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Subject: Appraisal and Evaluation Guidelines

Comments:

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Proposal: Proposed Interagency Appraisal and Evaluation Guidelines
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Comments:

Federal Reserve Board Docket NO: OP-1338 Comments on Proposed Appraisal and Evaluation Guidelines January 3, 2009 Submitted With the US Congress spending 700 billion dollars in bailout money (possibly much more) in trying to fix the broken Real Estate financing industry, it is obvious that there exists a major problem in the way things are done today. As I am not an expert on banking, security creation or any of the myriad disciplines that involve the mortgage industry, I will bypass commenting on these aspects. However, I do feel myself qualified to speak up on the appraisal aspect of the collateral valuation employed in the mortgage industry. The appraisal profession is guided and required by law in most states to adhere to the Uniform Standards of Appraisal Practice known as USPAP. The Appraisal Standards Board has been charged by congress to promulgate these standards for the public and to revise these standards when it becomes necessary. Enforcements of these standards have been left to the states. The states are charged with administering a licensing system for appraisers in concordance with the Appraisers Qualifications Board which sets the standards for education and testing. Enforcement of USPAP compliance is left to the states. 1 Jurisdiction Since the advent of multi state appraisal companies and national Appraisal Management companies, state boards have had the problem of non compliance by people conducting business in their states but not being licensed in their states. Thus having no effective disciplinary tools. 2. In state violations of USPAP- a national problem. Many state boards operate with a budget consisting only of the license fees of the appraisers. In some cases, some states even exist on less. Funds for enforcement of USPAP are woefully inadequate if not almost non existent. Some states do not require members of their boards to even have a rudimentary knowledge of USPAP, yet allow these members to judge a report on compliance matters. Some states do not require a majority of members to be appraisers. The foregoing allows for an inconsistent and in some cases totally illogical application of the USPAP standards. 3. Credible reports..... The main purpose of USPAP is the production of an credible and ethical appraisal report. Producing a credible report and the methodology to achieve that can be taught. Unfortunately ethics can not be taught. Thus people without ethics produce many reports where ethics have been thrown out the windows. Reports with unconfirmed

comparable sales, comparable addresses which do not exist, wrong or outdated property information, unreported poor property conditions etc. etc. are common in the industry. Yet, lenders accept these reports and in some cases pressure appraisers to falsify information in order to make the deal. One of the most prevalent problems in the industry is the non reporting of sales concessions of the comparable sales. More on that later. It is my opinion that the solution lies close at hand. USPAP is a good beginning. Let us revise USPAP so that the interpretation of the standards is straightforward and clear. Let USPAP be written by appraisers for appraisers and let's leave the lenders out of it. Secondly, prohibit GSE or other government entities from imposing their forms. They can request but the ASB decides what should and should not be in an appraisal report. In other words, appraisers decide what appraising is, not the lender. In the matter of enforcement, assign a qualified appraiser to be a part of the bank examining team and have this appraiser review the quality of the appraisal reports that are being accepted by the bank. This appraiser should have the authority to order reviews and 2nd appraisals for any loan the bank has on the books. This appraiser should also have the authority and responsibility to notify state boards of violations and to force the bank to comply with appraisal regulations. The advent of Appraisal Management Companies (AMCs) have produced an untenable situation on today's appraiser. The business model of AMCs is predicated on cheaper, faster and faster. Turnaround times of 24 hours with fees of less than \$150 are common. This leaves no time for the appraiser to do due diligence, let alone a thorough analysis. In order to make enough money to survive, appraisers are forced to cut corners and many do so as evidenced by the overall poor quality of appraisals. Several proposals have already been made to regulate AMCs. However regulation without enforcement is useless. There is a proposal, that would make the AMC the client and the lending institution as the intended user of any appraisal report ordered by an AMC. This would make the AMC responsible for the quality also along with the cost and speed. Making the amc RESPONSIBLE for the appraisal report would go a long way toward ending the repressive tactics that they currently employ. An additional suggestion to facilitate the research required by an appraiser would be to establish a national database of current purchase appraisals with the confidential data redacted. The access to this database would allow an appraiser to check contract concessions of comparables that have been used in his current report and to verify data. The addition of a true digital signature and the prohibition to change the appraisal report prior to delivery to the lender should be strictly enforced. Since the appraisal report is copyrightable, data mining as currently practiced by several portals and AMCs should be declared illegal. Sincerely Gerry Jagt