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April 30, 2008

Attention: To Whom It Concern

The **Collateral Risk Network** (**CRN**) is a group of ninety chief appraisers and senior risk management who participate in an email forum hosted by Allterra Group LLC. This group also meets at the "Valuation" conference hosted by Allterra in November of each year. The CRN is represented by Wall Street, the GSEs, retail lenders, wholesale lenders, and appraisal management companies.

An interim meeting of the **CRN** was held at the Hamilton Crowne Plaza in Washington, DC on April 3rd to specifically discuss the Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae and Freddie Mac.

There were sixty-six CRN members in attendance. The following companies sponsored the event: LSI, Transunion, IRR Residential, Fiserv, Zaio, and Forsythe Appraisal. The meeting began with comments by Alfred Pollard, General Counsel for OFHEO. Pollard provided an overview of the GSE agreements and recommended that the group focus on the key areas and consequences of the agreements as well as the code of conduct. The balance of the day was spent reviewing the agreements line by line. The CRN comments to follow are less focused than Dr. Pollard directed but the contributions are so informative that distilling them seemed less productive.

Six work groups were established to solicit comments around sections of the agreements. The Work Groups were comprised of the following topics:

- Operational Integrity
- IVPI, "The Institute"
- HVPC, "The Code"
- Regulatory & Oversight
- Best Practices
- Repository

There are indeed interpretation problems with some language and no consensus around what the intent is of certain portions of the agreements and the Code of Conduct. However, all of the CRN members are very concerned about the unintended (or intended) consequences of the agreements and the Code of Conduct as drafted and the impact that these practices and standards would have on the industry. Article VI is the source of significant confusion and angst. We estimated that it would eliminate thousands of staff appraiser jobs that exist today within the banking industry, require many affiliated appraisal management companies to restructure their organizations, increase the cost of appraisal services for consumers, and have an adverse impact on appraisal quality if lenders are no longer permitted to manage appraisal quality through the use of staff appraisers and appraisal management companies. In addition, there are some drafting errors, for instance, as it currently reads a "lender shall not utilize any appraisal report prepared by a settlement service provider". By definition an appraisal company is a settlement services provider therefore no appraiser can complete an appraisal.

There is no inherent evil in the use of in-house or staff appraisers, and affiliated appraisal management companies (AMCs) and no guarantees that mono line AMCs offer independence and higher appraisal quality. Moreover, these types of models foster constructive appraisal education and mentoring by having a senior level practitioner in leadership. Mono line AMCs tend to be small regional companies with limited resources and capital. And forcing the existing AMCs to alter their ownership structures and the level of settlement services provided will result in less capitalized AMCs that are not able to provide reasonable assurances or guarantees for their services.

The key is absolute independence from the sales and loan production functions, which can be established using a variety of different structures and business practices. Appraisers should be held to high professional and ethical standards and accountable for the quality of their services. The lenders and the GSEs must ultimately be accountable for the integrity of appraisals upon which they rely. Appraisers must compete on credible appraisal reporting quality, professional competence and service, not based on their willingness to compromise their professional ethics for a client.

The lender staff model was vigorously defended. In fact, most of the folks in the room were trained at a bank or savings and loan. Lenders provide a valuable service of mentoring future generations of appraisers. Education is often paid for by the lender. In fact, when the appropriate firewalls and oversight are established, the staff appraiser model is perceived as the best and most highly effective model. Staff appraisers, who are afforded true independence, have the best interest of their employer at heart and are held accountable for quality, service, competency and ethics.

A vast majority of the CRN participants felt that by simply removing the mortgage broker (and commissioned loan officer) from the appraisal process the valuation inflation bias would be virtually eliminated. The abuses of the appraisal community inflicted by mortgage brokers have been so egregious that we are on the verge of losing the most talented within the appraisal pool. The lack of independence has forced many highly competent appraisers out of business and breaking the knowledge transfer process for training the next generation appraiser. The next crisis will be the shortage of well trained, appropriately mentored, ethical appraisers. Many believe the industry is already in a quality crisis. The independence issue has directed the focus

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away from the underlying competence issues. We believe the “agreements” to be a call for quality.

Key issues identified by the GAO in its May 2003 report on the oversight of the real estate appraisal industry also surfaced in our discussions. All of the states and territories created structures to supervise and regulate appraisers. However, their effectiveness varies based on the adequacy of resources to perform investigations in response to referrals and complaints. Some of the GAO’s observations based on feedback from a variety of entities in the mortgage finance industry provided insight into challenges with the appraisal regulatory framework.

Title XI of the Financial Institutions Recovery, Reform and Enforcement Act of 1989 (FIRREA) created a regulatory framework for appraisers that involves the Federal Government, the states and The Appraisal Foundation. The purpose of Title XI included requiring appraisals to be performed by appraisers whose competency has been demonstrated and subject to effective supervision. This oversight structure required the creation of state regulatory bodies, which are responsible for establishing minimum criteria for licensed appraisers, licensing and certifying appraisers, and for monitoring and supervising appraisers’ compliance with their professional standards.

Key issues identified by the GAO in its May 2003 report on the oversight of the real estate appraisal industry also surfaced in our discussions. All of the states and territories created structures to supervise and regulate appraisers. However, their effectiveness varies based on the adequacy of resources to perform investigations in response to referrals and complaints. The GAO report acknowledged the lack of consistent and effective monitoring of appraisers by the state appraiser regulatory bodies and the lack of uniformity among the states in their procedures for accepting, reviewing and investigating referrals and complaints. Little has been done to correct these issues in many of the states.

The establishment of an independent institute whose functions would overlap some of the responsibilities of the state regulatory bodies is problematic. We recommend the creation of functionality that would compliment the current regulatory framework and to assist the states with funding to investigate complaints and referrals. A new entity with no enforcement powers receiving complaints and forwarding them to the state regulators will create additional backlogs. This will not resolve the monitoring and enforcement challenges that many of the states are experiencing.

The IVPI must have the authority to mediate, fine, and police. The system of referring actions to states is clearly broken. Appraisers who systematically commit fraud have been rewarded, not punished for their bad acts. At a minimum the IVPI needs to monitor and track complaints. Appraisers (with appropriate due process) who continue to behave badly will be placed on an exclusionary list maintained by IVPI. If the states fail to act, they are essentially removed from the pool of receiving federally related transactions. The process needs to be handled expeditiously and will require residential appraiser expertise at an advanced and highly skilled level.

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In general there seems to be greater concern for the IVPI than for the HVPC. If the "devil is in the details" we need to know the details. The creation of the "Institute" offers more questions than answers. The biggest fear is that if we adopt a near perfect code but the "Institute" has no authority to enforce we will end up in an environment much worse than what currently exists. A think tank or a consumer advocacy group does nothing to promote Appraiser Independence. Collateral Valuation is a highly nuanced business that is best regulated by those who understand principals as well as the practices.

