**From:** C.E.Dougan [mailto:DOUGAN@bankozarks.com]
**Sent:** Tuesday, January 20, 2009 8:39 PM
**To:** Comments
**Subject:** FDIC Proposed Interagency Appraisal and Evaluation Guidelines

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429 VIA E-MAIL

January 20, 2009

Re: Proposed Interagency Appraisal and Evaluation Guidelines

Gentlemen;

I would qualify the following in that these are my personal comments and observations and not those of my employer.

**Supervisory Policy**
Pg. 18 "When analyzing individual transactions, examiners will review an appraisal or an evaluation to determine whether the methods, assumptions, and value conclusions are reasonable." One assumes the review of the value conclusion and whether it was reasonable will be predicated on the date of the appraisal and not the date of the exam. This may need to be stated.

**Transactions That Require Appraisals**
Pg. 22 "The agencies reserve the right to require an appropriate appraisal under their appraisal regulations to address safety and soundness concerns in a transaction". This right is addressed further at pg. 40 in the proposed guidelines. Since the language at page 22 confines examiner issues to a specific "transaction" and to be consistent with the clarification at pg. 40, it is suggested that "safety and soundness concerns" be replaced with "risk classification concerns" and the term safety and soundness be reserved for issues more systemic in nature which need to be addressed within the financial institution.

**Transactions That Require Evaluations**
Pg. 31 The sections of the proposed guideline addressing evaluations and the appropriateness of their use should be reviewed and rewritten. Since evaluations do not meet USPAP requirements, licensed and certified fee appraisers will not provide this product. Finding an outside source that understands the regulatory requirements for an evaluation and is willing to provide a report containing the required data in support of their estimate of value is very limited at best. Internally prepared evaluations present challenges in several areas and are susceptible to criticism by examiners. From the discussion, it appears that evaluations can in fact be substituted for an appraisal. I reference the discussion on pg. 34 concerning the use of evaluations for "higher risk" transactions when in fact an appraisal would probably be more appropriate for these types of transactions. All of this and a lot more could be offered to support the suggestion that possibly the guidelines and discussion as to appropriateness and specifics of using an evaluation should be separated from the discussion concerning appraisals.

**Validity of Appraisals and Evaluations**
Pg. 35 stipulates that "The Agencies allow an institution to use an existing appraisal or evaluation to support a subsequent transaction." This is then qualified by requiring the institution to determine if the appraisal/evaluation remains valid. Several factors are suggested as items that could cause a change in value. The first factor being "The passage of time." I would submit that the passage of time in and of itself has nothing to do with the continued validity of an appraised value. Instead, it is the events that take place and directly affect the property during the time

period in question. For this reason the appraisal regulation specifically omits any reference to an "aged" appraisal or to an appraisal no longer being acceptable after a period of time. If you are going to use passage of time as a criteria for invalidating an appraisal then you must specify the time. Is it one year, or three years or five years? Hopefully, you can readily see the challenge to both the agencies and institutions in establishing an appropriate time frame that would apply to all appraisals and the many variations of real estate related transactions. I urge you to remove passage of time as one of the factors.

The above states that a valid existing appraisal or evaluation can be used to support a subsequent transaction. A subsequent transaction certainly includes the renewal or refinance of an existing loan. Paragraph 7 Appendix A pg 44, at best confuses this issue. First, this paragraph stipulates that an evaluation is permitted for renewals of existing extensions of credit. Is this in addition to or instead of a review of an existing appraisal to determine if it remains valid as stipulated in the above referenced paragraph at pg. 35? Additionally, the continuation of the discussion on page 45 stipulates the use to be conditional based upon two factors. I submit that the two factors are reversed from that shown on pg 31 and omits "even with the advance of new monies" from the second factor which should appear first and because of this the reading and meaning of this part of the regulation is materially altered.

The third bullet point (and sub-parts) under the heading **Transactions that require Evaluations** on pg. 31 need to be reviewed and clarified with specificity. At this time it is not clear for transactions involving an existing loan (no new money) if an evaluation is required or if an appraisal validation is required and when and if the dollar thresholds are applicable or remain applicable based on the dollar amount of the original or current transaction. Use of existing appraisals or evaluations, validation of the same and/or subsequent evaluations and their requirement for renewals, refinances and maturity extensions that do not involve the advancement of new monies should be discussed thoroughly and clarified.

Thank you for this opportunity to submit these comments and suggestions.

Respectfully submitted,

C. E. Dougan