First Financial
Northwest Bank

August 04, 2023

James P. Sheeley
Assistant Executive Secretary
Attn: Comments/Legal OES (RIN 3064-ZA36), Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Interagency Guidance on Reconsiderations of Value of Residential Real Estate

Dear Madam or Sir:

We are writing on behalf of First Financial Northwest Bank “FFNWB” headquartered just outside of Seattle in Renton, Washington. We are a community-based, FDIC regulated commercial bank with just over $1.5 billion in assets, with fifteen branches located throughout King, Snohomish, and Pierce counties. We have traditionally operated as a thrift/savings bank and over the years, have transitioned to a commercial bank model. Most of our loans are real estate secured and held in portfolio, largely comprised of SFR, multifamily, non-residential and construction loans.

We would like to take this opportunity to thank the Agencies for your leadership and hard work to draft a proposal on which stakeholders can provide feedback.

FFNWB is committed to the ensuring that all borrowers receive an appraisal or evaluation free from deficiencies and discrimination. We are happy to see that the Agencies came out with ROV guidance to assist financial institutions with developing consistent policies and procedures that allow borrowers an opportunity to submit additional, credible information that may be relevant in their appraisal or evaluation’s value conclusion. We are concerned that some of the guidance may be far reaching and have an adverse impact on the ability of community banks to continue offering residential loans.

We are submitting comments in a couple areas that the Agencies are interested in receiving feedback on:

1. **To what extent does the proposed guidance describe suitable considerations for a financial institution to consider in assessing and potentially modifying its current policies and procedures for addressing ROVs?**

    a) **What, if any, additional examples of policies and procedures related to ROVs should be included in the guidance?** The Agencies could provide guidance on when a ROV disclosure should be provided to borrowers, samples of verbiage to be included in the disclosure (also see Question #2), what would be some examples of when a ROV would be appropriate (When an appraisal/evaluation comes in below the purchase/contract purchase price by a certain percentage on a purchase transaction or comes in below the borrower’s estimated value on a refinance/home equity transaction or what would be some situations when a ROV would not be appropriate (borrower has an unrealistic expectation of value based on recent improvements made to their home)- would a financial institution be able to decline a request or is there an expectation that we must process all requests if the borrower submits the required documentation? What would be some examples of documents the borrower should submit to initiate a ROV request? (See all Question #2)

b) **What, if any of the policies/procedures described in the proposed guidance could present challenges?** Some challenges associated with the proposed policies and procedures would be coming up with guidelines on when to order a second appraisal, establishing timelines/milestones in the ROV process that need to be achieved and ensuring that relevant lending, staff and third parties are trained to identify deficiencies (inclusive of prohibited discriminatory practices) in the valuation review process).

First, we would like to stress that ordering a second appraisal should only be a last resort and only implemented in cases of alleged discrimination. We already have an existing appraisal review process in place that aids in the discovery of potential inadequate appraisals and evaluations. Additionally, we have an approved appraiser list. If we find that appraisers do not comply with USPAP or any federal regulatory guidelines, they are given a chance to respond /correct the identified deficiencies. Failure to respond or responses deemed inadequate result in immediate removal from the approved list. The ordering of a second appraisal would cause the financial institution to incur an additional cost in the loan process. Larger financial institutions may be able to absorb this cost; however, ordering a second appraisal would be cost prohibitive for community banks with small lending volumes and could cause these banks to stop doing residential lending and result in fewer lenders in the marketplace and less choice for consumers. If the cost of the second appraisal or evaluation is passed on to the borrower, this would increase the cost of obtaining a loan and potentially create fair lending implications.

Second, establishing set timelines/milestones for completion of ROVs is unrealistic for small financial institutions with limited or no appraisers on staff and who may utilize appraisal management companies. First Financial Northwest Bank has one appraiser on staff with the needed licensing, experience, and compliance knowledge in order to review a ROV request. Additionally, our appraiser or the appraisal management company appraiser may be on vacation or have an illness in the family that would prevent them from responding to question about the original appraisal that was completed. We would like to propose a more flexible approach to where we communicate that ROVs can take up to three weeks and depending on the circumstances may be extended due to additional research needed.

Finally, we can ensure that our appraisal and lending staff take appraisal bias training (i.e are trained to identify deficiencies) but as a smaller financial institution that uses a large appraisal management company, we have limited influence over their training protocols. Appraisal management companies and the appraisers they utilize must follow USPAP guidelines which discuss disparate treatment and impact. Financial

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institutions should be responsible for ensuring their own staff are trained but this shouldn't not extend to the third parties they utilize for appraisal/valuation services.

2. **What, model forms, or model policies and procedures, if any related to ROVs would be helpful for the agencies to recommend?** It would be helpful if the Agencies could come up with some model verbiage for a ROV disclosure and a list of common documents needed to initiate a ROV request.

We urge the agencies to consider our comments on the proposal and make modifications that balance the goals of the proposal with the needs of financial institutions, community organizations and policymakers. Thank you for the opportunity to comment—your consideration is appreciated.

Sincerely,

[redacted]

Suzanne Nester
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CRA / Compliance Officer
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