

December 22, 2010

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

RE: Docket No. R-1394, Interim Final Rule on Appraisal Independence  
under Regulation Z

Dear Ms. Johnson:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the Federal Reserve Board's (Board's) request for comment regarding its interim final rule to amend Regulation Z, Truth in Lending, with respect to appraisal independence. By way of background, CUNA is the largest credit union trade organization in the country, representing approximately 90 percent of our nation's nearly 7,700 state and federal credit unions, which serve approximately 93 million members.

CUNA supports a number of the aspects of the Board's interim-final rule on appraisal independence. More specifically, CUNA supports the Board's approach to prohibit actions designed to coerce or manipulate appraisers, as long as the compliance requirements for small institutions are not overly-burdensome. We also agree with the treatment of "reasonable and customary fees" under the interim final rule. This approach provides relevant weighing factors and other guidance for setting appraiser compensation without micromanaging financial institutions' appraiser compensation processes.

However, CUNA believes that the asset threshold for the small institution safe harbor—\$250 million in assets—is too low and urges the Board to raise it to \$1 billion. Many credit unions and other community financial institutions with more than \$250 million but fewer than \$1 billion in assets have small staffs and relatively limited resources compared to larger institutions with national or regional presences. Further, the reasons cited by the Board in the interim final rule's preamble for differentiating between small and large

institutions apply equally to institutions with up to \$1 billion in assets. For example, the Board indicated that institutions below \$250 million in assets may decrease their consumer lending operations due to an inability to comply with the rules, such as the firewalls requirement, because of limited staff resources and similar factors. This is also true for many institutions with up to \$1 billion in assets.

With respect to creditors' mandatory reporting of appraiser misconduct, CUNA supports the Board's commentary which defines a "reasonable basis" that would trigger mandatory reporting as actual knowledge that a violation has occurred or is ongoing.

Credit unions want appraisals that are reasonable and accurate and CUNA therefore supports the rule's approach to defining appraisers' "reasonable and customary fees" without regard to compensation paid to appraisers by appraisal management companies. We believe that the interim-final rule's weighing-factors—such as a fee appraiser's qualifications, experience, professional record, and work quality—and other guidance on appraisal fees provide common sense standards for how a credit union or other financial institution can maintain an appropriate, arms-length relationship with an appraiser without necessitating the use of a third-party management company.

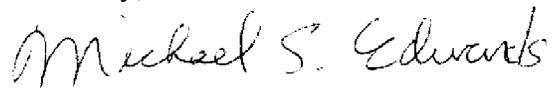
Since 2008, many creditors have used appraisal management companies to avoid the appearance of undue influence on an appraiser's conclusions under the Home Valuation Code of Conduct, and appraisal management companies have generally depressed the average compensation of appraisers. We believe that credit unions that prefer to use appraisal management companies should be free to continue to use them, as the rule contemplates. However, credit unions should be able to consider appraiser fees that existed prior to the Home Valuation Code of Conduct in order to be able to retain the most experienced appraisers who produce the most accurate appraisals. Inaccurate home valuations, whether too high or too low, are not helpful to consumers, credit unions, their regulators, or mortgage investors in the secondary market.

Appraisals which are either too low or too high also present safety and soundness concerns. This includes situations in which mortgages may appear to be fully-collateralized when they are not or that result in institutions over-reserving their allowance for loan and lease losses accounts. This would decrease institutional capital and could lead to prompt corrective action measures that would be unnecessary with an appropriately valued allowance account.

In conclusion, while we support the Board's general approach reflected in the interim final rule, there are several aspects of the rule that we urge the Board to revise before it is made final.

Thank you for the opportunity to express our views on the Board's interim final rule to amend Regulation Z with respect to appraisal independence. If you have any questions about our views, please do not hesitate to give me a call at (202) 508-6705.

Sincerely,

A handwritten signature in black ink that reads "Michael S. Edwards". The signature is written in a cursive, slightly slanted style.

Michael S. Edwards  
CUNA Counsel for Special Projects