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January 20, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: **Docket No. OP-1338**

Dear Ms. Johnson:

I am writing from Woodstock Institute to recommend several changes to the Proposed Interagency Appraisal and Evaluation Guidelines. Woodstock Institute applauds the Board of Governors of the Federal Reserve System in its effort to eliminate the worst industry abuses, but believes additional measures are necessary to eliminate the undue influence of brokers on the appraisal and evaluation process, establish robust internal controls for the appraisal process during the loan origination process. Woodstock recommends additional quality controls for institutions purchasing mortgage-backed securities.

1) **Prohibit brokers from ordering appraisals**. Woodstock Institute believes that the proposed guidelines adequately address the need for separating the appraisal from the origination process for transactions conducted by many institutions. However, the major of residential mortgage loans are originated by mortgage brokers, which are not covered by the Proposed Interagency Appraisal and Evaluation Guidelines. Currently, and under the proposed guidelines, mortgage brokers are not required to comply with any rules separating the appraisal process from loan origination. This has allowed brokers to exert undue influence on the final appraisal.

2) **Establish an appraisal quality control testing procedure.** Woodstock Institute believes that past appraisal and evaluation internal controls have proven inadequate at producing replicable and verifiable results that accurately predict the value of a loan's underlying collateral. The proposed guidelines for reviewing appraisals and evaluations recommend the establishment of internal controls but are not specific. Woodstock proposed that retroactive quality control tests be established to obtain a statistically significant sample of appraisals and evaluations used by the lender, including automatic valuation models.

3) **Institutions should be required to conduct an audit of loans contained in real estate notes upon purchase to ensure compliance with secondary market standards.** Woodstock Institute believes that a broad exemption from appraisal and evaluation requirements for the purchase, sale, investment in, exchange of, or extension of credit secured by a loan or interest in a loan, pooled loans, or interests in real property, including mortgage-backed securities, is inadequate. In the past, far too

many loans with appraisals that met existing regulatory requirements for appraisals at the time the of origination failed to produce replicable and verifiable results that accurately predict the value of a loan's underlying collateral. Rather than exempt institutions from obtaining a new appraisal to support its interest in the transaction, the proposed rules should require that an institution establish quality control tests, including obtaining a statistically significant sample of appraisals and evaluations used by the lender, including automatic valuation models.

We appreciate the opportunity to recommend additional provisions that we believe are necessary to ensure an impartial appraisal process and establish necessary quality controls.

Sincerely,

Tom Feltner
Policy and Communications Director

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