



February 19, 2009

Honorable Timothy Geithner  
Secretary of the Treasury  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Mr. Secretary:

The undersigned professional appraisal organizations, representing 35,000 professional real estate appraisers in the U.S., are writing as a follow up to our letter of February 16, 2009 regarding the Homeowner Stability and Stability Plan you are developing on behalf of the President. First of all, we applaud the President's action to stem foreclosures and return confidence in America's mortgage finance system. As President Obama has stated, he is committed to stemming the spread of foreclosures and doing "everything we can to help responsible homeowners stay in their homes." Likewise, we share the President's commitment to rebuilding and strengthening our home finance system and doing what we can to ensure the confidence of homeowners, lenders and regulators in the value of their real estate and mortgage collateral. Homeownership is a vital part of the social and economic foundation of our country and today's announcement confirms America's commitment to a stable and secure system of home finance that allows families to stay in their homes and manage their resources prudently in this economy.

To that objective, we believe it is important for all parties to have accurate and reliable information as they make decisions to restructure their loans and make adjustments to collateral. Today, professional real estate appraisers deliver a diverse menu of valuation services with many designed specifically to address distressed properties and others that can be used for most non-complex transactions. The available technology and current methodology allow real estate appraisers to deliver necessary services quickly and securely. Given the advances in technology, these services are very cost effective and affordable with delivery from the thousands of designated, certified, and licensed appraisers in every community in the country.

As we stated in our earlier letter, we believe strongly in the importance of accurately establishing the market value of properties held as collateral for mortgages. This principle is shared by the appraisal profession, lenders and regulatory agencies as evidenced by industry practice and regulatory mandates. While regulatory action has not been sufficient and too often lax, the current proposed federal bank agency guidelines for restructuring loans the agencies do stress the importance of valuing the collateral and only if certain conditions exist do they exempt a transaction from requiring an appraisal.<sup>1</sup> In loan workouts the guidelines state that an institution "take into consideration the quality of the underlying collateral and the validity of the existing appraisal or evaluation." Additionally, "an institution may advance new monies beyond closing costs when there are no material changes in the physical aspects of the property that threaten the adequacy of the collateral." The guidelines further state that "If a loan workout involves modification of terms and conditions of an existing credit, including acceptance of new real estate collateral that facilitates the orderly collection of the credit, or reduces the institution's risk of loss, an appraisal or evaluation of the existing and new collateral may be prudent, even if it is obtained after the modification occurs." Such guidelines, in our view, confirm a fundamental commitment to secure and accurate collateral valuation.

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<sup>1</sup> Proposed Interagency Appraisal and Evaluation Guidelines, November 13, 2008. Retrieved from <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081113a1.pdf>

The LTV calculation is a critical element to get right, because many otherwise qualified borrowers may be ineligible for the program simply because the most up-to-date market information was not used. Residential property values are always determined locally, and the field appraiser can best address the actions of the local market and report on various elements discovered during a thorough physical inspection. This analysis is far more intensive and descriptive than appraisal alternatives, which largely amount to simple statistical analyses limited to square footage.

As stated in our earlier letter, our organizations urge that the President's plan to assist distressed homeowners avoid the pitfalls found in some current mortgage relief programs. These programs permit collateral properties to be valued by real estate salespeople who have no valuation training; who do not adhere to any uniform standards for how properties are to be valued; who are not accountable to any governmental body, federal or state, for faulty "valuation" work; and, who may have a direct or indirect economic stake in whether a mortgage is modified or whether it is foreclosed and the property put on the market to be sold to another buyer.

We also caution against use of automated valuation models or national indices to determine loan-to-value ratios with the President's plan. Specifically, most national indices suffer from an inherent flaw of containing data that is out of date. We understand the OFHEO Home Price Index, the most widely known in the industry, contains data that is as much as six month old. As such, use of this information will almost certainly not reflect current market value and unnecessarily disqualify borrowers from this important program.

As you know, Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) established a system for state certification and licensing of real estate appraisers and it mandated reliance on such appraisers to value collateral in important federally-related transactions. Individuals who become state licensed or certified appraisers must meet meaningful requirements involving valuation-specific training, education and experience; and, their conduct is regulated by appraiser licensing agencies in the 50 states and territories. For a stable economy and secure mortgage finance system, valuations must be reliable and those performing the appraisals must be accountable and professional. An unreliable or unrealistic valuation of a home will only bring additional risk to the calculation necessary for resetting a loan and undoubtedly extend the crisis. Thousands of professional appraisers, designated, licensed and certified in every state are prepared to deliver the proper documentation in a cost effective and timely manner to help stabilize the housing finance system.

Given the rapid and material changes in residential market conditions and the possible advancement of new funds, we believe it is important that the Administration's plan require that collateral valuations be performed by state certified and licensed appraisers in accordance with the Uniform Standards of Professional Appraisal Practice. We believe such a requirement is important both because existing banking agency policies mandate it and, equally important, because the safety and soundness of taxpayer guaranteed loans in today's tumultuous mortgage markets require it.

Our organizations would greatly appreciate an opportunity to discuss our concerns and recommendations with you or with other Treasury officials involved in developing the Administration's mortgage relief proposal. To arrange a meeting, please contact Peter Barash, the government relations representative of the American Society of Appraisers at 202-466-2221 or by email at [peter@barashassociates.com](mailto:peter@barashassociates.com) or Bill Garber, Director of Government and External Relations for the Appraisal Institute at 202-298-5586 or by email at [bgarber@appraisalinstitute.com](mailto:bgarber@appraisalinstitute.com).

Sincerely,

Appraisal Institute  
American Society of Appraisers  
American Society of Farm Managers and Rural Appraisers  
National Association of Independent Fee Appraisers