



September 24, 2008,

The Honorable Henry Paulson  
Secretary  
United States Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

The Honorable Barney Frank  
Chairman  
House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Ben Bernanke  
Chairman  
Board of Governors of the Federal Reserve Board  
20<sup>th</sup> and Constitution Avenues, NW  
Washington, DC 20551

The Honorable Christopher Dodd  
Chairman  
Committee on Banking, Housing, and Urban Affairs  
United States Senate  
510 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Richard Shelby  
Ranking Member  
Committee on Banking, Housing, and Urban Affairs  
510 Dirksen Senate Office Building  
Washington, DC. 20510

The Honorable Spencer Bachus  
Ranking Member  
House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Christopher Cox  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

The Honorable James Lockhart  
Director  
Federal Housing Finance Agency  
1700 G Street, N.W., Fourth Floor  
Washington, DC 20552

Gentlemen:

On behalf of the nation's largest professional appraisal organizations we are writing to offer our comments on the "Troubled Asset Relief Program" (TARP) proposed by the Administration and under consideration by the House and Senate.

We are concerned that the TARP draft proposals do not adequately address critical valuation issues necessary to the success of the proposed program. Reliable valuations are a critical component of TARP in at least three ways:

- In connection with homeowner relief proposals that would reduce the outstanding principal loan balances on troubled mortgages to an amount represented by the current fair market value of the collateral property;
- In connection with establishing the combined value of the properties collateralizing particular pools of mortgages; and,

- In connection with the purchase, management, and sale of individual residential and commercial properties.

The current proposals being discussed in Congress require a myriad of valuations but do not establish any qualifications requirements for those who provide such valuations, and it does not specify any uniform standards or approaches for valuing real property.

The purpose of the emergency legislation being considered is to stabilize and restore confidence in the mortgage and credit markets. It would be ironic if such legislation failed to establish requirements that would ensure the competence of those performing real property appraisals and the reliability of the methods used to establish fair market value.

To address real estate valuation concerns, we respectfully urge you to add provisions governing the valuation of residential and commercial real property assets, including:

- **Requiring the appointment of an executive level “Chief Appraiser” at the Federal Deposit Insurance Corporation.** The federal government’s most recent effort to purchase troubled properties – the Resolution Trust Corporation (RTC) - faced many challenges with regard to appraisals, as outlined by a General Accounting Office (GAO) report published in 1992, which criticized the RTC for widespread appraisal policy problems<sup>1</sup>. According to the GAO, the RTC lacked appraisal hiring policies and criteria, resulting in employment of unqualified appraisers, and it suffered from a lack of leadership at the headquarters office that resulted in poorly performed appraisals and appraisal reviews. The GAO report was the impetus for several changes in RTC appraisal policy, including the hiring of an executive-level chief appraiser to manage and assess the appraisal program’s execution and the creation of appraiser qualification criteria. These were sound policy changes that Congress should consider enacting upfront with regard to TARP. A similar position would greatly assist in the government’s effort to establish sound and transparent valuation policies protecting the public trust.
- **Verified Portfolio Analysis.** Portfolio analysis based on automated valuation tools cannot achieve a confidence level in the current market that is needed to support justifiable asset value. While the automated tools may be one step in the process, we recommend a multi-step process where value tests are conducted by qualified, expert, “local” appraisers. This will add a comfort level needed to restore confidence in the portfolios.
- **Requiring collateral valuation to be performed by qualified real estate appraisers.** To the extent that property specific valuations of residential and commercial properties are required to carry out the purposes of the new law (particularly provisions to bring relief to distressed homeowners, valuing collateral backing assets, and acquiring and disposing of distressed assets) we respectfully, but strongly, urge that the new law require the use of professional real estate appraisers and adhere to generally accepted appraisal standards. That means reliance on state certified or licensed real estate appraisers at a minimum; and, in situations where properties are complex or are located in areas where property values are in sharp transition, the use of professional appraisers with designations from recognized national professional appraisal organizations. These individuals possess valuation experience, training and other

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<sup>1</sup> United States General Accounting Office. (1992, April). Resolution Trust Corporation: better qualified review appraisers needed. GAO-GDD-92-40BR. Retrieved from <http://archive.gao.gov/d32t10/146494.pdf>

qualifications superior to those held by many licensed or certified appraisers. This provision is critical to protecting neighborhood values that stand to be harmed by a massive influx of properties sold at “fire sale” prices, and potentially valued by individuals with a vested interest in the transaction.

We note that loan modification provisions currently included in House and Senate drafts of the TARP proposal steer loan restructuring to the new “Hope for Homeowners” program established earlier this year by Congress. We support this provision in large part because of the enhanced appraisal requirements included in the legislation. We strongly support inclusion of similar language in **Section 2**, *Authority to Purchase Troubled Assets*, and **Section 5**, *Rights; Management; Sale of Troubled Assets*.

Our organizations offer to assist the Department of Treasury, Federal Deposit Insurance Corporation, Congress and others involved in this program to provide accurate valuations of properties used at all levels of the TARP program. The solution requires massive mortgage renegotiations, and we strongly believe that expert advice at the street level can restore stability in the mortgage market. The cost is small considering the overall big picture. By being a part of this historic event, we are prepared to assemble networks of our respective members and team with rapid response providers to offer a superior "human verified" portfolio analysis program.

We stand ready to assist you would be grateful for the opportunity to discuss these suggestions in greater detail. Should you have questions or need assistance in this matter, please contact Bill Garber, Director of Government and External Relations, Appraisal Institute at 202-298-5586 or [bgarber@appraisalinstitute.org](mailto:bgarber@appraisalinstitute.org) or Peter Barash, Government Relations Consultant, American Society of Appraisers at (202) 466-2221 or [peter@barashassociates.com](mailto:peter@barashassociates.com).

We appreciate your leadership on this critically important issue, and thank you for considering our offer to assist you.

Sincerely,

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