Office of the Comptroller of the Currency
Re:	OCC Docket ID OCC-2008-0021

Board of Governors of the Federal Reserve System
Re:	Docket No. OP-1338

Federal Deposit Insurance Corporation
Re: Proposed Interagency Appraisal and Evaluation Guidelines

Office of Thrift Supervision
Re:	Docket ID OTS-2008-0012

National Credit Union Administration
Re:	Proposed Interagency Appraisal and Evaluation Guidelines

January 20, 2009

Marshall & Swift welcomes the opportunity to provide comments in response to the proposed Interagency Appraisal and Evaluation Guidelines. Marshall & Swift is a 75 year old company, specializing in providing the appraisers and financial institutions with industry-standard construction cost data.

We are thrilled that issues related to appraisal are being reviewed and that the federal government understands the risks and challenges inherent in the valuation of properties – and how poor valuations played a role in creating the current crisis.

Systemic risk exists in the markets today and specific systemic risks have been at the root of many of the problems experienced by the nation's homeowners, lenders, government, and financial institutions related to mortgage valuations.

During the heights of the housing boom, automated valuation systems and other shortcut methods were used by the lending community to speed appraisals. Further, appraisers were often put in the awkward position of having to value properties for more than they felt appropriate in order to meet the valuation requirements of the lenders and sellers.

The dust is far from settled in the real estate and lending crisis. Now the search is on for new "best practices" that help protect against economic problems like a rapidly increasing number of mortgages with negative equity, massive write-downs of collateralized debt obligations, burgeoning default rates, foreclosures, and fraud.

Systemic risk occurs when mortgages (whether they be new, refinance, or as part of the TARP or other government program) are underwritten without a firm understanding of the proper value of the underlying property. What is a risk to a single loan, on a single property, eventually becomes a systemic risk inherent within the overall portfolio of a lending institution, for example, if a sizeable portion of its mortgages have been based on poor valuations.

Throughout the real estate boom of the past 10 years, characterized by low interest rates and overwhelmingly rapid inflation of home prices, lenders and investors relied solely on market value comparables and AVMs to justify valuations. AVMs and comparables become a dangerous upward feedback loop during a bubble, and market comparables lose accuracy when a fluctuating, overheated market suddenly turns cold, suggesting other protective measures are needed.

It is time to return "back to basics" in the underwriting and appraisal of home mortgages.

In the past, appraisals were required on nearly all home loans, and those appraisals were conducted by licensed, trained, independent, professional appraisers. The proposed agency guidelines should go further and require that the appraisers not only be licensed

but be required to demonstrate that they have obtained the data underlying their report from current, nationally recognized sources.

Furthermore, per USPAP rules, appraisers were required to assess the proper value of a property through multiple methods, generally market comparables and the cost approach.[1] Those two values were then reconciled by the appraiser and that reconciliation was made available to the lender.

The proposed guidelines refer to "sufficient information and analysis to support the institution's decision to engage in the transaction." While the recommended guidelines set criteria for when appraisals are required, we feel they do not go far enough. Our recommendation is that every federally backed transaction require an appraisal and specifically a cost approach valuation that can be used to reconcile the market or AVM valuation with the reality of the property.

This common sense method of using two valuation points to assess the true value of a property served the industry well for nearly 75 years but was abandoned as the bubble built.

Marshall & Swift recommends restoring the role of the professional appraiser in mortgage underwriting by requiring appraisals on any mortgage that is backed or purchased by the federal government or a GSE.

Additionally, Marshall & Swift encourages the Interagency Group to adopt standards that restore multiple valuation methods as a necessary part of any appraisal – particularly thru restoration of the cost approach and reconciliation with market comparables as a requirement on Fannie Mae's URAR form.

Taking these steps will ensure that loans are made with a full understanding of the true value of each property – not the whims of the bubble-driven market comparable.

Additionally, the proposed guidelines express concern about how federal agencies can monitor the portfolios of lending institutions, looking for problems. Requiring every property to have an appraised cost approach value would also allow regulators and investors to examine the portfolios of lenders and the GSEs to determine if the spread between market comparable and cost approach valuation is too large and therefore indicative of unacceptable risk in the portfolio.

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[1] Developed in the 1930s, the cost approach was the first standard method for deriving real estate value. It estimates the replacement value of a property by the cost of the building itself, using the principle of substitution, which assumes that a buyer shouldn't pay more for a property than the cost of a comparable building (as measured by its construction cost) plus the value of the land.

While not perfectly reflective of market values, the cost approach provides an important check on valuations, and, when performed as part of an appraisal, provides important context by which the appraiser can determine if a home is over- (or under-) valued due to a glitch in the market.

Of great interest is that these common sense appraisal requirements can not only help expose and reduce risk as values rise, but can also assist regulators, investors, and homeowners as market values decline.

Market comparable valuations are subject to the same risks the feed any bubble or panic. Buyers have a tendency to over value properties in the former, and to undervalue properties in the later.

Therefore, as the market corrects overvaluation, there is a risk that market values could decline too far. Homes and mortgages being valued at less than appropriate levels poses problems and risks to the market and economy as a whole, and in particular, can put added pressure on homeowners facing foreclosure.

FDIC Chair Sheila Bair pointed out this possibility in her testimony to the House Financial Services Committee on November 18, 2008. She pointed out that as foreclosures mount, there is the "very real possibility that home prices could overcorrect on the downside."

Requiring appropriate appraisals before any foreclosure could help alleviate this problem. By having an appraiser provide an unbiased review of the market comparables and reconciling with the cost approach, an appraiser could make a lender or regulator aware that the property's market value is inappropriately low.

While considerable attention has been paid to the complexities of the financial markets, derivative instruments, and mortgage backed securities, little has been paid to the valuation that lies at the core of the market: the tangible value of the home.

Marshall & Swift respectfully submits that the Interagency Task Force recommend regulations that take a back to basics approach: mandating appraisals as the cornerstone of every mortgage transaction; requiring the cost approach as an objective benchmark for valuations; and requiring the use of licensed, independent appraisers.

Thank you.

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