National Association of Independent Housing Professionals

601 Pennsylvania Ave. NW • South Building, Suite 900 • Washington, DC 20004

April 11, 2012

Hon. Richard Cordray
Director
Consumer Financial Protection Bureau
1801 L Street N.W.
Washington, D.C. 20036

Re: Appraiser Independence Regulations

Dear Director Cordray:

Thank you for taking the time to meet with NAIHP on January 26, 2012. We always appreciate the opportunity to meet with the CFPB and discuss issues of concern that affect consumers and small business housing professionals.

Although, our meeting covered a broad range of issues, my comments today are limited to the ongoing problems associated with "Appraiser Independence."

Today's Interim Rule on Appraiser Independence, was built on the flawed foundation of the former Home Valuation Code of Conduct (HVCC). As you are aware HVCC was an 18 month agreement between former N.Y. Attorney General Andrew Cuomo, the Office of Federal Housing Enterprise Oversight (now the Federal Housing Finance Agency), and the GSEs.

Attached you will find an outline exposing the unintended consequences created by HVCC and the Interim Rule.

Lastly, NAIHP and the undersigned small business housing trade and membership organizations strongly support the attached solutions to cure the unintended consequences of Appraiser Independence regulations. Furthermore, we recognize the CFPB inherited this rule, but urge you to adopt these Main Street solutions, which will restore real consumer protection and true appraiser independence.

Sincerely,

Marc S. Savitt, President

Phone: 202.587.9300 • E-mail: info@naihp.org • Website: www.naihp.org

National Association of Independent Housing Professionals

American Guild of Appraisers- Guild #44 OPEIU-AFL/CIO

Illinois Association of Mortgage Professionals

North Carolina Association of Mortgage Professionals

New Jersey Association of Professional Mortgage Originators

Ohio Coalition of Appraisal Professionals

California Coalition of Appraisal Professionals

New Jersey Chapter of the American Guild of Appraisers

Oklahoma Professional Appraisers Coalition

Coalition of Arizona Appraisers

Washington Association of Mortgage Professionals

Real Estate Appraisers Association (REAA) California

Virginia Coalition of Appraisal Professionals

Charlotte (NC) Regional Mortgage Lenders Association

Nevada Association of Mortgage Professionals

Nebraska Association of Mortgage Brokers

Arizona Association of Mortgage Professionals

Missouri Association of Mortgage Professionals

Vermont Coalition of Appraisers

Utah Coalition of Appraisers

See below...

Appraiser Independence?

Background:

The Home Valuation Code of Conduct (HVCC) was an agreement between the N.Y. Attorney General, Fannie Mae, Freddie Mac and their regulator.

HVCC was born from an investigation of a federally chartered bank and an unregulated appraisal management company. The investigation revealed conflicts of interest and the influencing of appraisers to fraudulently inflate the value of real estate.

The following paragraph is an exact quote from former N.Y. Attorney General Andrew Cuomo's own website:

"In 2007 Cuomo also announced an investigation into widespread appraisal fraud within the mortgage industry, examining practices used by some of the country's largest banks of pressuring appraisers to artificially inflate the value of homes. As a result of these investigations, Fannie Mae and Freddie Mac, the largest purchasers of home loans, agreed to abide by new appraisal guidelines defined by the Attorney General and to fund an Independent Valuation Protection Institute to implement and monitor those guidelines."

In March of 2008, the original (proposed) HVCC agreement prohibited banks and lenders from having more than a 20% interest in appraisal management companies (AMC). Moreover, mortgage brokers were prohibited from ordering or having any contact with the appraisal process. When the final version of HVCC was released in December of 2008, the banks 20% ownership cap was removed, allowing banks and lenders to own an unlimited percentage of interest in AMCs.

After five meetings with Mr. Cuomo's staff, NAIHP was informed the revisions were made at the insistence of the GSE's regulator. NAIHP questions why Mr. Cuomo would allow the banks and lenders to continue with the exact same model that first caused him to initiate his investigation. The very banks and AMCs from his investigation were now in control of the residential valuation system in this country. Despite the fact mortgage brokers were NOT the subject of his investigation, the December 2008 final agreement required their removal from the appraisal process.

