



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

Division of Supervision and Consumer Protection

June 20, 2008

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

Dear Director Lockhart:

Thank you for the opportunity to comment on the Home Valuation Code of Conduct ("Code") and the Home Valuation Protection Program and Cooperation Agreements ("Agreements") entered into by the New York Attorney General, Fannie Mae, Freddie Mac, and the Office of Federal Housing Enterprise Oversight (OFHEO). As federal deposit insurer, receiver, and supervisor of state nonmember banks, the FDIC has significant interest in changes to standards for real estate appraisals that affect the banking industry.

The FDIC believes that an effective, independent appraisal process is in the best interest of financial institutions to ensure quality collateral valuations and implementation of successful real estate lending programs. Since 1990 (pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989), insured depository institutions have been subject to minimum federal real estate appraisal standards for approaches to value, professional competency, appraiser independence, and the Uniform Standards of Professional Appraisal Practice (USPAP). These rules promote effective appraisal processes for mortgage underwriting and can be enforced by the federal banking agencies if institutions fail to comply. Appraisers employed by financial institutions or their affiliates are also subject to these directives and federal oversight. The Code and Agreements would overlay this long-standing set of federal regulations and professional appraiser practice.

The FDIC strongly supports the concept of appraiser independence and believes that lenders should ensure that appraisers adhere to federal banking requirements and USPAP. The Code proposes strict new limitations on bank-affiliated appraisers at insured depository institutions and on appraisers selected, retained, and compensated by third parties. There may well be benefits to these new limitations, but there could also be unintended costs and consequences. We believe that both bank-affiliated and independent appraisal firms can be subject to undue influence; therefore, it is not clear that forcing business along rigid organizational demarcations is more suitable. It is also important to note that most depository institutions also do portfolio lending and the inherent financial and safety and soundness considerations that attach to their underwriting processes provide strong incentives to receive high-quality valuations, regardless of the provider. The use of bank-affiliated appraisers should not be tainted because of abuses observed in individual enforcement cases. Accordingly, we recommend permitting flexibility for

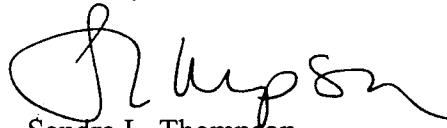
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appraiser independence that would accommodate professional practice standards and could be appropriately scaled to correspond with the wide variety and size of mortgage lending institutions.

Finally, although we understand OFHEO's need to act expeditiously in executing the Agreements and adopting the Code, we believe that the best way to establish comprehensive appraisal and appraiser standards that affect both insured depository institutions and other mortgage lenders nationwide is through notice-and-comment rulemaking. The FDIC would be supportive of such an interagency rulemaking process. We very much appreciate, however, the opportunity for comment you afforded for the Code and Agreements, as well as the recent public comments by your General Counsel indicating that OFHEO takes the comment process seriously and may pursue amendments to the Code and Agreements based on the comments received.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Thompson", written in a cursive style.

Sandra L. Thompson  
Director