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Government Update—Commercial/General

- Fed Purchases \$3.6 Billion of Treasuries [Posted Aug. 25, 2010]
- TARP Panel Finds France, Germany Benefitted from U.S. Rescue of AIG [Posted Aug. 18, 2010]
- Fed: Lending Standards for Small Businesses Easing [Posted Aug. 18, 2010]
- Financial Reform Bill Leads Firms to Rethink Operations [Posted Aug. 11, 2010]
- Underwriters, Bond Investors Want Tougher SEC Rules [Posted Aug. 11, 2010]
- Bair Cautious as FDIC Addresses Credit Ratings [Posted Aug. 11, 2010]
- FDIC Looking for CMBS Underwriters [Posted Aug. 11, 2010]
- Geithner Touts Financial Reforms, Seeks to Ease Wall Street Fears [Posted Aug. 4, 2010]
- House Passes Bill Aimed to Encourage Foreign Investment [Posted Aug. 4, 2010]
- Obama Pushing for Lending Bill to Benefit Small Businesses [Posted Aug. 4, 2010]
- House Committee Holds Second Hearing on CRE Legislation [Posted Aug. 4, 2010]

Government Update—Residential

- Fannie, Freddie Future Debated at Treasury Housing Summit [Posted Aug. 25, 2010]
- GSEs Could be Paid by Lender Fees in Future [Posted Aug. 25, 2010]
- HUD Expands Sustainability Effort with \$100 Million Investment [Posted Aug. 25, 2010]
- Federal Foreclosure Prevention Program Losing Steam [Posted Aug. 25, 2010]
- Obama Administration Allocates \$3 Billion for Jobless Homeowners [Posted Aug. 18, 2010]
- New York Fed Faces Foreclosure Quandary [Posted Aug. 18, 2010]
- Fed Bans Yield Spread Premiums [Posted Aug. 18, 2010]
- Banking Leaders Support Large Role for Government [Posted Aug. 18, 2010]
- FHA Launches Refinance Opportunity for Underwater Homeowners [Posted Aug. 11, 2010]
- Obama Administration Looking at Ways to Replace GSEs [Posted Aug. 11, 2010]
- Dodd Predicts Battle if Warren Nominated for Consumer Protection Agency [Posted Aug. 11, 2010]
- Agencies Issue Final Rules for Registering Loan Originators [Posted Aug. 4, 2010]
- Nonbank Mortgage Lenders Confront New Minimum Requirements [Posted Aug. 4, 2010]
- Industry Players Call on Treasury to Ban Home Resale Fees [Posted Aug. 4, 2010]
- Fed Report Shows Economic Slowdown Looms [Posted Aug. 4, 2010]
- House Subcommittee Holds Hearing on Private Mortgage Insurance [Posted Aug. 4, 2010]

Inside the States

- Florida AG Cracks Down on Foreclosure Mills, Subpoenas Records [Posted Aug. 18, 2010]
- Utah Recovering Slowly, but Surely [Posted Aug. 18, 2010]
- Arizona Implements AMC Approval List [Posted Aug. 11, 2010]

Around the Industry

- Fixed-Rate Mortgages Set Record Low for Ninth Straight Week [Posted Aug. 25, 2010]
- Refinancing Applications at 15-month High [Posted Aug. 25, 2010]
- Home Sales Could be Weakened by Refinances [Posted Aug. 25, 2010]
- Losses in CRE Values Keep Bank Lending Tight [Posted Aug. 25, 2010]
- Existing Home Sales Drop in July, but Prices Rise: NAR [Posted Aug. 25, 2010]

- New Home Sales Hit Record Low in July [Posted Aug. 25, 2010]
- Architecture Billings Index Shows Slower Decline; Still Weak Overall [Posted Aug. 25, 2010]
- Commercial Real Estate Suffers Most over Past Year: Moody's [Posted Aug. 25, 2010]
- Apartment, Office Properties Spark Investor Interest: RERC [Posted Aug. 25, 2010]
- JP Morgan Plans Sale of Commercial Mortgage Bonds [Posted Aug. 25, 2010]
- Foreign Investment on Rise in U.S. CRE: Real Capital Analytics Study [Posted Aug. 25, 2010]
- FASB, IASB Issue Joint Proposal to Revamp Accounting Rules for Leases [Posted Aug. 25, 2010]
- Report Suggests Greater Bank Regulation Won't Slow Growth [Posted Aug. 25, 2010]
- Appraisal Reviews Increasingly Important after Meltdown: The Appraisal Journal [Posted Aug. 25, 2010]
- Creditors Move to Block Stuyvesant Foreclosure [Posted Aug. 25, 2010]
- Blackstone to Invest \$500 Million in General Growth Post-Bankruptcy [Posted Aug. 25, 2010]
- Larry Nicholson, MAI, Appointed to Wisconsin Board [Posted Aug. 25, 2010]
- Innkeepers USA Bankruptcy Could Establish Troublesome Trend [Posted Aug. 18, 2010]
- Liquidity Takes Back Seat to Deleveraging, Repricing in CRE Recovery [Posted Aug. 18, 2010]
- Fitch: Special Servicing Inches toward \$100 Billion [Posted Aug. 18, 2010]
- 'Preventable' Short Sale Fraud Losses Projected at \$310 Million: CoreLogic [Posted Aug. 18, 2010]
- Dubai Real-Estate Group Sued Over Value of Swap Transactions [Posted Aug. 18, 2010]
- Fortress Agrees to \$130 Million AIG Deal [Posted Aug. 18, 2010]
- Increase in Mortgage Buybacks Threatens Bank Credit [Posted Aug. 18, 2010]
- Nation's Largest Banks Repurchase \$2.5 Billion in Troubled Loans [Posted Aug. 18, 2010]
- New Commercial Lenders Appearing on Scene [Posted Aug. 18, 2010]
- CMBS Could Get Lift from Fed Holding Down Long-Term Interest Rates [Posted Aug. 18, 2010]
- Credit Suisse Must Face Lawsuit over Mortgage Bonds [Posted Aug. 18, 2010]
- Joseph Consoli, MAI, to Speak at Joint Organization Workshop [Posted Aug. 18, 2010]
- Combined REO Inventory Climbs 13 Percent in Second Quarter [Posted Aug. 18, 2010]
- Strong Home Sales Help Stabilize Prices in Second Quarter [Posted Aug. 18, 2010]
- Unemployment, Shaky Economy Lead Sellers to Lower Listing Prices [Posted Aug. 18, 2010]
- Bank Repossessions Spark July Foreclosures [Posted Aug. 18, 2010]
- Builder Confidence Dips Third Straight Month: NAHB [Posted Aug. 18, 2010]
- New Residential Construction Rises Nearly 2 Percent in July [Posted Aug. 18, 2010]
- Oil Spill Impact on Home Prices Could Reach \$28 Billion [Posted Aug. 11, 2010]
- AI Webinar: Oil Spills and Property Values Set for Aug. 25 [Posted Aug. 11, 2010]
- CMBS Defaults Rise, Fitch Report Says [Posted Aug. 11, 2010]
- Large Banks Adding Government Mortgage Bonds [Posted Aug. 11, 2010]
- Balance Sheet Reserves, Write-downs May Not Give Adequate View [Posted Aug. 11, 2010]
- Forecast Shows 7.2 Percent Increase in Home Prices By 2014 [Posted Aug. 11, 2010]
- Real Estate Roundtable: RE Executives Uncertain about Economic Recovery [Posted Aug. 11, 2010]
- Lehman Hedges Bet in Commercial Real Estate Investments [Posted Aug. 11, 2010]
- PCAOB Adopts New Auditing Standards on Risk Assessment [Posted Aug. 11, 2010]
- China's Commercial Banks Undergo Stress Tests [Posted Aug. 11, 2010]
- China Investment Corp. Eyeing Harvard's Property Funds [Posted Aug. 11, 2010]
- Borrower OK'd by Court to Sue Lender, Appraisal Firm, Onsite Appraiser [Posted Aug. 11, 2010]
- Freddie Mac: 30-Year Mortgage Rates Hit Record Lows, Again [Posted Aug. 11, 2010]
- Lenders Reducing Technology Costs [Posted Aug. 11, 2010]
- Innovative Technology Will Define Valuation's Future: New AI Book [Posted Aug. 11, 2010]
- Foundation Extends Deadline for Applicants to Boards [Posted Aug. 11, 2010]

- Changes to Fair-Value Reporting Could Impact Valuations [Posted Aug. 4, 2010]
- NCREIF Second Quarter Report Suggests Two-Tier Market [Posted Aug. 4, 2010]
- Non-performing CRE Loans Reach 27 Percent at Failed Banks [Posted Aug. 4, 2010]
- Foreclosures Climb in 75 Percent of Nation's Metro Markets [Posted Aug. 4, 2010]
- U.S. Mortgage Rates Go Lower for Sixth Straight Week [Posted Aug. 4, 2010]
- Construction Spending Inches up in June [Posted Aug. 4, 2010]
- MBA: Commercial/Multifamily Mortgage Originations Increase in Second Quarter [Posted Aug. 4, 2010]
- NAR: May Pending Home Sales Fall after Tax Credit Expires [Posted Aug. 4, 2010]
- Purchase Applications Up for Third Consecutive Week: MBA Survey [Posted Aug. 4, 2010]
- Abstract Deadline Nears for WAVO Valuation Congress [Posted Aug. 4, 2010]
- IVSC Releases Two Documents for Comment [Posted Aug. 4, 2010]

Inside the Institute

- AIET Board Announces Scholarship Recipients [Posted Aug. 25, 2010]
- Nominations for the Y.T. and Louise Lee Lum Award due Nov. 15 [Posted Aug. 25, 2010]
- AI in the News: Radio Interview Features Appraisal Institute President-Elect [Posted Aug. 25, 2010]
- AI Board Sends Core Competency, International Issues to 45-Day Notice [Posted Aug. 18, 2010]
- Appraisal Institute Board Votes to Appeal Foundation Decision [Posted Aug. 18, 2010]
- Rick Borges, MAI, SRA, Elected 2011 AI Vice President [Posted Aug. 18, 2010]
- 2010 Washington Appraisal Summit Session Material Available [Posted Aug. 18, 2010]
- AI in the News: Editor of Appraisal Institute Book Highlighted [Posted Aug. 18, 2010]
- Southern California Chapter to Debut IRS Valuation Summit on Aug. 24 [Posted Aug. 18, 2010]
- AI in the News: 2 AI Members Featured on Network's Website [Posted Aug. 11, 2010]
- Free Webinar for AI Members on Aug. 18: Site To Do Business [Posted Aug. 11, 2010]
- Appraisal Institute Designates 12 Members in July [Posted Aug. 4, 2010]
- Four Members Named AI "Volunteer of Distinction" for August [Posted Aug. 4, 2010]
- AI in the News: AI President's Article Featured in National Trade Magazine [Posted Aug. 4, 2010]
- New Requirements Affect AI Associate Members' Appraisal Reports [Posted Aug. 4, 2010]
- AI Leadership Resource Registry for 2011 Appointments Closes Aug. 15 [Posted Aug. 4, 2010]
- Appraisal Institute Seeks Award Nominations [Posted Aug. 4, 2010]

Economic Indicators – June 2010

Government Update – Commercial/General

TARP Panel Finds France, Germany Benefitted from U.S. Rescue of AIG

The U.S. government's rescue of American International Group Inc. greatly benefitted France and Germany, according to an Aug. 12 report released by the Congressional Oversight Panel, which oversees the \$700 billion Troubled Asset Relief Program.

The report found that the Treasury Department should have gathered more information and considered ways to collaborate with regulators in other countries before bailing out AIG.

"It appears likely that America's financial rescue had a much greater impact internationally than other nations programs had on the United States," read the report. "This outcome was likely inevitable given the structure of the TARP, but if the U.S. government had gathered more information about which countries institutions would most benefit from some of its actions, it might have been able to ask those countries to share the pain of rescue."

The report, which was headed by Harvard professor Elizabeth Warren, found that the U.S. was responsible for the entire \$70 billion bailout of AIG while France and Germany benefitted without sharing in any of the U.S. government's risk. Going forward, the COP report recommended the creation of international panels to plan future response strategies.

To read the COP's report in its entirety, visit <http://cop.senate.gov/documents/cop-081210-report.pdf>.

Fed: Lending Standards for Small Businesses Easing

The nation's largest domestic banks have eased lending standards for small businesses for the first time in nearly four years, the Federal Reserve announced in a report released Aug. 16. The Associated Press reported the central bank's new survey marked the first indication that credit was beginning to ease for smaller companies since 2006.

Banks had been reporting relaxed credit standards for big corporations, but now small firms, those with annual sales of less than \$50 million, are finding it easier to get loans – which many small businesses had complained were hard to obtain once the full force of the recession hit, according to the AP.

The Fed's survey came as part of its latest quarterly report on lending. The survey was based on responses received to a July questionnaire that found that most ease of lending improvement for small businesses came in loan areas where banks were facing competition to offer credit, the AP reported.

Large domestic banks offered the highest levels of eased lending standards for small businesses. In addition to easier terms for business loans, many large domestic banks also reported having eased standards on various types of consumer loans, the Fed report found.

The Fed has been pushing lenders to make credit more available, especially to small businesses, which employ more than half the American work force, according to the AP. At a July conference addressing the problem of tight credit to small businesses, Federal Reserve Chairman Ben Bernanke pointed to the gap

between large corporations who are building up cash and reporting strong earnings and the thousands of small businesses who are struggling to get credit.

He noted how making credit available to small businesses is vital to the nation's economic recovery, the AP reported.

Financial Reform Bill Leads Firms to Rethink Operations

In the wake of the recent passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Wall Street firms are beginning to rethink proprietary-trading and private-equity operations in order to comply with new regulations, The Wall Street Journal reported Aug. 9. But restructuring efforts reportedly will have little effect on a firm's bottom line.

Under the new law, banks are restricted from trading exclusively for their own accounts. The law also limits a bank's aggregate investment in hedge and private equity funds, as well as investments in proprietary trading, to no more than 3 percent of its Tier 1 capital.

Some firms are trying to decide whether to let employees in proprietary-trading operations leave so they can open their own trading groups or shift staff to asset-management units.

With profits generating less than 1 percent of overall trading revenue, Goldman Sachs' proprietary-trading group, Principal Strategies, likely will cease operations, the Journal said. However, Goldman said it has no plans of closing its larger proprietary-trading unit, Special Situations Group, because the unit focuses on lending, not trading.

The Journal reported that Morgan Stanley may spin off its Process Driven Trading unit over the next several years, with the company maintaining a minority stake at first, and Bank of America might sell its main \$3 billion proprietary-trading unit to a private-equity firm or hedge fund.

However, questions remain on how regulators will define other types of proprietary trading, as well as how to address investing activity that blurs the line between trading and lending. Sens. Jeff Merkley, D-Ore., and Carl Levin, D-Mich., urged regulators to take a tough stance on Wall Street trading activities as the new law takes effect, the Journal said.

"We do not expect Wall Street to give up its risky and conflict-ridden trading operations without a fight," Merkley and Levin wrote in a letter to regulators. "[The law is] intended to give you strong tolls to protect our nation's families and small business from the vagaries of the Wall Street casino."

Underwriters, Bond Investors Want Tougher SEC Rules

Creators and underwriters of asset-backed securities and bond investors told the Securities and Exchange Commission to formulate stricter rules than the proposed ones on sellers' obligations to take back bad mortgages from future securitizations, Bloomberg reported Aug. 6.

According to an Aug. 2 Securities Industry and Financial Markets Association letter to the SEC, bond-sponsor and SIFMA dealer members proposed that sellers of at least residential mortgage-backed securities through shelf registrations be required to appoint independent firms responsible for seeking repurchases of loans whose quality was misrepresented.

Bondholders are concerned that the conflicts of interest of mortgage servicers, which must help identify claims on their behalf and are often owned by lenders, “can cloud the prospect that the interests of investors will be aggressively represented as required,” the Association of Mortgage Investors, an investor-only group that represents bondholders with \$300 billion of asset-backed debt, said in a July 31 comment letter.

SIFMA and AMI said the SEC should require deals to include a “credit risk manager” that would be able to investigate loan quality either at its own discretion or upon the suggestion of investors. They each recommended allowing investors with less than 25 percent of deals to seek investigations only if they offered to cover the costs, which otherwise would be taken out of income from the underlying debt, Bloomberg reported.

The American Securitization Forum suggested that the SEC could exempt deals that use a process similar to what SIFMA suggested from the SEC’s proposed rule on appointing an independent firm to review and report on repurchase decisions. However, ASF said it understands that the SEC is hesitant to create rules that aren’t “disclosure-based,” Bloomberg reported.

Bair Cautious as FDIC Addresses Credit Ratings

Eliminating the use of credit ratings in bank oversight poses a “challenging task ahead” Sheila Bair, chair of the Federal Deposit Insurance Corporation, told fellow agency leaders at recent meeting, MarketWatch reported Aug. 10. Credit ratings are currently used by the FDIC for setting risk-based capital guidelines for lenders.

“The agencies have a challenging task ahead,” Bair said at the meeting. “We need to move quickly and if we can find effective alternatives we should quickly pursue them.”

FDIC board members were gathered to discuss alternatives to the use of external credit raters by the agency – a requirement set forth by the recently enacted financial regulatory reform bill.

The FDIC is required by law to adopt by July 21, 2011, new rules that will remove all statutory references to credit-rating agencies and develop more diverse methods to measure credit-worthiness. That leaves little time for regulators to find an appropriate credit rating alternative.

The FDIC is currently considering a wide range of options and is contemplating the costs to regulators and banks of implementing them, MarketWatch reported. Bair told board members that any change to credit ratings will need to address the risks associated with a particular exposure and ensure that capital requirements can be compared across different banks with similar asset types.

The FDIC has extended its outreach for input and is in the process of soliciting comments from banks and other interested parties. It is expected in the coming months to formally propose an alternative to the current credit rating system, MarketWatch reported.

FDIC Looking for CMBS Underwriters

The Federal Deposit Insurance Corp is seeking proposals from Wall Street players to help issue commercial mortgage-backed securities owned by the government, according to an Aug. 2 Reuters report that cites a copy of the FDIC's request for proposal.

Under the FDIC plan, the agency would issue CMBS bonds with lower yields than traditional CMBS but that would fill a void in a stagnating market, according to Reuters. The \$700 billion CMBS market has been largely inactive since the height of the financial crisis.

While such action would mark a first on the commercial side, the FDIC has actively been securitizing residential-backed mortgage securities from failed bank portfolios. In July, the agency priced a RBS deal backed by \$471.3 million in home loans, Reuters reported. The bonds on the deal are guaranteed by the FDIC.

The FDIC has been seeking ways to deal with CMBS and RBS loans that are saddling the balance sheets of banks it's seized. Since 2008, the agency has taken over more than 270 banks, absorbing an exorbitant amount of debt.

Reuters reported that Wall Street dealers have until Aug. 20 to submit their plans under the FDIC's request for proposal.

Geithner Touts Financial Reforms, Seeks to Ease Wall Street Fears

Treasury Secretary Timothy Geithner met with Wall Street leaders on Aug. 2 to dispel uncertainties and encourage lending amid red tape fears that the government's new regulatory reform bill might stifle financial institutions.

Geithner held a private meeting with New York Mayor Michael Bloomberg and executives from the finance industry, the retail sector and real estate ahead of an address he delivered to New York University. Reuters reported that the goal of the private meeting was to calm fears among major financial players that the new rules President Obama signed into law last month will crimp their competitiveness.

"We will move as quickly as possible to bring clarity to the new rules of finance," Geithner said in remarks prepared for his New York University address. "We will not risk killing the freedom for innovation that is necessary for economic growth."

But Geithner also told Wall Street that now is the time for them to act, especially as credit remains tight and unemployment high. According to Reuters, the White House would like to speed up the rulemaking process for yet-to-be-determined financial reforms in order to reduce the period of uncertainty for banks and other businesses, and to make Capitol Hill less prone to intense lobbying from the financial sector.