Since HVCC went into effect on May 1, 2009, consumers have incurred substantial additional expenses when purchasing or refinancing residential properties. It is conservatively estimated those costs exceed 2.8 Billion dollars a year. This estimate is based on higher appraisal costs enacted by AMCs and extended interest rate lock-ins, necessary due to extensive delays caused by AMC middlemen. Most importantly, HVCC has done nothing to reduce fraud and/or conflicts

of interest. In fact, statistics have shown valuation fraud increased 46% in the 3rd quarter of 2009, as compared to the same time period in 2008. In the spring of 2010 and 2011, the Mortgage Asset Research Institute (MARI), reported valuation fraud had increased over 50%, year over year. This significant increase occurred despite HVCC, which included a prohibition on brokers ordering appraisals.

The agreement between the N.Y. Attorney General and the GSEs has sunset. However, the exact same provisions within HVCC are now embedded in the GSE guidelines and in the Interim Rule written by the Federal Reserve Board.

In addition to valuation fraud increasing at alarming rates, appraiser independence (AP) has also caused thousands of appraisers to go out of business. Local small business appraisers have lost their independence to unregulated AMCs. Appraisers can no longer set their fees. Fees are dictated by the AMCs and often end up between 40%-60% less than what is customary and reasonable for a specific geographic area. Sometimes, appraisal assignments are put up for bid. It is important to understand consumer costs have not been reduced along with appraiser compensation. In fact, the cost of an appraisal has increased on average $200.00. The increase, along with the "haircut" taken by appraisers, has gone into the pockets of AMCs and their partners, the big banks.

The long term outlook for the appraisal industry is even worse. Because appraiser compensation has been drastically reduced; they can no longer afford to hire an apprentice. An apprentice needs a minimum of 2000 hours working under a licensed appraiser before they can be licensed. The average age of an appraiser is 56, which means within 8-10 years the appraisal industry will be a fraction of what it is today.

Under the current system of hiring the least expensive appraiser, including those unfamiliar with a subject property's geographic area, quality and accuracy are often absent.

Many have long believed HVCC was nothing more than a "Plea Bargain" like agreement between Andrew Cuomo and the GSEs, with the blessings of the Banks. In reality, the agreement doesn't make sense. Why would Mr. Cuomo and the GSE's allow their solution to the conflicts of interest, be the exact same conflicts of interest that created the fraud?

In the spring of 2008, the GSEs held a public comment period. NAIHP is aware tens of thousands of comment letters were received by the GSE's, their regulator and Mr. Cuomo. However, the Federal Housing Finance Agency (FHFA) has refused to release any of the comments. NAIHP filed a FOIA request and made an I.G. complaint. Both are stalling with respect to assisting in the production of these comments.

In the spring of 2010, Acting FHFA Director Edward DeMarco wrote to Andrew Cuomo and acknowledged use of "extensive marketplace comments in the deployment and implementation of HVCC." Although, Mr. DeMarco has acknowledged the importance of these

comments, he refuses to release them. This cover up only supports NAIHP's contention that HVCC was a sham, designed to protect the GSEs and increase revenue to the big banks. Only one comment letter escaped the FHFA cover up. On June 10, 2008, four regulators sent a joint comment letter (see attached) to the FHFA. They warned the agency of the unintended consequences of HVCC, including the effect on consumers.

Also of major significance was Andrew Cuomo's position with an unregulated AMC, prior to becoming N.Y. Attorney General. Mr. Cuomo was a member of the Board of Directors and Chairman of the Board of Advisors for a company known as AMCO. During his tenure (2005), with AMCO, Cuomo approached the GSEs with a suggestion of implementing HVCC style rules on all GSE loans. The GSEs rejected the suggestion. Had Fannie Mae and/or Freddie Mac in fact implemented the proposed guidelines, Cuomo's employer (AMCO), stood to substantially increase their revenue.

NAIHP has long warned regulators of problems associated with appraisal management companies. Besides evidence that these unregulated entities are overcharging consumers, accepting unearned fees, splitting fees with joint venture partners and failing to disclose affiliated business arrangements, some AMCs now appear to be engaged in tax evasion.

