



December 13, 2010

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

Re: Docket No. R-1394: Proposed Requirements for Appraisal Independence

Dear Ms. Johnson:

The Kansas Bankers Association (KBA) appreciates the opportunity to comment on this most important matter. The KBA is a non-profit trade organization having 305 of the 309 Kansas banks as members. Member banks are diverse in terms of geography -covering every corner of the state, and in terms of size – from the smallest bank of \$3.9 million in assets to the largest bank of \$3.5 billion in assets. Most of these community banks make loans to help consumers purchase a residence, and in many communities, the local bank is the only option for that consumer.

There is no question that the underlying premise for the proposal are desirable by all: to ensure that real estate appraisals used to support creditors' underwriting decisions are based on the appraiser's independent professional judgment, free of any influence or pressure that may be exerted by parties having an interest in the transaction. Our comments will be directed at two main provisions in the proposal.

1. Conflict of Interest Safe Harbor. We are pleased that the proposal recognizes that there are limitations on the "distance" that employees of community banks can put between them and the appraisal due to lack of layers.

We believe that the safe harbor provisions for employees of institutions with assets of \$250 million are reasonable. As proposed, the safe harbor exists if: the compensation of the person preparing an evaluation or appraisal is not based on the loan amount; and the bank requires that any employee, officer or director who orders, performs or reviews the appraisal abstains from participating in the decision to approve, or set the terms of the transaction.

2. Reasonable and Customary Compensation. The proposal mandates that the fee appraiser receive "reasonable and customary" compensation. We recognize that the two presumptions of compliance are not requirements for compliance, but that if they are met, they create a presumption that the bank has complied.

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We believe the two presumptions for compliance with this standard would be difficult to attain in many areas of the state. As proposed, a bank is presumed to have paid reasonable and customary fees to an appraiser if: the fee is reasonably related to recent rates paid for appraisals in the relevant geographic market, and in setting the fee, the bank has taken into account factors including the type of property and scope of work, and has not engaged in any anticompetitive actions such as price-fixing; AND the fee is established by relying on rates established by third party information.

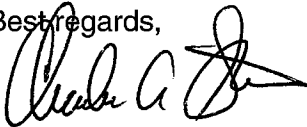
We are concerned that the lack of recent appraisals in the geographic area will affect the ability of banks in some areas of the state to meet these presumptions. There are areas in Kansas that do not have a need for appraisals as not a lot of property is being sold on a regular basis, so that there may be a gap in the most "recent" appraisal and the need for one today. There is some evidence that due to this issue, third parties which establish rates either limit the geographic region that the rates apply to, or the rates may not be reliable for that area.

While we understand that the presumptions are not requirements for compliance, we would like some clarification about what a bank may have to do if these tools were not available to it, to prove the compensation for the appraisal was reasonable and customary.

In conclusion, we could not agree more that appraisers should be free to use their independent judgment in doing their jobs with regard to any property, including home valuations. The concerns expressed above relate to the capability of banks in Kansas to comply with the proposed safe harbor and presumption of compliance due to the fact that there are many banks with fewer than 10 employees, and the lack of recent appraisal data in some rural areas of the state.

Thank you, once again, for the opportunity to comment on this most important matter.

Best regards,



Charles A. Stones
President



Kathleen A. Olsen
SVP-General Counsel