Independent Valuation Protection Institute

IVPI Proposal

"To promote and preserve the Public Trust inherent in professional appraisal practice"

Organizational Committee: Chair: George W. Dodd, SRA
Co-Chair: Pamela E. Crowley

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Independent Valuation Protection Institute

"To promote and preserve the Public Trust inherent in professional appraisal practice"

Mission: Honesty, impartiality, and professional competency are required of all Appraisers under the *Uniform Standards of Professional Appraisal Practice* (USPAP). Our mission is to assist and protect American Families and Consumers when making their largest single financial investment, their Home.

Goals:

- Protect the Public Trust via establishment and operation of the Independent Valuation Protection Institution (IVPI) as an independent, nonprofit, organization.
- Preserve the integrity and impartiality of the Appraisal Process.
- Establish procedures for the review, mediation, and reporting of complaints from Consumers, Appraisers, Lenders, GSEs, Government Agencies, and Investors.
- Establish efficient, secure, professional delivery of appraisal services.
- Provide uniform appraisal processing and quality control.

Approach:

Establish a non-profit organization to preserve the integrity and impartiality of the appraisal process by:

- Consolidate GSE appraisal policies and appropriate guidelines.
- Develop appropriate IVPI audit, review, guidance, and compliance procedures.
- Establish State review panels for compliance to GSE standards.
- Establish an open panel of qualified Appraisers for GSE appraisals.
- Establish a centralized ordering and delivery system.
- Establish a centralized protected repository for appraisal reports.
- Monitor and review adherence to the Home Valuation Code of Conduct.
- To provide a high level of expertise and coordination ensuring sound, creditable, independent, and reliable appraisals.
- Establish a report function of the results of IVPI's activities publically to the OFHEO and Attorney Generals on a bi-annual basis.

Starting over is not feasible. There are changes that can be made that would result in vast improvement and provide an environment where the market appraisal process truly results in unbiased and supportable valuation of the underlying collateral. Nothing can be accomplished without a plan, and no plan can be formed until the mission is clearly stated.

The Missions:

Fannie Mae: (Source: www.fanniemae.com)

- "Has a unique duty to the public it serves -- and the private investors that fuel its services -- to be a model company focused on service, reliability, and value."
- "Mission is to tear down barriers, lower costs, and increases the opportunities for homeownership and affordable rental housing for all Americans. Because having **a safe place to call home strengthens families, communities, and our nation as a whole."**
- "The government established Fannie Mae in order to expand the flow of mortgage funds in all communities, at all times, under all economic conditions, and to help lower the costs to buy a home."

Freddie Mac: (Source: www.freddiemac.com)

- "Mission is to provide liquidity, stability and affordability to the housing market."
- **"Everything we do comes back to making America's mortgage markets liquid and stable and increasing opportunities for homeownership and affordable rental housing across the nation**."

OFHEO: (source: www.ofheo.gov)

- **"**Mission is to promote housing and a strong national housing finance system by **ensuring the safety and soundness of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation**)."
- "OFHEO is funded through assessments of Fannie Mae and Freddie Mac. OFHEO's operations represent no direct cost to the taxpayer. In its safety and soundness mission, OFHEO has Regulatory Authority similar to such other federal financial regulators as the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Board of Governors of the Federal Reserve System.

Independent Valuation Protection Institute (IVPI):

- Honesty, impartiality, and professional competency are required of all Appraisers under the Uniform Standards of Professional Appraisal Practice (USPAP).
- To assist and protect American Families and Consumers when making their largest single financial investment, their Home.
- To promote and preserve the Public Trust inherent in professional appraisal practice.
- Perform all required liaison functions as stipulated by the agreement.

<u>Background</u>:

The regulatory environment influencing the appraisal industry, and the ramifications to the Public Trust:

- The Savings and Loan Crisis of the 1980's culminated in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).
- The findings of Congressional inquiry into the reasons behind the S&L debacle found among other things, repeated instances of collusion between Lenders, Vendors, Appraisers, and Borrowers.
- FIRREA mandated that States regulate the activities of real estate Appraisers and the appraisal process.
- Oversight is by way of federally supervised guidelines promulgated by the Appraisal Foundation including the USPAP.
- Guidelines for users of appraisal services were issued to GSEs by the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Board of Governors of the Federal Reserve System.