Many AMCs are only registered to conduct business in a handful of states. This in itself is a violation of state laws, but it also highlights the fact these same AMCs are flying under the radar of state tax departments. In order to receive a state tax identification number, a business must be registered with the Secretary of State. In just one example, we found a national AMC was registered in only 20 states. A complete lack of oversight allows these AMCs to overcharge consumers, underpay appraisers and evade tax responsibilities. Moreover, any monies collected from a consumer by an AMC operating without state authority, may need to be refunded.

Substantial evidence exists, which indicates AMC practices promote further deterioration of real estate values. This is due in part to hiring appraisers with little or no knowledge of the subject market area.

NAIHP acknowledges neither HVCC nor Appraiser Independence rules require the use of AMCs. However, because most banks and lenders participate in joint venture relationships with AMCs, if not own them outright, third party originators wishing to conduct business with these lenders are required to use their AMCs. **Therefore, AMC use is required.**

Solutions to the unintended consequences of Appraiser Independence Regulations:

1. Absolute prohibition of AMC joint ventures, or shared ownership interest with any real estate or financial institution, including their owners, officers, directors, shareholders, employees, or relatives thereof.

2. Any mortgage broker or loan origination **LICENSED** under the guidelines of the SAFE Act and registered with the National Mortgage Licensing System (NMLS), shall be permitted to order a residential real estate appraisal directly from a local market licensed appraiser.

3. All parties to any residential real estate transaction shall be required to sign a (CFPB approved) certification form. This form shall act as an advisory on the prohibition of influencing any licensed appraiser for any reason and the penalties for said violations.

4. Reinstate the language in the Dodd-Frank Wall Street Reform and Consumer Protection Act, which prohibits fees paid by AMCs to be the determining factor in setting Customary and Reasonable fees for residential appraisals.

   The GAO warned in their report, allowing AMCs to dictate fees charged to consumers for appraisals, while at the same time retaining 40-60% of those fees, would threaten the quality of the appraisal report. Allowing free market conditions to determine Customary and Reasonable appraisal fees will benefit consumers by creating safety and soundness within the appraisal process.

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Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Office of Thrift Supervision
National Credit Union Administration

June 19, 2008

Mr. James B. Lockhart, III
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, N.W.
Washington, D.C. 20552

Dear Director Lockhart:

The Federal Reserve Board ("Board"), the Office of the Comptroller of the Currency ("OCC"), the Office of Thrift Supervision ("OTS"), and the National Credit Union Administration (collectively, the "Agencies") appreciate the opportunity to convey our concerns about the Home Valuation Protection Program and Cooperation Agreements ("Agreements") between your agency, the New York State Attorney General, and the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (collectively, the "GSEs").[1] The Agreements require mortgage lenders, including federally regulated financial institutions and organizations ("federally regulated lenders"), seeking to sell single-family mortgage loans to the GSEs to adopt the Home Valuation Code of Conduct ("Code") attached to the Agreements and to comply with certain practices imposed by the Code.

We strongly support the goals of protecting appraisers from coercion or other undue influence by lenders, borrowers, brokers, or others involved in the mortgage lending and securitization process. Appraiser independence and reliable valuations of real estate collateral for loans in the primary and secondary residential mortgage markets are a necessary part of the foundation to protect lenders in making safe and sound residential mortgage credit decisions, consumers in their borrowing decisions, and investors in their decisions to purchase mortgage-backed securities.

We are very concerned, however, that the requirements imposed by the Agreements and Code would unnecessarily undermine the safe and sound extension of mortgage credit, reduce the availability of mortgage credit to many consumers, and ultimately lead to less reliability and accuracy in real estate appraisals. Moreover, issues regarding appraiser independence and protection from coercion are already adequately addressed by current and pending rules and guidance of the Agencies. In addition, we believe that insufficient information has been collected and inadequate analysis has been performed to permit confidence that the

[1] The OCC and the OTS have previously submitted separate comment letters concerning the legal and policy issues presented by the Agreements and the Code. See letter dated April 30, 2008, from Timothy T. Ward, Deputy Director, OTS, to Senior Vice President, Credit Risk Oversight, Freddie Mac; and letter dated May 27, 2008, from John C. Dugan, Comptroller of the Currency, to James B. Lockhart, Director, OFHEO.

