June 9, 2014

OCC: Docket ID OCC-2014-0002
Board: Docket No. R-1486
FDIC: RIN 3064-AE10
CFPB: Docket No. CFPB 2014-0006
FHFA: RIN 2590-AA61
NCUA: RIN 3133-AE22

RE: Comments on Minimum Requirements for Appraisal Management Companies

Dear Agencies:

This letter is being submitted on behalf of The Property Sciences Group, Inc. ("Property Sciences") in response to the Federal Agencies' request to provide comments on the Minimum Requirements for Appraisal Management Companies proposed rules, as published in the Federal Register on April 9, 2014.

Property Sciences is a national AMC with clients that include many of the largest and most respected creditors and users of appraisal services in the country. We appreciate the opportunity to comment on the Federal agencies' proposed Minimum Requirements for Appraisal Management Companies.

Property Sciences supports the majority of the new proposed rules. We have one major concern, regarding the most important aspect of appraisal – Appraisal Independence. We believe the rules as currently drafted will lead to erosion of Appraisal Independence. The importance of appraisal to consumers of mortgage products and the derivative products that become the basis of retirement funds must be protected. We make the following recommendations for the Agencies to consider changes prior to publication of the final rule.

AUTHOR COMMENTS

Valuations matter and at the heart of a good valuation is independence on the part of the appraiser. We all recognize this fundamental truth is indisputable. FIRREA, TILA, Dodd Frank all acknowledge the need to protect against the conflict of interest that exists between production and appraisal. Yet these new proposed AMC rules will allow production and appraisal to be controlled by the same entities, regardless of the size of the entity or the regulatory oversight. In fact, not only do these new rules allow it, they create the framework to make it the most common method. The new rules do not promote appraiser independence, they provide a framework to skirt it.

The rules state that an AMC that is a subsidiary owned and controlled by an insured depository institution is exempt from the requirement to register with a State. Since States may establish requirements for AMC registration and supervision that are in addition to Federal minimum requirements, an AMC that is a subsidiary owned and controlled by an insured depository institution would be exempt from States that have adopted more stringent requirements. Additionally, the rules state that if a State does not enact a regulatory structure for AMCs within a 36 month period, AMCs would be barred from providing appraisal management services for Federally related transactions, thereby forcing creditors to bring the management of the appraisal process in-house.

Independent AMCs provide creditors services that cannot be easily replicated on a broad scale by each and every small creditor in the country. Most creditors do not possess the core competencies, and regardless of whether they could

obtain such competencies, the cost and duplication of functions across so many entities would raise the cost to consumers dramatically. Overall quality of collateral underwriting would be impacted, thereby introducing greater default risk.

These proposed rules create a strong incentive for creditors to manage the appraisal process internally or through their own subsidiary. Accordingly, the time has come to **question the rationale that a line can be drawn within an organization to eliminate an inherent conflict of interest**. Appraisers who do not report to production within a production driven environment is a fiction. I understand that some organizations with proper regulatory supervision can and will do the right thing, but the inherent conflict still remains.

What needs to exist is a truly independent check and balance on production. Valuation is too critical to assume separation within an entity creates independence. These new rules are intended to protect the public through protection of the financial system, yet just the opposite may happen if every small creditor believes it needs to bring the appraisal function in-house to thwart the new rules or to comply with states who have not adopted the new rules.

If the Agencies want to allow creditors to own and control the appraisal function for loans that stay on their books, this may be considered appropriately manageable risk. However, it is hard to understand how in a world where mortgages are sliced and diced and securitized and sold to pension funds around the world, that the creditor who makes the loan and/or securitizes the loan should be allowed to pick the appraiser. They should be able to review the appraisal, they should be able to perform due diligence on the transaction, but there needs to be a truly independent opinion of value in the file. Not only are mortgages securitized and sold, but derivative products based on the underlying securities are sold. The stability of our financial system depends upon reasonable, fair, and independent valuations.

Creditors, particularly the largest financial institutions serve an important role, but an independent appraisal is a necessary check and balance. We now have a robust regulatory structure in place to manage appraisals – the time has come to create greater separation between production and valuation. Creditors can no longer argue credibly that they are better able to manage the appraisal process than the appraisal industry itself.

These proposed rules will promote the continuing explosive growth of the "mini-correspondent" channel, essentially low net worth mortgage brokers by another name, who now have even more incentive to bring the management of the appraisal process in-house under an operating division or department. A recent National Mortgage News article highlighted the risks of these low net worth mortgage brokers who have been anointed Correspondent Lenders by former Wholesale Lenders who claim to be abandoning the mortgage broker channel. The reality is they have not abandoned the channel, but have restructured the channel to fit existing regulations.

Correspondent Lenders qualify as one of these "entities" that these new AMC regulations have codified. Correspondent lenders can have little to no net worth. No liquidity. No operational infrastructure. And if I am reading the new rules correctly, they can bring an appraisal operation in house and avoid most, if not all appraisal regulatory oversight. **It is a complete erosion of Appraiser Independence**.

As a 35 year appraisal industry veteran, I am deeply disappointed and frustrated by the perception that is conveyed in our industry that appraisal independence matters, yet the rules as proposed, seem to indicate otherwise.

Grab a roster of the top mortgage originators in any market and what you will see is many of the largest lenders own or control appraisal affiliates. Many of the mid-size mortgage bankers have also brought the process in-house and when you speak with commissioned loan officers on the street, it is common knowledge that appraisal independence is being violated consistently and egregiously in many cases.

Federal regulators are engaged in lawsuits alleging systematic conspiracy and overvaluation brought on by a too-cozy relationship between production and appraisal, yet this new structure is being embraced. Now with the new regulations exempting divisions of creditors and the codification of the term "entity" in the new regulations, creditors or "entities" will be operating their businesses as if HVCC and AIR never happened.

These are critical matters that must be addressed to ensure that the underlying valuations of loans being securitized and sold are and remain truly independent. The overall safety and soundness of the global financial markets is at stake. Property Sciences thanks the Agencies for this opportunity to provide these comments for your consideration.

Sincerely,

Paul E. Chandler, MAI | Founder & CEO
The Property Sciences Group, Inc.
395 Taylor Boulevard, Suite 250
Pleasant Hill, CA 94523
Direct 925.246.7301
Main 925.246.7300
Paul.Chandler@PropSci.com