The CRN would like to be considered to be the industry knowledge base advisory source to OFHEO going forward on collateral valuation matters. Best Practices needs to be developed around many of the processes. The regulatory environment needs to be simplified. The GSEs need to examine their own structural integrity. Market data analysis by OFHEO, in its current form, is not productive in the development of an appraisal. Existing forms of open source real estate information and appraisal data standards with MISMO (Mortgage Industry Maintenance Organization www.mismo.org) and OGC (Open Geospatial Consortium www.opengeospatial.org), need to be explored and embraced for the repository infrastructure and B2B in ways that will dramatically increase efficiency, reduce cost and ultimately benefit the consumer. Appraisal forms need to be re-examined. There are a host of issues that are pivotal to the valuation community that need to be addressed to avoid the next global real estate meltdown. We would like to be part of the solution to avoid the next crisis.

The CRN unanimously supports the cause of Appraisal Independence. We have developed suggestions for modification that are intended to be rational responses that will cause the least disruption in the marketplace yet will ensure appraisal independence. We do anticipate that if the modifications occur as suggested herein that January 1, 2009 is a reasonable time frame to implement the "code". Our suggestion, however, is to define the IVPI in terms of structure, role, personnel, authority and funding sources before moving forward.

Sincerely,

Joan N Trice, SRA
President
Allterra Group, LLC

Encl.:

- Operational Integrity Committee The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
- CRN Regulatory and Oversight Committee The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
- Best Practices Work Group The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
- Home Valuation Protection Code Work Group The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac

- CRN Appraisal Repository Committee The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
- CRN Independent Valuation Protection Institute(IVPI) Work Group The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
- Collateral Risk Network Meeting Attendee List

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Operational Integrity Committee
The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
April 18, 2008

The Operational Integrity Committee of the Collateral Risk Network (CRN) met briefly after the entire CRN group met on April 3, 2008 and once again on April 7, 2008. The following comments and opinions resulted from those discussions.

- The committee was charged with examining various ways that appraisers can be engaged by lenders, in order to examine if one method or another is superior or inferior in championing Appraiser Independence.
- While there are hybrids and/or combinations of methods, the primary engagement models are:
    - Staff Appraisers employed directly by Lenders;
    - Fee Appraisers directly retained for individual assignments; and
    - Mono-line AMC- contracting with one or more mono-line Appraisal Management Companies (AMCs), who in turn select, manage and pay the appraisers completing specific assignments.
    - Captive AMC(lender owned)
    - Bundled Servicer AMC- AMC owned by a title company
- Of these engagement models, Staff Appraisers and Captive AMCs have been singled out for prohibition by the Home Valuation Code of Conduct (HVCC) established between OFHEO, Fannie Mae, Freddie Mac and the New York Attorney General (NYAG). The rationale for this prohibition is not stated, leaving the committee to assume the parties to the HVCC believe an irremediable conflict of interest exists when a Lender employs an appraiser or maintains a majority ownership in an AMC.
- In examining each of the engagement models, the Committee discovered that each model had qualities that made it the ideal choice for Lenders in various situations. The determinant of these choices generally revolved around a Lender's overall size (loan volume), geographic distribution of the properties to be appraised, and degree of centralization of the Lender's operations. Further, many Lenders have firmly-held and factual basis for believing particular models offers advantages in overall Customer Service and Professionalism.
- With appropriate structural safeguards to protect and promote Appraiser Independence, each of the models was found to be fully capable of delivering high-quality and accurate estimates of value for mortgage lending purposes. The committee notes that high-profile reports of bad actions – both by Lenders and Appraisers – have occurred in all engagement models.
- Therefore, the committee focused on two primary tasks: 1) an examination of legitimate business reasons a Lender might choose – or not choose – a particular engagement model; and 2) what structural safeguards would need to exist in each model to ensure the protection and promotion of Appraiser Independence.

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Examination of Engagement Models:

I. Staff Appraisers employed directly by Lenders

A. Legitimate Reasons to Choose This Model
   1. Avoids competition for appraisal talent. The Lender has a dedicated corps of trained and strategically-deployed appraisers for its exclusive use;
   2. Can more precisely match difficulty of appraisals with known skills of individual appraisers;
   3. Less risk of unprofessional appraiser facing customer;
   4. Substantial cost savings can be attained, if appraisers kept busy and paid by fee split
   5. Lenders historically have invested in training and mentorship. Without it, who will train the next generation of appraisers?
   6. Lenders heavily in technological advances to a process that is antiquated

B. Legitimate Reasons to **Not** Choose This Model
   1. Insufficient appraisal volume in some locations to have a staff appraiser;
   2. Lender is somewhat indifferent on cost if applicants are paying for appraisals

II. Fee Appraisers directly retained for individual assignments

A. Legitimate Reasons to Choose This Model
   1. Small or decentralized lenders are aware of professional providers nearby;
   2. Franchised or multi-office Fee Shops offer cost management and ease of selection;
   3. Few choices in sparsely populated areas, so Lender can engage as efficiently or more than an aggregator

B. Legitimate Reasons to **Not** Choose This Model
   1. Large, centralized lenders are unaware of professional providers everywhere they do business;
   2. Individual price negotiation and ongoing communication with thousands of fee appraisers can be difficult for larger Lenders

III. Contracting with one or more Appraisal Management Companies

A. Legitimate Reasons to Choose This Model
   1. Simplifies management of appraisers; contract with one (or a few) AMC instead of thousands of appraisers;
   2. Greater degree of financial recourse against errors and omissions

B. Legitimate Reasons to **Not** Choose This Model
   1. Greater risk of unprofessional appraisers facing customers;
   2. Perception that some AMCs will maximize profit in short term by engaging sub-standard appraisers;
   3. Little-to-no matching of skills to assignments

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4. Bundled services are offered under the guise of consumer price advantages. The reality of this relationship is to not have arms length appraisals.

Structural Safeguards to Protect and Promote Appraiser Independence

1. Engagement must be through, ultimately, the Chief Compliance Officer, General Counsel, or some other officer who is independent of the loan production staff and process
2. An ombudsman must exist to filter even appropriate concerns of loan production staff, so the opportunity for inappropriate or questionable communication to occur is reduced.
3. Loan production staff have performance plans which specifically reference their responsibilities under HVCC, including penalties for violation
4. Fee appraisers are informed with each engagement of their protection under HVCC, including remedies available to them.
5. Audit functions are in place, and reviewed at least once per year, to determine whether the intention of the reporting structure (Appraiser Independence and Appraisal Quality) is being achieved.

Conclusions

- Core issue is that engagement and management of, and communication with, appraisers must occur through officers of the lender who, ultimately, do not report to the loan production staff
- If loan production staff act appropriately and/or legitimate and proper policy firewalls are in place, appraisers with integrity can practice their profession in any business model.
- If particular loan production staff and appraisers conspire to perpetrate fraud on a lender, no particular business model provides greater protection than another.
- Loan production staff (especially Loan Officers) have a vested interest in whether a particular transaction closes. Meanwhile, Lender management has dual responsibility for profitability and long-term health of the organization. The long term view aligns with the goals of Fannie, Freddie, OFHEO and NYAG to champion Appraiser Independence.
- Ultimately, the Lender is responsible for accurate appraisals; Fannie and Freddie should not have optional buybacks. The buy backs should be mandatory. That is pressure large lenders can place upon the GSEs and place them in a competitive mode to accept poor appraisals.
- The Committee shares the opinion of the Comptroller of the Currency, John Dugan, who stated on 4/16/2008 that the prohibition in HVCC against Lenders having Staff Appraisers is a flawed premise. Dugan said appraisers affiliated with a mortgage lender can bring a level of quality control that might not exist with a third-party institution.
- Captive AMCs do not automatically become independent at 19%. That is arbitrary.

