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The Honorable Ben S. Bernanke  
Chairman  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW, Room 2046  
Washington, DC 20551

Dear Chairman Bernanke:

Enclosed please find correspondence from Mr. Mark Warshal, a constituent of Pennsylvania's 11<sup>th</sup> Congressional District, concerning the Federal Reserve's Interim Final Rule amending sections of Regulation Z regarding appraiser independence. In his letter, Mr. Warshal proposes that for financial institutions that do not sell residential mortgages into the secondary market there should be a different standard for appraisal independence, in addition to the two standards already created by the Federal Reserve for those institutions above and below \$250 million. This proposed third standard would allow small institutions who make and hold mortgages on their books to value their own loans without the use of an independent third party.

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Federal Reserve is amending Regulation Z to bolster the independence of residential appraisers in order to help restore confidence in the secondary mortgage markets. For many years, lenders and other parties interested in a real estate transaction had unfortunately in far too many instances pressured appraisers to assign inflated home values. As we now know, the lack of appraisal independence helped contribute to inflated home prices and the housing bubble.

The issue of appraisal independence became problematic when the profit incentives of many lenders evolved from requiring the highest quality in mortgage underwriting to relying on lucrative fee income from the sale of residential loans into the secondary markets. If a mortgage underwriter such as Fairway Consumer Discount Company holds every loan it makes in its portfolio until it matures, the lender has an incentive to ensure that the home is valued as conservatively as possible in order to limit losses from foreclosure.

As I understand, in implementing the requirements of the Dodd-Frank Act, the Federal Reserve has created two separate appraisal independence rules for institutions with less than \$250 million in assets and institutions with more than \$250 million in assets, recognizing the difficulty smaller institutions may have in complying with the regulation. Mr. Warshal would like the Federal Reserve to modify its proposal to further distinguish between "originate and sell" lenders and lenders like Fairway Consumer Discount Company that hold their originated loans in

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portfolio and bear the full risk of any inaccurate appraisals. Consistent with all applicable laws and regulations, I request that the Federal Reserve consider Mr. Warshal's proposal for modifying Regulation Z.

In closing, thank you for reviewing these matters. Please also respond directly to Mr. Warshal concerning these matters.

Sincerely,



Paul E. Kanjorski  
Member of Congress

Enclosure: Correspondence of November 23, 2010 from Mr. Mark Warshal of Fairway Consumer Discount Company.