The Federal mandate, born of the S&L calamity, was **<u>never</u>** realized in an independent committee of broad jurisdictional authority. **The American taxpayer was, and may well be again,** called upon to pay for the errors of the regulatory environment. Both the 1989 problem, and the current crisis, would have never occurred if the **Users of appraisal services demanded the collateral be accurately represented.**

<u>Current Environment:</u>

The Nation is now experiencing another financial "adjustment" much more serious than the S&L Crisis of the 1980's. The GSEs and federally regulatory agencies have recognized the key solution is the establishment of **IPVI**.

Users of appraisal services had become less selective, in recent years, with respect to the quality performance of their vendors.

The US Federal Reserve has taken the boldest action since the 1930s, accepting $200bn of housing debt as collateral to prevent an implosion of the mortgage finance industry and head off a full-blown economic crisis. There is a melt-down of the US chartered agencies -- Fannie Mae, Freddie Mac, and other lenders -- which together guarantee 60 percent of the entire US home loan market. The crisis at Fannie Mae and Freddie Mac -- once rock-solid institutions -- has created a wave of panic over the solvency of the investment banks with heavy exposure to sub-prime debt.

The quality of Lending services diminished due to lack of prudent monitoring and enforcement of appraisal process regulations. This is not surprising when the emphasis had been placed on expediency and not quality. The decline in appraisal quality is evident when observing the dramatic growth of the independent Appraisal Review function something that had been a nominal part of appraisal quality control prior to introduction of Appraisal Regulation. If appraisal quality had been improved by Regulation, would this expanded Appraisal Review function now be necessary?

This came about in large part due to higher incidences of failed quality control examinations by Investors who purchased bundled loans. The generally lower quality of appraisals revealed in these examinations forced the growth of the Review function. When approached in this manner the Review Function assists in providing the appearance of cleaner looking appraisals in bundled loans, not necessarily more reliable valuations.

The current attitude appears to be that it's the "existence of the process" that matters and not the quality of it. Apparently, if an appraisal has been performed by a Certified or Licensed Appraiser, and been reviewed by another Certified or Licensed Appraiser, it has an enhanced "*appearance"* of quality.

The massive expansion of multifaceted Appraisal Management Companies and data services has been another consequence of FIRREA. These are firms that warrant lenders a passable appraisal, supplied speedily, in any location. Many of these diversified companies provide numerous other *bundled settlement services*; appraisals and other valuation services are only a part of what they offer.

On the surface, nothing is wrong in that. They are businesses fulfilling a need, but increasing User reliance on "one stop shopping" has diluted the necessary emphasis on appraisal quality resulting in demonstrated erosion of the Public's Trust.

Regulation is supposed to protect the interests of Consumers, Investors, and Lenders, but does it? Regulation lacking effective monitoring and enforcement rings hollow as the reality which has occurred during the past several years demonstrates. To date, Regulation has proven insufficient in protecting the impartiality and creditability of the entire process.

The establishment of the Home Valuation Protection Program and the Code of Conduct clearly indicate the major GSEs and Regulators have agreed to reaffirm the Intent of FIRREA.

The Challenge

The Current system is obviously flawed, how can appraisals backing the Nation's mortgage portfolios generally pass the test as being truly unbiased documents?

What practical and feasible solution can be implemented to significantly reduce Risk and overall Cost while restoring American Consumer and Investor Confidence in the Industry?

This is no longer just a looming threat. Actual damage to the system has occurred. Cosmetic revisions to the existing system will not protect the American Consumer or Wall Street Investor. Maintaining the status quo is not a viable option. Never before, not even in the "Great Depression", have so many American Families faced the prospect of losing their homes. Radical change to the system is clearly required.

The Solution

We are at this conference today, in large part, due to the insight and determination of the **Attorney General of New York, Andrew M. Cuomo**. He has focused the public's scrutiny and outrage on the faulty business practices and questionable ethics of too many of the Mortgage Industry's Participants. With the guidance of such dedicated Leaders, the Public's Trust can be restored in the Financial Markets and relieve the Housing Crisis. Implementing the Solution proposed here today will have a positive impact on every Family in America.

The solution to the current crisis is to "**reset**" the appraisal processing system. Trying to resolve these fundamental issues in bits and pieces will allow too many loopholes to remain for unethical Participant to exploit the system. We must work together to **restore** American Consumer and Investor **Confidence** that appraisals for the underlying collateral are creditable.