"Our system allowed too much freedom for predation, abuse and excess risk, but as we put in place rules to correct for those mistakes, we have to strive to achieve a careful balance and safeguard the freedom, competition and innovation that are essential for growth," Geithner said in his remarks.

According to Reuters, Wall Street players invited to meet with the Treasury secretary included Laurence Fink of BlackRock, Donald Marron of LightYear Capital, Eric Mindich of Eton Park Financial Management and James Tisch of Loews Corp..

House Passes Bill Aimed to Encourage Foreign Investment

In an effort to encourage the recovery of the nation's struggling commercial real estate sector, the House of Representatives has passed a bill July 30 that would double the maximum investment that foreign firms can have in U.S. real estate investment trusts without being subject to U.S. income taxes.

The House passed H.R. 5901, the Real Estate Jobs and Investment Act, by a vote of 402-11. If passed by the Senate, the legislation would significantly change current rules by allowing the amount of foreign capital that can be invested in U.S. REITs to double, from 5 to 10 percent, Daily Tax RealTime reported.

Under current law, foreign investors holding more than 5 percent of a corporation's stock are subject to U.S. income tax rates and a 35 percent withholding on the amount of a distribution to a foreign person of proceeds attributable to such sales from an entity such as a partnership, REIT, or regulated investment company, according to Daily Tax RealTime.

Lawmakers are hoping the laxer rules will encourage foreign investment and jumpstart the commercial real estate sector, which has been hurting in light of ongoing economic instability in many of the major markets across the U.S.

Obama Pushing for Lending Bill to Benefit Small Businesses

The Obama administration is pushing Congress hard for a bill that would create a \$30 billion fund to aid small-business lending as it shifts its legislative focus to helping business owners now that the financial regulatory reform bill has been signed, MSNBC reported July 29.

The bill would create a government fund to help community banks increase lending to small businesses, combining it with about \$12 billion in tax breaks aimed at small businesses, and would only be available to banks with less than \$10 billion in assets.

So far the bill, which is part of Obama's broader jobs agenda, has been held up in the Senate among delayed votes and a Republican blockade. After languishing in the Senate since late June, Senate Democrats failed to muster the bipartisan support necessary to pass the bill during a July 29 vote.

But the recent failure to pass the bill is less about an overall rejection and more about Senate politics. MSNBC reported that many Republicans support the legislation, but are holding out for the inclusion of measures that would beef up border security, impose a government spending cap and lower the estate tax.

The day before the recent Senate vote, Obama lobbied for the small business lending bill during a trip to Edison, N.J. MSNBC reported that the President wants the bill passed before Congress adjourns on Aug. 6 for its summer vacation.

After the bill recently fell short of the necessary 60 votes to pass the Senate, leaders from both side of the aisle said they would continue to negotiate amendments to the bill, which could receive another vote before summer break begins, according to MSNBC.

House Committee Holds Second Hearing on CRE Legislation

A bill intended to stabilize the nation's struggling commercial real estate market and free overextended small banks to lend to businesses in their communities was once again the main topic of discussion at a July 29 hearing of the House Financial Services Committee.

Rep. Walt Minnick, D-Idaho, promoted his Commercial Real Estate Stabilization Act to fellow committee members and a panel of industry witnesses in the second of two recent hearings. The legislation is intended to facilitate lending in the small-balance commercial real estate sector by issuing government credit guarantees of small balance loans or of securities backed by such loans.

All of the witnesses and most of the members present focused on the need for such legislation as an important component to preventing further degradation of the CRE sector and the cascading impact this could have on small business and job growth, according to an Appraisal Institute representative who attended the hearing. Despite the consensus regarding the need for legislation, Committee Chair Rep. Barney Frank, D-Mass., did not indicate if or when he expects Minnick's bill to move in committee.

One hold up to the bill's progress could be the reservations of fellow committee members worried about taxpayer implications. Texas Republicans Jeb Hensarling and Randy Neugebauer openly expressed skepticism about another government program and questioned how much money the proposal would cost taxpayers.

Under the proposed measures, the Treasury Department would back qualifying loans with a federal guarantee that would cost two percent of the value of the investment – money that would go toward the national debt, according to an August 2 article in the Idaho Statesman. Minnick responded to his fellow members' concerns by noting that the guarantee fee would fund the cost of the program, absorb losses and provide incentive to the private sector to reengage in the CRE market.

Minnick's bill is co-sponsored by four Democrats and two Republicans, including fellow Idaho Rep. Mike Simpson, a Republican.

Government Update – Residential

Obama Administration Allocates \$3 Billion for Jobless Homeowners

Using funds from the \$700 billion Wall Street bailout, the Obama administration announced Aug. 11 that it will allocate \$3 billion through two government programs to aid jobless homeowners struggling to make mortgage payments, The Los Angeles Times reported.

The \$2 billion the Treasury Department receives will go to its existing Hardest Hit Fund, which assists the states that have unemployment rates higher than the national average. The \$1 billion allocated to the Department of Housing and Urban Development will go to a new program that gives homeowners who are at risk of foreclosure due to involuntary unemployment, underemployment or medical conditions interest-free loans for as much as \$50,000 for up to two years, according to the Times.

The Obama administration's announcement comes as it tries to stabilize the nation's housing markets, which have been facing continually steep rates of foreclosure. Irvine, Calif.-based RealtyTrac Inc. found that a record 269,962 U.S. homes were repossessed by banks in the second quarter of this year, the Times reported.

The Treasury's Hardest Hit Fund already included more than \$2 billion to help struggling homeowners through two rounds of government capital injection since February, according to the Times. With the newly injected capital, the program makes funding available to Alabama, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee and Washington, D.C.

California will receive the most of those states with \$476 million allocated, the Times reported. Florida and Illinois will receive the second and third most, with \$239 million and \$166 million allocated, respectively. According to the Treasury, funds from its program are being allocated among the hardest hit states based on population size.

While the Treasury divvies its funds, HUD is still determining how to pass out the \$1 billion it received as part of the launch of its Emergency Homeowners Loan Program, which was created when President Obama enacted the landmark financial regulatory reform bill in July.

According to the Times, the HUD program will work with state and non-profit groups to provide "bridge loans" to borrowers who are at least three months delinquent in their payments but likely to begin repaying their mortgage within two years. The loans will help them pay their mortgage principle, interest, mortgage insurance, taxes or hazard insurance. Borrowers eligible for the program must show a strong repayment record before the loss or drop in income.

Officials with the Obama administration said they will not have an estimate of how many people will benefit from the programs until September, according to the Times.

New York Fed Faces Foreclosure Quandary

After bailing out Bear Stearns in 2008 and acquiring its souring portfolio of real estate loans worth about \$30 billion, the Federal Reserve Bank of New York is faced with the dilemma of foreclosing on residential and commercial property as loans fall into default, the Wall Street Journal reported Aug. 3.

The quandary is particularly sticky given the government's stance on preserving homeownership and because taxpayer funds were used in the bailout.

At the end of 2009, the residential portion of the former Bear Stern loan portfolio totaled \$1.5 billion of which 49 percent were nonperforming, while only 13 percent of commercial loans were nonperforming.

"For the Fed to come in and foreclose on properties puts it at some reputational and political risk," Vincent Reinhart, an economist at the American Enterprise Institute, told the Journal. "If the Fed can't figure out how to recast the terms of these mortgages and work with borrowers — it's emblematic of the problems the government has had with other programs over the last year and a half."

The Journal reported that the New York Fed may force the banks to buy back nonperforming loans they originated, including Bank of America, Goldman Sachs and UBS AG, if faulty underwriting is discovered, a tactic becoming increasingly common with Fannie Mae and Freddie Mac. JPMorgan Chase, which absorbed Bear Stearns after it collapsed, also could be held responsible for nonperforming loans.

To date, the New York Fed along with Maiden Lane LLC, a company it financed to help manage Bear's assets, have foreclosed on one commercial property in Oklahoma City. Maid Lane also foreclosed on homes in California, Illinois, Georgia and Washington, the Journal reported.

Fed Bans Yield Spread Premiums

The lender kickbacks to mortgage brokers – known as yield spread premiums – that have been widely blamed for helping spur the subprime mortgage collapse have been banned by rules adopted by the Federal Reserve, The New York Times reported Aug. 16.

According to the Fed, the new rules are designed to protect mortgage borrowers from unfair, abusive, or deceptive lending practices that can arise from loan originator compensation practices. They apply to mortgage brokers and their employers as well as mortgage loan officers employed by depository institutions and other lenders, according to an Aug. 16 news release issued by the Fed.

"This will prevent loan originators from increasing their own compensation by raising the consumers' loan costs, such as by increasing the interest rate or points," read the Fed's news release announcing the new rules. "Loan originators can continue to receive compensation that is based on a percentage of the loan amount, which is a common practice."

According to the Times, industry reaction to the change has been muted – thanks in part to the recently passed financial regulatory reform bill which already addressed the issue and a general industry expectation that the ban was a long-time coming.

Yield spread premiums are essentially kickbacks that mortgage brokers receive from a lender for bringing in borrowers with high-interest loans. These loans, often subprime, were what lenders coveted as they raced to fulfill investor demand during the lead up to the subprime market collapse, the Times reported.

To prevent loan originators from directing or "steering" a buyer into a loan that offers unfavorable terms, the new Fed rules state that the borrower must be provided with competing options, including the lowest qualifying interest rate, the lowest points and origination fees, and the lowest qualifying rate without risky features like prepayment penalties, according to the Fed's news release.

The new rules are scheduled to take effect April 1, 2011. To view the rules in their entirety, visit www.federalreserve.gov/newsevents/press/bcreg/bcreg20100816d1.pdf.

Banking Leaders Support Large Role for Government

Banking executives told Obama administration officials Aug. 17 that the federal government should maintain a large role propping up the nearly \$11 trillion mortgage market. Their remarks came during a conference at the Treasury Department, the administration's first of many steps toward restructuring the troubled industry, The Associated Press reported.

Industry executives and experts at the conference seemed to agree that the government should maintain a role in the mortgage market, even if Fannie and Freddie disappear someday. Where they disagreed was on the level of government involvement and whether it should be reduced gradually, according to the AP.

Treasury Secretary Timothy Geithner pledged "fundamental change" to the structure of Fannie and Freddie, the AP reported. The mortgage giants profited hugely during the strong housing market but later racked up losses, burdening taxpayers when the market fizzled. Geithner said the government-sponsored enterprises weren't the sole cause but that they worsened the financial meltdown.

Fannie, Freddie, the Federal Housing Administration and the Veterans Administration together backed about 90 percent of loans made in the first half of this year, according to trade publication Inside Mortgage Finance. So far, rescuing Fannie and Freddie has cost the government more than \$148 billion, a number that is expected to grow.

While Geithner failed to offer an exit strategy for Fannie and Freddie, he reportedly agreed that the government could remain involved in the mortgage system by guaranteeing investors in mortgage-backed securities get paid, even when borrowers default.

But Geithner suggested that Fannie and Freddie's replacements could pay the government to insure the loans, according to The Associated Press. That money could be tapped if the housing market collapses and would ensure taxpayers do not get hit with losses in the future.

"It is our responsibility to make sure that we create a system that is not vulnerable to these same failures happening again," Geithner said in the AP's report.

FHA Launches Refinance Opportunity for Underwater Homeowners

Homeowners underwater on their mortgages could be getting relief through a government program designed to encourage principal write-downs for responsible borrowers, according to a Department of Housing and Urban Development news release issued Aug. 6.

In an effort to help responsible but struggling homeowners, HUD has detailed adjustments to its refinance program, which the agency hopes will enable lenders to provide additional refinancing options to homeowners who owe more than their home is worth.

Starting Sept. 7, the Federal Housing Administration will offer certain underwater non-FHA borrowers who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to qualify for a new FHA-insured mortgage, according to the HUD news release.

"We're throwing a life line out to those families who are current on their mortgage and are experiencing financial hardships because property values in their community have declined," FHA Commissioner David H. Stevens said in the HUD news release. "This is another tool to help overcome the negative equity problem facing many responsible homeowners who are looking to refinance into a safer, more secure mortgage product."

The FHA Short Refinance option is one of several Obama administration initiatives introduced as part of an administration plan to help stabilize residential markets by helping 3 to 4 million struggling homeowners through the end of 2012.

To be eligible for a new loan, the homeowner must owe more on their mortgage than their home is worth, be current on their existing mortgage, qualify for the new loan under standard FHA underwriting requirements, have a credit score equal to or greater than 500, and the property must be their primary residence. Also, the borrower's existing first lien holder must agree to write off at least 10 percent of the borrower's unpaid principal balance, bringing that borrower's combined loan-to-value ratio to no greater than 115 percent.

Existing FHA-insured loans cannot be refinanced, and the refinanced FHA-insured first mortgage must have a loan-to-value ratio of no more than 97.75 percent.

To facilitate the refinancing of new FHA-insured loans under this program, the Treasury Department will provide incentives to existing second lien holders who agree to provide principal write-downs. To be eligible for the program, servicers are required to execute a Servicer Participation Agreement with Fannie Mae on or before Oct. 3.

For more information on the FHA Short Refinance option, read the FHA's recent mortgagee letter.

Obama Administration Looking at Ways to Replace GSEs

It should be possible to create a national housing finance system without government-sponsored enterprises, Federal Reserve Chair Ben Bernanke told lawmakers in an Aug. 6 letter, Reuters reported. The Fed chief's comments came in the wake of Fannie Mae and Freddie Mac receiving upwards of \$160 billion in government funds.

The GSEs have come under increased scrutiny as taxpayers remain on the hook for billions of dollars paid to keep the mortgage giants afloat. The problem for policymakers is that Fannie and Freddie own or guarantee around half of U.S. mortgages and, in combination with the Federal Housing Administration, are essentially propping up the stagnant residential mortgage market.

But Bernanke said there should be ways to replace Fannie and Freddie without exposing the market to too much risk.

"There are a variety of organizational forms that might replace Fannie Mae and Freddie Mac that could likely provide mortgage credit without the systemic risks associated with these institutions in the past," Bernanke said in his letter.

For now, the specifics of how the government would reshape the GSEs remain open for debate among a variety of interested industry groups.

According to an Aug. 7 story in The Washington Post, affordable housing advocates and liberal think tanks that want the government to do less to foster homeownership and more to support rental housing for low-income people are trying to influence Democrats to alter the roles of the GSEs. Those influencing Republicans are said to be pushing for lawmakers to sharply reduce or eliminate all federal support for housing, the Post reported.

For its part, the Obama administration has said it still believes in a significant government role in promoting home ownership, but one that's smaller than what is currently in place. Under the recently passed financial regulatory reform bill, the White House has until January to make its recommendations to Congress on the future of the GSEs, according to the Post article.

The Treasury Department is already taking strides to mold the administration's required proposal. On Aug. 17, the agency is scheduled to host a conference of financial companies, housing advocates, academics and other interested parties to begin discussing how to design a new housing finance system that puts less reliance on taxpayers. The Treasury also has actively been seeking industry input through a public request for comment about the future of U.S. housing policy.

As the discussion rages on, the GSEs continue to turn to the government for more support. On Aug. 5, Fannie announced a second quarter loss of \$1.2 billion, representative of its smallest quarterly loss since the government took the GSEs into conservatorship in Sept. 2008 – and down significantly from an \$11.5 billion loss in the prior quarter. Still, Fannie has had to ask the government for another \$1.5 billion in aid.

Over the past two years, the Treasury Department has given Fannie a total of \$85 billion, according to an Aug. 6 CNNMoney report. Those government loans carry hefty interest rates. CNNMoney reported that Fannie was forced to pay \$1.9 billion in interest back to the Treasury last quarter.

Combined, Fannie and Freddie have received more than \$146 billion in government assistance over the past two years, Reuters reported.

Dodd Predicts Battle if Warren Nominated for Consumer Protection Agency

Sen. Christopher Dodd, D-Conn., said that if the Obama administration nominates Harvard law professor Elizabeth Warren to head the new Consumer financial protection agency, a protracted confirmation fight would likely ensue. Dodd made his comments Aug. 6 interview on Bloomberg Television's "Conversations with Judy Woodruff."

Warren, who currently serves as chair of the congressional panel overseeing the Troubled Asset Relief Program, is widely credited with introducing the idea for a new consumer protection agency and is rumored to be President Obama's top choice. But Dodd said opposition from Republicans and financial industry representatives about her experience and ability to run a large agency could turn the process of confirming her in Congress into a political battle.

"What you don't need to have is an eight-month battle for who the director or the head or chairperson of this new consumer financial protection bureau will be," Dodd told viewers.

Dodd's personal choice to head the new agency would be chair of the Federal Deposit Insurance Corporation Sheila Bair, who he said would easily win confirmation were she interested in the position.

"I did some checking on Sheila Bair, and I was going to have very little difficulty getting Sheila Bair confirmed," Dodd said on the program. "I'd probably confirm her in a couple of days. That's how strongly people felt, Democrats and Republicans."

However, Bair is rumored to have no interest in the job. According to an Aug. 2 story in Bloomberg News, a person with direct knowledge of the matter said Bair has taken herself out of the running, essentially winnowing the short list of candidates to include Warren, Assistant Treasury Secretary Michael Barr and Gene Kimmelman, a former director of Consumers Union who is chief counsel for competition policy at the Justice Department.

A nomination decision by the White House is expected before Congress returns from its summer recess.

Agencies Issue Final Rules for Registering Loan Originators

Six of the federal agencies that oversee financial regulation issued their final rules July 28 requiring residential mortgage loan originators to register with a national system intended to better regulate the people brokering residential loans.

Under final rules that are part of the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act of 2008, loan originators employed by agency-regulated institutions will be required to register with the National Mortgage Licensing System and Registry to provide a variety of information, including fingerprints for background checks, according to a joint news release issued by the federal agencies. They will also be required to obtain a unique identifier through the registry.

The final rules take effect Oct. 1, 2010. The agencies anticipate that the registry could begin accepting federal registrations as early as January 28, 2011, according to the joint news release. Employees of agency-regulated institutions will be instructed when to register. Once notified by the agencies, employees of agency-regulated institutions will have 180 days to comply with the initial registration requirements.

To view the agencies' joint news release, visit www.fdic.gov/news/news/press/2010/pr10170.html. It was issued by Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, Farm Credit Administration and National Credit Union Administration.

Nonbank Mortgage Lenders Confront New Minimum Requirements

Loan officers working for nonbank mortgage lenders who did not meet the July 31 deadline to obtain state licenses under the new minimum national requirements may be unable to serve their customers and originate loans, American Banker reported July 30.

The Department of Housing and Urban Development, which established the new minimum national requirements under the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act of 2008, has extend the deadline for some states that have made good-faith efforts to meet the requirements. Florida, Hawaii, Maine, Minnesota and Nevada were successful in extending the deadline to Dec. 31, while the deadline in New Jersey and South Carolina was extended to Oct. 31.

While some state regulators have worked with jurisdiction to extend the deadline, nearly 35 percent of originators failed the mandatory national written test under the minimum requirements and nearly 25 percent failed state-specific tests in the 12 months proceeding June 30.

A handful of states, including California and Utah, have two separate agencies with conflicting deadlines. While California's Department of Corporations notified loan officers and mortgage bankers that they will not be able to originate loans after July 31 until their licenses are approved, the state's Department of Real Estate's deadline for mortgage brokers and real estate agents was extended to Dec. 31.

"It is the hardest set of gymnastics that I have ever had to jump through," Anthony Hsieh, chief executive of loanDepot.com, told American Banker. "Not only is there chaos on the competitive front, but confusion about the work force."

Because obtaining licenses in various states is expensive, the new requirements are especially discerning for lenders with call centers that take applications from customers around the country. Some of these lenders may be required to reduce volume and concentrate activity in just a few states, American Banker reported.

As loan officers who do not meet the new requirements are forced to leave the industry, processing delays at nonbanks could drive more business to the largest banks, which are exempted from the new requirements.

Industry Players Call on Treasury to Ban Home Resale Fees

A coalition of industry groups appealed to Treasury Secretary Timothy Geithner on July 29 to outlaw Wall Street Home Resale Fees that require that a percentage of the final sale price of a home be paid to a private third party every time the property is sold.