Resulting Suggestions to Remedy Unintended Consequences in HVCC

- Given that guidance and safeguards already exist, federally regulated institutions should be allowed to utilize employee staff appraisers for origination purposes so long as the

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reporting structure of the staff appraisers and their managers is in no way tied to the production function of the lender.

- Non-federally regulated Lenders who wish to employ Staff Appraisers should have the opportunity to submit their organization structure to Fannie and/or Freddie, and have it vetted and approved to ensure Appraiser Independence can be upheld, consistent with the safeguards outlined in this document.
- If Fannie, Freddie, OFHEO and NYAG are concerned about a particular engagement model carrying more risk than another, they are welcome to require periodic reporting of key process metrics which could capture variations away from sound business practices, ones that do not champion Appraiser Independence. These measures could include incidence of loan buybacks due to flawed appraisals, rate of calls to the Appraiser Independence hotline, or other statistics deemed appropriate.
- Fannie and Freddie should be auditing the process of each lender. The GSEs should require appraisals to be transmitted electronically to them. The GSEs should audit a reasonable percentage of files from each customer and geographic audits in high areas of risk.

<u>Comments on Specific Questions Raised by CRN Members During the 4/3 Meeting</u>

- What constitutes timely payment? What about “check at the door”?
    - In order to avoid appearance of withholding, or threatening to withhold, timely payment for an appraisal report; payment should be made within 30 (thirty) days but no later than 90 (ninety) days;
    - “Check at the door” does not affect Appraiser Independence, per se. However, to the extent it creates confusion about who owns or procured the appraisal, the Committee recommends Fannie and Freddie specifically prohibit this practice on salable loans.

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CRN Regulatory and Oversight Committee
The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
April 18, 2008

The Regulatory and Oversight Committee of the Collateral Risk Network (CN) met briefly after the entire CRN group met on April 3, 2008 and once again on April 9, 2008. The following comments and opinions resulted from those discussions.

- The committee fully supports the concept that appraisers should be independent of the loan production process and insulated from pressure by entities that would be likely to exert undue pressure, coercion, or influence on appraisers. These entities include mortgage brokers and real estate agents. While regulations requiring federally regulated institutions to have such safeguards currently exist (e.g. *12 CFR 34, Subpart C, 34.45; 1994 Interagency Appraisal and Evaluation Guidelines, Interagency Statement on Independent Appraisal and Evaluation Functions* (October 28, 2003), and the *Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement of Independent Appraisal and Evaluation Functions* (March 22, 2005)) unregulated entities providing financial and mortgage related services operate without similar standards or sufficient supervision.
- Federally regulated institutions should be allowed to utilize employee staff appraisers to perform appraisals on federally related transactions including loan originations provided the institution adheres to a truly independent reporting and compensation structure for staff appraisers and their managers that is separate and distinct from the sales and profit center and is in no way tied to the production function of the lender. If an appraisal is prepared by a staff appraiser, that appraiser must be independent of the lending, investment and collections functions and not involved, except as an appraiser, in the federally related transaction, and have no direct or indirect interest, financial or otherwise in the property or the transaction.
- The committee believes at least three terms require clarification for the agreement and associated code and IVPI to be understood.
  - "Lender" and "Originator" are terms used seemingly interchangeably. The terms can have very different meanings and should be clarified.
  - "Mediate" should be clarified as to intent. How should the IVPI mediate effectively when it has no jurisdiction or authority to do so? Confidentiality requirements in the Uniform Standards of Professional Appraisal Practice (USPAP) and the Graham-Leach-Bliley Act may preclude disclosure of relevant information to IVPI necessary for effective mediation.
- The federal banking agencies' appraisal regulations adopted in 1990 and last amended in 1994 should be revisited and amended in light of the current lending environment. It is

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also the committee's opinion that the agreement and associated code would be unnecessary to impose on federally regulated institutions if the current federal regulations and associated guidelines were uniformly enforced among the five banking regulatory agencies.

- Title XI of FIRREA is ineffective and warrants revisitation and revision. In 2003 the General Accounting Office (GAO) undertook a review of the current appraiser regulatory structure and its effectiveness. The report, titled "Opportunities to Enhance Oversight of the Real Estate Appraisal Industry", detailed numerous flaws within the system and identified areas in which improvement is needed. Some of the GAO recommendations included:
    - Develop and apply consistent criteria for determining and reporting states' compliance levels with Title XI;
    - Explore potential options for assisting states in carrying out their Title XI activities, particularly for investigating appraiser complaints; and
    - Explore alternatives for providing future Title XI grant funding to the Appraisal Foundation and its two boards.

Despite efforts by the ASC to inspire improvement and oversee states' appraiser programs, limited latitude to affect positive change is provided by the current oversight structure. For example, the Appraisal Subcommittee had a surplus of at least $7MM as of 12/31/06 that could have been partially used to assist state enforcement activities if the ASC had authority to grant funds to supplement states' programs. However, it has no authority under current law to grant or lend funds. Similarly, it has no enforcement mechanism other than decertification of a state or jurisdiction under its authority, an act that, if exercised, would have a negative impact on appraisers, the real estate market and the regional economy. In connection with the GAO review, Fannie Mae provided comments which were published in the report. These comments included:

- We have observed a significant lack of uniformity among the states in the quality of their appraisal processes and procedures for accepting, reviewing, and investigating unacceptable appraisal reports.
- We have observed a lack of consistent and effective enforcement actions by the state appraiser licensing or regulatory boards.
- We have also observed a lack of consistent effective oversight of the state's activities by the Appraisal Subcommittee.

Fannie Mae also recommended the following:

- "Develop and apply consistent criteria for determining and reporting states' compliance levels with Title XI requirements;
- Explore potential options for funding or otherwise assisting states in carrying out their Title XI activities, particularly the investigation of complaints against appraisers. We suggest that you add to this a reference to identifying best practices and approaches by states; and
- Draw on the surplus to provide grants, if necessary, to the Appraisal Foundation and its two boards in support of their Title XI activities."

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Freddie Mac’s comments also advanced the premise that state enforcement was lacking and that more needed to be done by the Appraisal Subcommittee to ensure compliance with Title XI.

