

**May 17, 2010, Field Hearing**  
**Oversight and Investigations Subcommittee**  
**of House Financial Services Committee**  
***“Commercial Real Estate: A Chicago Perspective***  
***on Current Market Challenges and Possible Responses”***

Being here at the site of The Great Chicago Fire of 1871 is reminiscent of mass destruction and rebuilding, not unlike the work we face to rebuild our financial system today.

Hundreds of banks are expected to fail in the next two years.

Financing for commercial real estate is nearly non-existent as trillions of dollars in commercial paper comes due.

Based on my discussions with government officials, investors and borrowers throughout the world, there is a striking concern that we conduct real estate financing with a ‘wild west’ attitude. The United States has lost credibility as the financial leader of the world.

Clearly, if we are going to retain and attract new investment, we must earn back the trust of investors.

We firmly believe that collateral risk assessment must be resurrected and enforced:

- We cannot rely on credit risk alone – we must account for collateral risk.
- We need to promote quality and competency over speed and volume.
- We need consistent and enforceable lending regulations and guidelines.
- We need to elevate risk management to be on even par with loan production.

We believe there are specific actions that can help put out the fires and help in the rebuilding process.

First, to help with CRE workouts, lenders should engage competent appraisers to provide multi-value appraisals, providing as-is market value, liquidation value and fair value. These represent the most likely, most pessimistic and most optimistic measurements of collateral risk.

Second, financial institutions should engage independent valuation experts in the periodic monitoring of CRE assets much like pension funds and institutional investors are required to do now.

Third, we need to strengthen the Interagency Appraisal Guidelines to demand competency, quality and accountability.

Finally, we need to strengthen the institutional capacity of collateral risk within financial institutions and the bank regulatory agencies for better oversight and enforcement.

In closing, professional appraisers stand prepared to battle the fires confronting the commercial real estate market today. As we look to win back the confidence of investors worldwide, we believe enhanced collateral risk assessment is one of the building blocks necessary to chart this path.

Thank you. I am happy to answer any questions.