



November 14, 2014

Ms. Brenda Griffin
Rural Development, Business Programs
U.S. Department of Agriculture
1400 Independence Avenue, SW
Room 6847
Washington, DC 20250

Attention: RIN number 0570-AA85

Dear Ms. Griffin:

On behalf of the 23,000 members of our respective professional appraisal organizations, thank you for the opportunity to comment on the Department of Agriculture's (USDA) Proposed Rule proposing changes to the Business and Industry Guaranteed Loan Program ("B&I"), which provides loan guarantees to banks and other approved lenders to finance private businesses located in rural areas.

Under this proposed rule, the threshold amount for when an appraisal is required by the USDA will be increased from \$100,000 to \$250,000 on all collateral being released. Similarly, the appraisal threshold in liquidations would be increased from \$200,000 to \$250,000.

While these increases are in line with threshold levels found in interagency appraisal regulations from the federal bank regulatory agencies, we are deeply concerned about the lack of rationale or explanation for the change. We say this because our members have reported concerns with the quality of appraisals prepared for lenders participating in the B&I program, which are often engaged with turnaround time and price at the forefront and minimally reviewed by USDA lenders. Further, our members have reported widespread concerns with the lack of independence within the USDA B&I loan process, which is reported to enable borrower influence on appraisals. Without addressing some of these apparent flaws, we find it difficult to support decreasing basic safety and soundness requirements.

To our knowledge, the USDA has not undertaken a comprehensive review of appraisal quality within the B&I program to determine if collateral risk programs are functioning in a way to warrant such a dramatic increase. We note that the current default rate for the B&I program stands at 5.49 percent, which is more than double the default rate for conventional commercial real estate loans¹. Also, recent audits of failed financial institutions indicate that a high percentage had been previously cited by their primary regulator for appraisal program deficiencies on such things as appraisal independence and appraisal review. With this, we urge the USDA to undertake such a comprehensive review of appraisal quality, and consider modifying this proposal based on the findings of that review.

Further, we believe the USDA should couple any increase in the appraisal threshold with requirements relating to appraisal review. Appraisal review has been recently emphasized by the federal bank regulatory agencies, in part, based on deficiencies found during examinations. The 2010 version of the

¹ According to the Federal Reserve, the rate of delinquency for commercial real estate loans stood at 2.36 percent over the past four quarters and is 2.11 percent amongst the largest 100 banks in the United States. Available at <http://www.federalreserve.gov/releases/chargeoff/delallsa.htm>

Interagency Appraisal and Evaluation Guidelines emphasizes appraisal review appreciably more than the previous version of the guidelines. Without question, appraisal review is a critical part of any lender risk management program, and it's a robust discipline within real estate appraisal. However, too often, appraisal reviews are completed by lender staff with minimal training, when a wealth of information, education and professional development programs are available on the subject from our organizations. We urge the USDA to recognize these changes and resources and to emphasize the importance of appraisal review in the final rule.

Lastly, our organizations understand that in cases where there is no appraisal required, the USDA relies on the lender's evaluation of the collateral. We believe that the USDA should include a specific provision in the regulations to require B&I lenders to follow their primary regulator's policies relating to Appraisals and Evaluations below the appraisal threshold.

Thank you for the opportunity to comment on the proposal. If you have any questions or need additional information, please contact Bill Garber, Director of Government Relations for the Appraisal Institute, at 202-292-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Government Relations, at (202) 298-5597 or brodgers@appraisalinstitute.org.

Sincerely,

Appraisal Institute
American Society of Farm Managers and Rural Appraisers