In summary, it is the committee’s opinion that enforcement of existing appraisal laws and regulations is less than adequate among the states and the federal regulatory agencies. Appropriate and consistent enforcement with existing laws, regulations and guidelines are necessary to effect uniform compliance and positive change. Further, companies that operate in an unregulated environment should be subject to similar standards and supervision. The oversight structure of the ASC and its lack of enforcement mechanisms provided under existing law should be revisited. Federal and state legislative reforms are necessary to correct the structural issues, which lead to inconsistent enforcement of state appraiser regulations. Without these measures, positive reform cannot occur.

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Best Practices Work Group
The Cooperation Agreement between the New York Attorney General, OFHEO, Fannie Mae, and Freddie Mac
April 18, 2008

Goal: Encourage the spirit of appraisal independence contemplated in the HVCC while maintaining risk management best practices.

1. Appraisal ordering – sourcing appraisals. We agree that appraisal selection should be independent of anyone involved in loan production. We agree that appraiser pressure comes in many forms, including refusal to pay for work completed, refusal to engage future assignments and outright bribes. We agree that bundled contracts for title, flood, credit and appraisal services could create inappropriate incentives for the appraisal work. Appraisal independence therefore involves separating the appraisal order from loan production, and ensuring that appraisers and appraisal providers are compensated for independent opinions.
    a. Broker-sourced appraisals (3)
        i. <u>Brokers use appraisal firms approved by lenders</u> – This practice is in place at a handful of lenders. Through these programs, lenders require that brokers use an appraisal ordering service that ensures qualified appraisers and prohibits communication between brokers and appraisers. In this scenario, the broker has no input regarding appraiser selection, retention or compensation. The broker pays the AMC. The appraiser is paid by the AMC. The payment of the appraiser is independent of the payment by the broker. Any collection issues with the broker do not affect the appraiser's compensation. If brokers are able to order appraisals, there may be unintended consequences:
            1. Brokers may still find a way to influence the appraiser through refusal to pay the AMC
            2. Brokers may influence the appraiser through their AMC selection.
                a. To mitigate these concerns, lenders must be able to demonstrate how the AMC shields appraisers from pressure. Lenders should also request that AMCs report on brokers who attempt to contact appraisers or influence the appraisal decision.
        ii. <u>Lender-paid appraisals</u> – Certain lenders order their own appraisals for high-risk broker loans. In these cases, the loan is supported by two appraisals. In some cases, the borrower pays for both. In other cases, the lender absorbs the cost of the second appraisal (and passes higher costs indirectly to borrowers.) This practice is limited to a very small amount of production, and is not usually applied to conventional mortgages. If lenders are required to buy appraisals for all broker-originated loans sold to the GSEs, it is reasonable to foresee two unintended consequences:

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1. Brokers submit applications to several lenders who then order appraisals. Each appraiser (even without influence) will return a different value[1]. The broker will choose the lender whose appraiser returned the highest value. In this case, value shopping rather than appraisal pressure yields value inflation.
    a. There is no effective mitigation for this risk. It is not feasible for a lender to know whether additional appraisals have been ordered for other lenders.
2. Brokers will order one appraisal, but then expect the ability to change their mind about the investor after the appraisal is ordered. The first lender "owns" the appraisal, so the broker cannot simply provide the appraisal to another lender. Additionally, the second lender may not approve of the first lender's appraisal practices. The varied appraisal approaches and policies employed by lenders today highlights the divergent views within our industry.
    a. There is no effective mitigation for this risk. Even if lenders established an intra-lender appraisal transfer system (which would be an extensive undertaking,) it is not feasible to believe that lenders will be willing to represent a competitor's appraisal as satisfactory.

b. Loan origination-sourced appraisals (4)
    i. Internal appraisal staff – Qualified field appraisers provide appraisal services. Lenders able to effectively insulate appraisers from production find that on-staff appraisers are best able to serve clients, identify fraud (especially occupancy and income fraud), and produce values that are rarely challenged. Because there is no intermediary, borrower costs for internal appraisals are often lower. The unintended consequence of this approach is:
        1. Potential internal pressure on appraisers to meet loan production needs.
            a. To mitigate these concerns, lenders can ensure appropriate policies, reporting structure and oversight.
    ii. Internally managed appraiser panel – A qualified member of Risk Management (or a similar non-production department) approves appraisers for inclusion in an internal appraisal panel. Risk Management assigns work to appraisers and manages payment and quality control. The unintended consequence of this approach is:
        1. Internal pressure on appraisers to meet loan production needs.
            a. To mitigate these concerns, lenders can ensure appropriate policies, reporting structure and oversight.
    iii. Vendor-managed appraisal sourcing – A qualified vendor (often referred to as an AMC) approves appraisers for inclusion on an appraisal panel. The AMC assigns work to appraisers. Lenders use a wide variety of vendors, from individual appraisers to AMCs that are part of large settlement services

[1] As with all illiquid assets, a property is more accurately described as having a range of defensible values rather than a true spot value. One buyer may value hardwood floors, whereas another may request a carpet allowance.

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companies. Most large lenders have multiple appraisal sourcing vendor relationships. We believe a best practice is to facilitate competition in the marketplace among appraisal providers of all sizes and organizational structures. As the Code is written, there will be a prohibition on the use of vendors whose companies also offer other settlement services. There are unintended consequences to this prohibition:

1. Increased costs – Large settlement services companies can distribute infrastructure costs across many products. If all AMCs are required to be stand-alone companies, the cost of appraisals may increase.
2. Potential capacity issues – large settlement services companies currently manage a significant portion of the mortgage industry's appraisals. If lenders are no longer able to use these companies, we may struggle to meet the demands of our business.
    a. To mitigate these concerns, we recommend language that allows lenders to choose their own business partners, but prohibits consolidated contracts.

iv. Captive affiliate-sourced (6.2, 6.3, 6.4) – A captive "vendor" manages the appraiser panel and appraisal process. Lenders able to effectively insulate the captive vendor from production find that this approach produces quality values.

2. Appraisal Sourcing – qualifying appraisers
    a. Holding an appraisal designation does not automatically qualify an appraiser to serve on a lender's appraisal panel. It is a risk management best practice to consider various aspects of the appraiser's resume before determining his/her qualification on an appraisal panel. It is important that the Code *not* imply that any appraiser with a license is automatically qualified to serve on any appraisal panel.
        i. Licensing – There are different licenses that an appraisal can hold. Depending on the work to be completed, lending institutions may require a specific education and training.
        ii. Experience – Institutions may require that appraisal work be performed by an experienced appraisal, rather than a trainee with an appraiser's oversight.
        iii. Scope – Some appraisers specialize in specific property types or scenarios, such as high value, REO, or relocation. It is appropriate for a lender to match the appraiser to the situation.
        iv. Fees/Service – Appraisers vary in terms of their fees and service commitments.
3. Appraisal Sourcing - Pre-funding Communication Standards. We agree that communication between the appraiser and the lender must protect the appraiser's ability to provide an independent valuation opinion. However, there are many times when a lender is concerned that information contained in an appraisal is inaccurate, or that the appraiser's methodology was flawed. It is not only a risk management best practice to address these concerns, but it is also our obligation to do so based on our agreements with Fannie and Freddie. There is a fine line between good communication and coercion. Our goal is to outline best practices for communicating with appraisers before and after the appraisal assignment has been completed.