This endeavor will not be easy. There are many groups firmly entrenched in the current system who may be hesitant to accept change. Participants have their own agenda, which is understandable. But now is the time to put aside individual interests and focus on regaining the confidence of the American Consumer and Investor.

To contribute to, and support, the original intent of FIRREA, there needs to be changes to the process, and we need to focus on that. The proposal we offer today is unique in its approach. Implementation will change the appraisal and ordering process to a system that promotes honesty, impartiality, and professional competency, restoring confidence in the Industry.

The question we hope you will be asking at the end of this proposal is "why wouldn't we want to do business this way?"

Establish a non-profit organization to preserve the integrity of the appraisal process:

1. **Transparency:**
    a. Regulations to protect and not mislead the Consumer, promote Consumer confidence, as well as promote Appraiser independence.
    b. Full and accurate accounting to disclose all fees charged by Independent Valuation Protection Institution (IVPI).
2. **Funding**:
    a. Funded via a surcharge separate from the appraisal fee. The service fee would be charged to the lender at the time of the order. Appraisal fee paid directly to the Appraiser at delivery of completed report.
    b. IVPI would be designed to assume many of the regulatory requirements for appraisal review and quality control of lenders utilizing it services.
    c. To become self-sustaining within twenty-four (24) months of full operation.

3. **Responsibility:**
    a. Develop a secure system for the ordering and delivery of appraisal services.
    b. Develop a fair and impartial system of audit and review.
    c. Develop a fair and impartial system of compliance procedures.
    d. Develop a transparent compliance and reporting system.

4. **Management:**
    a. Institute a centralized management team to develop and implement plans of IVPI.
    b. Develop necessary business systems and infrastructure.
    c. Develop regional areas consisting of three or four States.
    d. Create State Appraiser and Review panels based on competency.
    e. Select a location for the main office to conduct business.
    f. Hire appropriate operating executives, attorneys, accounting, and information systems to conduct business.

5. **Oversight**:
    a. Create a Board of Directors that includes:
        1. Consists partly of experts in the fields of real estate finance, loan origination, law enforcement, compliance review and real estate appraisal and valuation.
        2. Consists partly of regional/state representatives elected by Appraiser members.
    b. Oversight:
        1. Oversight Panel should be organized on a regional level to interface directly with GSEs local offices.
        2. Regulatory oversight by the Office of Federal Housing Enterprise Oversight and the New York State Attorney General.

Establish a centralized protected Repository for appraisal reports:

1. Protect confidential information gathered from Consumers and Lenders.

2. The Secured Vault holds the actual appraisal report. A register can be accessed via online query by property, Appraiser, Borrower, date, case number, etc. Multiple appraisals, reviews, and complaints per property will be linked together so that deficiencies can be identified, remediated, and/or referred as per the Home Value Protection Program.

3. The Vault will provide the ability to maintain the appraisal reports in an environment that is free from fraud and abuse. It will provide a central location that Investors can access to verify authenticity an appraisal.

4. Protection of intellectual property rights.

5. The system would utilize software similar to "Adobe® LiveCycle® ES (Enterprise Suite) "

Unify GSE appraisal Policies, Guidelines, and Establish a Centralized Ordering System:

1. Utilize existing software to develop an ordering system, similar to VA's TAS.

2. Appraisers will register their local market areas; rotational appraisal assignments will be based on technical and geographical competency.

3. Interface with the GSEs to update their policies and format them into a simple and easy-to-follow guide. It should be specific with requirements ordered in a numerical sequence.

4. Assist the GSEs to combine their policies into a single uniform, USPAP compliant, policy which addressing Consumer appraisal portability; published of GSEs policies in pdf format.

Establish and maintain adherence to the Home Valuation Code of Conduct:

1. The approved IVPI Appraiser must personally inspect the interior and exterior of the subject property; virtual inspections are not permissible (viewing photos, videos, etc).
2. Only the IVPI approved Appraiser can perform the appraisal; the only exceptions being a trainee, or their equivalent, working under the IVPI Appraiser's direct personal supervision. Unapproved Appraisers cannot inspect the subject property and sales independently.
3. Responsible for adhering to the current edition of the GSEs appraisal policies.
4. Certifies to GSE-policy adherence in the appraisal reports.
5. Identifies the client and the client's "target" lender in the appraisal report.
6. Appraisers to add in additional items required in USPAP for Summary Appraisal Reports (i.e., Highest and Best Use analysis (HBU), exposure time analysis, the reasoning for excluding approaches or methodology that would normally be expected by peers or other lenders, etc.)
7. Appraisers to model their appraisal reports per GSEs approved examples to the extent possible within their geographic region. When GSEs provide suggested verbiage Appraisers should use it to the extent its applicable, etc.
8. Only individual Appraisers are approved.

