American Bankers Association

Building Success. Together.

Robert R. Davis
Executive Vice President
Mortgage Markets, Financial
Management & Public Policy
(202) 663-5588
RDavis@aba.com

December 6, 2016

The Honorable Daniel K. Tarullo
Governor
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corp.
Washington, D.C. 20429

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
Washington, D.C. 20020

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
Washington, D.C. 20219

The Honorable Rick Metsger
Chairman
National Credit Union Administration
Alexandria, VA 22314

The Honorable Karen Lawson
Director, Office of Banking
MI Dept. of Insurance & Financial Services
Lansing, MI 48933

Dear Members of the FFIEC:

On behalf of the member banks of the American Bankers Association (ABA), I would like to express our thanks for the work of the Federal Financial Institutions Examination Council (FFIEC). The ABA appreciates the efforts of the FFIEC in alleviating regulatory burdens through the tailoring of sensible rulings that allow banks to serve their customers and communities, while recognizing safety and soundness principles.

As the FFIEC continues its work, we wish to bring before the Council several appraisal-related issues that require your attention. These issues are reaching a critical stage and are affecting the lending process. The issues of greatest concern are outlined below:

1. Shortages of appraisers

    a. The ABA has spearheaded several meetings with appraisal industry associations and the Appraisal Subcommittee, as well as the Appraisal Foundation, to discuss the following trends which are cumulatively leading to a shortage of appraisers:

        i. Banks are reporting shortages of appraisers in general, but more specifically in small urban and rural areas for residential, agricultural and commercial real estate transactions.

ii. Based on data provided by the Appraisal Foundation, a significant number of appraisers are reaching retirement age, while the number of entrants to the profession is at its lowest in many decades.[1]

iii. Many appraisers left the profession as a result of the 2008 crisis and have moved on to other careers.[2]

iv. The economics of the profession may not offer salaries to new entrants that are adequately competitive with alternatives, and the time required to become an appraiser has lengthened, discouraging potential appraisers from entering the profession.[3]

b. The above trends have the effect of causing a slowdown and reduction of credit in residential, commercial and agricultural markets. If left unresolved, we forecast negative effects on banks' abilities to process and originate real estate related loans and to serve their customers.

c. Over the past year, the Appraisal Qualification Board has deliberated and asked for input on changing the qualifications to become an appraiser. While we appreciate their current efforts, the shortage of appraisers is already being felt by lenders. We support these and other efforts to shorten the length of time to qualify as an appraiser, but feel that most apprentice periods are antiquated. Generally ABA believes that appraisers should be treated like professionals, such as teachers, attorneys, or bankers. As professionals, once they finish their education and pass the industry or state examination requirements, they are ready to practice.

d. We urge the FFIEC to assess whether the appraisal industry needs guidance and encouragement to establish policies that help to attract, train and retain qualified appraisers as one of the key parts in the loan decision making process.

2. Real Estate-Related De Minimis

a. Under the current provisions of Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), and as provided for in the Interagency Appraisal and Evaluation Guidelines (the "Guidelines"), for real estate-related transactions with a transaction value equal to or less than $250,000, the agencies' appraisal regulations, at a minimum, require an evaluation consistent with safe and sound banking practices, but not necessarily a licensed or certified appraiser. The bank may choose to provide otherwise for an evaluation consistent with safety and soundness and prudent lending.

b. ABA member banks, especially those in rural areas, and/or small community banks would like for the FFIEC to consider increasing the real estate-related De Minimis to

[1] Concept Paper: Alternative Track to the Experience Requirement in the Real Property Appraiser Qualification Criteria, Appraiser Qualifications Board, 7/9/2015
[2] Appraiser Population, Statistics, Demographics and Client Issues and Concerns, Appraisal Institute Research Department, 7/26/2015
[3] Ibid.

$500,000. Simply adjusting the current cap for inflation since 1989 (CPI), would result in a new threshold of approximately $484,346, according to the U.S. Department of Labor Bureau of Labor Statistics. These transactions would be underwritten under the current criteria established in the Guidelines and booked to the financial institution's portfolio, with the understanding that in order for these loans to meet secondary market criteria, they would have to meet the appraisal requirements of investors, including Fannie Mae and Freddie Mac.

3. Federally Related Transaction (FRT)

   a. There is currently some confusion among members of the appraisal and banking communities about the definition of an FRT and its subsequent interpretation and application as to appraisals. We would appreciate the FFIEC clarifying this definition.

   b. The states, the Appraisal Foundation and other stakeholders have long believed that the majority of appraisals for real estate related financial transactions are FRTs.

   c. Many state laws (which were written shortly after Title XI was passed in 1989) are written to specifically regulate FRTs. Title XI limits the authority of the Appraisal Subcommittee (ASC), Appraisal Standards Board (ASB) and Appraiser Qualifications Board (AQB) to FRTs.

   d. Many believed and operated under the premise that the exemptions to Title XI, including the threshold, were narrow exemptions to the requirement for an appraisal, not broad exemptions from being designated an FRT.

   e. If FRTs are limited to only a subset of the mortgages originated, it could present a problem in regulating, educating and implementing the Uniform Standards of Professional Appraisal Practice (USPAP). Since the definition of an FRT is believed to be an integral factor in the current structure of the industry and the laws of the states, a clarification would be of great help.

The ABA looks forward to hearing from the FFIEC on the above issues. We are available to discuss these issues of vital importance to the banking community. Please do not hesitate to contact us with any questions or comments. We value your partnership and continued collaboration.

Sincerely,

Robert R. Davis

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