Code will appropriately address the issue of potential coercion and other undue influence of appraisers without causing other significantly adverse, unintended consequences. We believe, therefore, that the Agreements and Code should be withdrawn. If not withdrawn, the Agreements and Code should be revised to exempt federally regulated lenders, and the implementation of the Agreements and Code should be deferred until the significantly adverse consequences are prevented and the other material legal and policy concerns expressed in this letter and by others are satisfactorily addressed.

The Code conflicts in material ways with the rules and guidance established by the Agencies and undermines appropriate risk-management and consumer protection practices at federally regulated lenders. The Code inappropriately attempts to regulate the corporate structure and internal operations of federally regulated lenders in connection with their mortgage lending operations. In addition, the Code contravenes appropriate risk-management practices of federally regulated lenders by banning the use of appraisals prepared by in-house appraisers, appraisers employed by affiliates, or appraisers at entities that also provide loan settlement services. The Code also hinders the ability of federally regulated lenders to perform other types of quality controls necessary to ensure the accuracy and quality of appraisals used in lending decisions and, thereby, protect the safety and soundness of such institutions and organizations. For example, the Code overly restricts lenders from ordering or using a second or subsequent appraisal to ensure the reliability of the collateral valuation. Such appraisals are an important quality control tool for lenders, particularly when markets are turning and public data updates are delayed, as recently demonstrated in various declining markets.

The Agencies have significant concerns that compliance with overly restrictive requirements in the Code will materially disrupt mortgage lending processes and raise costs to consumers without enhancing protections for consumers, lenders, or the mortgage markets. Implementation of the Code will result in higher loan origination costs for federally regulated lenders and other mortgage lenders and thereby increase costs to consumers. For example, the Code's unwarranted restriction on a lender using any appraisal performed by an in-house appraiser or ordered by a broker will likely result in loan application processing delays and require the consumer frequently to pay for multiple appraisals for a loan. Higher costs and disruptions in mortgage lending processes also will result from the Code's restrictions on using appraisals from appraisal management companies that are affiliates of lenders or that provide both appraisal and settlement-related services for institutions. The unwarranted loss of the significant efficiencies these companies can provide to mortgage lenders that provide loans to consumers where the lender has few, if any, loan underwriting offices, and particularly to small financial institutions, is likely to result in loan processing delays, higher costs for consumers, and reductions in the availability of mortgage credit in many areas. We believe that the Code's draconian approach sacrifices quality, efficiency, and cost for a result that would not materially enhance protections against undue influence on appraisers.

The Agencies have issued and proposed appraisal regulations and supervisory guidance, applicable to federally regulated lenders, that promote sound appraisal practices; require lenders to originate, purchase, and sell mortgage loans based on reliable appraisals; and protect appraisers from inappropriate influence by loan production staff, borrowers, or other third

parties.[2] The Agencies require separation of the appraisal function from the loan production, investment, and collection functions to prevent the threat of coercion or other undue influence on appraisers. This measured approach recognizes that staff appraisers can provide the lender with impartial, independent and reliable appraisals. Importantly, staff appraisers can provide effective reviews of appraisals performed by unaffiliated appraisers to verify that such appraisals are accurate, supportable, and comply with the Agencies' appraisal regulations and guidance and the lender's appraisal standards. The Agencies already require that these quality control functions be performed independently and without any influence by the lender's loan production staff. The constraints on the role of staff appraisers imposed by the Code would inhibit these quality control functions and impose increased costs for verifying and ensuring the quality and accuracy of appraisals on mortgage lenders and ultimately on consumers without any demonstrable benefit.

The appraisal regulatory framework established by the rules and guidance of the Agencies is based on balanced requirements to help ensure that federally regulated lenders use reliable appraisals that were prepared independently by competent appraisers who are separated, and protected from coercion or other undue influence, from the lender's loan production, investment, and collection functions or any third party. The Agencies' appraisal regulations and supervisory guidance reflect our belief that the reliability of appraisals is not dependent on a blanket prohibition that requires that lenders use only appraisals prepared by third parties that do not provide settlement services. The key to promoting reliable appraisals is that the appraisal function be separated from the loan production function, whether those functions reside in one organization, affiliated organizations, or unaffiliated third parties. Federally regulated lenders must couple the independence of those functions with robust credit and compliance risk-management systems to ensure appraiser impartiality, appraiser independence, and the reliability of the appraisals used in underwriting residential real estate loans.

