Home Valuation Code of Conduct

I. Appraiser Independence Safeguards

A. An "appraiser" must be, at a minimum, licensed or certified by the state in which the property to be appraised is located.

B. No employee, director, officer, or agent of the lender, or any other third party acting as joint venture partner, independent contractor, appraisal company, appraisal management company, or partner on behalf of the lender, shall influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner including but not limited to:

(1) withholding or threatening to withhold timely payment or partial payment for an appraisal report;

(2) withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser;

(3) expressly or impliedly promising future business, promotions, or increased compensation for an appraiser;

(4) conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;

(5) requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report;

(6) providing to an appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase transactions may be provided;

(7) providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits;

(8) allowing the removal of an appraiser from a list of qualified appraisers, or the addition of an appraiser to an exclusionary list of disapproved appraisers, used by any entity, without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards, substandard performance, improper or unprofessional behavior or other substantive reason for

removal (except that this prohibition will not preclude the management of appraiser lists for bona fide administrative reasons based on written, management-approved policies);

(9) ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, or (ii) unless such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; or

(10) any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the USPAP.

C. Nothing in this section shall be construed as prohibiting the lender (or any third party acting on behalf of the lender) from requesting that an appraiser (i) provide additional information or explanation about the basis for a valuation, or (ii) correct objective factual errors in an appraisal report.

II. Borrower Receipt of Appraisal

The lender shall ensure that the borrower is provided a copy of any appraisal report concerning the borrower's subject property promptly upon completion at no additional cost to the borrower, and in any event no less than three days prior to the closing of the loan. The borrower may waive this three-day requirement. The lender may require the borrower to reimburse the lender for the cost of the appraisal.

III. Appraiser Engagement

A. The lender or any third party specifically authorized by the lender (including, but not limited to, appraisal companies, appraisal management companies, and correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. The lender will not accept any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including mortgage brokers and real estate agents). The lender may accept an appraisal prepared by an appraiser for a different lender, including where a mortgage broker has facilitated the mortgage application (but not ordered the appraisal), provided the lender: (1) obtains written assurances that such other lender follows this Code of Conduct in connection with the loan being originated; and (2) determines that such appraisal conforms to its requirements for appraisals and is otherwise acceptable.

B. All members of the lender's loan production staff, as well as any person (i) who is compensated on a commission basis upon the successful completion of a loan or (ii) who reports, ultimately, to any officer of the lender not independent of the loan production staff and process, shall be forbidden from (1) selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved to perform appraisals for the lender or forbidden from performing such work; and (2) having any substantive communications with an appraiser or appraisal management company relating to or having an impact on valuation, including ordering or managing an appraisal assignment. If absolute lines of independence cannot be achieved as a result of the lender's small size and limited staff, the lender must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its loan production process.

C. Any employee of the lender (or if the lender retains an appraisal company or appraisal management company, any employee of that company) tasked with selecting appraisers for an approved panel or substantive appraisal review must be (1) appropriately trained and qualified in the area of real estate appraisals, and (2) in the case of an employee of the lender, wholly independent of the loan production staff and process.

IV. Prevention of Improper Influences on Appraisers

A. In underwriting a loan, the lender shall not utilize any appraisal report:

(1) prepared by an appraiser employed by:

(a) the lender;

(b) an affiliate of the lender;

(c) an entity that is owned, in whole or in part, by the lender; or

(d) an entity that owns, in whole or in part, the lender.

(2) prepared by an appraiser

(a) employed,

(b) engaged as an independent contractor, or

(c) otherwise retained by

any appraisal company or any appraisal management company affiliated with, or that owns or is owned, in whole or in part by, the lender or an affiliate of the lender.

B. Section IV.A. shall apply *unless*:

(1) the appraiser or, if an affiliate, the company for which the appraiser works, reports to a function of the lender independent of sales or loan production;

(2) employees in the sales or loan production functions of the lender have no involvement in the operations of the appraisal functions and play no role in selecting, retaining, recommending, or influencing the selection of any appraiser for any particular appraisal assignment or for inclusion on a list or panel of appraisers approved to perform appraisals for the lender or forbidden from performing such work;

(3) employees in the sales or loan production functions of the lender are not allowed to have any substantive communications with an appraiser, appraisal company, or appraisal management company relating to or having an impact on valuation or to be provided information about which appraiser has been given a particular appraisal assignment before completion of that assignment;

(4) the lender, or its agents, and any appraisal company or appraisal management company providing the appraisal to the lender do not provide the appraiser any estimated or target value of the property or the loan amount applied for (except that a copy of the sales contract for purchase transactions may be provided);

(5) the appraiser's compensation does not depend in any way on the value arrived at in any appraisal or upon the closing of the loan for which the appraisal was completed;

(6) the lender and any appraisal company or any appraisal management company providing the appraisal to the lender has adopted written policies and procedures implementing this Code of Conduct, including, but not limited to, adequate training and disciplinary rules on appraiser independence (including the principles detailed in Part I of this Code of Conduct) and has mechanisms in place to report and discipline anyone who violates these policies and procedures;