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a. Pre-completion communication
   i. Lenders must have safeguards relative to internal influence from its loan production staff maintaining a truly arm's length transaction
   ii. Loan Amount and borrower's estimated market value cannot be provided to the appraiser at time of order placement.
   iii. The subject property market value cannot be provided to Lenders until all quality guidelines and requirements are fulfilled
   iv. Lenders / AMC's / Providers must adhere to strict appraiser recruiting guidelines to include background checks, license validation and adequate insurance coverage.
   v. Management of information about the appraiser must be facilitated. For example systems that track appraiser licensing status and tracks historical performance of the appraiser.
   vi. Create a Letter of Engagement that is provided to the appraiser at the time of the assignment defining his/her role and responsibility including providing additional information as warranted. Fannie Mae states the following:
      1. "We require the appraiser to provide complete and accurate reports; to report neighborhood and property conditions in factual and specific terms;
      2. to be impartial and specific in describing favorable or unfavorable factors; and to avoid the use of subjective, racial, or stereotypical terms, phrases, or comments in the appraisal report.
      3. The opinion of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.
      4. **When the information or methodology of an appraisal requires additional clarification or justification, the lender's underwriter must obtain from the appraiser any information that is necessary to make an informed decision concerning the property."**

b. Post Delivery Communication - There may be limited situations when appraisals may need to be appealed, for example, when there are factual misstatements of the subject property of the appraisal, or there is a reasonable basis to believe that the initial appraisal is flawed. Given recent "declining markets" policies, there may also be a need to reconcile the appraiser's view of the market with the lender's. To assure the issues are addressed, and to expedite this appeal process, lenders / AMC's will need to provide complete details as to the factual misstatement or flaw. Providing this information will assure we fully understand the extent of the issues, and that each issue is addressed by the appraiser.
   i. If a lender feels that there is a misstatement or flaw, they should supply additional documentation that you believe will support this contention. For example, we would consider sales of similar properties that were not used in the original report. For consideration, the sales should:
      1. Have occurred no more than 1 year from date of inspection;
      2. Be closed as of the date of inspection;
      3. As close to the subject as the original sales; and

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4. As similar in size, age, design and site.

ii. These guidelines are based upon sound appraisal methodology and are the basis for choosing comparable sales on all residential appraisals. The appraisers strive to use the best comparable sales available, and any sales proposed will be compared to the original analysis to determine if the sales should be used. To submit your information, please fill out the attached form, particularly any errors found in the subject property description, or you may send the actual MLS data.

iii. What the appraiser should do:

1. If the information provided is deemed to be more indicative of market value than that which was first used, the appraiser will complete the analysis with the new sales/information and amend and/or revise the appraisal at no cost to the lender. If the appeal is denied, the appraiser will supply a brief description of the reason for the denial.

iv. Declining markets concerns - The following information was provided in the FAQs document put out by Fannie Mae and it is around a declining market:

1. Q12: Isn't it primarily the appraiser's responsibility to determine whether a property is located in a declining market?
2. A: Both the lender and appraiser ultimately are responsible for determining whether a property is located within a declining market. The appraiser may indicate this in the Neighborhood Section of the appraisal report, and/or the lender may make an independent decision based on its tracking of home prices in a certain area. We expect the lender to address any discrepancies between the information reflected in the appraisal report and the results of the lender's own due diligence by requesting additional information and justification from the appraiser."

4. Appraisal Review – Quality Assurance Tools. We agree that quality control is a critical component of collateral risk management. The Code properly requires the use of an "appropriate method" applied to a "bona fide statistically significant percentage" of appraisals. Risk management best practices include a wide range of pre- and post-funding Quality Assurance tools. Lenders often use these tools in combination, usually screening 100% of appraisals through at least one method. Lenders work with Fannie Mae, Freddie Mac, Investors, Rating Agencies, Regulators, and Auditors to confirm the reasonableness of appraisal review practices.
   a. Appraisal Compliance Tools – these products measure information contained in appraisals against rules established either by the vendor or by the lender. For instance, the tool may flag an appraisal for review if all comparable properties were sold more than 6 months ago.
   b. Data Accuracy Tools – these products check outside sources to verify the accuracy of data provided in an appraisal. For instance, the tool may note that public records show a different "last sale price" for the subject property than the appraisal.
   c. Value Reasonableness Tools – these products use public record data to estimate a subject property's value or provide a value range. The appraised value can be compared to the tool to determine if the appraised value is reasonable. Examples of

these tools include index values and Automated Valuation Models (AVMs) available from a variety of vendors.

   d. Risk Ranking Tools – these products use public record data and information provided by the lender to estimate the risk of fraud or loan loss. A high risk reading may indicate that the subject property has had multiple recent sales, or a property value that is inconsistent with neighboring values.
   e. Market Risk Tools – These may internally developed "market grading" tools, or scoring tools from vendors. The market stability listed on an appraisal can be compared to the tool result to determine if the appraiser has a more optimistic view of the market than the tool indicates.
   f. Additional Valuations – Either pre- or post-funding, lenders may request additional appraisals or Broker Price Opinions (BPOs) to compare against an appraisal.

5. Appraisal Review – Quality Assurance Methods.
   a. Pre-Funding – As mentioned, there are many "appropriate methods" for flagging potentially erroneous appraisals. From there, the lending institution must determine the appropriate next steps.
      i. Clear the flag. Often, tools flag appraisals that do, in fact, represent an appropriate value for the property. For example, properties with an ocean view (or near the railroad tracks) should not be valued similarly to homes across the street. There are numerous reasons why a valid appraisal can flag one of the tools mentioned above. A risk management best practice is to have qualified trained reviewers determine which appraisals are acceptable. This is often accomplished through 3rd party data verification and/or conversations with the appraiser. Another risk management best practice is to have a series of escalations depending on the severity of the red flag.
      ii. Reset the value – Internal. Many lenders employ appraisers to conduct appraisal review. Staff reviewers may offer a more conservative value opinion, when adequate data is available in order to allow efficient funding. In this case, the loan is funded based on the review appraiser's more conservative value. This risk management best practice allows lenders to fund the loan without incurring the cost of a new value opinion.
         1. If the Code is interpreted to prohibit this activity (because an internal appraiser is establishing the value,) then an unintended consequence will be the denial of a loan to a borrower without a second appraisal or field review when a lower loan amount may well be quite workable and would present an incrementally lower risk.
      iii. Reset the value – External. Some lenders obtain a second opinion of value when they believe the first is flawed.
      iv. Reject the transaction.
   b. Post-funding – Risk management best practices include random and specialized post-funding audits. Most large lenders have an audit function that is independent of the collateral risk function. The auditors review loans to determine if the property value has been materially and/or adversely misrepresented.
      i. Random audits – a risk management best practice is to randomly audit a statistically significant percentage of loans post-funding.

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ii. Specialized audits – a risk management best practice is to audit all defaulted loans, loans with repurchase requests, or loans with other potential risks.

