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To: Comments, Regs
Subject: ID OTS-2008-0012
Office of Thrift Supervision
Department of the Treasury

Docket ID OTS-2008-0012

Dear Sir or Madam,

We submit the following in response to your request for comments on proposed interagency appraisal and evaluation guidelines.

Objective:

Devise an improved valuation tool and methodology for real estate properties, resilient against influence or interference and more adapted to the current market conditions.

Background:

An appraisal which rests solely on market valuation will come up short for the following reasons:

- A market valuation is imprecise in a rapidly declining market. A valuation based on previous property sales will lag. The appraiser will be tempted to correct for the lag on this downward market, just as appraisers anticipated inflated values in the previously rising market.
- The physical condition of the property and the neighborhood is a stable determinant which is much less volatile than current market conditions. A physically sound property in a well maintained neighborhood will much more rapidly gain value when the market settles than a property in poor condition in a rundown neighborhood.
- Similarly the legal and regulatory position of a property is a stable value determinant which greatly influences value recovery when market conditions improve.

Proposal:

We propose that the traditional market appraisal be supplemented by two other appraisals.

- A physical appraisal which assesses the physical condition of the property, its building code deficiencies and the physical condition of the neighborhood.
- A legal and regulatory appraisal which evaluates the quality of the title and the possible existence of liens or easements (such as mechanic's

lien). In a distressed mortgage situation, it is likely that other debts or encumbrances burden the property. This appraisal will also determine the soundness of the zoning regulations of the neighborhood or municipality and any deviation by the property from these zoning regulations.

We propose that the traditional market appraisal, and the physical appraisal, and the legal appraisal be each conducted by independent and separate firms.

- This provision of independence and separateness will ensure a more unbiased appraisal.
- It will highlight any inconsistencies in the market valuation.
- It will also eliminate any influence by parties interested in the outcome of the appraisal.

We propose that the U.S. Agency in charge does the final integration of all three appraisals.

- The market value appraisal can be given a rating or a weight as a plus or a minus depending upon the results of the physical and the legal appraisals.
- The end result will be much more resilient to any influence or any dispute by parties interested in the final credit decision.
- This integrated three appraisal system will provide a much improved guidance as to the prospects for market value improvement by the subject property.

We hope that you will find our proposal useful and stand ready to provide any additional information you may require.

Yours faithfully,

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