South Dakota BANKERS ASSOCIATION

Serving South Dakota's Financial Services Industry Since 1885

September 27, 2017

Robert E. Feldman, Executive Secretary
Attention: Comments / Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Re: Real Estate Appraisals - Notice of Proposed Rulemaking and Request for Comments per RIN3064-AE56

Dear Mr. Feldman:

My purpose in writing this letter is to provide comments on rules being proposed by federal banking regulators to amend those agencies' regulations requiring appraisals of real estate for certain lending transactions. Because you will receive comment letters from national banking trade associations or state associations located in the nation's urban centers, my comments will be focused on areas of concern to banks in South Dakota that operate in some of this nation's sparsely populated regions. As the population of this nation and of South Dakota has become more concentrated, it has become increasingly difficult for banks to engage the services of certified or licensed appraisers in a timely fashion. The supply of licensed and certified appraisers, especially those willing to work in rural areas, has diminished. The forces of short supply and constant or increasing demand for appraisal services have driven up the cost of appraisals and the length of time between the ordering and completion of those appraisals. Both of those factors work to disadvantage community banks doing business in rural areas, and perhaps most importantly, to their customers. As you consider changing your rules that govern appraisal thresholds, please remember that your decisions impact bank customers who face ever-increasing periods of uncertainty regarding the status of their request for needed capital and who ultimately bear the ever-increasing cost for appraisal services.

Appraiser Demographics in South Dakota

During my fifteen years of work with South Dakota's banking industry, I have witnessed a growing level of level of concern and frustration among lenders about the real esate appraisal process. Some of that concern is driven by a general shortage of certified / licensed appraisers in rural areas. According to data provided by the South Dakota Appraiser Certification program, no licensed or certified appraiser currently resides in 35 of South Dakota's 66 counties. One factor that may be contributing to the acute shortage of appraisers in rural areas is the fact that there are only 56 endorsed supervisory appraisers in the entire state, making it increasingly difficult for aspiring appraisers to find a mentor who will dedicate the hours required to train and oversee the work of an understudy as USPAP requires. I have attached a map provided by South Dakota's Appraiser Certification Program showing the location of those 56 appraisers. While the lack of supervisory appraisers in much of South Dakota doesn't provide a complete picture of the supply

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of licensed or certified appraisers throughout our state, it is certainly a good indicator of a supply shortage, both now and in the foreseeable future.

Recommendations

I fully understand that it is not the job of federal banking regulators to establish the regulatory framework for practicing appraisers. That said I would strongly encourage your efforts to increase to increase the dollar thresholds that determine when banks must shift from the use evaluations to appraisals in support of their lending activities. The diminishing supply of licensed and certified appraisers, especially throughout rural America. In too many instances, prospective homebuyers in small towns or on farmsteads, owners of small businesses on main street, and farmers and ranchers seeking to restructure current year operating loans into longer term notes incur higher costs and long periods of financial uncertainty because of appraisal threshold requirements that have not been updated for decades. So I commend you on your proposal to increase thresholds for commercial real estate transactions from $250,000 to $400,000 and would actually encourage moving to $500,000. I would further encourage you to consider increasing thresholds for residential real estate beyond $250,000 and for business loans beyond $1,000,000.

It is important to bear in mind that property appraisals are only one component of loan underwriting process. First and foremost, lenders go to great lengths to assess their prospective borrower's ability to repay the loan out of current and future earnings. The value of the underlying collateral only serves as a backstop in the event that unforeseen events render the borrower unable to repay the loan.

I will conclude my comments with a general observation about the role of appraisals and evaluations of real property in the overall lending process. It is important as regulators that you not lose sight of the fact that the value of any property being pledged as collateral for a loan is just that...collateral. Lending decisions are always based first and foremost on the ability of the borrower to repay the loan out of current and future earnings. The value of the underlying collateral only becomes relevant in cases where, for reasons often-times beyond their control, the borrower cannot repay their loan in accordance with agreed upon terms. Bank lenders are in the business to use available tools and information to prudently assess a borrower's ability-to-repay, valuations or appraisals of collateral notwithstanding. While an accurate assessment of the value of real estate collateral is important, weighing the costs and benefits associated with higher cost appraisals vs internal and external evaluations is also important to banks and to their customers.

Thanks for offering me the opportunity to comment on these proposed rules on behalf of the broad members of the South Dakota Bankers Association.

Best regards,

[redacted]

Curt Everson, President
South Dakota Bankers Association

attachment

Supervisory Appraisers in South Dakota