

From: Edd C. Gillespie
Subject: Regulation Z -- Truth in Lending

Comments:

Date: Dec 23, 2010

Proposal: Proposed Guidance on Sound Incentive Compensation Policies

Document ID: OP-1374

Document Version: 1

Release Date: 10/22/2009

Name: Edd C Gillespie

Affiliation:

Category of Affiliation:

Address:

City:

State:

Country:

Zip:

PostalCode:

Comments:

I am a certified general appraiser and have been appraising real estate in Colorado for approximately 15 years. Thank you for the opportunity to address the important issues of customary and reasonable appraisal fees. I premise my discussion on my essential belief that opinions of real estate market value must be well supported with relevant facts. Facts are developed from diligent research and analysis of information. Research and analysis requires time and the time needed varies from assignment to assignment. From time to time, an appraiser can apply facts developed in previous assignments, but the process should never be mechanical. Unfortunately, as forms have been pressed into use in mortgage appraising by Fannie Mae and Freddie Mac, the emphasis on adequate research and analysis for real estate appraisal has waned almost completely and the ever lower fees paid have made adequate research and analysis a rarity. My experience is that as mortgage lending became frenetically competitive, pressure was placed on appraisers to decrease the amount of time required to complete an appraisal. Early on, it was not uncommon to pay an appraiser a premium to complete appraisals faster, but as pressure to work ever faster became an element of almost every mortgage appraisal assignment, appraisers eventually began eliminating the important work essential to quality reports. Something had to give. The term customary has fluid definitions that differ with location and with assignment type. Certainly, what was customary prior to the advent of appraisal management companies is the correct measure and in my location, that fee was from \$600.00 to \$800.00 depending on the difficulty included in the assignment. Difficulty translates into time, and I believe from years of experience, that the appraisal of an ordinary, in-town, single family residence requires a minimum of ten hours of my time from beginning to end. If the appraisal includes rural real estate or some other extraordinary circumstance, additional time is required to complete the necessary work. The term reasonable has more universal and meaningful application. There certainly have been many unskilled appraisers in the industry and my opinion is that they should for the most part be excluded from participating in determining what a reasonable fee is. What is reasonable must

be tied to what is acceptable. The appraisal industry strives for professionalism and there must be a very high standard for what is acceptable. The amount of training and education that is needed to qualify an appraiser to complete an acceptable appraisal is large. I believe the minimum appraisal fee is \$60.00 per hour is the minimum compensation required to obtain an adequate appraisal. The appraisal industry is not one that is cohesive, and as such, cannot bring pressure upon the mortgage industry to pay a reasonable fee for services. Those who engage appraisers for mortgage work have found they can shop for the lowest fee and fastest turn times. As a result mortgage lenders are now receiving the cheapest appraisals possible. Interestingly, now that fees for mortgage appraisals are cheapened to the point that research and analysis is a practical impossibility, the lenders are justifying the use of collateral valuation products, such as broker price opinions, on the basis that unsupported opinions are now all that appraisers provide. It is essential to establish a reasonable appraisal fee that recognizes the cost of an appraiser's skill, education, training, costs and required to complete an acceptable appraisal. Unless that is done and can be enforced the mortgage lending industry will continue to obtain substandard collateral reports. A reasonable fee is \$60.00 per hour, but it has little relevance unless the appraiser spends at least ten hours per appraisal in research and analysis.