The Agencies' appraisal regulatory framework is monitored and enforced through examinations that review the operations of the federally regulated lenders' mortgage lending functions. Such entities are instructed to establish adequate internal controls to ensure appraiser independence through separation of the appraisal ordering, preparation, and quality control processes from the institution's and organization's loan production staff and lending processes, including separation of responsibilities and reporting lines between the appraiser and the lending function. Under the Agencies' appraisal regulations and supervisory guidance, an appraisal ordered or prepared by a third party also must meet these impartiality and independence

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[2] 12 CFR part 208, subpart E (Board); 12 CFR part 34, subpart C (OCC); 12 CFR part 564 (OTS); and 12 CFR part 722 (NCUA). See Interagency Appraisal and Evaluation Guidelines, SR letter 94-55 (Board), Comptroller's Handbook, Commercial Real Estate and Construction Lending (Appendix E) (1998) (OCC), and Thrift Bulletin 55a (OTS). See also Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions (2005), SR Letter 05-5 (Board), OCC Bulletin 2005-6 (OCC), CEO Memorandum No. 213 (OTS), and NCUA Letter to Credit Unions 05-CU-06 (NCUA); and Interagency Statement on Independent Appraisal and Evaluation Functions (2003), SR Letter 03-18 (Board), Advisory Letter 2003-9 (OCC), CEO Memorandum No. 184 (OTS), and NCUA Letter to Credit Unions 03-CU-17 (NCUA).

requirements, and lenders are instructed to review any broker-ordered appraisals thoroughly to ensure that the appraisal complies with the Agencies' regulations and guidance and the institution's appraisal policies.

A federally regulated lender must demonstrate that its appraisal process complies with our requirements to protect appraiser impartiality and independence, and requires quality, independent opinions of collateral market value through appraisals that conform to minimum regulatory appraisal standards, including the Uniform Standards of Professional Appraisal Practice (USPAP). Appraisals also must be prepared by appropriately credentialed and competent appraisers protected from coercion. The real estate appraisal and evaluation policies and procedures of federally regulated entities are reviewed by examiners, and the Agencies require corrective action when deficiencies are discovered.

In addition, the Board is currently considering revisions to its Regulation Z to enhance further the protection of consumers from improperly influenced real estate appraisals.[3] The Regulation Z proposal prohibits all creditors and mortgage brokers from pressuring an appraiser to misrepresent a dwelling's value and prohibits all creditors from extending credit if the creditor knows or has reason to know that an appraiser has been coerced to misstate a dwelling's value. The proposed amendment to Regulation Z would cover all mortgage lenders (both federally and non-federally regulated lenders) and would apply to all consumer credit transactions secured by the consumer's principal dwelling, whether the mortgage is guaranteed by the GSEs or not.

The GSEs recently invited interested persons to submit their concerns regarding the Agreements and the Code. The new requirements to be imposed by OFHEO and the GSEs through the Agreements and the Code, with their far-reaching and burdensome effects on federally regulated lenders and other mortgage lenders across the nation, are the type of federally-imposed requirements that should be subject to the full panoply of laws designed to protect the procedural and other rights of citizens and corporate entities from improper governmental action. The comment process employed, however, does not confer the protections or rigor required by the Administrative Procedures Act and other applicable laws. Use of requirements set by the GSEs to impose obligations on the entire mortgage lending industry and on consumers is tantamount to government agency action and strongly implies that the GSEs are acting as governmental agencies that should be subject to all the procedural and other laws applicable to agency action.

OFHEO requested comment from the Agencies on the implementation timetable for the Agreements and the Code to ensure that no disruption in the marketplace would occur. We believe that the time available for carefully considering the extensive number of comments and obtaining concurrence on changes needed to the Code to address the many serious concerns identified by the Agencies and the commenters will require substantial delay and revision to the content and process for the implementation of the Code, if the Agreements and Code are not

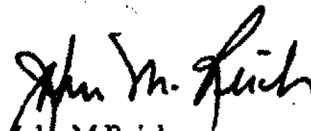
[3] Regulation Z--Truth in Lending, 73 Fed. Reg. 1672, 1726 (proposed January 9, 2008) (to be codified at 12 CFR pt. 226). The proposal was released for comment on January 9, 2008. The proposal's comment period ended on April 2, 2008, and Board staff is analyzing the more than 4,000 comment letters received on the proposal to determine what modifications, if any, to make to the draft regulation.

withdrawn. Under the Agreements, the new requirements will apply to all single-family mortgage loans (except government-insured loans) that are originated on or after January 1, 2009, and delivered to a GSE. The actual effective date of the restrictions, however, will of necessity precede that date by a number of months due to the length of time for completion of the origination process, particularly with the new requirements. We expect that the significant number of concerns and adverse consequences identified by the Agencies and commenters will, in fact, result in further disruption of the residential mortgage lending market.