Develop IVPI audit, review, guidance, and compliance procedures:

1. IVPI Review Appraisers must, and Panel Members may, be qualified by a separate Review Appraiser Qualification Process to perform reviews in addition to State Licensing. All Consumer, Appraiser, Lender, GSE, and other complaints will be addressed via IVPI Tiered State and Regional Review Process.

2. Tiered Review process for all complaints at State and Regional level:

    a. Initial Reviewer can dismiss a complaint, or issue a letter of warning, or escalate complaint for a field review.
    b. Senior IVPI Reviewer may dismiss the complaint, issue a warning, or escalate to a formal hearing governed by the standards of due process.

3. All communication and correspondence between IVPI and Panel Member will be in writing: minimum two week advanced notice to allow adequate preparation and participation in the Formal Hearing.

4. If the Formal Hearing results indicate that referral to State Licensing Boards is appropriate, than IVPI Active status will be suspended. Reinstatement will be subject to State Appraisal Board Disposition.

Establish IVPI State Review Panels:

1. Regional and State Review Staff and qualified Panel Members will be responsible for conducting audits and reviews, investigating complaints and associated responsibility.
2. Automatic forensic review on every appraisal where the loan goes into default.
3. Conduct training and informational seminars for IVPI Panel Members.
4. Review written Reconsideration of Value requests.
5. Review GSE appraisals reports of at least 10% annually (Home Value Protection Program).
6. Serve as a resource to panel members for difficult and unusual properties.
7. Counsel those in need of remedial education.

Establish IVPI's Open Panel of qualified Appraisers for GSE appraisals:

1. All Certified and/or Licensed Appraisers in good standing are encouraged to apply for panel membership.
2. Disciplinary action within the past three (3) years will require a formal review.
3. Successful completion of IVPI online GSEs Standards Course and Updates.
4. Maintain adherence to the Home Valuation Code of Conduct.
5. Maintain compliance with the USPAP and respective and applicable State Appraisal Laws.

Benefits

- Restore the Public Trust.
- Promote honesty, impartiality, and professional competency in valuation services.
- Increase appraisal portability between Consumers, GSEs, Lenders, Independent Mortgage Originators, and other Market Participants.

- A protected repository providing security to Investors.
- Speed and efficiency become integrated with Appraiser Independence and Competency.
- Consumer Hotline and Assistance.
- Appraiser Hotline and Assistance.
- Effective coordination with Government Agencies and GSEs.
- Implementation of IVPI's proposal reduces costly redundancies in the system and results in savings to Consumers and Lenders.

You can't have good results until you have something by which to measure those results. Results follow expectations.

Projected Milestones:

1. <u>First Three Months:</u>

a. Select the central management team.
b. Locate a base of operations.
c. Develop an operating budget.
d. Contract with experts as needed to develop corporate structure and policy.
e. Contract with IT professionals to develop appropriate systems.
f. Work with the GSEs to develop unified guidelines and report formats.
g. Initiate search for regional and State Review Appraisers and appraisal panel members.

2. <u>First Six Months:</u>

a. Finalize central management.
b. Finalize selection of IT systems and begin their implantation.
c. Hire regional review staff as available.
d. Initiate testing of IT systems using review staff.
e. Initiate system test with "beta" lenders.
f. Continue work with GSEs on guidelines and report formats.
g. Develop GSE educational materials.

3. <u>First Nine Months:</u>

a. Complete work with GSEs on guidelines and report formats.
b. Complete hiring of State review staff.
c. Continue appraisal panel member applications and approval process.
d. Complete testing of internal IT systems.
e. Continue approval of appraisal panel.
f. Increase "beta" testing to incorporate additional lenders and approved appraisal panel.

4. <u>Twelve Months:</u>

a. Final review of all systems and technology.
b. Changes and enhancements as determined from beta testing.
c. Continue approval of appraisal panel.
d. Deployment of complete and active system.