Also known as "private transfer fee covenants," the controversial practice involves adding resale fees to home purchase contracts and thus allowing a third-party to sell the right to collect these fees to Wall Street investors. The length of the resale fee attachment is typically 99 years.

In response to what it considers a deceptive practice, the Coalition to Stop Wall Street Home Resale Fees delivered a letter to Geithner and other agency heads declaring their opposition and calling on the Obama administration to ban their use.

The coalition's letter noted that state legislatures and federal regulators have begun restricting the use of private transfer fee covenants in 17 states, the Department of Housing and Urban Development has confirmed that these fees violate HUD's regulations, and the Federal Housing Administration will not insure mortgages for properties with Wall Street Home Resale Fees attached.

"Wall Street Home Resale Fees threaten homeowners across the United States," read the coalition's letter. "[These fees] require that every time a home is sold for the next 99 years, a percentage of the sales price of the home (usually 1 percent) must be paid to the third party. In return, homeowners' equity is taken from them, the price of their home is depressed, and the smooth transfer of real property is threatened – possibly making their home unmarketable."

To see which organizations belong to the coalition, which was formed in July, or to view the coalition's letter in its entirety, visit the coalition's website at www.stophomeresalefees.org.

Fed Report Shows Economic Slowdown Looms

Most of the 12 Federal Reserve districts indicated sluggish housing market conditions following the expiration of the homebuyer tax credit in April, according to the central bank's latest Beige Book. All districts indicated that commercial real estate markets remained weak, with vacancy rates continuing to place downward pressure on rents.

"Activity in residential real estate markets was sluggish in most districts after the expiration of the April 30 deadline for the homebuyer tax credit. Commercial real estate markets, especially construction, remained weak," the Fed stated in the July 28 report.

Economic activity in two of the Fed's 12 districts had recently slowed while the pace of economic activity in eight other districts grew at only a modest pace. The Fed's report listed only the Cleveland and Kansas City districts as those who reported experiencing steady economic activity in June and July. The report noted that this stands in contrast to the previous beige book report, in which all 12 districts had indicated growing economic activity.

Atlanta and Chicago were the districts that reported slowing economic growth. Boston, Dallas, Minneapolis, New York, Philadelphia, Richmond, San Francisco and St. Louis were the districts that reported modest growth.

While Boston and St. Louis reported an increase in home sales in May and June, mainly from home closings that were under contract by the April tax credit deadline, Boston, Philadelphia, Atlanta and Kansas City indicated that sales are expected to continue to fall.

Atlanta reported that residential construction activity continued to fall since the last report, while Dallas noted that it is likely that activity will continue to decline in the second half of the year and Cleveland

indicated that it is likely that activity will not increase until after 2010. However, Kansas City expects a slight increase in residential construction over the next three months.

Cleveland indicated that the increase in commercial construction projects previously reported is beginning to diminish, while Philadelphia said that it is likely that activity will fall further after federal stimulus supported projects near completion. Dallas reported that a handful of developers have left the industry. However, Chicago noted that public infrastructure projects have increased.

Lending activity was mixed among the districts. Although Cleveland, Atlanta and Dallas reported overall loan demand as soft or weak, Richmond and Kansas City noted modest increases. While Philadelphia, Cleveland, Richmond, Chicago and Kansas City noted that demand for commercial loans were flat, New York, Atlanta and San Francisco indicated declining conditions. Philadelphia said that demand for residential mortgage loans eased, Cleveland reported that demand was below expectations and St. Louis noted that demand fell. However, New York reported that residential mortgage loan demand increased.

Most districts noted that lending standards remained tight. Kansas City indicated tighter standards for commercial lending, while New York reported tight conditions for all lending categories except for consumer loans. Philadelphia, Richmond and Chicago indicated slight improvements in credit quality, while San Francisco reported stable conditions.

To access the Fed's latest beige book report, officially titled "Summary of Commentary on Current Economic Conditions," visit

www.federalreserve.gov/FOMC/BeigeBook/2010/20100728/FullReport.htm.

House Subcommittee Holds Hearing on Private Mortgage Insurance

A House subcommittee gave generally positive reviews to private mortgage insurance during its July 29 hearing on the future of housing finance, indicating that mortgage insurance regulatory reserves could provide a model for government-sponsored enterprise capital requirements, according to at least one lawmaker.

Rep. Paul Kanjorski, D-Pa., who chairs the House Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee, gathered industry players and private mortgage insurers to continue to discuss the options on the table for the future of the GSEs.

In his opening statement, Kanjorski noted that private mortgage insurance has allowed families to own their homes and safeguarded taxpayers from losses on mortgages securitized by Fannie Mae and Freddie Mac, according to an Appraisal Institute representative who attended the hearing.

Other committee members applauded private mortgage insurers for raising capital and contributing to sound underwriting standards while also cautiously noting that these same companies had contributed to the real estate collapse.

As part of the hearing, the topic of appraisals was raised by Reps. Carolyn McCarthy, D-N.Y., and Donald Manzullo, R-Ill. McCarthy asked how the real estate industry can ensure quality and honesty in the appraisal process.

Mortgage Insurance Trade Association representative Patrick Sinks noted that the industry keeps lists of approved appraisers. John Taylor of the National Community Reinvestment Coalition stressed the need for independent appraisers and in-person appraisals. He said that lenders should not be allowed to stop doing business with an appraiser just because they disagree with a value opinion.

Manzullo then criticized the Home Valuation Code of Conduct for what he perceives as a lack of appraisal quality. In response, Taylor criticized appraisal management companies and said that requiring appraisers to visit the house and know the neighborhood would ensure a return to “sane appraisals.”

The subcommittee’s hearing was just one of many to take place this year on a variety of housing finance issues. As a sign of the political importance of the housing issue, House Financial Services Committee Chair Barney Frank, D-Mass., and Kanjorski formally announced July 29 that they will hold additional hearings in September on the future of housing finance, including oversight of the GSEs – the futures of which have become legislative priorities now that the financial regulatory reform bill has been enacted.

Inside the States

Florida AG Cracks Down on Foreclosure Mills, Subpoenas Records

Florida Attorney General Bill McCollum lunched investigations into allegations that law firms used false documents to fast track foreclosures, the Sarasota (Fla.) Herald-Tribune reported Aug. 11. The Attorney General's office will also investigate whether the firms set up companies outside of the country used for preparing false documents.

The case, which is being handled by the office's Economic Crimes Division, is targeting The Law Offices of Marshall C. Watson, P.A., Shapiro & Fishman, LLP and The Law Offices of David J. Stern, P.A. Currently under investigation for similar allegations is Florida Default Law Group.

Foreclosure defense attorneys praised the announcement. "That's confirmation that something is wrong," Defense Attorney Matt Weidner told the Herald-Tribune. "The attorney general doesn't spend valuable state resources and time delving into these types of investigations if there's not probable cause."

Attorney Jeffrey Tew, who is representing the Stern law firm, disagrees. "There's nothing to support any idea that the Stern law firm has been knowingly filing false documents," Tew said.

Shapiro and Fishman's attorney told the Herald-Tribune that the law firm did nothing wrong and will fully comply with the subpoena.

Responding to allegations about homeowners losing properties because of incomplete paperwork, the Florida Supreme Court got tough on attorneys representing banks and lenders by enacting a new rule requiring verification, under penalty perjury, that all paperwork is accurate when residential properties are at stake.

Utah Recovering Slowly, but Surely

Utah's economy and real estate sector are beginning to show signs of improvement, but the state's rebound is likely to disappoint. That was the dominant message at the Utah Association of Appraisers annual summer symposium on Aug. 11.

Jim Wood, director of the Bureau of Economic and Business Research at the University of Utah, predicted a few more sluggish years. That means listless employment growth, fairly weak hiring, little or no increase in home prices, continued high levels of distressed properties and foreclosures, and a lot of "for sale" signs and still-empty store fronts, The Salt Lake Tribune reported.

But there are some bright spots in the homebuilding, retail and office sectors, said economic and real estate experts speaking at the event.

For Utah's beat-up homebuilding industry, which had its worst year in 2008 and didn't do a whole lot better in 2009, the worst could be over. "In terms of homebuilding activity, we've probably reached bottom," Wood said.

Although retail vacancies are increasing and development has just about stopped in Utah, there is light at the end of the tunnel: LDS Church's billion-dollar investment in City Creek Center, the expansion of

WinCo Foods and the explosion of burger restaurants such as In-N-Out Burger, Tonyburgers, Five Guys Burgers & Fries, Salt City Burger Co. and SmashBurger, the Tribune reported.

Why the outbreak of burger joints? As cost-conscious consumers focus on their pocketbooks, “there has been just a huge increase in burger (restaurant) activity,” said J.R. Moore, a retail specialist with CB Richard Ellis.

As for the office sector, vacancies in Salt Lake County jumped to 17.3 percent – a six-year high – in the second quarter, according to CB Richard Ellis. But the situation not completely doomed. A large office building that opened on South Main Street is filling with tenants. And several large employers, such as Adobe Systems and Oracle, are building new facilities in the area, creating not only construction work but new jobs, the Tribune reported.

Arizona Implements AMC Approval List

Arizona appraisers may only accept orders from appraisal management companies that have been registered with the state and reside on the Arizona Board of Appraisal’s approved AMC list. The new regulations took effect July 29.

The announcement came in a July 28 memo issued by Arizona Board of Appraisal Executive Director Dan Pietropaulo and limits appraisers in the state to conducting business with one of the 74 AMCs that have currently registered.

The Arizona Board of Appraisal memo noted that appraisers who accepted AMC assignments before the regulations took effect should consider all orders valid and process accordingly.

The move by Arizona to register AMCs follows on the heels of the passage of sweeping Dodd-Frank Wall Street Reform Act enacted by President Obama in July. A provision of that financial regulatory reform legislation requires all states to adopt AMC registration rules within three years. To date, Arizona is one of 20 states with AMC registration laws on its books.

To access the constantly updated list of registered AMCs in the state of Arizona, visit the Arizona Board of Appraisal’s website at www.appraisal.state.az.us.

Around the Industry

Fixed-Rate Mortgages Set Record Low for Ninth Straight Week

For the ninth week in a row, fixed-rate mortgage rates dropped, according to Freddie Mac's Aug. 19 survey of conforming mortgage rates. The Primary Mortgage Market Survey also found that the five-year adjustable rate mortgage remained tied at its current low.

The 15-year fixed-rate mortgage averaged a record low of 3.90 percent with an average 0.6 point, down from the previous week when it averaged 3.92 percent. A year ago, the 15-year fixed-rate mortgage averaged 4.56 percent, according to Freddie Mac.

The 30-year fixed-rate mortgage averaged 4.42 percent with an average 0.7 point, down from the previous week when it averaged 4.44 percent. Last year, the 30-year fixed-rate mortgage averaged 5.12 percent, Freddie Mac reported.

The five-year Treasury-indexed hybrid adjustable-rate mortgage averaged 3.56 percent, with an average 0.6 point, unchanged from the previous week. A year ago, the five-year ARM averaged 4.57 percent, Freddie's survey found.

"Investors in long-term bonds appear very confident that inflation will remain in check, and as a result long-term fixed mortgage rates have continued to fall," Freddie Mac Deputy Chief Economist Amy Crews Cutts said in a news release.

The 30-year fixed-rate survey began in 1971, the 15-year began in 1991, and the five-year adjustable in 2005.

Refinancing Applications at 15-month High

Mortgage application refinance activity reached its highest level in 15 months the week ending Aug. 13, according to the Mortgage Bankers Association's weekly Mortgage Application Survey. The MBA credited interest rates remaining near historic lows for the increased activity.

The Refinance Index rose 17.1 percent from the previous week. Refinancing made up 81.4 percent of applications, up from 78.1 percent the previous week, while adjustable-rate loan activity fell 0.2 percent to 5.7 percent. The four-week moving average for the Refinance Index increased 3.2 percent on a seasonally adjusted basis.

The survey, released Aug. 18, showed that the Market Composite Index, which measures mortgage loan application activity, increased 13 percent on a seasonally adjusted basis from the previous week and 12.4 percent on an unadjusted basis. The four-week moving average for the Market Index increased 2.6 percent on a seasonally adjusted basis.

The MBA's Purchase Index dropped 3.4 percent from the previous week on a seasonally adjusted basis. On a non-adjusted basis, the index fell 4.6 percent from the previous week, down 38.6 percent from a year ago. The four-week moving average for the Purchase Index inched up 0.1 percent on a seasonally adjusted basis.

The average rate on a 30-year fixed loan increased to 4.6 percent from the prior week's 4.57 percent, while points, including origination fees, increased from 0.89 to 0.92 for 80 percent loan-to-value ratio loans, the MBA reported. The average rate on a 15-year fixed loan rose from 3.95 percent to 3.99 percent, while points, including origination fees, fell from 1.08 to 1.05. The average rate on a one-year adjustable rate mortgage decreased from 7 percent to 6.9 percent, while points, including origination fees, inched down from 0.22 to 0.21.

Home Sales Could be Weakened by Refinances

The growing number of mortgage refinances in the near term could cause a shortage of homes sales in the future, according to an Aug. 16 American Banker story. Analysts are concerned that current low interest rates could depress home sales for a period of three to five years.

Currently, 80 percent of all loan applications are for refis, and the market for new purchase loans is at its lowest level since 1996, American Banker reported. All of this is occurring at the same time as the largest inventory of residential real estate is on the selling block.

Of primary concern to housing analysts is that big segments of mortgage consumers are likely to be priced out of the new loan market for the next several years due to high unemployment and underemployment rates. American Banker reported that 31 million Americans are unemployed or underemployed, 11.2 million homeowners are upside down on their homes, and 9 million more homeowners have recently been, or will soon be, foreclosed upon. This creates a vast pool of consumers who will be ineligible in the next few years for new mortgages.

In its July forecast, the Mortgage Bankers Association projected home loan originations would fall to \$1.48 trillion in 2010 – a 30 percent decline over last year, according to American Banker. Next year, originations are forecast to hit \$1.15 trillion, which would be nearly as low as in 2000, when originations produced only \$1.14 trillion of mortgages, American Banker reported.

Losses in CRE Values Keep Bank Lending Tight

Despite reports that overall asset quality is improving, the Federal Reserve's July 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices indicated that standards for approving commercial real estate loans have not changed, noting that demand for CRE loans continues to be light.

The Federal Reserve's survey, released Aug. 16, compiles second-quarter earnings reports, earnings conference calls and banking condition filings of large- and medium-sized across the country.

In its monthly report, Fifth Third Bancorp noted that its overall CRE balance continued to decline in the second quarter because payments and dispositions of troubled CRE loans outpaced renewals and new originations. However, Mike Price, CEO of Mercantile Bank Corp., pointed out that foreclosed property sales have increased.

Regions Financial Corp. indicated that loan renewals and restructuring are the main focus of its CRE loan activity, adding that the bank is not pursuing new loans.

As demand from institutional investors increases, KeyCorp said that new originations were concentrated in the real estate capital segment. KeyCorp also noted that real estate investment trusts have had some success in borrowing.

During a quarterly earnings conference call, Dale Greene, executive vice president of Business Bank for Comerica Inc., provided insight regarding future industry-wide CRE lending practices.

"We're going to continue to work through our (CRE) credit issues as we have been doing," Greene said. "That's going to take priority I think more than anything else. When we do come back to the real estate lending side of the equation, it will be in our growth markets. It will be with developers who we've got a good relationship with, or who had referred us into a new relationship."

To view the second quarter commercial real estate banking report in its entirety, visit www.federalreserve.gov/boarddocs/snloansurvey/201008/default.htm.

Existing Home Sales Drop in July, but Prices Rise: NAR

Sales of existing homes fell 27.2 percent in July to a seasonally adjusted annual rate of 3.83 million units from June's downwardly revised rate of 5.26 million units, according to an Aug. 24 National Association of Realtors news release. The pace remains 25.5 percent down from July 2009's rate of 5.14 million units.

"Consumers rationally jumped into the market before the deadline for the homebuyer tax credit expired. Since May, after the deadline, contract signings have been notably lower and a pause period for home sales is likely to last through September," Lawrence Yun, NAR's chief economist, said in the release. "However, given the rock-bottom mortgage interest rates and historically high housing affordability conditions, the pace of a sales recovery could pick up quickly, provided the economy consistently adds jobs."

Single-family existing home sales fell 27.1 percent in July to a seasonally adjusted annual rate of 3.37 million units from June's figure of 4.62 million units, NAR reported. That marked a 25.6 percent drop from the 4.53 million units recorded a year ago. Existing condominium and co-op sales fell 28.1 percent in July to a seasonally adjusted annual rate of 460,000 units from June's figure of 640,000 units, down 24 percent from the 605,000 units reported a year earlier.

By region, existing home sales in the Northeast dropped 29.5 percent in July to an annual rate of 620,000 units, down 30.3 percent from a year ago. The Midwest fell 35 percent to an annual rate of 800,000 units, down 33.3 percent from a year ago. The South decreased 22.6 percent to an annual pace of 1.54 million units, down 19.8 percent from a year ago. The West fell 25 percent to an annual rate of 870,000 units, down 23 percent from a year ago.

First-time buyers accounted for 38 percent of home purchases in July, down 5 percent from June, while investors accounted for 19 percent, up 13 percent from the previous month. Repeat buyers accounted for the remaining transactions. All-cash sales accounted for 30 percent of all purchases, up 6 percent from the previous month, while distressed homes accounted for 32 percent, unchanged from the previous month.

NAR reported that the median existing home price for all home types logged in at \$182,600 in July, up 0.7 percent from a year ago. The median existing single-family home price came in at \$183,400, up 0.9 percent from a year ago, while the median existing condominium price was \$176,800, down 1.7 percent from a year ago.

By region, the median price in the Northeast was \$263,800, up 4.8 percent from a year ago. The Midwest came in at \$151,600, down 2.8 percent from a year ago. The South logged in at \$156,300, down 3.3 percent from a year ago. The West came in at \$224,800, up 3.3 percent from a year ago.

Existing home inventory increased 2.5 percent in July to 3.98 million units, NAR said. Based on the current sales pace, there is now a 12.5-month supply of existing homes on the market, up from the previous month's 8.9-month supply. However, inventory remains 12.9 percent down from the record 4.58 million units reached in July 2008.

New Home Sales Hit Record Low in July

New home sales in July fell 12.4 percent from the previous month, according to data released by the Commerce Department on Aug. 25. The drop marks the lowest sales rate for new homes on record.

July's sales came in less than June's downwardly revised rate of 315,000 units to a seasonally adjusted annual pace of 276,000 units, down 32.4 percent from a year ago.

"The slow pace of economic recovery and worries about job security are weighing heavily on the minds of potential home buyers right now," National Association of Home Builders Chief Economist David Crowe said in an organization news release. "As a result, the housing market is clearly in a holding pattern. That said, NAHB does not project that a double-dip recession is in the cards, and we are looking for employment gains later this year to help bolster sales activity moving forward."

By region, sales in the Northeast fell 13.9 percent in July from the previous month, the South dipped 8.7 percent, the Midwest declined 8.3 percent, and the West dropped 25.4 percent, according to Commerce Department data.

Median new home prices fell to \$204,000 in July from June's upwardly revised figure of \$217,000.

New home inventory remained unchanged from the previous month on a non-seasonally adjusted basis at 210,000 units. Based on the current sales pace, there is now a 9.1-month supply of new homes on the market on a seasonally adjusted basis, down from June's supply of 8 months.

Architecture Billings Index Shows Slower Decline; Still Weak Overall

July's Architecture Billings Index was nearly two points higher than June's reading of 46, the American Institute of Architects reported Aug. 18. However, even at 47.9, the July ABI reflected a declining demand for design services. Scores lower than 50 represent declining conditions, while those greater than 50 indicate an industry-wide increase in billings.

"Business conditions at design firms remain quite volatile," AIA Chief Economist Kermit Baker, Ph.D., said in an accompanying news release. "While this recent uptick is encouraging, this state of the industry is

likely to persist for a while as we continue to receive a mixed bag of feedback on the condition of the design market from improving to flat to being paralyzed by uncertainty.”