6. Borrower Communication
   a. A risk management and customer service best practice is to provide copies of the primary appraisal to loan applicants upon their request. If the lender has paid for the appraisal, it is a best practice to require confirmed payment from the applicant prior to releasing this information.
      i. If lenders are not allowed to confirm payment receipt prior to releasing the appraisal, than an unintended consequence is that applying for a loan becomes a way to receive a "free" appraisal.

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Home Valuation Protection Code Work Group
The Cooperation Agreement between the New York Attorney General,
OFHEO, Fannie Mae, and Freddie Mac
April 18, 2008

- NHVPC Article I:

  Article I of the New Home Valuation Protection Code calls for the GSE's to *"make appropriate changes to its Guide and, beginning January 1, 2009, will require that lenders represent and warrant that appraisals conducted in connection with single family mortgage loans, other than government-insured loans, originated on or after January 1, 2009 that are delivered to Fannie Mae conform to the Code."*

  Requiring lenders to implement the Code of Conduct with loan note dates of January 1, 2009, will be difficult given the comment period does not end until April 30th. Assuming 60 days to categorize and discussion the comments (June 30th) and 30 days to rewrite and publish the final code (July 30th), lenders will have approximately 2 months to fully implement changes in order to be compliant by the January 1, 2009 deadline.

  We request the implementation date be moved back to July 1, 2009, given the sweeping magnitude of the changes to lender organizational structure, removal of in-house appraisal staff, new QC review requirements, etc. This will give lenders 6 to 8 months to draft the changes, get senior management/board approval and implement the new processes.

  Should the parties of the agreement not want to move the implementation date back, we request that a provision be added to the agreement that allow the GSE's to grant extension waivers to a lender that could run up to an addition 180 days (6 months). The lender would need to provide evidence to that GSE that an implementation extension is warranted.

- HVCC Article I:

  Overall, we believe Article I is well written and will help to deter inflated appraisals. Although the use of the words "development" and "instruction" in this article does cause us concern. In part, the article states that: *"No employee, director, officer, or agent of the lender, or any other third party acting as joint venture partner, independent contractor, 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, instruction, inducement, intimidation, bribery, or in any other manner…"*.

  Lenders are typically the appraiser's client, and therefore, it is valid practice to provide "instruction" to an appraiser regarding specific criteria in the development of the appraisal. This is commonly referred to in the Uniform Standards of Appraisal Practice (USPAP) as Scope of

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Work. Even when a lender just requires that the appraiser conform to the GSE appraisal guidelines, this can be construed as providing "instruction" on the appraisals "development". It is also not uncommon for appraisal assignments to be complex in nature. In these cases, it is common place for the lender and appraiser to discuss the technical aspects of the assignment and for the client (lender) to give guidance to the appraiser. This guidance is not intended to influence value but to ensure that the appraisal's scope of work fits the lenders and GSE's requirements.

The OCC issued bulletin 2005-6 on March 22, 2005 titled: "Frequently Asked Questions on the Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions". We believe this bulletin adequately covers the lender / appraiser communication process. For non-regulated lenders, the Code of Conduct in Article III now prevents unregulated third party entities from being able to order appraisals. Given the above, we request that the words "instruction" and "development" be struck from Article I.

- HVCC Article VI:

The language is unclear. By logical extension no appraiser can perform an appraisal.

This article places severe restrictions on the ownership of appraisal management companies and the employability of staff appraisers. Although well-intended, this article creates untended consequences that would damage years of progress in the valuation field and create hundreds of millions of dollars in unneeded expense for lenders to enact the proposed changes. There would be no benefit to the consumer and in fact costs could go up.

The committee fully supports the concept that: "*(i) the lender has no involvement in the day-to-day business operations of the appraisal management company, (ii) the appraisal management company is operated independently, and (iii) the lender plays no role in the selection of individual appraisers or any panel of approved appraisers used by the appraisal management company.*"

Lenders many times participate as minority owners in joint venture appraisal management companies because they want to derive the benefit of cost savings, which is passed onto the consumer. At the same time, as a minority owner, the lender is removed from day to day management activities and is not in a position to influence the appraiser or an inflated appraisal that the lender will ultimately pay for. We support the notion that the lender can only have a minority ownership in the appraisal management company, although we find the 20% or less ownership limitation to be arbitrary and overly restrictive. We recommend that wording be changed from "*20% or less*" to "*minority ownership*".

Regarding the proposed prohibition of staff appraisers, there is no evidence that the use of in-house staff appraisers by regulated lenders or appraisal management companies leads to inflated appraisals or pressure on appraisers to produce an inaccurate appraisals. There is always the potential danger of staff appraiser abuses by non-regulated lenders. Therefore, the committee recommends that article VI specifically limit the prohibition of in-house staff appraisers to non-

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regulated mortgage lenders. Unlike their unregulated lender counterparts, a regulated lender is obligated to follow all appropriate federal regulations. US Treasury entities, such as OCC, OTS, etc., are commissioned to conduct periodic audits of regulated lenders to ensure that these regulations are in place and enforced.

Appraisal accuracy is also to be controlled through Article VIII of the HVCC, which requires that *"the lender agrees that it shall quality control test, by use of retroactive or additional appraisal reports or other appropriate method, of a randomly-selected 10 percent (or other bona fide statistically significant percentage) of the appraisals or valuations which are used by the lender, including the results of automated valuation models, broker's price opinions or "desktop" evaluations."*

Given the extensive quality control safeguards built into Article VIII and the historical financial strength of loan portfolios of regulated lenders that use in-house appraisers or obtain the majority of their appraisals from appraisal management companies that employ in-house staff appraisers, the prohibition in the use of in-house staff appraisers is unwarranted and without merit. Therefore, we request that the language be changed to allow for in-house staff appraisers for regulated lenders and appraisal management companies.

Article VI Item 5 states that *"In underwriting a loan, the lender shall not utilize any appraisal report prepared by an appraiser employed by: (5) a real estate "settlement services" provider, as that term is defined in the Real Estate Settlement Procedures Act, 12 U.S.C.§ 2601 et seq."*

The Real Estate Settlement Procedures Act of 1974; 12 U.S.C. 2601 SEC. 3 (3) states that: *" the term "settlement services" includes any service provided in connection with a real estate settlement including, but not limited to, the following:… appraisals*".

By definition, all appraisers would be considered a settlement services provider. Therefore, we request that Article VI, Item 5 be removed.

- HVCC Article VII:

The initial segment of Article VII requires that: *"The lender will establish a telephone hotline and an email address to receive any complaints from appraisers, individuals, or any other entities concerning the improper influencing or attempted improper influencing of appraisers or the appraisal process, which hotline and email address shall be attended only by a member of the office of the General Counsel, Chief Compliance Officer or other independent officer… Within 72 hours of receiving any complaint, the lender will begin a preliminary investigation of the complaint and upon completing the inquiry (or, after a period not to exceed 60 days, whichever shall come first) shall notify the Independent Valuation Protection Institute and any relevant regulatory bodies of any indication of improper conduct.*

Requiring the lender to establish and maintain a hotline for appraisers, individuals (the general public), or other entities seems to be redundant since the HVCC also requires the IVPI is establish a similar hotline for the same entities to call.

