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Sent: Wednesday, May 04, 2005 8:41 PM
To: regs.comments@federalreserve.gov; comments@fdic.gov;
regs.comments@occ.treas.gov; Comments, Regs
Subject: EGRPRA

1201 3rd Avenue Seattle, Washington 98101

May 4, 2005

RE: Response to February 3, 2005 Request for Burden Reduction Recommendations;
Money Laundering, Safety and Soundness, and Securities Rules; Economic Growth
and Regulatory Paperwork Reduction Act of 1996 Review

To Whom It May Concern:

Thank you for the opportunity to provide comments and suggestions on regulatory burden reduction published in Vol. 70 of the Federal Register starting at page 5571. We would like to specifically address the implications of the sections of 12 CFR requiring full appraisals in conjunction with certain federally related real estate related transactions.

The history of these regulations began in 1989 with Title XI of the Financial Institutions Reform, Recover and Enforcement Act (FIRREA). The Act required the supervising agencies to adopt regulations on federally regulated financial institution's use of real estate appraisals. The agencies adopted regulations in 1990 which required that appraisals be performed by State certified or licensed appraisers in real estate-related transactions. The regulations did allow several exemptions, the most commonly used exemption has become known as "the de minimus" exemption, which exempted transactions in which "The transaction value is \$250,000 or less [CFR 564.3(a)(1)]."

Since this de minimus exemption was adopted, the economic climate, the available technology and the capital markets have changed dramatically. These changes have made the \$250,000 de minimus exemption obsolete. It no longer contributes to the safety and soundness of the financial institutions regulated by the OCC, Board, FDIC, and OTS ("the Agencies"), and has further, become anti-competitive.

Washington Mutual Bank has recently performed an analysis of both our single family prime lending products and home equity lending products. This analysis was based on very recent data (February 2005) and forecasts future losses by origination loan amount. The results of this analysis show that the \$250,000 de minimus level is not a good predictor of over-all loan performance.

The anticipated loss rates are higher for loans with extremely low or high origination balances, and lower for loans originated in the middle range (see attached charts). Our data shows that expected losses are lower in middle range of roughly \$200,000 to \$500,000 for single family prime products, and \$100,000 to \$400,000 for home equity lending products. Further, loans with very low origination balances (less than \$100,000) have a substantially higher loss rate than those of loan originated in the \$600,000+ range.

This is due to the fact that collateral risk is made up of several elements:

- Value (dollar value)
- Marketability

- Viability (longer term marketability)
- Suitability (as collateral for a specified loan program)

While, the de minimus only addresses the first element.

In addition to not contributing to the safety and soundness of the Agency-regulated financial institutions, the de minimus poses a significant competitive disadvantage to the regulated institutions.

Institutions not regulated by the Agencies are better able to take advantage of the newer valuation technologies. Requiring an appraisal by a State licensed or certified appraiser for virtually every transaction with a transaction value of over \$250,000 increases significantly to the processing time and origination cost to the potential borrower. For example, non-Agency regulated institutions are able to offer the enhanced speed and reduced cost of Automated Valuation Models (AVMs). Traditional appraisals represent a cost to the borrower of approximately \$300 and take 5-10 business days to complete. An AVM is usually under \$100 and can be completed in minutes.

Requiring a full appraisal on low risk loans is analogous to requiring the potential client to provide and pay for a full physical when applying for company sponsored health insurance. Yes, it would contribute somewhat to good decisioning on the individual transaction, but if a competitor had analyzed the risk of the entire pool and was able to offer competitive pricing without requiring a full physical, the physical would comprise a significant obstacle to competition.

Because the \$250,000 transaction value exemption contributes a significant competitive disadvantage to Agency-regulated financial institutions, without a commensurate contribution to the safety and soundness of those institutions, Washington Mutual Bank strongly recommends that the de minimus exemption be raised to at least \$500,000 for loans secured by residential real estate.

Sincerely,

Mark R. Hillis

Chief Credit Officer