IBC
International Bancshares Corporation

February 5, 2019

Via Rulemaking Portal: www.regulations.gov

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, DC 20219

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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

Re: **Real Estate Appraisals**
OCC – Docket ID OCC-2018-0038
FRS – Docket No. R-1639; RIN 7100-AF30
FDIC –RIN 3064-AE87

Ladies and Gentlemen:

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a multi-bank financial holding company headquartered in Laredo, Texas. IBC owns five state nonmember banks serving Texas and Oklahoma. With approximately $12 billion in total consolidated assets, IBC is one of the largest independent commercial bank holding companies headquartered in Texas. IBC is a publicly-traded holding company. All of the banks in IBC make residential mortgage loans.

The Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Fed" or "Federal Reserve") and the Federal Deposit Insurance Corporation ("FDIC", and collectively, with the OCC and the Fed, the "Agencies") are inviting comment on a proposed rule that would increase the threshold level at or below which appraisals would not be required for residential real estate-related transaction from $250,000 to $400,000. For residential real estate transactions that are below the increased threshold, the proposal continues to require evaluations that are consistent with safe and sound banking practices. The appraisal threshold is very important to IBC's subsidiary banks as appraisal requirements

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significantly burden the banks. We appreciate the opportunity to comment on the Agencies' real estate appraisal proposal.

<u>Comments</u>

We support the Agencies' proposal. We believe the proposed change to the real estate appraisal threshold is beneficial to borrowers and regulated financial institutions and we commend the Agencies for proposing this change.

Before we provide explicit input, it is important to first consider the distinction between an "appraisal" and an "evaluation." Under current appraisal law and regulations as added by FIRREA, an "Appraisal means a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information." 12 CFR 323.2(a). Appraisals are performed by persons licensed or certified by the appropriate state agency. Certain minimum standards are required consistent with the Uniform Standards of Professional Appraisal Practice. Appraisers must be independent of the real estate loan transaction, and they are normally employed outside the institution. In any event, however, appraisals are subject to review internally by the bank before they are accepted. In smaller transactions (currently less than $250,000 for residential loans), the bank may use an evaluation. This is a less complex and less expensive process. However, it is still regulated by the Interagency Appraisal and Evaluation Guidelines published in December 2010. Section XII Evaluation Development provides standards for use of evaluations, and Section XIII describes the requisite content. Appendix B provides guidance on "Evaluations Based on Analytical Methods or Technological Tools." In short, evaluations are expected to meet rigorous criteria.

We believe that the proposed increase to the appraisal threshold for residential real estate transactions will reduce the burden on banks, while still protecting consumers and the safety and soundness of regulated financial institutions. The cost and time of obtaining an appraisal can result in delays and higher expenses for both regulated financial institutions and consumers. Evaluations are a safe alternative for the institution while a lower cost option for the borrower.

Both appraisals and evaluations provide important valuation information that assists financial institutions in making informed lending decisions. Appraisals and evaluations also both provide protection to consumers by helping to ensure that the estimated value of the property supports the purchase price and mortgage amount. While appraisals can provide more information than evaluations, it is our experience evaluations contain sufficient information and analysis to inform our lending decisions. We believe they also provide enough information to consumers making purchasing decisions, and do so at a lower cost and with fewer delays.

It is our experience that evaluations cost substantially less than appraisals. Because the cost to obtain an appraisal or an evaluation for a residential real estate transaction is usually passed on to the consumer, the use of evaluations is a direct cost savings to consumers. Evaluations also generally take less time to be prepared. This is because they typically contain less detailed information than appraisals, but also because it is easier to find someone who is qualified to complete an evaluation. Particularly in the rural areas where IBC provides services, it can be difficult to find state certified and licensed appraisers, which can result in delays in preparing appraisals and completing transactions or even increased costs as appraisers can charge a premium for their limited availability. If the appraisal threshold is increased to $400,000, then we will be able to perform more evaluations in-house in these rural areas, which will reduce costs and delays for borrowers and the bank. We are confident that we have sufficient staff to perform such evaluations that are independent from the transaction and the loan production function of the bank. Furthermore, banks and borrowers may also benefit from evaluations as it will generally take bank employees less time to review an evaluation. This further reduces delay and these cost and time savings are also passed on to the consumer, which is particularly valuable when there is less time required between application and closing.

Regarding rural areas, we specifically support the Agencies' proposal to increase the appraisal threshold for residential real estate transactions to $400,000. Congress has already created an exemption to the Agencies' appraisal requirement for certain mortgage loans under $400,000 secured by property in rural areas. However, that exemption is only currently available where a regulated institution can document that it is unable to obtain an appraisal at a reasonable cost and within a reasonable timeframe, among other requirements. Under the Agencies' proposed rule, the rural residential appraisal exemption threshold would not change, but financial institutions would no longer need to meet the unnecessary qualifying criteria. This elimination of the additional requirements for the rural residential appraisal exemption would significantly reduce regulatory burden on banks, but will not result in any changes to consumer protection or the safety and soundness of regulated financial institutions.

Consumers are well protected by evaluations. The Agencies have long required evaluations in lieu of appraisals for many transactions, including those transactions exempted by an appraisal threshold. As set out above, evaluations must still meet rigorous criteria. An evaluation must be consistent with safe and sound banking practices and individuals preparing evaluations must be qualified, competent, and independent of the transaction and the loan production function of the institution. Evaluations must provide appropriate supporting information and an estimate of market value that regulated institutions and consumers can consider. Evaluations that meet these standards will still provide consumer protection for transactions at or below the proposed threshold in the absence of appraisals.

As noted by the Agencies, the appraisal threshold applicable to residential real estate transactions has not been changed since 1994, even though housing prices have increased substantially since that time. We appreciate the Agencies' attempt to meet modern market conditions, and we believe that the proposed increase in the appraisal threshold for residential real estate transactions will reduce regulatory burden, while maintaining federal public policy interests in real estate-related transactions and the safety and soundness of regulated financial institutions. The increase in the number of loans that will no longer require appraisals will provide meaningful burden reduction for regulated financial institutions and we do not believe that raising the appraisal threshold will result in increased loss rates. Reducing regulatory burden by increasing the appraisal threshold for residential real estate transactions will provide both transaction cost and time savings for both regulated institutions and consumers.

We appreciate your consideration of these important concerns and remain available to answer any questions you have regarding the issues discussed herein.

Thank you for your consideration.

Respectfully,

[redacted]

Dennis E. Nixon
President
International Bancshares Corporation