The regional averages in July were 46.7 for the Midwest, 47.2 for the Northeast, 45.2 for the West and 47.9 for the South. The sector index breakdown in July included multifamily residential at 47.5, institutional at 47.9, mixed practice at 42.9 and commercial/industrial at 50.4. New project inquiries in July came in at 53.1.

The index is an economic indicator of construction activity that shows a nine- to 12-month lag time between architecture billings and non-residential construction spending. It is derived from a monthly “Work-on-the-Boards” survey and produced by the AIA Economics and Market Research Group. For more information, visit www.aia.org.

Commercial Real Estate Suffers Most over Past Year: Moody’s

Commercial real estate prices in the U.S. dropped 4 percent in June from the previous month, according to the Moody’s/REAL Commercial Property Price Indices released Aug. 13. At the end of June, commercial real estate prices were down 41 percent since peaking in October 2007.

The report measures the change in sales prices for commercial real estate property based on the repeat sales of the same assets at different points in time. June’s figure marks the steepest drop in nearly a year.

By sector, retail properties had the biggest drop at 11 percent in the second quarter, followed by industrial properties at 2.9 percent. However, prices for both apartments and industrial properties increased 4 percent.

Concerns over the economic recovery as well as high unemployment levels continue to weigh down commercial real estate prices, according to Bloomberg. Falling short of projected forecasts, the gross domestic product in the second quarter increased an estimated 2.4 percent compared to the previous year.

“In the first quarter, there was probably a little more optimism because we had evidence of retail sales rebounding to a level that was probably a little better than people expected,” James Sullivan, an analyst at Cowen & Co., told Bloomberg. “In the second quarter, things began to slow down.”

Apartment, Office Properties Spark Investor Interest: RERC

Investment conditions ratings for the institutional apartment and central business district office sectors each increased during second quarter 2010, according to a Real Estate Research Corporation report released Aug. 20.

The investment conditions rating for the apartment sector increased to 7.1 during second quarter 2010 from 6.1 during first quarter. The rating for the office sector increased to 6.0 during second quarter from 5.0 during first quarter, according to RERC. The increase makes the two sectors the two highest-rated property types that RERC surveys.

Investment conditions are based on a scale of 1 to 10, with 10 being the highest. The scale represents whatever factors are affecting the market at the current time that an investor would need to consider before investing in the property, according to RERC. Such factors include: the availability of capital for investing in those properties, the price of those properties, the availability of those properties for purchase and expected returns, according to RERC.

The last time that the apartment sector had a rating over 7.0 was second quarter 2001, when the rating was 7.4. Apartment investments are proving to be safer bets during sluggish economic times.

“With the lack of household formation during the past few years and tightened lending standards for single-family homes, consumer demand for apartments will continue to increase, along with improvement in fundamentals,” said RERC President and CEO, Ken Riggs, MAI.

The desire to minimize risk also appears to be part of the draw of the office market, according to RERC analysis. Although office property investments are relatively low risk, investors expect higher returns from this sector. “Investors in the office market may have a higher degree of investment fortitude and are ‘riding the edge of success’ in pursuit of higher returns and betting on the future of commercial real estate,” according to Riggs.

JP Morgan Plans Sale of Commercial Mortgage Bonds

JP Morgan Chase and Co. plans to sell \$1 billion of commercial mortgage-backed bonds, according to an Aug. 18 Bloomberg story. The JP Morgan sale, which has yet to be formally announced, would grant hedge fund H/2 Capital Partners LLC, the buyer of the bottom \$50 million slice, primary authority over troubled loans, Bloomberg reported.

Ceding authority over troubled loans to investors could create future discrepancies in how delinquent borrowers are handled, but such concerns are said not to be stalling the JP Morgan offering. Bloomberg reported such concerns also did not halt the Aug. 4 offering made by Citigroup Inc. and Goldman Sachs Inc. to investors in which the companies offered \$788.5 million in bonds.

The pending announcement of JP Morgan’s offering comes as sales of commercial mortgage-backed securities remain low. Sales of such offerings plunged 95 percent to \$11.2 billion in 2008 from a record \$234 billion in 2007, according to Bloomberg. Banks arranged \$3.4 billion of the securities last year, and about \$2.4 billion has been issued in 2010, Bloomberg reported.

Assuming the loans take no losses, H/2, a Connecticut-based commercial real estate fixed-income manager, will receive a yield of more than 14 percent on its 10-year investment, people familiar with the situation told Bloomberg. It’s believed the higher-ranked portions of the deal are set to be offered in September.

Foreign Investment on Rise in U.S. CRE: Real Capital Analytics Study

An increasing number of foreign acquisitions of U.S. commercial real estate is occurring in contrast to a cyclical decline in global cross-border capital flows but is supported by investors’ favorable assessments of the risk-reward tradeoff, according to an Aug. 12 study by Real Capital Analytics.

The firm noted that as investors have adopted more risk-averse strategies and have retreated from the international scene, global cross-border flows have declined dramatically in the last three years. The study reported that Latin America and Western Europe saw cross-border transaction activity fall to 10 percent and 35 percent of volume from 2007 to 2010, respectively. The United States and the United Kingdom, meanwhile, were the only major nations experiencing a rise in property acquisitions by cross-border investors during that time.

Appraisal Institute members may view the full report in the members-only section of the AI website at www.appraisalinstitute.org/myappraisalinstitute/real_capital_analytics_reports.aspx.

FASB, IASB Issue Joint Proposal to Revamp Accounting Rules for Leases

The world's accounting rule makers issued a joint proposal on Aug. 17 that would overhaul how companies account for leases and potentially open a number of corporations to greater reporting of their debt, according to a Dow Jones Newswires report.

Under current rules, when companies lease real estate, office equipment or other items, the lease can be classified as either a "capital" or "finance" lease, or as an "operating" lease. Finance leases are considered a sale and must be included on a company's balance sheet while operating leases are considered rentals and can be kept off.

According to the Dow Jones report, the U.S. Financial Accounting Standards Board and the London-based International Accounting Standards Board are concerned that too many companies are structuring lease terms into operating status, thus avoiding putting the leases on their books. As a result, analysts and investors are being forced to estimate the impact of various leases on the finances of a company.

The IASB and FASB want to adopt rules that would eliminate the capital vs. operating distinction and put most leases on lessees' balance sheets under a "right-of-use" approach, in which a company would add liabilities for its lease payments and assets to represent its right to use the items being leased, Dow Jones reported.

The accounting standard setters are accepting public comment on their proposal until Dec. 15. To access the exposure draft, visit www.ifrs.org/NR/rdonlyres/C03C9E95-822E-4716-81ED-04B9CC4943BE/0/EDLeasesStandardAug08.pdf.

Report Suggests Greater Bank Regulation Won't Slow Growth

If banks adopt tighter standards on capital and liquidity, the global economy won't suffer, according to an Aug. 18 joint statement released by the Financial Stability Board and Basel Committee for Banking Supervision.

The organizations based their statement on two prepared reports on the impact of both the net economic influence of stronger capital and liquidity reforms, and the macroeconomic implications that would occur during a transition to new banking rules. The Wall Street Journal reported Aug. 19 that the findings of the FSB and Basel Committee refute the complaints of the banking industry that tighter capital and liquidity requirements would impede lending to the real economy.

The Basel Committee's assessment of the long-term economic impact found there were clear long-term economic benefits from increasing the minimum capital and liquidity requirements from their current levels in order to raise the safety and soundness of the global banking system.

"The benefits of higher capital and liquidity requirements accrue from reducing the probability of financial crisis and the output losses associated with such crises," read the joint statement. "The benefits substantially exceed the potential output costs for a range of higher capital and liquidity requirements."

The organizations' assessment of the macroeconomic transition costs, which was prepared in collaboration with the International Monetary Fund, concluded that the transition to stronger capital and liquidity standards would likely have a modest impact on aggregate output.

The statement observed that for every 1 percent increase in the ratio of capital to assets that banks are asked to keep, growth would fall by 0.04 percent a year over 4.5 years. According to the statement, an increase of 25 percent in liquid assets held by banks would have less than half of the effect of a 1 percent rise in capital ratios over the same period.

The Journal reported the regulators intend to phase in the new standards over a period of time, once they are finally determined. In the meantime, the FSB and Basel Committee are preparing a final, detailed list of conditions in advance of the November meeting of the G-20 heads of government.

For the joint FSB-Basel news release, visit www.financialstabilityboard.org/press/pr_100818.pdf.

Appraisal Reviews Increasingly Important after Meltdown: The Appraisal Journal

Reviews of appraisal reports, an essential quality-control function in the real estate industry and especially so in the wake of the residential and commercial market meltdowns, are the subject of The Appraisal Journal's Summer 2010 issue cover article, published in August.

"Developing the Appraisal Review Opinion," by Richard C. Sorenson, MAI, offers a framework for appraisal reviews and identifies the most common areas where appraisal deficiencies may be found. The author lists 12 steps as the starting point for any review and provides a compliance checklist that can be used to confirm that an appraisal complies with regulatory requirements and appraisal standards. The article also gives a checklist of elements that the reviewer should address in his or her report.

Sorenson writes that the essence of appraisal review is to investigate, analyze and verify the logic and procedure used in an appraisal and to ensure a sound value opinion. Appraisal reviews are ordered by lenders, mortgage insurance companies, and government-sponsored enterprises, especially when there is a foreclosure that results in a full audit of the loan file. There are an estimated 11,000 to 14,000 appraisal reviewers in the United States.

The Appraisal Journal is the quarterly technical and academic publication of the Appraisal Institute. Other articles in the Summer 2010 issue:

In "Square Pegs, Round Holes, Easy Targets: Valuing Special-Use Property in Eminent Domain," by John C. Murphy, J.D., and Emily L. Madueno, J.D., the authors argue that fair market value does not provide

just compensation when there is an eminent domain taking of nonprofit, special-use properties such as churches and schools. They suggest that a replacement cost approach may be a more appropriate standard to measure just compensation for these properties.

“Office Property DCF Assumptions,” by Barrett A. Slade, Ph.D., MAI, and C. F. Sirmans, Ph.D., looks at 21-year trends in the Korpacz Real Estate Investor Survey forecasts for office rent, vacancy, expenses and yields. These forecasts are elements of discounted cash flow analysis and important contributors to final estimates of value for institutional-grade office properties. The authors find that 10-year projections periods have become standard, that investors forecast operating expense growth as tracking CPI, and that tenant retention has become of increasing importance in the valuation analysis.

“Computer-Assisted Analysis of the Impact of Location on Residential Property Value,” by G. C. Mulaku and J. Kamau, looks at how computer-assisted valuation systems like GIS can help developing countries create valuation rolls and generate crucial tax revenue. The authors present a case study of Nairobi, Kenya, to demonstrate how the computerized system can account for differences in value caused by location.

“Daubert and Qualification of the Appraisal Expert Witness,” by Richard W. Hoyt, Ph.D., Robert J. Aalberts, and Percy Poon, Ph.D., reports on how courts have been applying the expert witness qualification requirements established in the U.S. Supreme Court decision, *Daubert v. Merrell Dow Pharmaceuticals*. The authors report that the courts have different interpretations of the Daubert standards, resulting in significant latitude in who may testify as an expert on real estate value.

Creditors Move to Block Stuyvesant Foreclosure

Trustees representing senior creditors of Manhattan’s Stuyvesant Town-Peter Cooper Village sued to block a foreclosure auction led by Pershing Square Capital Management LP that may put the complex in bankruptcy, Bloomberg reported Aug. 18.

Creditors Bank of America Corp. and U.S. Bancorp contend that Pershing Square and Winthrop Realty Trust’s plan violates terms of an existing agreement between the creditors. Pershing and Winthrop intend to take control of the property after buying \$300 million of mezzanine debt; however, the agreement gives senior mortgage holders priority over junior lenders, the suit said.

The Pershing and Winthrop venture scheduled an Aug. 25 auction to foreclose on the equity interests of the company that owns Stuyvesant Town and is responsible for paying the \$3 billion first mortgage. If successful, the venture will place that entity into bankruptcy, and avoid paying the Stuyvesant Town mortgage, according to the lawsuit.

As junior creditors, Pershing and Winthrop must pay senior lenders – Bank of America Corp. and U.S. Bancorp – \$3.66 billion, which covers the first mortgage plus interest and penalties, before they gain control of the property, according to the lawsuit. Trustees for the senior creditors, acting through special servicer CW Capital Asset Management LLC, have already sought to foreclose on the complex in a separate lawsuit, Bloomberg reported.

Michael Ashner, chairman and CEO of Winthrop Realty Trust, believes the senior lenders’ accusation is unsupported. “We fully expect the court to validate the legitimacy of our rights to pursue our remedies so

that we can move forward to provide a permanent, affordable housing solution for the residents of Stuyvesant Town-Peter Cooper Village,” Ashner told Bloomberg.

Senior lenders said in court papers that if Pershing and Winthrop are not stopped from conducting the auction, the lenders’ ability to recover the \$3.66 billion they’re owed “will be imperiled and the property and its 25,000 residents will be thrown into disarray,” Bloomberg reported.

Blackstone to Invest \$500 Million in General Growth Post-Bankruptcy

The Blackstone Group L.P., an asset manager, has agreed to invest about \$500 million for shares in General Growth Properties Inc. once the shopping mall operator emerges from Chapter 11 bankruptcy protection, The Seattle Times reported Aug. 18.

An investor group comprised of Canadian property manager Brookfield Asset Management Inc., The Fairholme Fund and Pershing Square Capital Management has agreed to provide up to \$8.5 billion in capital to finance General Growth’s exit from bankruptcy, according to the Times. The bankruptcy plan calls for General Growth to emerge from bankruptcy protection this fall as two separate companies – General Growth and the newly formed Spinco.

Once General Growth emerges from bankruptcy, Blackstone plans to pay about \$500 million in exchange for shares in General Growth and Spinco. A judge is expected to begin considering the plan before the end of August, the Times reported.

In related news, the shopping mall operator disclosed in a quarterly report the week of Aug. 8 that the Securities and Exchange Commission is conducting a formal investigation into whether certain current and former officers and directors at the company possibly engaged in insider trading. General Growth said it is cooperating with the probe and believes the outcome of the investigation will not have a material adverse effect on its financial condition or results, the Times reported.

Larry Nicholson, MAI, Appointed to Wisconsin Board

Appraisal Institute member Larry Nicholson, MAI, was recently appointed by Gov. Jim Doyle to the Wisconsin Real Estate Appraisers Board. The board consists of three appraisers, three public members and one assessor, each appointed to four-year terms.

A member of the Wisconsin Chapter of the Appraisal Institute, Nicholson is the owner of The Nicholson Group LLC, a Milwaukee-based real estate and business valuation and consulting firm. Prior to forming The Nicholson Group, he served as the national managing director for the Real Estate Advisory Group of American Appraisal Associates. Nicholson has extensive experience with a variety of property types and is an expert in condemnation appraisal. Clients served include local, regional and national financial institutions, law firms, insurance companies, pension funds and pension fund managers, corporations, investment banking firms and governmental agencies.

The board, under the umbrella agency of the Wisconsin Department of Regulation and Licensing, is responsible for regulating and licensing real estate appraisers in the state of Wisconsin. The board also investigates complaints against real estate appraisers as well as enforces disciplinary actions when appropriate. Administrative services are provided by the Department of Regulation and Licensing, with the Wisconsin Appraisers Board serving as an advisory body.

Innkeepers USA Bankruptcy Could Establish Troublesome Trend

Innkeepers USA Trust's July bankruptcy filing reminds commercial mortgage-backed securities servicers that the threat of property portfolio abandonment exists, MBA NewsLink reported Aug. 12.

"This is the first loan of its size where the borrower has proactively filed for bankruptcy rather than making a good faith effort to work out the loan with the special servicer," Royal Bank of Scotland said in its report, Innkeepers Bankruptcy Potentially Precedent Setting. RBS believes the proposed bankruptcy may set a precedent for other underwater borrowers, MBA NewsLink reported.

The bankruptcy's outcome will ultimately depend on how the court determines values of the properties, RBS said. "Should the servicer believe that the value determined by the court maximizes recovery value to the CMBS trust they will consent to the proposed plan of reorganization," RBS said. "Otherwise, we believe they will attempt to negotiate a more acceptable plan or seek relief from the automatic stay in order to foreclose and either liquidate the properties immediately or manage them in the hopes that values improve in the future," MBA NewsLink reported.

Realpoint LLC's analysis suggests the collateral value could be more than \$200 million less than the loan balance. "The 45 properties represent more than 60 percent of Innkeepers' hotels in the United States and the portfolio was originally appraised at \$1.2 billion at issuance near the height of the U.S. commercial real estate boom in 2007," Realpoint told MBA NewsLink.

Innkeepers USA owns interests in 73 hotels with nearly 10,000 rooms in 19 states and the District of Columbia under the Residence Inn, Hampton Inn and Hyatt Summerfield brands, MBA NewsLink reported.

Liquidity Takes Back Seat to Deleveraging, Repricing in CRE Recovery

Deleveraging and repricing properties now overrides capital in commercial real estate recovery, according to the CCIM Institute and the Real Estate Research Corp.

Buyers and sellers value CRE and price properties based on future earnings expectations, MBA NewsLink reported Aug. 5. Ken Riggs, CEO of RERC, said the market has done a "reasonable job" at factoring those expectations into the market.

"Repricing does not just happen on the actual prices paid, but also on rent levels. That is one of the main reasons you see the activity that is out there—there has been a repricing on rents, which is a reflection of these fundamentals about unemployment expectations, retail consumer spending and legal issues that may have an impact on it," Riggs told MBA NewsLink.

While Riggs believes in the amount of liquidity in the market and the ability of lenders to reprice assets at a level that will clear the market, the process of refinancing debt will be at a more measured pace than most predict. Riggs told MBA NewsLink the process will be selective as some banks and insurance companies take back properties and leave them on the balance sheet.

CCIM and RERC agree that the industry is at a stabilization point with commercial property becoming attractive and catching the attention of many diverse investors, MBA NewsLink reported.

Fitch: Special Servicing Inches toward \$100 Billion

Specially serviced loans amounted to \$92 billion through the second quarter, 25 percent higher from the end of last year and 475 percent more compared to the end of 2008. More than \$20 billion in loans transferred out of special servicing during the first half of this year, compared to nearly \$9 billion for all of 2009, according to a Fitch Ratings report.

Even though United States commercial mortgage-backed securities loan transfers out of special servicing are more frequent, they will not be enough to stop specially serviced loans from passing the \$100 billion mark before end of this year, MBA NewsLink reported Aug. 12.

According to Fitch, smaller balance loans will be resolved through foreclosure, direct public offering or note sales. Larger loans, however, are mostly modified and/or extended and returned to master servicing.

'Preventable' Short Sale Fraud Losses Projected at \$310 Million: CoreLogic

The number of short sales has surged by more than 300 percent since 2008, with the estimated annual volume now at 400,000, according to a recent CoreLogic report released Aug. 10. More than 55 percent of all short sales have occurred in California, Florida, Arizona and Texas.

In its 2010 Short Sale Research Study report, the real estate data and analytics firm noted that lender-related losses associated with short sale fraud may reach \$310 million by the end of the year. According to CoreLogic, "unnecessary losses" occur in one in every 53 short sales. The study said the each fraudulent transaction costs about \$41,500.

"By definition, short sales constitute a financial loss to lenders but will continue to be a necessary part of the mortgage industry as it seeks stabilization," Tim Grace, senior vice president of fraud analytics at CoreLogic, said in a news release. "The primary objective for lenders is to eliminate unnecessary loss."

Grace says the best way to reduce fraud risk is through a collaborative effort where lenders collectively share pre-closing and post-closing information.

Craig Focardi, a senior research director for TowerGroup, agrees with Grace that it is important in all short sale transactions to disclose all potential buyers to the seller as well as provide accurate comparables to reduce fraud risk. Focardi added that government-sponsored or private short sale programs are a preferable alternative to foreclosure.

