

From: Independent Appraisal Group [mailto:info@independentappraisalgroup.net]
Sent: Thursday, November 20, 2008 2:59 PM
To: Comments
Subject: Proposed Interagency Appraisal and Evaluation Guidelines

Ladies and Gentlemen:

Having been affected by the current economic crisis personally as well as professionally, I wanted to express my concerns on the subject with you. The origin clearly can be laid at the feet of government's lax regulation and lack of enforcement of the banks and mortgage companies. Appraisers too, have to carry a small portion of the blame. Although there are bad apples in every profession, we have to remember that an appraisal is just a tool. One of many tools that will help a bank or mortgage company evaluate the risk of a potential investment. Things like credit scores, ability-to-pay calculations, etc come into play as well. If the lending industry chooses not to use these tools to protect them from making bad loans how can the blame be placed anywhere else. The problem lies in the values of the mortgage and banking industries. If they valued long term profits over short term one's none of this would have happened.

Even yet today, we as appraisers are being pressured to produce numbers favorable to lenders; we are seeing our jobs outsourced to India and elsewhere; and, we are being replaced by non-appraisal valuations such as the AVM (Automated Valuation Model – a computer estimate based on dated public data that can't report the cracks in the foundation or the hole in the roof) and the BPO – (Broker Price Opinion – a poor substitute for an independent appraisal that is performed by biased real estate agents hoping for a commission. Not that I don't like agents, they have their place - Realtors are not appraisers just as paralegals are not attorneys.)

When FIRREA was passed in 1989, one of its goals was to require appraisers be licensed or certified by every state. Appraisers not only function to value the property initially, but specialized appraisers review the work of others to detect errors or misjudgments. Those review appraisers qualify under the same rules and are required to have the same licensure as those appraisers that they review.

It has now come out that Citigroup is outsourcing its review functions to a company in India; not only depriving American appraisers work opportunities and sending hard currency overseas, but allowing banks to bypass the intention of Congress to see all appraisal functions be performed by State LICENSED or CERTIFIED appraisers (<http://www.sfgate.com/cgi-bin/article..UGMD4Q9TR1.DTL>). They aren't the only company outsourcing review functions, just the most recent to announce it.

Further, banks are using Appraisal Management Companies (AMC's) as go-betweens. The AMC hires the independent appraiser and acts as a middle man in the transaction. The result has been that banks now claim plausible deniability that they pressured appraisers and the AMC's likewise hire the lowest qualified and cheapest, fastest appraisers to "get the deal done." AMC's have drastically lowered the bar, allowing appraisers with minimal experience and no supervision to compete with those appraisers who possess years of experience and far superior geographical competence. AMC's are using monopolist tactics to drive down prices and turn around times for appraisals to the point where doing competent and reliable work is not possible. Many of the appraisers who routinely work for AMC's will take as much work as they can get in an effort to make ends meet and put food on the table. These appraisers are making a minimal amount for each job making it a physical impossibility to consistently do that much work and not cut corners on their due diligence. Speed has become so important to the mortgage industry that appraisers are not judged on a balance between quality work and efficiency, pressure for speed is applied both contractually and through a withholding of future work. Honest and competent appraisers are being forced out of the business because they cannot produce quality work fast enough to make a living. The current economic model is quite simply unsustainable. Action by congress is necessary to protect the appraisal profession that protects the collateral upon which the mortgage

lending system is founded. Each appraisal we do is potentially tied to large liabilities not only to the lender but to the taxpayer as well (with the crisis at hand is that now not abundantly clear?)

Complaints about AMC's are endemic on appraiser on line forums like www.appraisersforum.com and www.appraisers.freeforums.org . These management companies are pressuring appraisers while giving banks cover from accusations that they are inflating appraisals. In fact, some of the larger nationwide banks were using AMC's in which they have an interest financially as well.

During the housing bubble, appraisers raised the pressure issue with an unprecedented on-line petition (www.appraiserspetition.com) with some 10,000 signatures...about 20% of all the appraisers in America. We were ignored.

In other words, the real estate appraisal has become a rubber stamp compliance document and its function as a firewall to prevent over-lending and under-collateralized loans has been completely eviscerated. While I am no rocket scientist, I can say with certainty that without eyes on the street, the use of alternative valuations in lieu of appraisals will create a cumulative miscalculation of assets exceeding any cost of simply requiring an appraisal from an independent, qualified, state licensed or certified appraiser and having it competently reviewed by another independent, qualified, state licensed or certified appraiser.

In light of the many changes that are sure to come, I strongly urge the following changes be affected upon the mortgage and banking industry.

- BPO's and AVMs should not be allowed to substitute for appraisals in a federally related transaction regardless of the threshold. Real estate agents should not be allowed to appraise without an appraisal license. BPO's should be abandoned.
- All non-private loans, whether federal transactions or not, should require an appraisal by a certified or licensed appraiser.
- Neither AMC's nor banks should be allowed to set fees or turn around times to appraisers.
- AMC's should be registered and regulated much like a bank or mortgage company would be. Right now, there is NO oversight for AMC's at all.
- All loans originated by commission based brokers should be appraised by a fee panel appraiser on a federal roster without the broker, Realtor, or banker being allowed to select the appraiser.
- No bank shall be allowed to outsource appraisals or reviews. All such appraisals or reviews must be performed by a duly regulated appraiser in the state where the subject property exists.
- No **underwriter** should be allowed to request additional information or comparables from an appraiser. If they red flag a problem, they should be required to have the report reviewed or a second appraisal performed.
- Fannie Mae, Freddie Mac, FHA, and all other GSE's should not be allowed to create forms or special rules for appraisers; they can suggest or request, but that function should be left solely with the Appraisal Standards Board of the Appraisal Foundation.
- All loans should have all appraisals and reviews of same in the files and available for examiners to see. Any file containing more than one appraisal should also include a letter from the lender explaining why there is more than one appraisal in file.
- And last but certainly not least, these regulations must be properly enforced. Without enforcement of the current and upcoming legislation it will all be meaningless.

We Appraisers will never function as FIRREA intended it to without autonomy from lender pressure and the freedom to analyze properties according to our abilities and reasonable regulations which are stringently enforced.

Sincerely,

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