

September 26, 2018

The Honorable Mike Rounds  
United States Senate  
502 Hart Senate Office Building  
Washington, DC 20510

The Honorable Heidi Heitkamp  
United States Senate  
516 Hart Office Building  
Washington, DC 20510

Dear Senators Rounds and Heitkamp:

On behalf of professional real property appraisers in North Dakota and South Dakota, we write to express our strong concern with H.R. 6347 the "7(a) Real Estate Appraisal Harmonization Act", and H.R. 6348, the "Small Business ACE Act". Both bills propose to increase the real estate appraisal thresholds for major SBA Loan programs. On September 25, the House of Representatives approved the bills for referral to the Senate Committee on Small Business and Entrepreneurship.

Specifically, HR 6347/HR 6348 would peg the SBA appraisal threshold level to the threshold level established by the federal bank regulatory agencies (the Agencies). Earlier this year, those Agencies issued a final rule to increase the commercial real estate appraisal threshold level to \$500,000, an increase from \$250,000. The SBA appraisal threshold level is found in statute and currently stands at \$250,000.

When the Agencies issued the final rule earlier this year establishing a \$500,000 commercial real estate appraisal threshold level, the Agencies also required the performance of an "evaluation" to be prepared in accordance with the Interagency Appraisal and Evaluation Guidelines. Generally, evaluations are smaller in scope than appraisals, but they should contain sufficient information and analysis to support the financial institution's decision to engage in the transaction. It can be prepared by appraisers but may be prepared by others with real estate knowledge and experience.

Current SBA requirements do not include a requirement for the performance of evaluations where an appraisal is not required by the agency. So, in effect, HR 6347/HR6348 "cherry picks" the increase in the threshold level, overlooking the requirement to prepare an evaluation. This is a dangerous omission given the wide latitude granted to non-banks and nonprofit organizations in ordering appraisals within the SBA program. These collateral valuation policies and procedures are likely not to be as robust as those of federally regulated institutions and where concerns about the independence of the appraisal process may be paramount. It also contradicts the goal of harmonizing requirements, as federally regulated banks are required to obtain an evaluation in the conventional market but would face a loophole in SBA lending.

Worse, last week, the National Credit Union Administration (NCUA) proposed to increase the appraisal threshold level for non-residential loans to \$1 million, setting up a likely "arms race" between the NCUA and the Agencies. If finalized, the Agencies would face great pressure to establish a corresponding threshold level as the NCUA, despite having more experience with commercial real estate risk issues. Additionally, the Agencies studied the issue for several years before issuing the final rule earlier this year.

When taken together, H.R. 6347 and H.R. 6348 could result in the near elimination of all appraisal requirements for SBA 7(a) and 504 loans, putting the agency and taxpayers at significant risk. Given the risks involved in SBA lending, we ask that you seek clarifying amendments to: 1) harmonize the SBA requirements with those of the Agencies on the issue of evaluations, and 2) retain direct oversight over the SBA appraisal threshold levels by establishing a \$500,000 threshold level in the statute. This would be consistent with other loan guarantee programs such as the U.S. Department of Agriculture Business and Industry Loan Program.

Please contact Bill Garber, Director of Government and External Relations at 202-298-5586, [bgarber@appraisalinstitute.org](mailto:bgarber@appraisalinstitute.org), Brian Rodgers, Manager of Federal Affairs, 202-298-5597, [brodgers@appraisalinstitute.org](mailto:brodgers@appraisalinstitute.org) or Stephen Frerichs, Government Relations Representative, American Society of Farm Managers and Rural Appraisers, at 703-212-9416, [sfrerichs8@comcast.net](mailto:sfrerichs8@comcast.net) if you have any questions or need additional information.

Thank you in advance for your consideration.

Sincerely,

North Dakota Appraisers Association  
North Dakota Chapter of the American Society of Farm Managers and Rural Appraisers  
North Star Chapter of the Appraisal Institute  
Professional Appraisers Association of South Dakota  
South Dakota Chapter of the American Society of Farm Managers and Rural Appraisers  
Wyoming/Western South Dakota Chapter of the Appraisal Institute