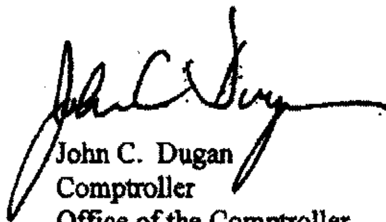
We strongly encourage that the Agreements and the Code be withdrawn. If not withdrawn, the Agreements and Code should be revised to exempt federally regulated lenders, and the implementation of the Agreements and Code should be deferred until the significantly adverse consequences are prevented and the other material legal and policy concerns expressed in this letter and by others are satisfactorily addressed. The Agreements' and Code's overly burdensome restrictions and mandates on such a significant segment of the mortgage market would constrain the ability of our regulated institutions and organizations to provide mortgage credit to creditworthy consumers on a safe and sound and timely basis, without increased costs. The Agencies are committed to addressing any weaknesses and deficiencies in mortgage lending practices, including appraisal practices, at any of our regulated lenders through our regulatory and supervisory processes, as necessary. Moreover, the Agencies would be willing to work with OFHEO and the GSEs to identify and address any unresolved issues regarding appraiser coercion.

Sincerely,

Randall S. Kroszner
Governor
Board of Governors of the
Federal Reserve System



John M.Reich
Director
Office of Thrift Supervision



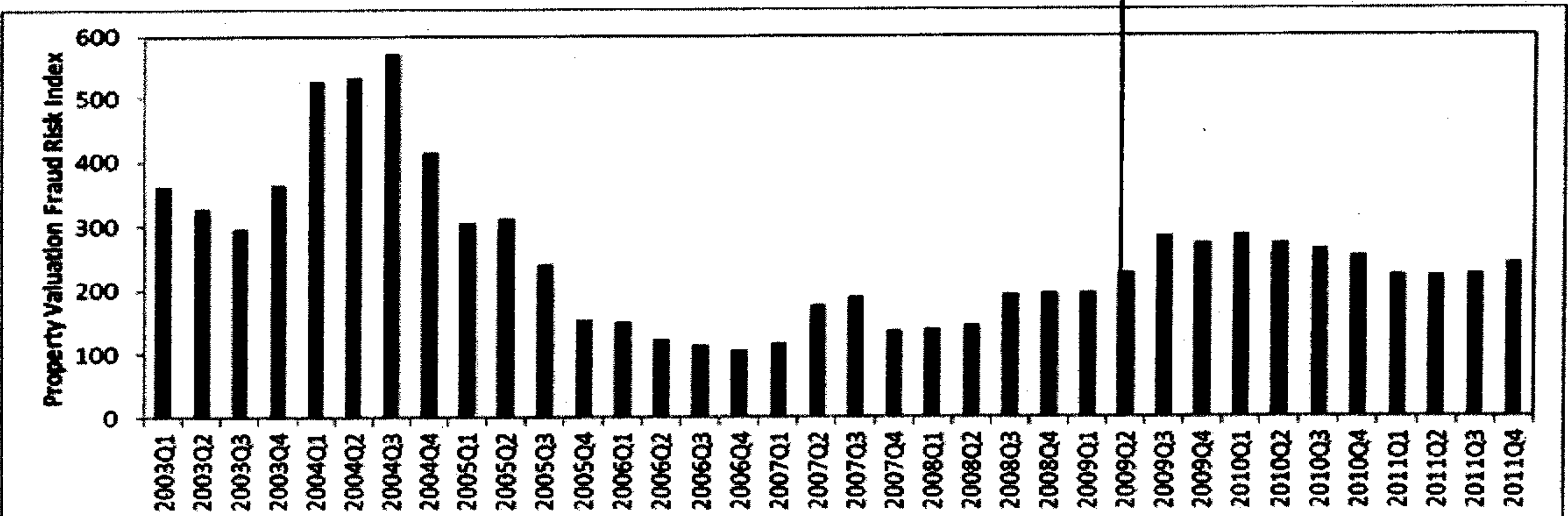
John C. Dugan
Comptroller
Office of the Comptroller
of the Currency