Independent Valuation Protection Institute

Organizational Committee:

Pamela E. Crowley: Florida

Katherine A. Scheri, SCRREA: California

George Hatch: California

Michael E. Kennedy: New York

Perry E. Turner Jr., SRPA, SRA: Virginia

George W. Dodd, SRA, Chair: Virginia

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And special thanks to the hundreds of Appraisers who have contributed support and ideas to this proposal.

Home Valuation
Code of Conduct

I. 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 including but not limited to:

1) withholding or threatening to withhold timely 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[1];

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 estimate requested from an appraiser;

5) requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report, or 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 management company, or any entity or person related to the appraiser 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 used by any entity, without prior 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

[1] An "Appraiser" must be licensed or certified by the state in which the property to be appraised is located.

(USPAP) or state licensing standards, substandard performance, or otherwise improper or unprofessional behavior;

9) ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model in connection with a mortgage financing transaction unless 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 unless such appraisal or automated valuation model is done pursuant to a bona fide pre- or post-funding appraisal review or quality control process; or

10) any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality.

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. The lender shall ensure that the borrower is provided, free of charge, a copy of any appraisal report concerning the borrower's subject property immediately upon completion, 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. The lender or any third-party specifically authorized by the lender (including, but not limited to, 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).

IV. 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 other than either the Chief Compliance Officer, General Counsel, or any officer who is 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; (2) any communications with an appraiser, including ordering or managing an appraisal assignment; and (3) working together in the same organizational unit, or being directly supervised by the same manager, as any person who is involved in the selection, retention, recommendation of, or communication with any appraiser. If absolute lines of independence cannot be achieved as a result of the originator'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.

V. Any employee of the lender (or if the lender retains an 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 and appraisals, and (2) in the case of an employee of the lender, wholly independent of the loan production staff and process.

VI. In underwriting a loan, the lender shall not utilize any appraisal report prepared by an appraiser employed by:

(1) the lender;

(2) an affiliate of the lender;

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

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

(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.;

(6) an entity that is owned, in whole or in part, by a "settlement services" provider.

The lender also shall not use any appraisal report obtained by or through an appraisal management company that is owned by the lender or an affiliate of the lender, provided that the foregoing prohibitions do not apply where the lender has an ownership interest in the appraisal management company of 20% or less and where (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.

Notwithstanding these prohibitions, the lender 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 (<u>e.g.</u> loan workouts).

VII. 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. In addition: (1) each appraiser now or hereafter on any list of approved appraisers, or, upon retention by the lender, will be notified, in a separate document, of the hotline and email address and their purpose; and (2) each borrower, as part of a cover letter accompanying the provided appraisal, will be notified of the hotline and email address and their purpose. 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. The name and any identifying information of the person or entity that has filed such a complaint shall be kept in strictest confidence by the office of the General Counsel, Chief Compliance Officer or other independent officer, except as required by law. The lender shall not retaliate, in any manner or method, against the person or entity which makes such a complaint.

VIII. 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. The lender shall report the results of such quality control testing to the Independent Valuation Protection Institute and any relevant regulatory bodies.

IX. Any lender who has a reasonable basis to believe an appraiser is violating applicable laws, or is otherwise engaging in unethical conduct, shall promptly refer the matter to the Independent Valuation Protection Institute and to the applicable State appraiser certifying and licensing agency.

X. The lender shall certify, warrant and represent that the appraisal report was obtained in a manner consistent with this Code of Conduct.

XI. Nothing in this Code 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, or (2) affect the acceptable scope of work for an appraiser in connection with a particular assignment.

HOME VALUE PROTECTION PROGRAM
AND
COOPERATION AGREEMENT

WHEREAS, the New York Attorney General's Office (the "Attorney General's Office" or the "Office") has been conducting an investigation into conflicts of interest, fraud and other misconduct in the mortgage industry. As part of its investigation, the Attorney General's Office has studied the business models and conduct of entities, including but not limited to Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"), that purchase mortgage loans, and then, after pooling the loans, sell them as securities to the public; and,

WHEREAS, pursuant to the Attorney General's Office's investigation, the Office believes reforms are necessary to protect the valuation mechanisms within the housing industry in both the primary and secondary markets to protect consumers and to that end is engaged in an industry-wide investigation involving originators, securitizers and credit rating agencies; and,

WHEREAS, the Attorney General's Office believes that the current crisis in the mortgage industry follows a period of a high volume of home mortgages, home equity refinancings and securitizations of new structured mortgage financing products in which serious questions of conflicts of interest, negligence and errors throughout the housing market have arisen. The Attorney General's Office further believes that questions about valuation, both in the primary market and in the secondary market, are central to these concerns; and,