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Secondly, requiring the lender to provide their hotline information to the borrower while also requiring the lender to provide the appraisal to the borrower three days prior to closing will have unintended consequences. Given that borrowers are new to receiving the appraisal report prior to closing, it is expected that call volume will be high and very rarely related to “improper influencing” or inflated values. Our concern is that such a hotline would create additional expense and disruptions to lender business practices and not gather complaints regarding appraiser influence and inflated values.

Given the above, we request that the IVPI establish a hotline and rather than the lenders also having a hotline, the IVPI should report back to a lender when complaints are received.

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- NHVPC Article VI:

Definition of "Appraiser", "Appraisal Company", and "Appraisal Management Company" (AMC)

We recommend that formal definitions be written into the Code, and into GSE guidelines. "Appraiser" should follow definitions, standard to USPAP, FIRREA, etc.

"Appraisal Firm/Company" should be defined similar to the following:

> *A corporation, partnership, or other legal entity, which employs more than one <u>appraiser</u> (see definition) in an exclusive capacity; whereby the appraiser is not authorized to perform valuation services for any other party.*

"Appraisal Management Company (AMC)" should be defined similar to:

> *A corporation, partnership, or other legal entity, which employs many <u>appraisers</u> (see definition) as independent contractors; wherein the appraisers are free to perform valuation services for any client they choose. An Appraisal Management Company serves as an agent for valuation services requests, a conduit for communication, and a quality control function.*

(continued)

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➢ Appraisal Repository:

An appraisal repository is a database or record of all appraisals performed for transactions subject to the HVPC. Several proposals have been put forth for a repository; although it has not been formally written into the agreement noted above.

The CRN supports the concept of an "appraisal registry" in the following way:

a. The registry would be operated by several private enterprises much like the credit bureau model
b. The registry would collect data on appraisers' credentials to ensure secure identity.
c. The purpose of the registry is to:
   1) Provide a virtual fingerprint for appraisal reports to prevent identity theft, and allow lenders to verify that they have a true and good copy.
   2) Collect data on appraisals in order to allow the ASC, IVPI, and lenders to analyze patterns of behavior.
   3) Verify geographic competency of appraisers.

We propose that the appraisal registry collect the following fields:

- Property Address
- Lender
- Effective Date of Valuation
- Appraised Value

The registry would store this data on a secure server, but would not be accessible to anyone other than regulators, the ASC, and the IVPI. When a lender submits a loan through *Desktop Underwriter*, or *Loan Prospector*, the software would query the registry. The registry would then report back with a response of "Acceptable", or "Investigate".

Red Flags would be:
- Several valuation requests within a short time
- Appraiser has few results within subject's geographical area
- Significant value change within a short period of time

The investigator response would be accompanied by a brief message, requiring the lender to manually underwrite the loan and address the issue.

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Unintended Consequences:

1. Conflicts with existing congressional legislation. The lack of legislative authority for the IVPI threatens the market acceptance and viability of the IVPI. Congress has granted the sole authority to establish national appraisal standards requirements to an existing non-profit Washington DC based organization known as the Appraisal Foundation and its independent boards - the "Appraisal Standards Board" (ASB) and "Appraiser Qualifications Board" AQB.

    a. Recommended Amendment #1: The IVPI shall be established as a third board of the Appraisal Foundation to be named the "Appraiser Independence Board" (AIB).

    Comment: The Appraisal Foundation currently consists of two independent boards known as ASB and AQB both of which have their own board of directors and are independently managed. Lenders, federal agencies and all 50 states are required under existing federal law to observe standards of both the ASB and AQB. Housing this important new board within the Appraisal Foundation ensures its provisions would become legally binding on all lenders and all states. Current members of the Appraisal Foundation are at large members of the public, and organizations that represent: lenders, non-profit professional appraiser and banking societies, federal agencies and state appraisal boards. Thus the Appraisal Foundation broadly represents the entire industry. Placing the IVPI as a third Board within the Appraisal Foundation would provide instant industry-wide acceptance, credibility and legislative authority. The Appraisal Foundation has the necessary existing staff and expertise to administer this program and in fact already fields calls and inquiries from the public on appraiser and appraisal issues and could fulfill this mission more cost effectively than any other organization. Selection of any organization other than the Appraisal Foundation would conflict with Congressional legislation and result in two different organizations establishing appraisal standards and would confuse the market.

2. Section VIII of the HVCC requires lenders to measure and test appraisal and valuation quality. That testing and reporting of results cannot occur unless appraisal quality is defined. Also, Section I references "substandard performance" and "unprofessional behavior" of appraisers but these terms are not as of yet defined. Congress has already granted sole authority to establish and define appraisal quality and appraiser standards to the Appraisal Standards Board of the Appraisal Foundation, and requires those standards to be observed by lenders and adopted by and enforced by all 50 states. Establishing a second organization

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(other than the Appraisal Foundation) that also establishes appraisal quality standards and defines acceptable levels of appraiser performance would result in a potential conflict with congressional and state legislation, and confusion in the market. This also would require appraisers to observe two different standards of care which may differ, and thus one uniform standard of quality and professional care is required.

a. Proposed amendment #3: Authority to establish and define best practices, quality, performance, behavior, and standards of appraisers along with uniform standards of appraisals, all automated valuation models, broker price opinions, desktop and all other real estate valuations utilized by lenders, along with all quality testing reporting requirements of Section VIII shall be developed, established, and coordinated by the three independent boards of the Appraisal Foundation known as the ASB, AQB and AIB. Lenders shall be required to observe all standards established by the ASB, AQB and AIB boards. Testing of appraisal results shall be measured in the context of the degree of compliance with these established best practices and standards.

Comment: The Appraisal Foundation and its independent boards are already legislatively authorized by Congress to establish these standards, it has the necessary experience and its standards are required to be observed by lenders, federal agencies, all 50 states, and in established case law at both the state and federal levels.

3. The initial funding while generous is not sufficient to fulfill the mission. The lack of a long-term on-going or self funding source being clearly identified weakens the authority and credibility of the IVPI and threatens its long term viability. The requirement for every lender to establish their hotline might be viewed as a difficult financial burden on small lenders and is far less economical than having one centralized hotline. Also having two different hotlines at lenders and at the IVPI may result in confusion in the market.

a. Proposed amendment #4: Lenders shall be required to use the hotline established by the IVPI, and to disclose that number and website to borrowers. Lenders shall be required to pay a monthly fee established by the IVPI for administration of the hotline. Failure to pay the fee could result in termination of the lenders ability to sell loans to Fannie Mae or Freddie Mac. The lender shall have the right to establish its own hotline but information regarding the number of calls, outcome of those calls and summary of investigations taken must be shared monthly with the IVPI. The lender shall establish an independent person or department independent of all lending functions to investigate complaints referred to it from the IVPI hotline.