Dubai Real-Estate Group Sued Over Value of Swap Transactions

Lehman Brothers International Europe has filed a lawsuit against Dubai Holding Commercial Operations Group over the value of swap transactions, Bloomberg reported Aug. 11. According to PricewaterhouseCoopers, LBIE's administrator, the case is "a straightforward financial dispute regarding the valuation of certain swap transactions entered into between the parties."

Dubai Holdings disputes the allegations regarding the disputed deal, valued at \$24 million, saying that it will vigorously defend itself.

On June 1, Dubai Holdings reported a yearly loss of \$6.2 billion, compared with a profit of \$10 billion a year ago. In July, the company received a two-month extension on its \$555 million credit line. Dubai Holdings' parent company, Dubai Holding LLC, and its subsidiaries' combined bank-related debt totals \$12 billion.

When LBIE's parent company, Lehman Brothers Holdings Inc., filed bankruptcy in 2008, it had more than 900,000 outstanding derivative contracts with a total debt of \$63 billion.

Fortress Agrees to \$130 Million AIG Deal

Hedge fund operator Fortress Investment Group LLC has agreed to acquire 80 percent of American International Group Inc.'s American General Finance as the battered insurer seeks ways to repay taxpayer bailout funds, Bloomberg reported Aug. 12. The transaction is expected to be finalized by the end of March 2010.

Although details of the deal have not been disclosed, insiders familiar with the negotiations said Fortress will pay \$130 million for the unit, which was recently valued at \$2.4 billion. The unit had assets of about \$20 billion, with liabilities and debt totaling around \$18 billion.

AIG will take a \$1.9 billion pretax loss from the transaction. However, the insurer opted to keep a 20 percent stake in American General Finance in the event the business recovers. Fortress Co-chair Wesley Edens told Bloomberg he believed "that AGF is well-positioned for significant growth in an underserved market."

Since its bailout in 2008, AIG has received more than \$130 billion in government assistance. The U.S. government is working on a plan to exit its share in the company while leaving it with an A credit rating. The transaction with Fortress eliminated AIG's risk of requiring additional bailout funds to maintain its credit rating, Bloomberg reported.

Increase in Mortgage Buybacks Threatens Bank Credit

An Aug. 10 Moody's Investors Service report warned that bank credit and profits could suffer as Fannie Mae, the Federal Reserve Bank and insurers pressure lenders to repurchase nonperforming mortgages, Bloomberg reported. The New York Federal Reserve, which acquired stakes in Bear Stearns and American International Group, is leading the push for loan buybacks.

At the end of June, loan repurchase reserves at the four largest U.S. banks totaled \$8 billion. However, Bank of America Corp. has reported that it has received a repurchase request of \$11.1 billion. "The need to build reserves against this potential exposure is likely to continue, and will continue to be a drag on bank earnings for another year or longer," the report said.

Although expenses at banks have increased, banks can be forced to repurchase soured mortgages from buyers if documents are missing or if they contain faulty underwriting. While the process can be costly and time consuming, debt buyers and insurers have been examining loan documents for flaws -- including faulty appraisals -- to substantiate a repurchase request, Bloomberg reported.

Nation's Largest Banks Repurchase \$2.5 Billion in Troubled Loans

The nation's four largest commercial banks had \$2.5 billion in mortgage repurchase costs in the second quarter of the year as the government-sponsored enterprises and mortgage insurers forced banks to buy back delinquent loans tied to poor underwriting standards, an Aug. 11 Dow Jones Newswires story reported.

The numbers of repurchases, which have dragged down the banks' quarterly earnings statements, have more than doubled since last year and could grow higher amid increased investor scrutiny.

Fannie Mae and Freddie Mac, the taxpayer financed companies propping up the residential lending market, have forced the majority of the repurchases, according to regulatory filings reported by Dow Jones.

Of the nation's four largest banks, Bank of America Corp. had the highest repurchase costs in the second quarter. Its costs for handling bad mortgages were \$1.2 billion, up nearly three-fold from a year ago, Dow Jones reported. The bank's overall second quarter earnings were \$3.1 billion.

J.P. Morgan Chase & Co. saw its repurchase costs more than double over a year ago. Its mortgage repurchases costs climbed to \$667 million while its net income was \$4.8 billion, according to Dow Jones.

The nation's other two largest banks, Citigroup Inc. and Well Fargo & Co., saw their repurchase costs grow to \$347 million and \$346 million, respectively.

Banks can be forced to repurchase loans for anything from improper borrower documentation, inaccurate appraisals or missing paperwork, among other reasons. All four of the nation's biggest banks have added capital to their reserves for future repurchase costs and cautioned that costs could grow, Dow Jones reported.

New Commercial Lenders Appearing on Scene

With commercial lending restrictions extremely tight at many of the nation's traditional banks, a group of new financial service companies are stepping in to fill the void and originate commercial mortgages for eventual bond sales, according to an Aug. 11 story in The Wall Street Journal.

In the latest example, New York-based bond trading firm Cantor Fitzgerald teamed with Los Angeles-based real estate fund manager CIM Group to form a venture with the goal of making \$5 billion in commercial-property loans over the next 12 months with the intention of selling them off as bonds, the Journal reported.

Non-traditional financial service companies getting into commercial lending view the state of the economy as the perfect time to enter the fray. Property values have stabilized after falling drastically off their peak in 2007. With that stabilization, investor demand is increasing as commercial investments are viewed as less risky (compared to the last two years) and likely to yield good returns.

The Journal reported demand for fresh funds is likely to be enormous, especially as commercial real estate debt increases on existing bonds.

CMBS Could Get Lift from Fed Holding Down Long-Term Interest Rates

By acknowledging a slowdown in the nation's economic recovery and saying that it will hold down long-term interest rates, the Federal Reserve on Aug. 10 may have boosted the appeal of commercial mortgage-backed securities over other fixed-income investments, according to an industry analyst who spoke with trade publication National Real Estate Investor.

David Rifkind, managing director of Los Angeles-based real estate investment banking firm George Smith Partners, told the publication that beyond the obvious effect of keeping borrowing costs down, the Fed's move will give CMBS a lift by suppressing yields on competing fixed-income investments.

"(Holding down long-term interest rates) was a conservative, measured and clear statement" Rifkind told the publication. "That's exactly what the market needed to hear."

The Fed announced on Aug. 10 that it was keeping its Fed funds rate unchanged at less than 1 percent and that it would be holding down its long-term interest rates. National RE Investor reported that the Fed intends to reinvest the payments of principal it receives on its extensive portfolio of mortgage-backed securities and government debt by buying up additional U.S. Treasury bonds to maintain its current level of investment.

Since early 2009, the Fed has purchased roughly \$1.25 trillion in mortgage securities, \$175 billion in Fannie Mae and Freddie Mac mortgage debt, and \$300 billion in U.S. Treasury bonds in an effort to boost liquidity and stimulate the economy with price stability, according to National Real Estate Investor. Now by rolling over those investments into Treasuries, the Fed plans to keep the supply of available bonds in check, which would then keep interest rates near their historic lows, the publication reported.

The demand for CMBS has been almost negligible since the financial market meltdown of a few years ago. But in recent months, signs of life have been seen in the CMBS market. In June, JP Morgan closed a \$716.3 million CMBS issue. In early August, Goldman Sachs and Citigroup unveiled a \$788.5 million issue.

Rifkind believes the Fed's announcement will spur investors with a fixed-income to seriously consider CMBS again and may lead to more CMBS issuances.

"Fixed-income investors are going to be looking at new CMBS as a viable investment opportunity," Rifkind told National Real Estate Investor. "There is going to be competition for yield among the fixed-income investors that is going to make real estate securities attractive. We've already seen that with the JP Morgan pool that went out successfully and the Goldman Sachs pool last week," he added.

Credit Suisse Must Face Lawsuit over Mortgage Bonds

A state judge has ruled that Credit Suisse Group AG must face a lawsuit filed by MBIA Inc, the world's largest bond insurer, which claimed that Credit Suisse fraudulently induced the company to guarantee \$900 million of mortgage-backed bonds, Bloomberg reported Aug. 11.

MBIA sued the Zurich-based bank, alleging that its securities unit misrepresented securities it marketed. Credit Suisse moved to have the lawsuit dismissed, arguing MBIA was a sophisticated party that failed to conduct its own review of the loans backing the securities and was notified of deficiencies in the loan pool

information. Bloomberg reported that Justice Shirley Werner Kornreich of New York State Supreme Court in Manhattan denied the bid.

MBIA had insured the bonds on short notice in April 2007 after asking Credit Suisse to represent the quality of the loans. As of Oct. 31 of last year, 51 percent of the loans backing the bonds, or \$464 million of mortgages, had defaulted, leaving MBIA to pay claims of \$296 million, Bloomberg reported.

MBIA launched its lawsuit after obtaining access to the loan files, whereupon it determined that 87 percent of the loans it sampled didn't comply with Credit Suisse's representations and warranties, according to court documents referenced by Bloomberg.

The case is now in the New York State Supreme Court.

Joseph Consoli, MAI, to Speak at Joint Organization Workshop

Joseph Consoli, MAI, is scheduled to speak at a joint workshop of the International Facility Management Association and the Society of American Military Engineers on Aug. 26-27 at the Omni Shoreham Hotel in Washington, D.C. Consoli, who represents the National Federal Development Association, will be on a panel addressing how the government has positioned itself to better forecast facility management needs since the release of Executive Order 13327.

For more information on the joint SAME/IFMA Facilities Management Workshop, visit www.same.org/i4a/pages/index.cfm?pageid=4366.

Combined REO Inventory Climbs 13 Percent in Second Quarter

The combined real estate-owned inventory of the Federal Housing Administration and government-sponsored enterprises Fannie Mae and Freddie Mac increased by 13 percent from the first to the second quarter of 2010, according to an Aug. 9 article by the blog Calculated Risk.

The jump in REO inventory among the government groups also represents a 74 percent increase compared to the second quarter of 2009.

The combined REO inventory for the FHA, Fannie and Freddie jumped from 135,868 at the end of Q2 2009 to 236,338 at the end of Q2 2010, calculated risk reported. Fannie held 129,310 REOs at the end of the 2Q while Freddie held 62,178. Those numbers represent new highs for both Fannie and Freddie.

The FHA held 44,850 REOs at the end of the second quarter, which is slightly less than it held in the 1Q, according to Calculated Risk.

To view a chart of Fannie's, Freddie's and the FHA's second-quarter 2010 REO inventory, visit <http://calculatedriskimages.blogspot.com/2010/08/fannie-freddie-fha-reo-inventory-q2.html>.

Strong Home Sales Help Stabilize Prices in Second Quarter

Aided by a surge in sales driven by the homebuyer tax credit, home prices across the country showed signs of stabilizing in the second quarter, according to the latest National Association of Realtors survey released Aug. 11.

Median existing single-family home prices increased in 100 of the 155 metropolitan statistical areas in the second quarter compared to a year ago, with 14 reporting double-digit increases.

“All year we’ve been seeing relatively flat national home prices, which appear to be supported by market fundamentals,” NAR Chief Economist Lawrence Yun said in a news release. “Prices in some areas remain below replacement construction costs, so even with an elevated supply of existing homes on the market we don’t expect any consequential movement in home prices for the foreseeable future.”

Sales activity increased in the second quarter as well in 47 states and the District of Columbia compared to a year ago. Sales of existing homes in the second quarter totaled 5.61 million units across the country, up 9.1 percent from the previous quarter’s figure of 5.14 million units, and 17.3 percent above the 4.78 million units reported a year ago, the news release said. Distressed homes accounted for 32 percent of all sales, down from 36 percent a year ago.

By region, existing home sales in the Northeast rose 14.9 percent in the second quarter to an annual rate of 980,000 units, up 23.6 percent from a year ago. The Midwest increased 14.5 percent to an annual pace of 1.3 million units, up 20.9 percent from a year ago. The South jumped 10.9 percent to an annual pace of 2.1 million units, up 18.8 percent from a year ago, while the West declined 2.6 percent to an annual rate of 1.23 million units, but remains up 7.6 percent from a year ago, according to NAR figures.

NAR reported that the median existing single-family home price logged in at \$176,900 in the second quarter, up 1.5 percent from a year ago, while the median existing condominium price was \$175,700, down 0.5 percent from a year ago.

By region, the median existing single-family home price in the Northeast was \$238,000 in the second quarter, down 3.2 percent from a year ago. The Midwest came in at \$148,500, up 1.4 percent from a year ago. The South logged in at \$155,500, down 2 percent from a year ago, while the West came in at \$219,700, up 2.6 percent from a year ago.

Unemployment, Shaky Economy Lead Sellers to Lower Listing Prices

As high unemployment continues to weigh against the economy, homeowners have cut prices on 25 percent of the homes listed in the U.S. market in July, Reuters reported Aug. 11. This marks the fourth consecutive monthly drop.

A report compiled by Trulia showed that sellers in the 50 largest cities reduced prices on listed homes by \$30.1 billion in July, up from June’s total of \$27.3 billion. In half of the cities, sellers lowered prices on at least 30 percent of the homes on the market.

“With one out of every four homes experiencing at least one price reduction, sellers are feeling no relief this summer in a market climate of fewer qualified buyers and widespread uncertainty about the job market,” Pete Flint, Trulia’s chief executive, told Reuters. “If buyers are unqualified to buy, it doesn’t matter how low interest rates are or how discounted a home is.”

Minneapolis led the country in price cuts in July for the fourth consecutive month with 42 percent of listing lowered at least once, while sellers in New York cut prices on 20 percent, up 15 percent from the previous month, Reuters said.

In the luxury market, sellers cut prices an average of 14 percent from the original listing. Although luxury homes, those listed at \$2 million or higher, represent less than 2 percent of total inventory, price cuts in this market totaled nearly 25 percent of the combined dollar amount slashed from listings in July.

Bank Repossessions Spark July Foreclosures

Banks took over the second highest monthly number of homes yet in July, working through distressed loans already on their books rather than ramping up new default notices, RealtyTrac told Reuters on Aug. 12. RealtyTrac expects more than 1 million homes to be repossessed in 2010.

Banks repossessed 92,858 properties in July, up 9 percent from June. This was a touch below the peak of 93,777 homes in May, the largest since RealtyTrac began tracking repossessions in April 2005.

Overall foreclosure activity rose 4 percent in July from June. Actions were taken on 325,229 properties, with one in every 397 housing units getting a foreclosure filing. More than 97,100 houses got a default notice in July, 1 percent more than in June but 32 percent below the record in April 2009, Reuters reported.

The four states with the highest foreclosure rates were Nevada, Arizona, Florida and California. Hurt by overbuilding and speculation during the boom, Nevada had the highest foreclosure rate for the 43rd straight month. The other six states with the highest foreclosure rates were Idaho, Michigan, Utah, Illinois, Georgia and Maryland.

Builder Confidence Dips Third Straight Month: NAHB

Builder confidence in the newly built, single-family home market dropped in August for a third consecutive month, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index released Aug. 16. The index fell to its lowest level since March 2009.

“Builders are expressing the same concerns that they are hearing from consumers right now, particularly the sense that the overall economy and job market aren’t gaining any traction,” NAHB Chairman Bob Jones said in a news release. “Meanwhile, many continue to report that problems with inaccurate appraisals, competition from the large number of distressed properties on the market, and tight consumer lending conditions are causing them to lose potential sales.”

NAHB Chief Economist David Crowe said in the release that the report “reflects the frustration that builders are feeling regarding the effects that foreclosed property sales are having on the new-homes market, with 87 percent of respondents reporting that their market has been negatively impacted by foreclosures.” But he noted that NAHB continues to project that modest job gains, historically low mortgage rates and pent-up demand will ensure a better housing market in the second half of 2010 than in the first half.

Derived from a monthly survey that NAHB has been conducting for more than 20 years, the NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as “good,” “fair” or “poor.” The survey also asks builders to rate traffic of prospective buyers as “high to very high,” “average” or “low to very low.” Scores from each component

are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor. The August index was 13.

New Residential Construction Rises Nearly 2 Percent in July

Housing starts increased 1.7 percent in July, consistent with private sector expectations of a 2 percent increase, according to data released Aug. 17 by the Commerce Department's U.S. Census Bureau. Permits for new housing units declined 3.1 percent in July.

"Today's data show that new housing activity appears to be stabilizing in the wake of the expiration of the home buyer tax credit," Commerce Secretary Gary Locke said in a statement. "However, a healthy economy requires not only a robust housing sector but strong employment and incomes, and President Obama remains committed to developing policies that encourage job creation and broad economic growth."

According to the Census Bureau data, privately-owned housing units authorized by building permits in July were at a seasonally adjusted annual rate of 565,000. This is 3.1 percent ($\pm 2.0\%$) below the revised June rate of 583,000 and is 3.7 percent ($\pm 2.2\%$) below the July 2009 estimate of 587,000.

Single-family authorizations in July were at a rate of 416,000; this is 1.2 percent ($\pm 1.2\%$)* below the revised June figure of 421,000. Authorizations of units in buildings with five units or more were at a rate of 129,000 in July.

Additionally, privately-owned housing starts in July were at a seasonally adjusted annual rate of 546,000. This is 1.7 percent ($\pm 9.7\%$)* above the 9.7% revised June estimate of 537,000, but is 7.0 percent ($\pm 7.5\%$)* below the July 2009 rate of 587,000.

Single-family housing starts in July were at a rate of 432,000; this is 4.2 percent ($\pm 8.7\%$)* below the revised June figure of 451,000.

The July rate for units in buildings with five units or more was 95,000.

Also, privately-owned housing completions in July were at a seasonally adjusted annual rate of 587,000. This is 32.8 percent ($\pm 6.8\%$) below the revised June estimate of 874,000 and is 25.4 percent ($\pm 7.3\%$) below the July 2009 rate of 787,000.

Single-family housing completions in July were at a rate of 490,000; this is 27.5 percent ($\pm 7.6\%$) below the revised June rate of 676,000. The July rate for units in buildings with five units or more was 91,000.

Oil Spill Impact on Home Prices Could Reach \$28 Billion

The oil spill affecting the Gulf Coast could cost homeowners up to \$3 billion over the next five years and could reach \$28 billion if the spill reaches around the Florida Keys and up the Atlantic coast of Florida, impacting beach amenities, according to a report released Aug. 2 by real estate data provider CoreLogic.

The report, which assessed the impact of April's BP DeepWater Horizon oil spill on home values in 15 coastal counties along the Gulf Coast, found that the financial impact from the spill is expected to reach \$648 million over one year.

"While it is by no means a certainty that the major coastal communities along both coasts of Florida will be impacted at all by the oil spill, the lost amenity value in these markets could be particularly high," Mark Fleming, chief economist with CoreLogic, said in a company news release. "Our hope is that the oil spill is contained and the loss in amenity value is further moderated by a speedy cleanup and a return of beach amenities to the affected communities' homeowners."

Of the already impacted communities, the largest long-term loss in amenity value could be in Pensacola, Fla. (at \$1.6 billion), followed by Gulfport, Miss. (at \$1.2 billion), according to the report. If the Gulf currents take the oil to the communities along the Florida Gulf Coast, the loss in amenity value could rise substantially. The CoreLogic report found that Panama City, Tampa Bay, Cape Coral and Naples could experience a total loss in amenity value of \$11 billion impacting 238,000 homes.

Though it noted that the chances are low, CoreLogic estimated as part of a worst-case scenario the loss in amenity value for communities along the Atlantic coast of Florida. If the oil spill were to spread to Miami, Key West, Palm Bay, Daytona Beach and Jacksonville, more than 295,000 properties within 1,000 meters of the beach could be affected with a total loss in amenity value of \$13.5 billion, according to the report.

The CoreLogic report based its home-valuation calculations on an analysis of comparable homes both on the beach and slightly inland from the shore. The difference between the shoreline and inland prices represents the premium buyers are willing to pay for a shore front home.

To access the CoreLogic report, visit www.corelogic.com/About-Us/News/New-CoreLogic-Data-Shows-the-Potential-Impact-of-the-BP-Deepwater-Horizon-Oil-Spill-on-Coastal-Real-Estate.aspx.