JoAnn M. Johnson
Chairman
National Credit Union Administration

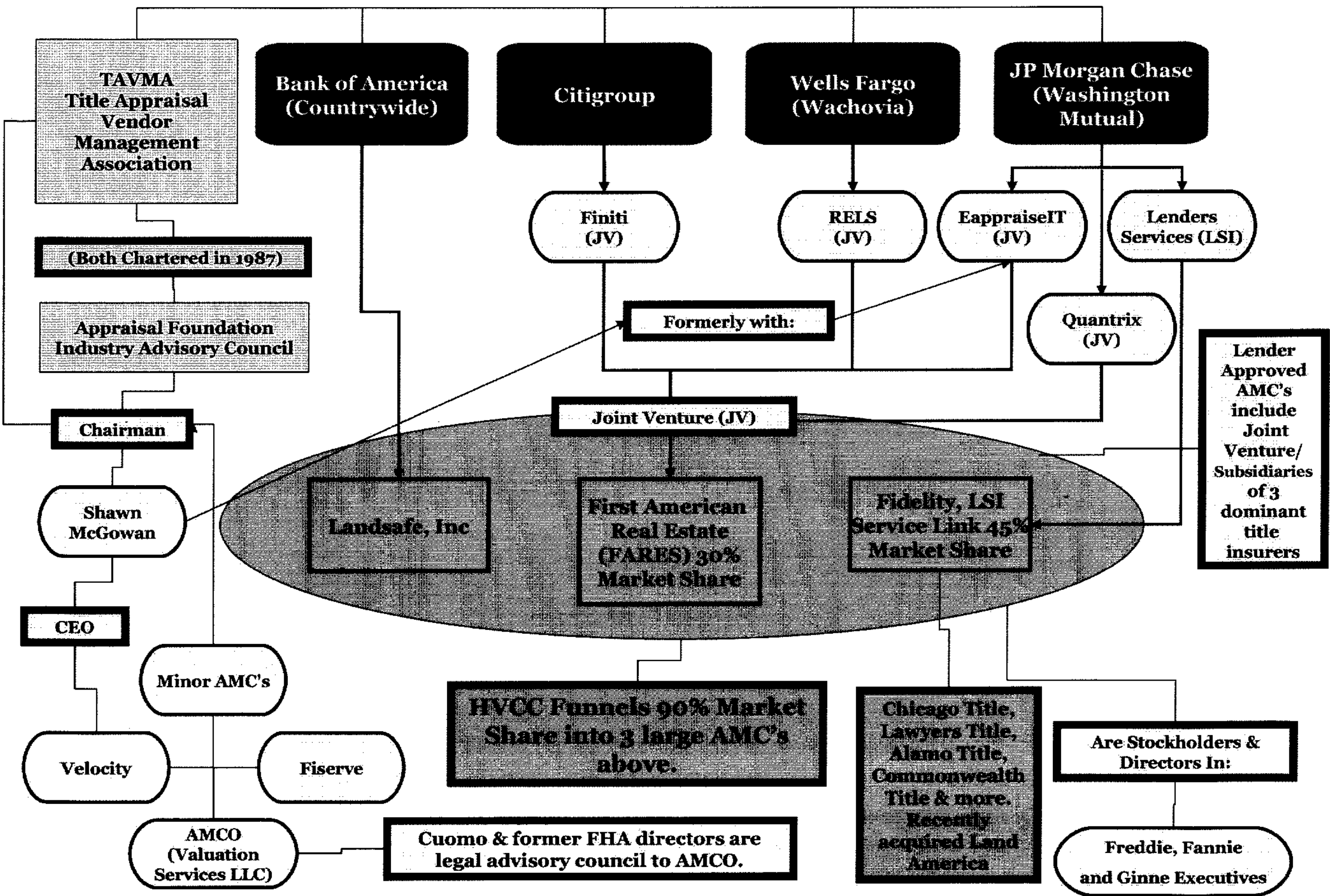
cc: Federal National Mortgage Association
Federal Home Loan Mortgage Corporation

Shane De Zilwa, Director of Analytics at Interthinx, developed an index that measures property valuation fraud risk, and the values for that going back to 2003, as displayed in the graph below. This index is not based on confirmed fraud, (as specific conviction rates are not available), but rather is based on indicators of property valuation fraud risk seen on mortgage applications. These indicators are primarily large price increases in a short period of time, and prices that exceed the range suggested by an AVM.