(7) the lender’s appraisal functions are either annually audited by an external auditor or are subject to federal or state regulatory examination, and, unless prohibited by law, the lender promptly provides to Fannie Mae or Freddie Mac the results of any adverse, negative, or irregular findings of such audits and examinations indicating non-compliance with any provision of this Code of Conduct, whether or not the examination was conducted for the purpose of determining compliance with this Code of Conduct; and

(8) the lender and any entity described in section IV.A. providing the appraisal to the lender recognize that, once the Independent Valuation Protection Institute is established, the Institute will receive complaints for review and referral regarding non-compliance with the Code of Conduct. Referrals and reports shall be made to Fannie Mae and/or Freddie Mac regarding such complaints and the Institute will provide information on the results of complaint reviews to Fannie Mae and/or Freddie Mac and make them available to the other parties to the Home Value Protection Program and Cooperation Agreement.

C. In underwriting a loan, the lender shall not use an appraisal report prepared by an entity that is affiliated with, or that owns or is owned, in whole or in part by, another entity that is engaged by the lender to provide other settlement services, as that term is defined in the Real Estate Settlement Procedures Act, 12 U.S.C.§ 2601 et seq., for the same transaction, *unless the entity that provides the appraisal*:

(1) has adopted written policies and procedures implementing this Code of Conduct, including, but not limited to, adequate training and disciplinary rules on appraiser independence (including the principles detailed in this Code of Conduct) and has mechanisms in place to report and discipline anyone who violates these policies and procedures;

(2) recognizes that, once the Independent Valuation Protection Institute is established, the Institute will receive complaints for review and referral regarding non-compliance with the Code of Conduct. Referrals and reports shall be made to Fannie Mae and/or Freddie Mac regarding such complaints and the Institute will provide information on the results of its review of such complaints to Fannie Mae and/or Freddie Mac and make them available to the other parties to the Home Value Protection Program and Cooperation Agreement.

D. Notwithstanding the requirements herein, the lender also may use in-house staff appraisers to (i) order appraisals, (ii) conduct appraisal reviews or other quality control, whether pre-funding or post-funding, (iii) develop, deploy, or use internal automated valuation models, or (iv) prepare appraisals in connection with transactions other than mortgage origination transactions (*e.g*. loan workouts), if it complies with the terms of this Code of Conduct.

E. The provisions of this section do not apply to institutions (including non-banking institutions) that meet the definition of a “small bank” as set forth in 12 U.S.C. § 2908, and which Freddie Mae or Fannie Mae determines would suffer hardship due to the provisions, and which otherwise adhere to this Code of Conduct.

V. The Independent Valuation Protection Institute

An Independent Valuation Protection Institute (Institute) shall be created as approved by the parties. Subject to section IX, when the Institute is established, the lender will provide information to appraisers and borrowers regarding the availability of the Institute's services, which are expected to include: (1) a telephone hotline and email address to receive any complaints of Code of Conduct non-compliance, including complaints from appraisers, individuals, or other entities concerning the improper influencing or attempted improper influencing of appraisers or the appraisal process, which the Institute will review and report as provided in IV.B(8) and IV.C(2) of this Code of Conduct; and (2) the publication and promotion of best practices for independent valuation. The lender shall not retaliate, in any manner or method, against the person or entity that makes a complaint to the Institute.

VI. Appraisal Quality Control Testing

The lender agrees that it shall quality control test, by use of retroactive or additional appraisal reports or other appropriate method, a randomly selected 10 percent (or other bona fide statistically significant percentage) of the appraisals or valuations that are used by the lender, including the results of automated valuation models, broker's price opinions, or "desktop" evaluations. The lender shall provide to Fannie Mae or Freddie Mac a report of any adverse, negative, or irregular findings of such quality control testing, and any findings indicating non-compliance with any provision of this Code of Conduct, with respect to loans sold to Fannie Mae and Freddie Mac respectively, and the Enterprise may enforce all applicable rights and remedies, including requiring the lender to repurchase mortgages or the Enterprise's participation interest in mortgages.

VII. Referrals of Appraisal Misconduct Reports

Any lender that has a reasonable basis to believe an appraiser or appraisal management company is violating applicable laws, or is otherwise engaging in unethical conduct, shall promptly refer the matter to the applicable State appraiser certifying and licensing agency or other relevant regulatory bodies.

VIII. Representations and Warranties

A lender shall certify, warrant, and represent that the appraisal report was obtained in a manner in compliance with this Code of Conduct. If the Enterprise determines, on its own or from a referral made by the Institute, that a lender is in breach of a material aspect of this Code of Conduct or in violation of a provision of the Code by a complaint referred from the Institute, the Enterprise will enforce all applicable rights and remedies, including suspension or termination of the lender's eligibility to sell loans to the Enterprise, if the lender fails to remediate.

IX. Scope of Code

Nothing in this Code of Conduct shall be construed to establish new requirements or obligations that: (1) require a lender to obtain a property valuation, or to use any particular method for property valuation (such as an appraisal or automated valuation model) in connection with any mortgage loan or mortgage financing transaction; (2) affect the acceptable scope of work for an appraiser in connection with a particular assignment; or (3) require the lender or any third party acting on behalf of the lender to take any action prohibited by federal or state law or regulation.