AI Webinar: Oil Spills and Property Values Set for Aug. 25

"Oil Spills and Property Values," an Appraisal Institute webinar slated for Aug. 25, will offer critical insights on how appraisers can accurately value contaminated properties. Participants will learn what assumptions not to make and how important actual sales are to the valuation of contaminated properties.

The webinar covers: methodologies used to value properties impacted by environmental contamination, the effects that contamination may have on real property and a comparison of methods used in the analysis of other adverse conditions.

The speaker is Tom Jackson, MAI, Ph.D., president of Real Property Analytics, Inc. Jackson specializes in analyzing real estate that may be impacted by environmental contamination as well as other complex valuation-related issues. In addition, he was the principal author of the Appraisal Standards Board advisory opinion on valuing real property that may be impacted by environmental contamination. Jackson has more than 28 years of experience in the valuation of real property, real estate consulting and urban planning.

The two-hour webinar will be presented at 1 p.m. CDT on Aug. 25. This webinar is \$35 for AI members and \$75 for nonmembers. It is approved for two hours of AI continuing education credit for AI members, but it is not approved for state continuing education credit. For more information and to register, visit www.appraisalinstitute.org/education/more_info.aspx?id=18181.

CMBS Defaults Rise, Fitch Report Says

According to an analysis from Fitch Ratings, New York, cumulative defaults in commercial mortgage-backed securities increased to 9.48 percent through June as recent vintages fueled the pace of defaults, MBA NewsLink reported Aug. 2. The 289 basis-point climb since the beginning of the year aligns with Fitch's projection that CMBS defaults will reach 11 percent by year's end.

Among the largest newly defaulted Fitch-rated loans in the second quarter were Columbia Center, an office property in Washington at \$380 million (a 2007 vintage); Four Seasons Resort Maui hotel in Hawaii at \$250 million (a 2007 vintage); and World Market Center in Nevada at \$225 million (a 2005 vintage).

MBA NewsLink reported that hotel and multifamily loans lead in overall cumulative default rate by property type with a 409 basis-point and 498 basis-point change for the year. Fitch considers loans reported 60 or more days delinquent at least once as being in default.

Large Banks Adding Government Mortgage Bonds

Large banks holding out for short-term mortgage rates to climb ended part of their waiting game in July when they resumed adding government-backed mortgage bonds at the fastest pace in 18 months, according to an Aug. 3 report by Bloomberg News.

Large U.S. commercial banks added \$51.4 billion of so-called agency mortgage-backed securities in the two weeks ended July 21, according to data released by the Federal Reserve. Large banks – which are defined as the 25 domestically chartered banks with the most assets – now hold \$736.8 billion in such securities, up markedly from the \$687.2 billion such institutions held on July 7, Bloomberg reported.

Despite the uptick in bond purchases, analysts are hesitant to take the mid-July mortgage-bond figure as a definitive sign that demand is fully back, Bloomberg reported. Analysts are waiting for a clearer outlook on the likelihood that the Fed will hold its benchmark for short-term rates at record lows. The longer the economy struggles and that mortgage spreads stay tight amid limited supply, the more large banks will “throw in the towel” and purchase government bonds, according to analysts Bloomberg interviewed.

Balance Sheet Reserves, Write-downs May Not Give Adequate View

Although banks are finding buyers for distressed assets, some second-quarter sales suggest that some reserves and write-downs taken by institutions may not adequately reflect values, The Wall Street Journal reported Aug. 2.

Banks are supposed to record foreclosed property sales at fair value, which means a sale price should not be substantially less than its balance-sheet value. However, Winston-Salem-based BB&T sold \$252 million of its foreclosed property in the second quarter at an 8.3 percent discount. In the quarter, the bank also performed its own comprehensive review of foreclosed-property values, which led to an additional \$61 million write-down.

Also in the second quarter, Pittsburgh-based PNC Financial sold distressed loans in the second quarter, once worth \$2 billion, that were entered at \$1 billion on its balance sheet, the Journal reported. The sale prompted a \$109 million addition to its bad-loan reserve to absorb a substantial part of the loss incurred in the sale.

The Journal said that more loan sales would be welcomed because they not only relieve banks of burdensome assets, but also may inject a higher degree of accuracy into balance sheets that are released to investors.

Forecast Shows 7.2 Percent Increase in Home Prices By 2014

Although the market is expected to decline an additional 4 percent before reaching a trough in early 2011, home prices in the U.S. are expected to increase 7.2 percent by 2014, according to data compiled by Moody's Economy.com and Fiserv, Businessweek.com reported Aug. 3.

"Prices have been falling for four to five years now," David Stiff, Fiserv's chief economist, told Businessweek. "Hopefully the labor market will be making more steady improvements by next year."

The housing market is already starting to show signs of stabilization. Driven by the homebuyer tax credit, as well as gains in strong markets such as San Francisco and Washington, D.C., prices for single-family homes increased an average of 2 percent in the first quarter compared to a year ago, Businessweek reported.

With home prices expected to surge by 44.7 percent over the next four years in the region, Washington State's Bremerton-Silverdale area led Fiserv and Moody's forecast as the healthiest housing market among the 384 metropolitan statistical area surveyed.

On the other end of the spectrum, the nation's weakest markets included Miami, Naples, Fla., and Atlantic City, N.J., with prices expected to drop 14.8 percent, 13.7 percent and 12.1 percent, respectively, over the next four years.

Although many industry experts maintain a cautious outlook regarding the housing rebound, others have voiced concerns that there will be a housing shortage in a few years. According to Celia Chen, a senior director of housing economics at Moody's, there will likely be a shortage of homes by mid-2012 in markets where supply and demand are currently in check, including Washington, Oregon, New Mexico and Utah.

Real Estate Roundtable: RE Executives Uncertain about Economic Recovery

Senior real estate executives expressed concern about the economy's unstable market and uncertainty over government policy in regards to the commercial real estate sector's outlook for recovery, according to The Real Estate Roundtable's 3rd Quarter 2010 Sentiment Index.

"Uncertainty reigns. Whether it is job creation, unstable capital markets or a volatile mix of current policy and the upcoming mid-term elections — investors and businesses are skittish, causing the commercial real estate outlook to be flat," Real Estate Roundtable President and CEO Jeffrey DeBoer said in the report.

When asked about current real estate market conditions, 62 percent of the survey participants reported them as “somewhat better” than a year ago, while only 19 percent said conditions are “much better.” When questioned about market conditions in the future, 59 percent of respondents predicted conditions one year from now will be “somewhat better,” whereas only 20 percent expect conditions one year from now to be “much better.”

For real estate asset values, respondents report some improvement in expectations, yet emphasize the variance between valuations for Class A assets and all others. Although 57 percent of participants report asset values are “somewhat higher” than a year ago, 56 percent expect asset values will improve one year from now. Seventeen percent of survey participants stated that asset values are “much higher” than one year ago, and 6 percent said values will be “much higher” one year from now.

For the full report, visit www.rer.org/ContentDetails.aspx?id=9589.

Lehman Hedges Bet in Commercial Real Estate Investments

Hedging that the commercial real estate market is near the bottom, Alvarez & Marsal, the firm overseeing Lehman Brothers Holdings' bankruptcy proceedings, has reinvested more than \$1 billion in commercial real estate already owned or financed by the battered investment bank, The Wall Street Journal reported Aug. 4.

The firm spent an additional \$1 billion to erase debt from various partners and creditors, as well as to reach other settlements, that added more real estate assets to Lehman's portfolio.

While Alvarez & Marsal hope to recoup as much as possible from the \$14.4 billion of commercial real estate currently owned by Lehman, the strategy's success depends on property values increasing, which remains uncertain considering the slow pace of the economic recovery.

Bryan Marsal, head of Alvarez & Marsal, expects that Lehman will recover about \$11 billion from its real estate assets, which will be sold off during the next three to five years. "We have staying power and can wait until liquidity and the market come back," Marsal told the Journal.

Nonetheless, with some of its properties remaining troubled despite prior reinvestment efforts, Lehman has found itself up against partners and creditors. In a \$22 billion leveraged buyout of apartment landlord Archston-Smith, Lehman partnered with Bank of America Corp. and Barclays PLC to make an additional \$485 million loan so it could remain current on its \$5.2 billion in secured debt. However, the property is still not producing enough revenue to maintain the debt and the \$485 million is quickly depleting.

In another move, Lehman originated \$1.23 billion in loans to finance the purchase of 21-story Manhattan office tower, retaining \$437 million of debt on its own books. In court proceedings, Lehman obtained approval to buy back \$255 million at a discount rate from an investor that was likely to default on a piece of the debt. While the move protects Lehman against future defaults, it increased the firm's stake in the building to just under \$700 million.

PCAOB Adopts New Auditing Standards on Risk Assessment

The Public Company Accounting Oversight Board on Aug. 5 adopted eight auditing standards related to the auditor's assessment of risk in an audit. Auditing Standards No. 8 through No. 15 set forth requirements that enhance the effectiveness of the auditor's assessment of, and response to, the risks of material misstatement in financial statements, according to a PCAOB news release.

"These new standards are a significant step in promoting sophisticated risk assessment in audits and minimizing the risk that the auditor will fail to detect material misstatements," PCAOB Acting Chairman Daniel L. Goelzer said in the news release. "Identifying risks, and properly planning and performing the audit to address those risks, is essential to promoting investor confidence in audited financial statements."

The risk assessment standards PCAOB has laid out address audit procedures performed throughout the audit, from the initial planning stages through the evaluation of the audit results. These are the same standards the organization initially proposed in Oct. 2008 and reintroduced with alterations in Dec. 2009.

If approved by the Securities and Exchange Commission, the standards will become effective for audits of fiscal periods beginning on or after Dec. 15, 2010.

To see the full suite of changes to the eight auditing standards, visit http://pcaobus.org/News/Releases/Pages/08052010_AuditingStandardsRiskAssessment.aspx.

China's Commercial Banks Undergo Stress Tests

China's banking regulator has ordered commercial banks to test the impact of a fall in house prices of up to 50 percent to 60 percent in key cities where prices have risen sharply, The Wall Street Journal reported Aug. 5.

Industry concerns over the test eased after regulators said that the suggested risk factors are not meant to signal changes in real estate lending policies. "The stress test is one of the forward-looking risk management tools that commercial banks often use and is needed for commercial banks to increase their risk management level," the commission said in the statement.

China's 2009 record-level lending pace -- followed by a 68 percent surge in home prices in the first quarter of 2010 compared to a year ago -- has led to speculation that a real estate bubble was forming, said the Journal. To help ensure economic stability, regulators tightened real estate lending policies in April 2010.

Measures used to ease price increases included raising minimum mortgage rates and down payment requirements for second-home purchases, as well as a suspension of lending for third home purchases. Subsequently, prices fell in June from the previous month by 0.1 percent in 70 major cities in China, the first monthly drop since February 2009, the Journal reported. Sales have also fallen sharply.

Depending on risk assessments, banks may also cease lending activity in cities where prices are too high or rising too fast, or where there is a shortage of homes.

Bank regulators also reminded lenders that some developers with high levels of debt face the risk of collapsing. Banks were advised to manage lending by gauging a developer's borrowing needs based on the progress of projects currently under construction.

China Investment Corp. Eyeing Harvard's Property Funds

China Investment Corp., the country's sovereign wealth fund, is in discussions with Harvard University's endowment to buy property funds worth about \$500 million, The Wall Street Journal reported Aug. 4. The move reflects CIC's interest to diversify its international portfolio by tapping into the distressed U.S. commercial real estate market.

The negotiations with Harvard follow CIC's commitment to invest \$1 billion in funds managed by Brookfield Asset Management and \$1 billion to Cornerstone Real Estate Advisers. To limit a potential backlash that often accompanies high-profile investments in U.S. assets by foreign investors, CIC noted it is targeting investments fund rather than specific properties.

From June 2008 to June 2009, Harvard's real estate portfolio recorded a loss of more than 50 percent. Since then, the \$26 billion endowment has been trying to reduce its 5.4 billion real estate portfolio as it seeks to lessen its exposure to illiquid assets.

With industry executives lobbying Congress to amend tax laws to encourage investments in U.S. properties by foreign investors, the faltering U.S. real estate market might work in CIC's favor. The transaction between CIC and Harvard is expected to close in the next couple of months, though it could still fall apart as terms have not been finalized.

Taking advantage of low values in the U.S. real estate market, investors from Canada, South Korea, the Netherlands, Kuwait and other countries acquired about \$2.2 billion in U.S. commercial real estate in the second quarter, five times higher than a year ago, the Journal said.

Borrower OK'd by Court to Sue Lender, Appraisal Firm, Onsite Appraiser

A borrower has been granted legal approval by a federal appeals court to proceed with a lawsuit against Citibank N.A., appraisal firm PCI Appraisal Services and an onsite appraiser on the grounds that the borrower's claim to have experienced coordinated lending bias may be legitimate, according to an Aug. 2 story in BNA – Banking Daily.

In a divided decision, the U.S. Court of Appeals for the Seventh Circuit in Chicago ruled that plaintiff Gloria Swanson's claims that Citibank violated the Fair Housing Act by denying her application for a home equity loan in February 2009 could proceed. A district court had dismissed the action.

Swanson claims Citibank, PCI Appraisal Services and Andre Lanier, the appraiser who performed the on-site appraisal report of her home, engaged in a coordinated effort to deny her a loan because of her race, BNA reported. The circuit court found enough plausibility to allow the case to move forward.

Part of Swanson's case of discrimination is built on Citibank's acceptance of Troubled Asset Relief Program funds around the time she applied for a loan. The bank advertised plans to make loans in connection with the receipt of its TARP funds, yet Swanson was denied a loan after her home was appraised for less than the amount of the loan she sought, according to BNA.

While the Seventh Circuit Court in no way advocated that Swanson's claims were true, it found that her complaint had enough merit to continue through the legal system.

Freddie Mac: 30-Year Mortgage Rates Hit Record Lows, Again

The 30-year fixed rate mortgage fell for the sixth time in the last seven weeks, according to Freddie Mac's Aug. 5 Weekly Primary Mortgage Market Survey. The rate averaged 4.49 percent for the week ending Aug. 5, down 4.54 percent from the previous week and 5.22 percent from a year ago.

"And yet again, interest rates for fixed-rate mortgages and now the hybrid 5-year ARM fell to all-time record lows this week following the second quarter GDP release," Frank Nothaft, Freddie Mac chief economist, said in a news release.

Fifteen-year fixed-rate mortgages averaged 3.95 percent in the weekly report, down from 4 percent the previous week and 4.63 percent a year ago, while five-year fixed-rate mortgages averaged 3.63 percent, down from 3.76 percent the previous week and 4.73 percent a year ago. Meanwhile, one-year adjustment-rate mortgages averaged 3.55 percent, down from 3.61 percent the previous week and 4.78 percent a year ago.

Cameron Findlay, chief economist at LendingTree.com, said the housing market remains vulnerable because of high unemployment. "Low mortgage rates are certainly a positive, but jobs growth is more important and without that, a housing rebound will not emerge," Findlay told Reuters.

Lenders Reducing Technology Costs

The changing regulatory environment is changing the way lenders look at technology costs, according to a July 30 story in MBA NewsLink that spoke with industry analysts. Among the steps lenders may soon be taking to cut spending costs include managing fewer vendors and outsourcing technology development.

Banks wary of constantly changing regulation and lower profit margins are looking for ways to manage costs while staying even with the pace of changing regulation. Cutting the number of vendors a lender deals with is one way to do that, an analyst told MBA NewsLink.

Another way for banks to curb technology spending is to outsource information technology to lower-cost providers rather than have it in-house, said another analyst. This can be a difficult decision for lenders who have a well-established way of doing business, but also can save banks big bucks and help them maintain the pace of industry change.

Innovative Technology Will Define Valuation's Future: New AI Book

A book published Aug. 10 by the Appraisal Institute outlines how the valuation profession can make the transition from a data-poor discipline to a data-rich one by adapting the tools of "predictive analytics" used in other industries.

Edited by Mark R. Linné, MAI, SRA, with Michelle Thompson, Ph.D., "Visual Valuation: Implementing Valuation Modeling and Geographic Information Solutions" features 15 insightful chapters written by experts who provide practical discussions about how to use GIS and modeling technology in valuations. It

also includes case studies by academicians who apply technology to solve problems in housing, resource management and other areas.

The valuation scenarios presented in the book range from the approachable to the complex, as various contributors with diverse expertise provide discussions and demonstrations that will educate appraisers new to valuation modeling and GIS while also addressing the concerns of more sophisticated users who are already comfortable with the technology's practical applications.

A 318-page, soft-cover book, "Visual Valuation: Implementing Valuation Modeling and Geographic Information Solutions" (ISBN: 978-1-935328-10-0) is available for \$60 (\$50 for Appraisal Institute members) at www.appraisalinstitute.org/store/p-227-visual-valuation-implementing-valuation-modeling-and-geographic-information-solutions.aspx or by calling 1-800-504-7440.

Linné has been a leader in the design, deployment and adoption of interactive valuation technologies for more than a decade. He is an author, editor, speaker, columnist, inventor, AVM expert, data standards proponent, software developer and veteran appraiser. Based in Lakewood, Colo., Linné is the coauthor of two previous books for the Appraisal Institute and serves as executive vice president for education and analytics for AppraisalWorld, Inc.

Thompson is an assistant professor in the University of New Orleans department of planning and urban studies. Thompson was a licensed residential real estate appraiser but now focuses on teaching and applied research using public participation geographic information services.

Foundation Extends Deadline for Applicants to Boards

The Appraisal Foundation has extended its deadline for applications to serve on the Appraiser Standards Board and the Appraisal Qualifications Board to Aug. 20. There are up to four vacancies on the ASB and up to three on the AQB.

The Appraisal Foundation said in the announcement that it is always interested in expanding the diversity of all boards by considering applications from individuals involved in various appraisal disciplines. The individuals selected for service on the AQB or ASB each will serve a term of up to three years commencing Jan. 1.

Those interested in more information on the background and qualifications required or in requesting an application package for any of these positions, may visit the Foundation's website at www.appraisalfoundation.org.

Changes to Fair-Value Reporting Could Impact Valuations

Under new U.S. and international accounting proposals being circulated, managers of private equity, venture capital and other alternative private investment funds could face much tougher rules on explaining how they arrived at an asset's value and the methods used to appraise such assets, according to Pensions & Investments' July 26 story.

The proposed changes are part of an ongoing effort to standardize the way fair-value reporting is handled at the international level, which has attracted increasing interest since the financial crisis expanded overseas. Pensions & Investments reported that at the June meeting of the G-20, executives of both the Financial Accounting Standards Board and the International Accounting Standards Board were called to account for their progress converging the differences in accounting standards between nations.

In conjunction with the G-20 meeting, both the FASB and IASB released exposure drafts of revised fair-value standards seeking public and industry comment by Sept. 7. The IASB's draft focuses on increased transparency about fair-value measurements, including valuation techniques and assumptions made to measure fair value, according to Pensions & Investments. The FASB's draft would essentially require managers to clearly state how they arrived at fair-value valuations and would more plainly bring U.S. standards in line with international accounting standards, Pensions & Investment reported.

Among the more controversial potential changes to international and U.S. accounting standards would be rules that require alternative investment managers to disclose the effect on the reported value of certain assumptions they made to value an asset. Currently, many valuations of assets are made on a best estimate approach from managers using internal company information. Under the new rules, managers would have to disclose any of the significant inputs that went into that best guess – a controversial move because some industry observers believe this could expose managers to a host of legal issues, according to Pensions & Investments.

Another controversial change would be the altering of ways that firms could value assets. As it stands, a private equity investment firm can either combine assets and value them as a group, or value each individually. Under the new proposal, firms would be required to individually value assets, which could negatively affect holdings that would be worth more if they were grouped together, Pensions & Investments reported.

Despite issuing exposure drafts, neither the FASB nor the IASB has stated when it will release final standards for fair-value accounting rules. Insiders with knowledge of the proceeding say they could be made public by the first quarter of 2011, according to Pensions & Investments.

