October 19, 2010

Ms. Sheila C. Bair
Chairman of the FDIC
Federal Deposit Insurance Corporation
550 17th St. NW MB-6028
Washington, DC 20429
Via Email: FinReformComments@fdic.gov

RE: Implementation of Dodd-Frank legislation and its effects on real estate valuations

Dear Ms. Bair:

As a longtime mortgage banking professional, I appreciate this opportunity to share my views on the implementation of the Dodd-Frank Act, and particularly as the legislation affects real estate appraisals.

As I am sure you are aware, real estate appraisers have been heavily criticized during the mortgage crisis and have shared a large part of the blame for problem loans in the minds of many. While some appraisers certainly did perform poorly for a variety of reasons, it was by no means typical of the industry as a whole. Some of the more negative effects of the Home Valuation Code of Conduct (HVCC) era, in fact, came as a result of the unintended consequences of well-meaning legislation. It is my hope that the new legislation brings us as few of these unintended consequences as possible. I am encouraged by many of the provisions of Dodd-Frank that are aimed at creating quality real estate valuations and boosting the expertise and independence of appraisers.

Benefits of paying full fees for quality appraisals

First, I believe it is important for you to know that the entire system is not broken. The fundaments that have served us well since the days when the FDIC was first established are sound. Trained professionals using their skills to produce a carefully arrived at property value estimate is the cornerstone of the mortgage lending process, and the means to produce those valuations is in place.

Compensation is a key component in keeping those means intact. HVCC unintentionally created an environment where low bidders were awarded work because they would accept reduced fees from the appraisal management companies (AMCs) assigning them work. They were also encouraged to drive well out of their areas of geographic expertise so that some management firms could avoid using the higher-compensated professionals who resided in some areas. The results were poorly executed reports, delays and inaccuracies.

"Reasonable and customary" compensation, as required in both Dodd-Frank and in the FHA Appraiser Independence guidelines, can go a long way toward preventing a similar problem in the future. Unfortunately, the term is inherently vague and can be manipulated by statistics fairly easily. For example, if a few dominant companies have a history of paying, say, $200 to appraisers in a city, statistics would lead one to believe that this amount is "reasonable and customary." Further investigation would reveal that qualified appraisers actually receive $400, but that the dominant middlemen have paid themselves half that amount and paid low-bidding (and less expert) appraisers the other half. So "reasonable and customary" needs to be interpreted in a manner that benefits consumers and all parties with funds at risk in the mortgage transaction.

In the experience of my company, there are great benefits in paying full fees to appraisers. Most immediately, the best appraisers in any given market flock to the companies who pay their fair and reasonable asking fees. They expect and are granted the independence to perform their work and they are held accountable for the accuracy of their results. Their work is examined closely at every step along the value chain, from loan origination to the secondary market, and they are prepared to defend their reports with facts and data as necessary. Of course, with appraisers of this caliber, there are far fewer challenges to the valuations, resulting in greater satisfaction for our clients and more timely transactions. This business model has worked extremely well, and we have experienced tremendous growth by treating our appraisers in a highly professional manner. Through the utilization of highly qualified appraisers we have been able to provide lenders with accurate, timely appraisals with our extra level of quality control, while maintaining appraiser independence.

We would like to see "reasonable and customary" approximate the market costs for appraisals by skilled professionals in each individual community across America. Many other companies would disagree, however.

Anticipated responses to the legislation

There will be many tests to the provisions of the Dodd-Frank Act's appraiser compensation and independence rules:

- Some companies will work toward imposing their own fees on local appraisers in a *de facto* price-setting scenario that will create new definitions of "reasonable and customary."

- Several companies are subsidiaries of very large financial institutions and as such, can exert great influence on entire markets.

Most appraisers are self-employed business people or are part of very small firms. They are dependent on a continuing stream of orders for their livelihoods, and are eager to please their clients with quick turnaround times and accurate values. They use appraisal software to improve speed and completeness, and they use data sources to provide comparable sale information for their reports. But because of their size they are vulnerable to outside influences. Consumers pay for real estate appraisals, but appraisers are typically hired by lenders, often through intermediaries like appraisal management companies. This has complicated life for the appraisers, as you might expect. Their work can be second-guessed far up the line, but most count on receiving orders from AMCs to remain in business.

Appraiser independence is paramount. Without accurate and professional value estimates, the foundation of the mortgage industry can never be sound.

Suggestions to consider

- To obtain the desired result, "reasonable and customary" should neither be a minimum nor a maximum amount of compensation for a real estate appraisal, but more of a median. It is in the best interests of consumers to allow better, more experienced appraisers the opportunity to charge more for their services. Likewise, some appraisals require more research, more footwork and more time to complete and therefore should be allowed a larger fee.

- Research "reasonable and customary" well. This may not be as difficult as is first thought, as data is available to be interpreted from every region in the country. Interpretation will take effort and common sense, but the payoff for due diligence in this regard will be well worthwhile.

- Our company has had considerable success using a scoring system to rate appraisers based on accuracy, completeness and professionalism. This sort of

- score can drive fee ranges, rewarding experience and conscientiousness while setting a bar for newcomers to strive toward.

- Beware of unintended consequences. HVCC might have been the right idea, but it created problems that reverberate around the industry still. The new legislation is better conceived, but consequences should be anticipated.

- Seek counsel from people in the industry and choose them well. They should represent the interests of all in the value chain, not simply those who will profit from the appraisal process.

- Quality and accuracy are, when all is said and done, the most important things to consider when it comes to real estate appraisals. Be wary of anyone who insists differently, regardless of whom they represent.

Thank you for this opportunity to comment on the implementation of the new legislation. As a mortgage industry career veteran and as an executive with a leading appraisal management services provider, I am keenly interested in seeing Dodd-Frank's provisions enacted with the healing effects desired for the housing industry.

If I can provide additional input in this effort, I am at your disposal.

With best wishes,

Griffith Straw, CMB
President
Solidifi U.S.

GStraw@Solidifi.com