



Via Email and USPS
December 12, 2017

Mr. Arthur Lindo, Chairman
Mr. James Park, Executive Director
The Appraisal Subcommittee
1401 H Street N.W. Suite 760
Washington, D.C. 20005

RE: Temporary waiver requests under 12 U.S.C 3348(b)

Dear Chairman Lindo and Executive Director Park,

Recently, Federal financial institution regulators informed financial institutions about the provision referenced above that allows the Appraisal Subcommittee (ASC) to waive any requirement relating to certification or licensing of a person to perform appraisals. Subsequently, at least two financial institutions submitted requests for temporary waivers.

The MBREA has an opinion about the soundness of issuing temporary waivers except in situations of extreme hardship. We believe it is incumbent upon the ASC and the Federal Financial Institutions Examination Council (FFIEC) to examine in-depth each request and to challenge the institution to fully substantiate the basis for its request.

We urge you to exercise an abundance of caution in your consideration of waiver requests given the elevated risk posed to the safety and soundness of financial institutions when valuations are performed by unqualified individuals. History repeatedly demonstrates the resultant harm that arises when lending standards are relaxed simply to allow institutions to originate more loans, more quickly and more cheaply.

Commercial real estate (CRE) lending is a line of business that poses a significant risk to financial institutions. The Office of the Comptroller of the Currency wrote the following in its Spring 2016 Semiannual Risk Perspective (emphasis added), *"While leveraged lending and auto lending remain concerns, CRE lending and concentration risk management has become an area of emphasis for regulators. CRE portfolios have seen rapid growth, particularly among small banks. At the end of 2015, 406 banks had CRE portfolios that had grown more than 50 percent in the prior three years. Of note, more than 180 of these banks more than doubled their CRE portfolios during the past three years. **At the same time we are seeing this high growth, our exams found looser underwriting standards with less-restrictive covenants, extended maturities, longer interest-only periods, limited guarantor requirements, and deficient-stress testing practices.**"*

If regulators recognize that "looser underwriting standards" are the cause of their concern, then it is obligatory for the FFIEC and the ASC to avoid decisions that will exacerbate the risk; decisions such as allowing unqualified individuals to perform valuations.

Also, it is important to note that temporary waivers are restricted only to appraisals in federally related transactions (FRT). Based on the definition of a FRT, regulatory agencies estimate that approximately 82% to 85% of residential mortgage transactions are exempt from Title XI and are not FRTs. With this as a consideration it appears temporary waivers would be applicable to a very small portion of residential loan production.

Another factor when evaluating a waiver request is learning the reason why there may be a limited number of appraisers available to perform assignments for a specific institution. Appraisers are willing to travel distances and gain geographic competency when the assignment conditions are acceptable. The FFIEC and the ASC should carefully survey appraisers to determine if the institution's assignment conditions are the cause of appraisers' unwillingness to accept assignments. For example, is the institution making unreasonable demands for turnaround of the appraisal or could the fee be less than reasonable and customary?

Unreasonable assignment conditions are not a valid basis for granting a waiver.

In closing, the MBREA urges the FFIEC and the ASC to move slowly when considering a temporary waiver request to make certain the basis of the request is supportable, that the need for a waiver is genuine, and most importantly, that granting a waiver will not expose the institution, its depositors and shareholders and the taxpayer to unacceptable levels of risk.

We are available to answer any questions you may have by reaching out to Steve Sousa, executive vice president at steve@mbrea.org or at 617-830-4530.

Sincerely,



Marcus Johnson, MRA, MAI
MBREA 2017 President



Susan Mitchell, RA
MBREA 2018 President-Elect