NCREIF Second Quarter Report Suggests Two-Tier Market

For the first time in two years, all property sectors logged positive returns during the second quarter of 2010, according to a July 28 National Council of Real Estate Investment Fiduciaries news release. However, properties with less than 70 percent occupancy had a negative return, suggesting there is a two-tiered market.

With a return of 4.44 percent in the second quarter, the apartment sector had the highest return among all property types, followed by office at 3.37 percent, retail at 2.81 percent, hotel at 2.7 percent and industrial at 2.2 percent, NCREIF data showed.

Overall, returns increased 3.31 percent in the second quarter across the country, up 2.6 percent from the previous quarter. The East had the highest total return at 4.43 percent, up from the previous quarter's return of 0.51 percent, followed by the West at 3.02 percent, the South at 2.77 percent and the Midwest at 1.81 percent.

"Further improvement in commercial real estate markets will likely depend on increases in net operating income as the economy recovers and job growth rebounds," Jeff Fisher, professor of real estate at Indiana University, said in the news release.

Non-performing CRE Loans Reach 27 Percent at Failed Banks

More than 27 percent of all non-performing loans held by failed banks consisted of commercial real estate loans from the beginning of 2010 through July 16, MBA NewsLink reported July 27. Commercial real estate loans also account for more than 38 percent of gross domestic loans among the failed banks.

Single-family loans accounted for more than 14.6 percent of all non-performing loans in failed banks and 20.8 percent of all gross domestic loans.

Banks with non-performing loans higher than 1 percent of gross domestic loans surged to 66 percent in March, up 40 percent from December 2006, MBA NewsLink said. Out of 7,250 banks, 4,814 had more than 1 percent of loans as non-performing.

With more than 100 bank failures so far this year, fail banks have cost the Deposit Insurance Fund more than \$12.3 billion in 2010. However, at the beginning of 2010, the FDIC's reserves totaled nearly \$23.1 billion, with an additional \$500 billion backstop from the Treasury Department.

According to research conducted by Highline Financial, 271 financial institutions with combined assets of more than \$130 billion currently are at a high risk of failure. "In general, [the banks] are failing because of the asset quality, including ... the non-performing loans," Lisa Humphrey, vice president of product development at Highline, told MBA NewsLink.

Foreclosures Climb in 75 Percent of Nation's Metro Markets

Three-fourths of the nation's metropolitan markets saw foreclosure filings climb during the first half of the year, according to a report issued July 29 by RealtyTrac, an online company that tracks foreclosed homes. Las Vegas was the worst hit city, with one filing for every 15 households in its metro area.

The booming numbers of foreclosed homes are no longer primarily being blamed on shady subprime mortgages, but instead on many cities' high unemployment rates. As Rick Sharga, spokesman for RealtyTrac told CNNMoney, the economy is currently to blame.

"Look at a place like Salt Lake City," Sharga said. "The foreclosure rise there appears to be entirely related to the economy," not because people can't afford their subprime loans.

After Las Vegas, Cape Coral/Fort Myers, Fla., had the second highest rate of foreclosure, with one for every 20 households, according to RealtyTrac. Modesto and Merced, both in California, were tied for third worst in foreclosures, with one filing for every 22 households, RealtyTrac reported.

U.S. Mortgage Rates Go Lower for Sixth Straight Week

Fixed mortgage rates in the U.S. edged down for the sixth straight week to finish at all-time record lows, Freddie Mac reported July 29 in its latest Primary Mortgage Market Survey. The 30-year fixed-rate survey began in 1971, and the 15-year began in 1991.

Fifteen-year fixed rate mortgages in the week ending July 29 averaged a record low of 4.00 percent with an average 0.7 point, down from the week before when it averaged 4.03 percent. A year ago at this time, the 15-year fixed rate mortgages averaged 4.69 percent, according to Freddie.

Thirty-year fixed-rate mortgages averaged 4.54 percent with an average 0.7 point for the week ending July 29, down from the week before when it averaged 4.56 percent. Last year at this time, 30-year fixed rate mortgages averaged 5.25 percent, Freddie reported.

To view highlights of Freddie's latest Primary Mortgage Market Survey, visit www.freddiemac.com/pmms/release.html.

Construction Spending Inches up in June

Despite a drop in private sector activity, construction spending rose 0.1 percent in June following May's revised decline of 1 percent, The Associated Press reported Aug. 2. Spending on nonresidential projects fell 0.5 percent, marking the sector's 15th consecutive month of declines.

Fueled by the economic stimulus bill Congress passed in 2009, construction spending in June was led by a 1.5 percent increase in government-related building projects, according to Commerce Department data, pushing government spending to an annual rate of \$308.4 billion. State and local government spending rose 1.1 percent, while federal spending increased 4.6 percent.

Meanwhile, private sector construction spending was down 0.8 percent in June to a seasonally adjusted annual rate of \$527.6 billion.

In the second quarter, economic growth dropped to 2.4 percent, down from 3.7 percent in the first quarter and 5 percent in the fourth quarter of 2009, AP reported. With unemployment remaining high and the government's stimulus programs winding down, many economists have voiced concerns that construction spending will slow further in the second half of 2010.

MBA: Commercial/Multifamily Mortgage Originations Increase in Second Quarter

Commercial and multifamily mortgage loan originations surged 35 percent in the second quarter from the previous quarter and are up 1 percent from a year ago, the Mortgage Bankers Association said in a July 28 news release.

According to the MBA's Quarterly Survey of Commercial/Multifamily Mortgage Bankers Originations, mortgage origination activity during the second quarter was driven by the office and industrial sectors.

"Borrowing remains light as few commercial property owners are selling or refinancing their properties unless they have to," Jamie Woodwell, MBA's vice president of commercial real estate research, said in the release. "Life insurers, CMBS conduits and others are back in the market and lending, and rates are at extremely attractive levels. However, low volumes of property sales, depressed property values, stressed cash flows and modest loan maturities are all keeping borrowing to a minimum."

By property type, loans for industrial and office properties jumped 183 percent and 180 percent, respectively, in the second quarter compared to the same period a year ago, while loans for hotels

increased 18 percent. Loans for a variety of sectors fell in the second quarter compared to a year ago, including health care (down 76 percent), multifamily (down 25 percent) and retail (down 9 percent).

Compared to the previous quarter, loans for hotel properties surged 405 percent in the second quarter, while loans for industrial properties increased 114 percent, health care increased 107 percent, office increased 56 percent and multifamily increased 38 percent. However, loans for retail properties fell 11 percent compared to the previous quarter.

By investor type, loans for CMBS conduits jumped 173 percent in the second quarter compared to a year ago, while loans for life insurance companies shot up 148 percent. However, loans for commercial bank portfolios dipped 12 percent in the second quarter compared to a year ago, while the dollar volume of loans for government sponsored enterprises plunged 55 percent.

Compared to the previous quarter, loans for CMBS conduits increased 106 percent in the second quarter, while loans for life insurance companies rose 57 percent and loans for GSEs increased 21 percent. However, loans for commercial bank portfolios inched down 2 percent in the second quarter compared to the previous quarter.

To view the report in its entirety, visit

www.mortgagebankers.org/files/Research/CommercialOriginations/2Q10CMFOriginationsSurvey.pdf.

NAR: May Pending Home Sales Fall after Tax Credit Expires

The National Association of Realtors' pending home sales index slipped 2.6 percent in June to 75.7 from May's upwardly revised figure of 77.7, down 18.6 percent from the same period a year ago. June's drop, reported Aug. 3, follows spring's jump in sales when home homebuyer rushed into the market to take advantage of the federal tax credit.

According to NAR Chief Economist Lawrence Yun, the pace of home sales will likely be slower in the short term. "There could be a couple of additional months of slow home-sales activity before picking up later in the year, provided the job market continues to improve," Yun said in a news release. "Over the short term, inventory will look high relative to home sales. However, since home prices have come down to fundamentally justifiable levels, there isn't likely to be any meaningful change to national home values."

By region, the pending home sales index in the Northeast fell 12.2 percent to 58.8 in June, down 25.4 percent from a year ago; the Midwest fell 9.5 percent to 64.1, down 27.8 percent from a year ago; and the West inched down 0.2 percent to 85.1, down 14.2 percent from a year ago. However, the South increased 3.7 percent to 85.8, down 13.3 percent from a year ago.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year NAR examined existing-home sales data, according to NAR.

Purchase Applications Up for Third Consecutive Week: MBA Survey

Fueled by government activity, the purchase share of mortgage activity increased for the third consecutive week in the week ending July 30, according to the Mortgage Bankers Association's weekly Mortgage Application Survey.

The survey, released Aug. 4, survey showed that the Market Composite Index, which measures mortgage loan application activity, inched up 1.3 percent on a seasonally adjusted basis from the previous week and 1.4 percent on an unadjusted basis. The four-week moving average for the Market Index increased 0.3 percent on a seasonally adjusted basis.

The Refinance Index rose 1.3 percent from the previous week. Refinancing made up 78 percent of applications, unchanged from the previous week, while adjustable-rate loan activity dropped 0.3 percent to 5.4 percent. The four-week moving average for the Refinance Index inched up 0.2 percent on a seasonally adjusted basis.

The MBA's Purchase Index increased 1.5 percent from the previous week on a seasonally adjusted basis. On a non-adjusted basis, the index also rose 1.5 percent from the previous week, down 33.7 percent from a year ago. The four-week moving average for the Purchase Index increased 0.9 percent on a seasonally adjusted basis.

The average rate on a 30-year fixed loan fell to 4.6 percent from the prior week's 4.69 percent, while points, including origination fees, increased from 0.88 to 0.93 for 80 percent loan-to-value ratio loans, the MBA reported. The average rate on a 15-year fixed loan dropped from 4.12 percent to 4.03 percent, while points, including origination fees, increased from 0.83 to 1.01. The average rate on a one-year adjustable rate mortgage decreased from 7.15 to 7.1, while points, including origination fees, inched down from 0.23 to 0.21.

Abstract Deadline Nears for WAVO Valuation Congress

Abstracts for the World Association of Valuation Organisations' Valuation Congress are due Aug. 30. Manuscripts must relate to the event's theme: "Meeting the Valuation Needs of a Globalised World."

Theme subtopics include: valuations in compliance with international standards; business valuations and valuations for financial reporting; plant and machinery valuations; professional ethics and liability; training and education of valuers; statutory valuations; and specialized valuations.

After abstract submission, presenters will be notified of acceptance of the proposed paper by Sept. 15. If accepted, completed manuscripts must be submitted by Oct. 30. The winning technical papers will be announced at WAVO's 5th Valuation Congress, set for Nov. 24-26 in Singapore.

The purpose of the Congress is to examine pertinent issues in valuation arising from recent events and what can be done to improve valuer competency and professionalism. For more information, visit www.wavoglobal.org.

To submit an abstract, e-mail info@wavoglobal.org. For additional details and submission instructions, visit www.webboe.com/websysdocs/203.92.106.114201072922319_5th_wavo_valuation_congress.pdf.

IVSC Releases Two Documents for Comment

The International Valuation Professional Board of the International Valuation Standards Council has released for industry comment two documents intended to define "professional valuer." Comments are due by Sept. 30.

"Subsequent to the global financial crisis, change is likely to be more frequent and more complex than ever before," IVPB Chair Brad Wagar said in a July 20 IVSC news release. "Therefore, it is particularly timely for the International Valuation Professional Board to be defining the 'Professional Valuer'."

The documents –a discussion paper titled "Definition of a Professional Valuer," and an exposure draft titled "Proposed Code of Ethics for Professional Valuers" – were published to enhance the public's awareness of the valuation profession and the desired attributes of a professional appraiser while also addressing the ethical responsibilities of valuation professionals, according to the IVSC news release.

"It is our intention that this Discussion Paper, along with the companion Code of Ethics Exposure Draft, will afford both valuers and non-valuers the opportunity to shape the expectations for the future of the global valuation profession," Wagar said.

The documents are available on the IVSC website at www.ivsc.org.

Inside the Institute

AI Board Sends Core Competency, International Issues to 45-Day Notice

The Appraisal Institute Board of Directors sent two important topics to 45-Day Notice and addressed other pressing issues during its Aug. 12-13 meeting in Chicago.

The Board passed a motion to direct 45-Day Notice to the membership of proposed amendments to the Bylaws and Regulations that would implement the changes in designation requirements reflected in the Core Competency Model, which recently was shared with membership via an exposure draft (<http://www.appraisalinstitute.org/myappraisalinstitute/corecompetencies.aspx>).

The Core Competency Project Team and the Admissions and Designation Qualifications Committee worked for about two years to create the core competency model. ADQC believes that its implementation will keep the MAI and SRA designation requirements relevant and rigorous for all qualified candidates and will strengthen the Appraisal Institute in the long run.

The Board also sent to 45-Day Notice three items related to the Appraisal Institute's international members. The first would define as international members all AI members whose principal place of business or residence falls outside the United States, U.S. territories and Canada. The second would create a regional structure for international members, and the third would create a chapter structure for international members. The Board passed motions sending all three issues to 45-Day Notice so that members may provide their feedback before the Board's next meeting.

The Board also elected three Board members to the Appraisal Institute's Audit Committee for 2011: Harmon H. Garrin, MAI, SRA; John (Pat) Asay, MAI; and Jim Amorin, MAI, SRA.

In other action, the Board:

- Voted to fund chapters up to \$625,000, taken from Associate member dues, in 2011. The Appraisal Institute in 2011 also will provide \$15 from tuition revenue of each online course/seminar (excluding webinars and special programs), which has a registration fee in excess of \$100, to be credited to chapters on a quarterly basis.
- Passed a motion to hold an annual national conference and expo for AI's membership beginning in 2011, with the first event to take place next August in Las Vegas.
- Approved ADQC's recommendations to appoint a project team (up to six members) to study the organizational impact, legal issues, implementation timeframe and cost and revenue projections of a potential Candidate member program.
- Voted to hold the May 2011 Board of Directors and Strategic Planning Committee meetings in Puerto Rico, at the invitation of the Puerto Rico Chapter, based on research that showed the meetings would cost less than if they were held in Chicago.
- Approved a 45-Day Notice item dealing with three appraisal report alternative for the MAI designation, described as a "housekeeping" item to revise Regulation No. 1.

The next AI Board of Directors is scheduled for Nov. 3-5 in Miami.

Appraisal Institute Board Votes to Appeal Foundation Decision

The Appraisal Institute's Board of Directors voted Aug. 12 in Chicago to appeal the sanctions imposed by The Appraisal Foundation, which has accused the Appraisal Institute of violating the Foundation's Bylaws for sponsoring organizations. The Appraisal Institute has said the allegations are wrong, and that the penalty imposed is onerous, unjust and unwarranted.

The Board of Directors passed the following motion: "That the Appraisal Institute (AI) contact The Appraisal Foundation (TAF) to request a hearing on September 1, 2010, and that the Appraisal Institute make its best effort to convince TAF's Board of Trustees to reverse its decision to sanction the AI."

The Foundation decided July 12 to suspend the Appraisal Institute as a sponsoring organization from Sept. 15 to April 15, 2011. It also plans to revoke the discounts on the purchase price of, and permission to reproduce, the Uniform Standards of Professional Appraisal Practice from Sept. 15 to July 1, 2012.

The Appraisal Institute's Board of Directors told members in an email Aug. 18 that being true to AI's mission is not in conflict with being a Foundation sponsor. The Board said that in keeping with AI's mission, the Appraisal Institute will speak out to advance the interests of our members, our profession and the public, and that the Appraisal Institute will remain the independent voice for the appraisal profession..

More information is available in the members-only section of the AI website at http://www.appraisalinstitute.org/myappraisalinstitute/AI_TAF.aspx.

Rick Borges, MAI, SRA, Elected 2011 AI Vice President

Richard L. (Rick) Borges II, MAI, SRA, was elected as 2011 vice president of the Appraisal Institute by the Board of Directors on Aug. 12.

Borges will serve as vice president of the Appraisal Institute beginning Jan. 1, 2011. The following year he will serve as president-elect, and in 2013 will become the Appraisal Institute's president for one year, followed by a year as immediate past president. He also will serve on AI's Executive Committee those four years and will be a member of the Board of Directors during that time as well.

"I truly appreciate the opportunity to continue serving the public, the Appraisal Institute and the appraisal profession as a member of the Institute's leadership team," Borges said. "It is a great honor that brings tremendous responsibility requiring long and hard work that I am eager to begin. I look forward to building the Appraisal Institute's relationship with its more than 25,000 members in about 60 countries around the globe."

Borges has been a member of the Appraisal Institute since 1978, a member of the National and Indiana Associations of Realtors and the Jackson County Board of Realtors since 1974 and the Columbus (Ind.) Board of Realtors since 1997.

Borges received the President's Award from the Appraisal Institute in 2009, the Richard E. Nichols, MAI, SRA, Lifetime Achievement Award from the Hoosier State Chapter in 2008, the Edward L. White Achievement Award from the Hoosier State Chapter in 2000, the Dick Snyder Service Award from the

Indiana Association of Realtors in 1984 and the Realtor of the Year Award from the Jackson County Board of Realtors in 1982.

He is an Indiana certified general appraiser, an Indiana real estate broker, an Indiana Level I and Level II assessor-appraiser, an Appraiser Qualifications Board-certified Uniform Standards of Professional Appraisal Practice instructor and an Indiana certified tax representative.

Borges is a partner with his wife, B. LaVonne Borges, SRA, in Borges & Borges Real Estate Advisors, a full-service real estate firm with offices in Seymour and Greenwood providing counseling, brokerage, development and appraisal services since 1977.

Borges is concluding three years of service as a member of the Appraisal Standards Board of The Appraisal Foundation. In addition, Borges has been a contributor and developer for several appraisal-related textbooks and seminars, including "Appraising Residential Properties," fourth edition, published by the Appraisal Institute in 2007.

Borges has been a member of the Appraisal Institute faculty since 1987. He is currently an AI-approved instructor for more than 35 education courses or seminars, and teaches across the nation on a regular basis. In addition, he was an adjunct faculty member at Ivy Tech State College from 1994 to 1997.

Borges is a graduate of Indiana University with a bachelor's degree in general studies and a graduate of Vincennes University, where he earned a highway technology certificate while employed by the Indiana Department of Transportation before entering the real estate field. He and his wife are the parents of daughters Shane Apolskis, Rikki Houghton and Elaine Reed and twin granddaughters Haley and Hunter Reed; all reside in Greenwood, Ind.

2010 Washington Appraisal Summit Session Material Available

PowerPoint presentations from many of the panel sessions conducted during the Appraisal Institute's 2010 Washington Appraisal Summit, held July 19-20 in Washington, D.C., are available for download.

The Summit consisted of more than 40 different sessions on such issues as: the Dodd-Frank financial regulatory reform bill, commercial real estate workouts, the Home Valuation Code of Conduct, public sector asset management valuation solutions, expert witness rules and court cases impacting real estate appraisers, global valuation standards and financial reform legislation and data standards.

The Washington Appraisal Summit Package is free for Summit attendees. Non-attendees can purchase the package for \$99. To order, visit www.appraisal institute.org/store/p-226-2010-washington-appraisal-summit-package.aspx.

AI in the News: Editor of Appraisal Institute Book Highlighted

Mark Linne, MAI, SRA, was featured on three online media outlets the week of Aug. 9 as the Appraisal Institute published a book he edited. "Visual Valuation: Implementing Valuation Modeling and Geographic Information Solutions" was highlighted in National Mortgage Professional Magazine, TMCnet.com and MortgageMag.

The book outlines how the valuation profession can make the transition from a data-poor discipline to a data-rich one by adapting the tools of “predictive analytics” used in other industries. Edited by Linne with Michelle Thompson, Ph.D., the book features 15 insightful chapters written by experts who provide practical discussions about how to use GIS and modeling technology in valuations. It also includes case studies by academicians who apply technology to solve problems in housing, resource management and other areas. Linne wrote or co-wrote eight of the chapters.

Those stories are among the recent media coverage currently included in the “AI in the News” feature on the members-only section of the Appraisal Institute website.