As the graph shows this risk peaked in 2004, then bottomed out in 2006, and since then has more than doubled. **<u>Note the largest increases occurred AFTER the implementation of HVCC.</u>**



HVCC Mandates Decreased Market Competition and Increased Pricing



Footnote: Andrew Coumo (NY atty General and former HUD director) sues E-Apprazit (A FARES Appraisal Management Company AMC) for wrong doings. Within the year, Coumo then mandates via the HVCC agreement that only AMC's can order appraisals and mortgage brokers will no longer be able to. This chart explains why the fox was hired to guard the hen house. In one word "collusion", and a masquerade to seize monopolistic control over the appraisal industry in addition to eliminating the mortgage broker middle man.

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

May 19, 2010

Honorable Andrew M. Cuomo
Attorney General
State of New York
120 Broadway
New York, New York 10271-0332

Dear Mr. Attorney General:

I am writing to provide you an update on implementation of the Home Valuation Code of Conduct and the Cooperation Agreements between your office, the Office of Federal Housing Enterprise Oversight (now the Federal Housing Finance Agency or FHFA) and Fannie Mae and Freddie Mac (the Enterprises). I am also writing to inform you of a decision I have made as the Enterprises' conservator regarding the Independent Valuation Protection Institute described in the Agreements.

The Home Valuation Code of Conduct

The Home Valuation Code of Conduct deployed by Fannie Mae and Freddie Mac was implemented after taking extensive market place comments. The final version of the Code now has been integrated into the mortgage valuation process. Significant aspects of the Code have been adopted by the Federal Housing Administration, furthering its benefits to homebuyers, lenders and investors. As intended, the Code has improved the independence of appraisers—reducing opportunities for fraud, protecting consumers in the mortgage process and providing greater confidence to the investor community in their purchases of securities backed by mortgages that have appraisals performed under the Code. Ultimately, these effects inure to the benefit of homebuyers as well.

Freddie Mac and Fannie Mae each have found that appraisal quality has improved since the Code's implementation. The Enterprises have acted aggressively to facilitate the Code's operation, issuing four sets of Frequently Asked Questions (FAQs) in response to market place inquiries, including a harmonization of their FAQs that also aligns with the appraisal independence rules posted by FHA. As you know, due to the delay in implementation, the Code remains in effect until November 1, 2010.

The Independent Valuation Protection Institute

The Cooperation Agreements also called for the Enterprises to establish and fund an Independent Valuation Protection Institute. The Institute was to collect and report on complaints regarding appraisals. Of course, the plans for the Institute and the Enterprises' financial support for it were

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made before FHFA placed the Enterprises into conservatorships. In light of the billions of dollars in taxpayer funds the Enterprises have drawn since entering conservatorships, I cannot, as conservator, justify the Enterprises funding the Institute. Therefore, as conservator, I have determined that they will not proceed with that portion of the Cooperation Agreements.

In lieu of the Institute, I have directed the Enterprises to provide a targeted complaint process for the Code. The Enterprises will deploy a standardized complaint form and a process to facilitate submission of the form through an Internet-based process. I expect this to occur in the next few weeks. The Enterprises will act on matters received, including referring cases to state regulatory officials identifying patterns and practices suggestive of fraud or other non-compliance with the Code and providing FHFA and your office a summary of results and analytics of this complaint process.

Going Forward

All other aspects of the Cooperation Agreements will remain in force, unaffected by this action. Thank you for your ongoing interest in this important area of consumer and investor protection. Should you or your staff require additional information, please contact Alfred Pollard, FHFA's General Counsel, at (202) 414-3788.

Yours truly,

Edward J. DeMarco
Acting Director