WHEREAS, the Attorney General's Office believes that, in the residential home primary market, home appraisals serve a vital role in determining the security of the mortgage loans and the basis for evaluation of mortgage pools in the secondary market. The appraisal also provides important information for consumers to consider in determining their best financial interest; and,

WHEREAS, the Attorney General's Office believes that the accuracy and independence of the appraisal process must be ensured and protected. Historically, there have been times when turmoil in the real estate market has been caused when the valuation mechanisms, and the appraisal process specifically, have been corrupted by pressure from lenders and brokers. Federal regulations require "independence" of the appraisers and the appraisal process. State governments have regulatory roles in ensuring the integrity of the appraisal process; and,

WHEREAS, the Attorney General's investigations have evidenced bias in appraisal practices, and therefore new policies safeguarding appraisal independence and *bona fide* valuations must be established; and,

WHEREAS, the Attorney General's Office believes that Freddie Mac is a highly significant institution in the secondary mortgage market that can play an important role in stabilizing the mortgage markets by, in part, helping to restoring consumer and investor confidence in home and mortgage pool valuations; and,

WHEREAS, the Office of Federal Housing Enterprise Oversight (hereinafter "OFHEO"), an independent agency in the Department of Housing & Urban Development oversees Fannie Mae and Freddie Mac, two government sponsored enterprises ("the Enterprises") and has established a regulatory regime to guide Enterprise efforts to resist and report mortgage fraud and suspected mortgage fraud; and, WHEREAS, OFHEO has worked with the Enterprises to enhance their internal programs to detect and prevent mortgage and appraisal fraud and external programs to educate seller-servicers and the public on resisting mortgage fraud and to communicate with state appraisal licensing bodies on appraisal fraud or appraiser misconduct; and,

WHEREAS, OFHEO has worked with state and federal law enforcement and has reported events of mortgage fraud and suspected mortgage fraud, including appraisal fraud, for over two years to the Department of the Treasury's Financial Crimes Enforcement Network for referral to law enforcement; and,

WHEREAS, the parties agree to seek comment and concurrence regarding this Agreement and the Code of Conduct, and the timetable for the implementation thereof to assure no disruption in the marketplace, from the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration and the Federal Housing Administration, as the parties move forward to implement the Agreement and the Code of Conduct; and,

WHEREAS, the Attorney General's Office and OFHEO share concerns for a reliable valuation and appraisal process that underlies the mortgage market and believe it is in the public interest to act in a coordinated fashion; and,

WHEREAS, the Attorney General's Office and OFHEO believe that this forward-looking agreement will in no way prejudice any of the Attorney General's ongoing investigations in the mortgage industry or OFHEO's regulatory mandates but will provide appropriate and necessary reforms and stability to the market.

NOW THEREFORE, the Attorney General's Office, OFHEO and Freddie Mac enter into this agreement and agree as follows:

I. NEW HOME VALUATION PROTECTION CODE

1. To ensure appraisal independence and valuation protection, Freddie Mac has agreed to adopt a Home Valuation Protection Code (the "Code," which is attached hereto as Exhibit A), which was crafted by the Attorney General's Office and OFHEO, in consultation with the Enterprises and other market entities. The Code establishes requirements governing appraiser selection, solicitation, compensation, conflicts of interest and corporate independence, among other things. The Code may be modified from time to time to address changes in federal or state banking laws and regulations. Freddie Mac will immediately announce the adoption of the requirements contained in the Code, 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 Freddie Mac conform to the Code. After January 1, 2009, Freddie Mac will not purchase single-family mortgage loans, other than government-insured loans, from mortgage originators that do not agree to adopt the Code with respect to such loans that are delivered to Freddie Mac. Freddie Mac may exclude from the provisions of paragraph VI, subsections 1-4, of the Code, institutions that both meet the definition of a "small bank" set forth in the 12 U.S.C. § 2908, and which Freddie Mac determines would suffer hardship due to those provisions. Institutions excluded for hardship reasons must otherwise comply with the other provisions of the Code and must meet all appropriate standards of appraiser independence. During a

period before January 1, 2009, Freddie Mac shall provide the opportunity for comments from market participants on its implementation and deployment of the Code; commentators should provide copies of their comments to OFHEO. The parties to this Agreement understand the significance of the reforms provided for herein and therefore will in good faith review the comments received during this period and will consider any amendments to the Code necessary to avoid any unforeseen consequences. The parties to this Agreement believe that the adoption of this Code will enhance the integrity of and confidence in the housing finance system country-wide.

