



November 15, 2010

Ms. Elizabeth M. Murphy
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-26-10

Dear Ms. Murphy:

On behalf of the nearly 30,000 members of our respective professional real estate appraisal associations, we welcome the opportunity to comment on the Securities and Exchange Commission's ("SEC") October 4, 2010 Proposed Rule on Issuer Review of Assets in Offerings of Asset-Backed Securities ("ABS"). Our organizations support the intent of SEC's proposal, and strongly encourage steps to assist with the re-emergence of ABS and a healthy environment for issuers and investors alike. In our view, the real estate investment industry cannot prosper without this type of investment vehicle.

As stated in our response to previous proposed rules on ABS, we continue to support efforts to increase transparency and investor understanding of loan and property level information. In this regard, there is a tremendous amount of information contained in real estate appraisals today that is underutilized by investors. Armed with this information, investors may have a better understanding of underlying assets found in financial instruments and their accompanying risk.

SEC Request for Comment #4

Relating to real estate appraisal, the SEC has requested comment on whether specific types of reviews should be performed and whether the agency should establish standards for a review of the accuracy of the property values reported by the originators for the underlying collateral. Further, the agency seeks comments on whether these reviews should be conducted across all asset classes (e.g., residential mortgages, commercial mortgages, etc.) and what standards would be appropriate for each asset class or across all asset classes of asset-backed securities.

Our organizations strongly believe the SEC should establish standards for real estate appraisal review in asset backed securities. While the expertise and professional standards¹ do exist for real estate backed securities, they have not been widely utilized to date. In fact, we believe the current "hands-off" approach to review procedures by secondary market participants is a primary culprit to problems found in the mortgage market today. Given the vast degree of uncertainty in the economy we believe establishing real estate appraisal and valuation review requirements would bolster investor confidence.

¹ Standard 3 of USPAP is devoted to Appraisal Review. In part, it states, "In developing an appraisal review assignment, an appraiser acting as a reviewer must identify the problem to be solved, determine the scope of work necessary to solve the problem, and correctly complete research and analyses necessary to produce a credible appraisal review. In reporting the results of an appraisal review assignment, an appraiser acting as a reviewer must communicate each analysis, opinion, and conclusion in a manner that is not misleading." Uniform Standards of Professional Appraisal Practice (USPAP), 2010-2011 ed. (Washington, D.C.: The Appraisal Foundation, 2010), U-30.

Our organizations would like to assuage the SEC’s concerns regarding the possible unavailability of third party reviewers who have the professional expertise and professional standards to prepare the reviews for certain property types. While that may be true for some assets, it is not the case for real estate. Specifically, the Appraisal Review standard found in the Uniform Standards of Professional Appraisal Practice (USPAP) has been widely utilized for more than two decades. As a result, there are thousands of qualified reviewers in practice today, covering the entire range of real estate asset classes.

We emphasize that like the initial appraisal of the property, the reviews should be completed by those with competence, expertise, professionalism and ethical commitment resulting in a credible judgment of whether the analysis performed for ABS was reasonable. To this end, there is a vast amount of professional development available to real estate appraisers on appraisal review, including an entire text² and education and designation programs³.

Type of Appraisal Reviews

In an ideal world, every appraisal would receive an appraisal review in accordance with Standard 3 of USPAP and completed by a certified or licensed appraiser. However, the industry standard has traditionally been a 10 percent random review of a portfolio. We believe this would be an appropriate minimum measure for the SEC to adopt.

We do not believe that automated valuation models and broker price opinions should be the primary or exclusive source for residential appraisal reviews. Despite this, we acknowledge that the use of AVMs and BPOs in the review process has gained some acceptance. We strongly believe that any properties that are found to fall below recognized statistical confidence levels using these abbreviated tools should be field reviewed by a qualified appraiser or trigger a second appraisal altogether. For instance, if an appraisal reported a value of a residential property of \$300,000 and an AVM reported a value of \$200,000, this should trigger some additional action. However, if the AVM resulted in a value of \$290,000 under the scenario above, the margin of variance is likely acceptable, so long as appropriate due diligence is conducted on the entire pool.

In commercial real estate, appraisals prepared for commercial mortgage backed securities have traditionally been stringently reviewed by expert reviewers holding certifications and professional designations. We believe that this high level of review should be maintained given the risk involved with these loans and loan packages.

Finally, we recommend periodic update and review of commercial property asset portfolios by third party external appraisers, similar to the methodologies used by major institutional investors such as pension and investment fund. For instance, the Global Investment Performance Standards⁴ published by the CFA Institute was recently amended to increase the frequency of external valuations from once every 36 months to a recommendation of once a year. GIPS is comparable to the Real Estate Information Standards⁵ adopted the Pension Real Estate Association and the National Council of Real Estate Investment Fiduciaries, which apply to pension funds and institutional investors.

Overall, we are very supportive of the proposed rule. We believe enhanced transparency and understanding of underlying asset information is a critical element to restoring the trust of investors and warding off future financial crises. We stand committed to working with you on this highly important

² *Appraising the Appraisal: The Art of Appraisal Review*, 2nd Edition. (Chicago, IL: The Appraisal Institute, 2010).

³ The American Society of Farm Managers and Rural Appraisers confers the “Real Property Review Appraiser” (RPRA) designation, available at http://portal.asfmra.org/Scripts/4Disapi.dll/4DCGI/cms/review.html?Action=CMS_Document&DocID=39&Time=723388048&SessionID=3222598g9f5b0jkg1w2y1288090oj8w0qrt48xmt8a73aqqxlh5d9pz255ek35zn&MenuKey=123

⁴ Available at <http://www.gipsstandards.org/standards/current/index.html>

⁵ Available at <http://www.prea.org/research/reis.cfm>

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endeavor, and we are prepared to assemble a project team to help prepare reasonableness and accuracy standards that exceed USPAP requirements.

Thank you for the opportunity to comment on the Proposed Rule. Should you have any questions or need additional information, please contact Bill Garber, Director of Government and External Relations, Appraisal Institute, at 202-298-5586 or bgarber@appraisalinstitute.org, or Brian Rodgers, Manager of Federal Affairs, Appraisal Institute, at 202-298-5597 or brodgers@appraisalinstitute.org.

Sincerely,

Appraisal Institute
American Society of Farm Managers and Rural Appraisers