal work outside the realm of the secondary market or will leave the appraisal business. This may be increasing the number of inflated appraisals at a time when collateral value is critical. The rise of AMC's is a flight from competency.

No one asks an appraiser to 'hit the numbers' That's not necessary. Those who don't just aren't hired again. In a general sense low fees can be equated to a likelihood that an appraiser is accomodating. AMC's are widely regarded as necessary to insure appraisal independence. Appraisal independence is supposed to reduce the number of accomodating appraisals. But the end result of the rise of AMC's is a flight from competency and no reduction in the number of accomodating appraisals.

I find it surprising that no one has attempted to find out what percentage of loan foreclosures were most likely caused by inflated appraisals. The first step to investigate the percentage is relatively simple. Compare a statistically viable sample of appraisals that were attached to home mortages where forclosures occurred to the assessment at the time of the appraisal. Then compare this percentage to a sample of appraisals that were attached to home mortages where the payments are up to date divided by the assessment at the time of the appraisal. Does the sample of foreclosed properties have a higher percentage? It is very likely that the assessor was unbiased. If the appraisals were higher for the REO properties, that's proof that the appraisals were inflated.

HVCC and the suggested guidelines in this draft do nothing to reduce the differing percentages in the above test for inflated appraisals. In the long run, with a continuing competency drain in the residential appraisal field, AMC's will do more harm than good.

The answer is that the investors and GSE's need to make the rules, not the banks. Hiring of appraisers and appraisal reviewers needs to be controlled by those who are putting their money at risk. Banks and AMC's are just middle men. They have a vested interest in their own profit; sometimes to the detriment of the final holders of the mortgages.

Rules for hiring appraisers need to give competency primary consideration and fees a secondary consideration. In this age of technology, appraisal reviews can be done by independent companies rather than lenders.

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