Comment: Having a centralized hotline administered by the IVPI or AIB (rather than thousands of individual hotlines) is significantly more economical, eliminates confusion, reduces the financial burden to lenders, and ensures that appropriate action is taken when

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compromises of appraiser independence are identified. Creation of this nominal monthly fee provides for a long-term sustainable way to fund the important work of the IVPI. Given the large number of lenders in the USA, this fee would likely be quite low, perhaps initially in the range of $10 to $30 per month, but would vary based on the operating costs of the IVPI, and likely be far below the costs each lender would need to absorb if required to establish thousands of individual hotlines.

4. The only existing identified recourse in instances when appraiser independence is compromised is forcing lenders to buy back loans. This means if loans are not put back, compromise of appraiser independence may go unaddressed allowing a structural conflict of interest problem to continue. Also, the lack of any true authority of the IVPI weakens the ability of the IVPI to mediate and to overcome the problem of appraiser independence.

    a. Proposed amendment #5: The IVPI (AIB) shall seek legislative authority to establish appropriate fines assessed on lenders, correspondents, mortgage brokers, and appraisers in instances when attempts to inappropriately compromise appraiser independence or inappropriately and meaningfully affect the value conclusions of an appraiser have been attempted, or appraiser independence has been found to have been compromised and meaningfully affected the conclusions rendered in the appraisal report. Fannie Mae and Freddie Mac may consider the amount and number of fines assessed in reaching its decision regarding whether loans shall be required to be repurchased by lenders, or in terminating the lenders right to sell loans to Fannie Mae or Freddie Mac. Authority shall be granted to the Appraisal Foundation to establish best practices and quality standards and potential fines should be assessed based upon a finding of deviation from those standards.

    Comment: This authority would allow the IVPI to be more effective in its mediation role, result in improved ability to address compromises of appraiser independence, and help to restore confidence in the independence conclusions of appraisals since market participants would be more inclined to comply to avoid exposure to fines. Also, these definitions of when fines would apply would help reduce frivolous claims.

5. A process for selection of Board Members before and after the sunset period is unaddressed creating confusion, reducing effectiveness, market acceptance, and threatens viability.

    a. Proposed Amendment #6: All Board Member vacancies shall be advertised nationally, providing all interested applicants with the ability to be nominated or self nominated. Board Members shall be selected by the Trustees of the Appraisal Foundation.

    Comment: The Appraisal Foundation is an existing non-profit organization which currently represents the public and all affected parties. They already advertise annually for Board

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Member positions at the ASB and AQB and have an existing process for collecting, evaluating and selecting prominent, well qualified board members.

6. The use of the term "Any financial connection" in relation to selection of Board members appears over reaching and would result in the elimination of well qualified board members even though no real conflict of interest exists.

    a. Proposed Amendment #7: Current employees of Fannie Mae, Freddie Mac, or OFHEO, nor any candidate who has an existing financial connection greater than $50,000 to those organizations are not eligible for board membership.

    Comment: Clarifies potential conflicts of interest

7. The list of those who could file complaints regarding appraiser independence was limited to appraisers and consumers although lenders and others might have knowledge of abuses.

    a. Proposed Amendment #8: Appraisers, consumers, lenders or other affected parties may file complaints with the hotline.

    Comment: Clarifies that the hotline will accept complaints from all affected groups.

8. Having lenders report quality testing results bi-annually does not seem to help address structural conflicts of interest in a timely enough manner. Confidentiality of data needs to be protected.

    a. Proposed Amendment #9: Lenders shall report the results of quality testing at least twice per year or as required by the IVPI. Data supplied by lenders for test result purposes shall be deemed confidential and not distributed to third parties, but aggregated summary findings may be publicly released.

    Comment: Increasing the report frequency will help better detect structural problems.

9. States are underfunded yet the number of complaints sent to state appraisal boards could rise considerably.

    Comment: Amendment #5 which provides authority to issue fines would help address this issue.

10. The term "Institute" is already in use within the industry and potentially infringes upon the trade name "Appraisal Institute" and would create confusion in the industry.

Comment: Proposed amendment #1 renaming it to the "Appraiser Independence Board" would resolve this issue.

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Collateral Risk Network Meeting – Attendee List

Washington, DC - April 3, 2008

Name	Company
Lowery, Betty	Agire Mortgage
Trice, Joan	Allterra Group LLC
Trayte, Steve	AmTrust Bank
Garber, Bill	Appraisal Institute
Kennedy, Lee	AV Metrics
Patel, Dena	AVMetrics
Conlin, Steve	Bank of America
Fults, John C	Bank of America
McDaniel, Wes	Bank of America
Nicholson, Scott	Bank of America
Leali, Richard	BankUnited
Kirk, Michael	Charter One Bank
Bandura, Joseph	CIT
Sells, Ralph	ClearBox LLC
Kifer, Gerald	Department of Veterans Affairs
Murphy, Robert	Fannie Mae
Smolen, Miriam	Fannie Mae
Sparks, George	Fifth Third Bank
Bredice, Allan	Fiserv
Howlett, Lee	Fiserv
Morgan, Walter	Fiserv
Liley, Mark	Flagstar Bank
Morrison, Traci	Flagstar Bank
Hummel, Alan	Forsythe Appraisals, LLC
Doty, Jacquie	Freddie Mac
Wolf, Lance	Freddie Mac
Allen, Susan	GMAC ResCap
Rauland, Jeff	Goldman, Sachs & Co.
Ellis, Bradley	Indymac Bank
YUREK, II, GERALD L.	INDYMAC BANK
Bough, Andrew	ING Direct
	~ Continue

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Name	Company
Nielsen, Walt	IRR-Residential
Rodgers, Doug	IRR-Residential
Wood, John	IRR-Residential
Rice, Kathleen	LSI
Vann, George	LSI
Johnson, Mark	LSI
Davis, Brad	Morgan Stanley
Sparks, Scott	Novellus Capital Management
Pollard, Alfred	OFHEO
Murray, Keith	PCV Murcor
Scherf, Tim	PCV Murcor
Carey, William	PCV Murcor Real Estate Services
Lahr, Kevin	Quantrix Valuation
Majewski, David	Quicken Loans
Peters, Jeff	Rels Valuation
Ramirez, Gilbert	Safe Harbor Appraisal Corp
Cirincione, John	Secolink
Bunton, David	The Appraisal Foundation
Bennett, Crispin	Transunion
Dennis, Greg	Transunion
Davis, Rick	US Bank
Pistilli, Tony	US Bank
Detrie, Michael	US Bank
Park, Jim	Valuation Works
Coyne, Mike	ValuationWorks
Whitley, Chris	Wachovia
Hoefer, Gregory	WaMu Bank
Chapin, Mark	Zaio
Inserra, Thomas	Zaio Inc.
Kelly, Don	Zaio Inc.
Nelligan, Diane	Zaio, Inc.
Allen, Lewis	
DeFeo, Ken	BNC Mortgage
Forsythe, Tim	Forsythe Appraisals, LLC

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