Appraisal Institute members appearing in media coverage last week included Matt Caldwell, Associate member, Sunshine State News (Tallahassee, Fla.); Jonathan Miller, Associate member, The New York Observer and Bloomberg.com; Alan Herrman, Associate member, Winfield (Kan.) Daily Courier; Pam Dubov, Associate member, The Tampa (Fla.) Tribune; Chris Jones, Associate member, Gulf Breeze (Fla.) News; Richard Hagar, SRA, The (Phoenix) Arizona Republic; and James Jacobs, SRA, Sherman (Texas) Herald Democrat.

To see the latest media coverage about the real estate valuation profession, the Appraisal Institute and its members, go to the members-only area of the Appraisal Institute website at www.appraisalinstitute.org/myappraisalinstitute/Default.aspx and click any of the headlines under “AI in the News.” Media coverage is updated daily and also includes the latest news releases from the Appraisal Institute.

Southern California Chapter to Debut IRS Valuation Summit on Aug. 24

The Appraisal Institute’s Southern California Chapter will present its first-ever IRS Valuation Summit, an all-day event addressing critical tax valuation issues and challenges that impact appraisers, on Aug. 24.

Leading industry experts – including renowned estate planning attorneys, CPA accountants and MAI designated appraisers – will lead dynamic panel discussions on current and proposed federal legislation for estate and gift taxes, conservation and historic easements, partial interests and more. Eight hours of MCLE and OREA continuing education credit have been approved, and eight hours of CPA continuing education credit are pending approval. Only 10 openings remain.

To learn more and to register, visit

http://www.appraisalinstitute.org/education/more_info.aspx?id=18021&view=B&state=C7&sort=D.

AI in the News: 2 AI Members Featured on Network’s Website

Appraisal Institute President Leslie Sellers, MAI, SRA, and Sara Schwarzentraub, SRA, were featured Aug. 9 on MSN.com as they discussed what homeowners can do to help ensure an appraisal doesn’t hold up their home’s sale. The story also appeared on BankRate.com.

Sellers said that a lender might order a new home appraisal if the first one was based on factual errors or the appraiser wasn’t competent in the area. He also noted that some second appraisals result from a misunderstanding of the Home Valuation Code of Conduct, which may have caused some lenders to cut

off communication with appraisers. Schwarzentraub noted the additional costs involved with a second full appraisal.

Also appearing in national media coverage this past week were AI Immediate Past President Jim Amarin, MAI, SRA, in Distressed Assets Investor; Eric Schwartz, MAI, SRA, in The Washington Post; and Steve Albert, MAI, SRA, and Chris Jones, Associate member, in Valuation Review. Jones also was featured in the Pensacola (Fla.) News Journal.

Those stories are among the recent media coverage currently included in the "AI in the News" feature on the members-only section of the Appraisal Institute website.

Appraisal Institute members featured in local media coverage around the country last week included Jim Kelley, Associate member, Daily Inter Lake (Kalispell, Mont.); Richard Hagar, SRA, The Miami Herald and The St. Petersburg (Fla.) Times; Carole Laval, SRA, The Fresno (Calif.) Bee; Matt Caldwell, Associate member, The Fort Myers (Fla.) News-Press; Susan Copeland, MAI, The News & Observer (Raleigh, N.C.) and INDYWeek.com (Durham, N.C.); Bill Pittenger, MAI, SRA, TCPalm.com (Stuart, Fla.); Stephen Albright Jr., MAI, Ocala (Fla.) Star-Banner; Warren Weathers, SRA, The Tampa (Fla.) Tribune; William McCann Sr., MAI, Idaho Mountain Express and Guide; James Wolter, SRA, The Livonia (Mich.) Observer; and Sandra Adomatis, SRA, Chicago Tribune. Appearing on local radio last week was Daniel Fries, SRA, who was featured on Radio Sandy Springs-AM 1620 in Sandy Springs, Ga.

To see the latest media coverage about the real estate valuation profession, the Appraisal Institute and its members, go to the members-only area of the Appraisal Institute website at www.appraisalinstitute.org/myappraisalinstitute/Default.aspx and click any of the headlines under "AI in the News." Media coverage is updated daily and also includes the latest news releases from the Appraisal Institute.

Free Webinar for AI Members on Aug. 18: Site To Do Business

The Appraisal Institute's "The Appraiser and the Site To Do Business: Location, Timing and Demographics" webinar on Aug. 18 will explore the functions and features of STDBonline and STDB Lite. This webinar is free for Appraisal Institute members.

The webinar will provide: an overview of STDB Lite, which is provided to AI members at no cost; a description of the difference between the Lite level and the full version of STDBonline, available to AI members at a discount; and a demonstration of how appraisers are using the site and applying the data.

The speakers are AI Immediate Past President Jim Amarin, MAI, SRA, vice president of Atrium Real Estate Services and a specialist in the use of the STDBonline; and Carol Campbell, director of marketing at STDBonline. Campbell presents numerous seminars and webinars related to the STDB product and its functionality for a variety of real estate uses.

The one-hour webinar will be presented at 1 p.m. CDT on Aug. 18. This webinar is free for AI members and \$75 for nonmembers. It is not approved for AI or state continuing education credit. For more information and to register, visit www.appraisalinstitute.org/education/more_info.aspx?id=18248.

Appraisal Institute Designates 12 Members in July

The Appraisal Institute conferred the MAI designation on five members in July, including one from China, and the SRA designation on seven members.

The newly designated MAI members for July are: R. Blair Abney, MAI, Marshall, Texas; John Chambers, MAI, Pompano Beach, Fla.; Jihang Chen, MAI, Guangzhou, China; Tyler Martin, MAI, Boise, Idaho; and Jon Vaughan, MAI, Greeley, Colo.

The newly designated SRA members for July are: Lori Coffey, SRA, Marietta, Ga.; Stephen Erving, SRA, Milwaukie, Ore.; James Howell, SRA, Boyne City, Mich.; Michael Logan Jr., SRA, Lake City, Fla.; Jeffrey Rauland, SRA, Sussex, Wis.; Kelly Royer, SRA, Walnut Creek, Calif.; and Michael Teel, SRA, Chicago.

Designated members make a commitment to advanced education and defined ethical requirements. The MAI designation is held by appraisers who are experienced in the valuation and evaluation of commercial, industrial, residential and other types of properties, and who advise clients on real estate investment decisions. The SRA designation is held by appraisers who are experienced in the analysis and valuation of residential real property. Visit www.appraisalinstitute.org/membership/designated_mem.aspx for more information on designations.

For a full list of designees by month, visit www.appraisalinstitute.org/membership/NewlyDesignated.aspx.

Four Members Named AI “Volunteer of Distinction” for August

Region V’s Scott Robinson, MAI, SRA, a member of the North Carolina Chapter; Region VI’s Mario Silvestri, MAI, a member of the Northeast New Jersey Chapter; Region VIII’s James Jacobs, SRA, a member of the North Texas Chapter; and Region X’s Stephen Albright, Jr., MAI, a member of the East Florida Chapter, each have been named an Appraisal Institute “Volunteer of Distinction” for August.

The Appraisal Institute’s member recognition program honors one member in good standing in each region each month for their service to the organization, the profession and their community.

Robinson has been involved in the real estate profession for over a quarter-century and has been a member of the Appraisal Institute for 23 years. His service to the Appraisal Institute includes serving on the Appraisal Institute’s Board of Directors and as president of the North Carolina Chapter. A former Region V chair, he has served on a variety of Appraisal Institute committees, including the Strategic Planning Committee, the Audit Committee and the Admissions Designation Qualifications Committee. In his community, he serves as a member of the Downtown Salisbury Taskforce and as president of his local Kiwanis Club. He received a Bachelor of Arts degree from Wake Forest University and earned his SRA designation in 1991 and his MAI designation in 1996.

Silvestri has been involved in the real estate profession for nearly a quarter-century and has been a member of the Appraisal Institute for 22 years. His service to the Appraisal Institute includes serving as president of the Northeast New Jersey Chapter and as chair of its General Admission and Candidate Guidance Committee. An active member of the United States Green Building Council, he currently serves as chair of the USGBC New Jersey Chapter’s Sustainability Valuation and Consultation Committee. In his community, he serves as chair of the Roseland Environmental Commission and devotes his free time to coaching youth sports. He received a Bachelor of Business Administration degree from Kent State University and earned his MAI designation in 1999.

Jacobs has been involved in the real estate valuation profession for nearly 40 years and has been a member of the Appraisal Institute since 1973. His service to the Appraisal Institute includes serving as president of the North Texas Chapter and as chair of its Nominating and Finance Committees. A registered arbitrator with the Texas Comptroller of Public Accounts, he currently serves as vice chair of the City of Sherman Planning and Zoning Board. An instructor of Appraisal Institute courses since 2002, he is a former review panel member for the North Texas Appraiser Licensing and Certification Board as well as the former director of research for the Texas Real Estate Teachers Association. He received a Bachelor of Science degree from West Texas State University and earned his SRA designation in 1977.

Albright has been involved in the real estate profession for 15 years and has been a member of the Appraisal Institute for nearly a decade. His service to the Appraisal Institute includes serving on the East Florida Chapter's Board of Directors and chairing its Membership Retention and Recruitment Committee. A certified general real estate appraiser in the state of Florida, he serves in his community as a board member of the Central Florida Community College Foundation and as a little league baseball coach. He received a Bachelor of Arts degree from the University of North Carolina – Chapel Hill and earned his MAI designation in 2010.

To learn more about the Appraisal Institute's August Volunteer of Distinction honorees, visit www.appraisalinstitute.org/membership/VolunteerOfDistinction.aspx.

AI in the News: AI President's Article Featured in National Trade Magazine

An article written by Appraisal Institute President Leslie Sellers, MAI, SRA, was featured in the August 2010 issue of Scotsman Guide, a monthly magazine for mortgage originators. In the article, Sellers discusses the importance of lenders and mortgage brokers hiring only ethical and competent appraisers to avoid mortgage fraud.

"Often, the easiest and most reliable way to safeguard your clients' financial interests -- and your own -- is to request that lenders hire only ethical and competent appraisers," Sellers wrote.

Also appearing in national media coverage this past week were Howie Gelbtuch, MAI, the focus of a lengthy feature in The Wall Street Journal, Gail Lissner, SRA, on REJournals.com, and Jonathan Miller, Associate member, on Bloomberg.com.

Those stories are among the recent media coverage currently included in the "AI in the News" feature on the members-only section of the Appraisal Institute website.

Appraisal Institute members featured in local media coverage around the country last week included K. Mitchell Caldwell, MAI, Sarasota (Fla.) Herald-Tribune; Charles Phillips, SRA, The Virginian-Pilot (Hampton Roads, Va.); Ryan Hlubb, SRA, The Daily Record (Baltimore) and The Press-Enterprise (Riverside, Calif.); Alvin Wagner, SRA, The Chicago Sun-Times; Glenn Gabberty, SRA, New York Real Estate Journal; Donna Lollar Green, Associate member, The Dallas Morning News; Greg Ruzzine, Associate member, Reno (Nev.) Gazette-Journal; and Thomas Frey, Associate member, Times Herald-Record (Middletown, N.Y.).

To see the latest media coverage about the real estate valuation profession, the Appraisal Institute and its members, go to the members-only area of the Appraisal Institute website at www.appraisalinstitute.org/myappraisalinstitute/Default.aspx and click any of the headlines under "AI in the News." Media coverage is updated daily and also includes the latest news releases from the Appraisal Institute.

New Requirements Affect AI Associate Members' Appraisal Reports

In conjunction with the Appraisal Institute's new continuing education requirements, which took effect July 1, Associate members now must include a certification statement in each of their reports that indicates their continuing education status.

Although some Associate members might not yet be aware, their written reports now must include a certification statement that says either "As of the date of this report, I (Associate Member's name) have/has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members" or "As of the date of this report, I (Associate Member's name) have not/has not completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members."

Additional information about the new continuing education requirements is available on the Appraisal Institute website at www.appraisalinstitute.org/myappraisalinstitute/ce_associate.aspx.

AI Leadership Resource Registry for 2011 Appointments Closes Aug. 15

The 2011 deadline for the Appraisal Institute Leadership Resource Registry, an online site where members may indicate their interest in AI leadership positions, is Aug. 15.

National appointments will be made in November and December by President-Elect Joseph C. Magdziarz, MAI, SRA. Although each year's president-elect does his or her best to include as many volunteers as possible, not everyone who submits preferences can be selected.

Members only need to fill out the registry once per year to be considered for national leadership positions. Regional and chapter appointments may vary; members should check with their region's or chapter's leadership for information on those positions.

A list of members serving on national committees can be viewing as of Jan. 1 each year via AI's website: www.appraisalinstitute.org/about/committees.aspx.

For more information, visit the Leadership Resource Registry at www.appraisalinstitute.org/myappraisalinstitute/my_lrr.aspx.

Appraisal Institute Seeks Award Nominations

The Appraisal Institute is seeking nominations by AI members and chapters for lifetime achievement and outstanding service awards. Nominations are due by Sept. 15 for the awards, which will be presented Nov. 3 during the Appraisal Institute's awards luncheon in Miami.

The Lifetime Achievement Award is presented to an Appraisal Institute member who demonstrates high ethical standards; has volunteered several years of service and contribution to the Appraisal Institute on

the chapter, regional, national and/or international level; provides service to his or her community; and has contributed to the appraisal profession for at least 20 years.

The Outstanding Service Award is presented to an individual who has contributed ideas, service and dedication to ensure a specific program or effort is implemented at the chapter, region, national and/or international level. This Appraisal Institute member must be instrumental in the success of the program or effort, which also must be far enough along to measure and provide proof of success. Additionally, the program or effort must be beneficial to chapters, regions, national or international members or the profession.

The Appraisal Institute's Awards Selection Panel will select the winners. Those selected will be asked to attend the awards luncheon at their own expense. For more information, visit the members-only section of the Appraisal Institute's website at:

www.appraisalinstitute.org/myappraisalinstitute/Nominate/Default.aspx.

ECONOMIC INDICATORS – June 2010

Market Rates and Bond Yields

	Jun10	Dec09	Jun09	Dec08	Jun08	Jun07
Reserve Bank Discount Rate	0.75	0.50	0.50	0.86	2.25	6.25
Prime Rate (monthly average)	3.25	3.25	3.25	3.61	5.00	8.25
Federal Funds Rate	0.18	0.12	0.21	0.16	2.00	5.25
3-Month Treasury Bills	0.12	0.05	0.18	0.03	1.86	4.61
6-Month Treasury Bills	0.19	0.17	0.31	0.26	2.13	4.76
3-Month Certificates of Deposit	0.52	0.22	0.39	1.77	2.76	5.33
LIBOR-3 month rate	0.61	0.45	1.13	2.47	2.95	5.35
U.S. 5-Year Bond	2.00	2.34	2.71	1.52	4.37	5.03
U.S. 10-Year Bond	3.20	3.59	3.72	2.42	4.78	5.10
U.S. 30-Year Bond	4.13	4.49	4.52	2.87	5.12	5.20
Municipal Tax Exempts (Aaa) [†]	n/a	3.89	4.56	5.17	4.50	4.34
Municipal Tax Exempts (A) [†]	n/a	4.72	4.84	6.15	4.92	4.65
Corporate Bonds (Aaa) [†]	4.88	5.26	5.61	5.08	5.68	5.79
Corporate Bonds (A) [†]	n/a	5.77	6.39	6.70	6.43	6.33
Corporate Bonds (Baa) [†]	6.23	6.37	7.50	8.46	7.07	6.70

Stock Dividend Yields

Common Stocks—500	2.09	1.95	2.35	3.00	2.15	1.81
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Other Benchmarks

Industrial Production Index ^{*,¶}	92.5	89.6	85.5	91.0	98.0	100.1
Unemployment (%) [¶]	9.5	10.0	9.5	7.2	5.5	4.5
Monetary Aggregates, daily avg. [¶]						
M1, \$-Billions	1,722.6 ^{††}	1,696.6 ^{††}	1,646.2 ^{††}	1,602.1 ^{††}	1,385.6	1,363.9
M2, \$-Billions	8,611.8 ^{††}	8,544.4 ^{††}	8,455.3 ^{††}	8,257.5 ^{††}	7,687.2	7,241.2
Member Bank Borrowed Reserves \$-Billions [^]	n/a	n/a	n/a	n/a	n/a	0.187
Consumer Price Index All Urban Consumers	218.0	215.9	215.7	210.2	218.8	208.4

	1Q10	4Q09	1Q09	4Q08	1Q08	4Q07	1Q07
Per Capita Personal Disposable Income ^{††}	35,920	35,665	35,124	35,304	34,925	34,893	34,055
Annual Rate in Current \$s Savings as % of DPI ^{††}	3.5	3.7	3.7	3.8	1.2	1.5	2.0

* On June 25, 2010, the Federal Reserve Board advanced to 2007 the base year for the indexes of industrial production, capacity, and electric power use. This follows the November 7, 2005, change to a 2002 baseline, from the previous 1997 baseline. Historical data has also been updated.

[^] The Fed stopped releasing this figure in March 2008.

[¶] Seasonally adjusted

[†] Source: *Moody's Bond Record*

^{††} Revised figures used

Conventional Home Mortgage Terms

	Jun10	Dec09	Jun09	Dec08	Jun08	June07
New House Loans—U.S. Averages						
Interest rate (%)	5.00	5.01	5.17	5.67	6.13	6.54
Term (years)	28.2	28.4	29.0	29.1	29.1	29.5
Loan ratio (%)	73.1	72.1	72.9	74.9	75.6	76.7
Price (thou. \$)	316.1	347.9	344.0	351.6	352.7	357.9
Used House Loans—U.S. Averages						
Interest rate (%)	5.02	5.00	5.16	5.59	6.28	6.63
Term (years)	27.5	27.2	28.4	28.5	28.3	29.7
Loan ratio (%)	74.7	74.3	74.6	75.1	77.3	80.4
Price (thou. \$)	307.5	297.8	328.0	284.9	310.3	297.9

Conventional Home Mortgage Rates by Metropolitan Area

	2Q10	2Q09	2Q08	2Q07
Atlanta	5.01	4.92	6.11	6.34
Boston-Lawrence-NH-ME-CT [#]	4.81	4.94	5.99	6.31
Chicago-Gary-IN-WI [#]	5.33	5.18	6.11	6.62
Cleveland-Akron [#]	5.11	5.17	6.07	6.37
Dallas-Fort Worth [#]	5.00	4.96	6.19	6.44
Denver-Boulder-Greeley [#]	5.09	5.03	6.11	6.39
Detroit-Ann Arbor-Flint [#]	5.44	5.10	6.17	6.73
Houston-Galveston-Brazoria [#]	5.00	5.12	6.23	6.61
Indianapolis	5.04	5.09	6.33	6.65
Kansas City, MO-KS	4.98	5.09	5.93	6.24
Los Angeles-Riverside [#]	5.06	5.00	6.16	6.39
Miami-Fort Lauderdale [#]	5.21	5.17	6.34	6.68
Milwaukee-Racine [#]	5.10	5.03	6.27	6.52
Minneapolis-St. Paul-WI	5.07	5.04	6.11	6.37
New York-Long Island-N. NJ-CT [#]	5.03	4.96	6.09	6.34
Philadelphia-Wilmington-NJ [#]	5.08	5.05	6.09	6.34
Phoenix-Mesa	5.02	5.19	6.27	6.44
Pittsburgh	5.09	4.96	5.93	6.19
Portland-Salem [#]	4.99	4.98	6.11	6.27
St. Louis-IL	4.93	5.07	6.22	6.53
San Diego	5.18	5.05	6.17	6.32
San Francisco-Oakland-San Jose [#]	5.03	5.02	6.19	6.37
Seattle-Tacoma-Bremerton	4.97	5.03	6.06	6.42
Tampa-St. Petersburg-Clearwater	5.03	5.08	6.26	6.54
Washington, DC-Baltimore-VA [#]	5.07	5.00	6.17	6.47

As of the first quarter 2003, the Federal Housing Finance Board no longer reported on the markets of Greensboro, Honolulu and Louisville.

[#] Consolidated Metropolitan Statistical area