II. FORMATION OF THE INDEPENDENT VALUATION PROTECTION INSTITUTE

2. The parties hereto acknowledge that the integrity of the valuation processes involves federal and state laws and regulations as well as market practices and standards. This complex area requires a high level of expertise and coordination to ensure truly sound, accurate, independent and reliable appraisals.

3. To that end, the parties agree that an independent entity, the Independent Valuation Protection Institute (the "Institute"), will be established to monitor and study this area. The Institute may, from time to time, propose amendments to the Code which the parties to this Agreement will review and consider.

4. The Institute will establish a complaint hotline for consumers nationwide to contact if they believe the appraisal process has been tainted or if they have been harmed by appraisal fraud.

5. Appraisers themselves will be able to contact the Institute if they believe their independence has been threatened in any way, including by undue pressure. Appraiser complaints will be handled in confidence to protect the appraisers from

possible retaliation. The Institute, in its judgment, will mediate complaints or forward complaints to federal or state regulators. The Institute, in its judgment, may also forward complaints to state or federal law enforcement agencies for possible investigation or prosecution.

6. The Institute will be headed by a Board of Directors. Membership on the Board shall consist of experts in the fields of real estate finance, loan origination, law enforcement, compliance review and real estate appraisal and valuation. Members of the Board shall have no financial connection whatsoever with Fannie Mae, Freddie Mac or any loan originators with whom Fannie Mae or Freddie Mac engage. This prohibition will apply to any subsequent securitizer contributing to the Institute. The Institute shall hire a full time professional staff. The Attorney General's Office and OFHEO must both approve the membership of the Board.

7. The Institute shall report publicly on the results of its activities to the Attorney General's Office and OFHEO on a bi-annual basis.

8. The Institute may be affiliated with an existing academic, professional association and/or industry organization.

9. Freddie Mac agrees to fund the Institute, along with Fannie Mae, for a period of not less than five years at an annual cost to each as follows: year one - $1 million; year two - $2 million; year three – $3 million; year four - $3 million; and year five - $3 million. To the extent other entities agree to participate in the Home Value Protection Program, the respective contributions of Fannie Mae and Freddie Mac may be reasonably reduced. The Institute may, upon a showing of good cause to the Attorney

General's Office and OFHEO, request that additional funds be allocated in years one and two from funds reserved for years three through five.

III. COOPERATION AGREEMENT AND TERMINATION OF THE ATTORNEY GENERAL'S OFFICE'S INVESTIGATION

10. Freddie Mac agrees to cooperate with the Attorney General's Office and OFHEO to effect and accomplish the terms of this agreement. Freddie Mac also agrees to continue to cooperate in the Attorney General's Office's ongoing investigation into the mortgage industry.

11. The Attorney General's Office agrees to terminate its current investigation of Freddie Mac.

12. The parties agree that the requirements in this Agreement, except for the provisions relating to the Institute, terminate 28 months from the execution of the Agreement.

13. Nothing contained herein shall be deemed to constitute an admission by Freddie Mac of any wrongdoing in connection with any matter, which Freddie Mac expressly disclaims and denies. Nor shall this Agreement or any negotiations, transactions, or proceedings connected in any way with this Agreement be offered or received in evidence in any proceeding to prove any liability, any wrongdoing, or an admission on the part of any party hereto, by any individual or entity not a party hereto; provided, however, nothing herein shall prevent this Agreement, from being used, offered, or received in evidence in any proceeding to enforce any or all of the terms of this Agreement.

14. If any provision of this Agreement or the attached Code is found to be violative of federal law or regulation, the violative provision will be deemed null and

void. If any provision is deemed null and void, the Attorney General may, in his discretion, terminate this Agreement.

IN WITNESS THEREOF, the undersigned subscribe their names:

Dated: March 3, 2008

ATTORNEY GENERAL OF THE STATE OF NEW YORK

____
Andrew M. Cuomo

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

By:_________________________
James B. Lockhart III
Director

FEDERAL HOME LOAN MORTGAGE CORPORATION

By:__________________________
Richard F. Syron
Chairman and CEO