MEMO FROM CHIEF APPRAISER

Subject: Policy Change Date: 12/18/2007

DOCUMENTING DECLINING MARKETS WITH LISTINGS/PENDINGS

LSI Quality Assurance has been aware for some time that appraisers are often mistaken or confused about the correct handling of the market direction (increasing, stable or declining) of the neighborhood. It is critical that appraisers not mischaracterize the submarket direction. The best possible way to ascertain the direction is with analyzed data from the neighborhood within your report.

Please remember that in a declining market, the listings, adjusted for negotiations, will be a strong indicator of value because the Principle of Substitution suggests that the competing listings create a "ceiling" above which the value cannot go. Thus, in such a market, when listings are lower than recent historical sales, reconciling toward listings, supported by negative time adjustments in the closed sales is appropriate and correct.

This step has already been required in most markets known to be in decline for some time now by several national clients. However, in other markets, while market's driving forces have deteriorated (supply/demand, DOM, interest rates, and job market), it is not clear that the market has actually begun to decline.

One of the surest ways to know whether a market is declining is the use of listings or pending sales which (as has been suggested by many experts) the listing is the "canary in the mineshaft", or "early warning signal", that a market direction reversal has happened. In questionable markets, appraisers have been lax about employing listings or pending sales, not employing the very technique that demonstrates the market has indeed turned. They may mischaracterize the neighborhood as stable, a USPAP Standard Rule 1-1 error of omission.

Given this gap in the analysis, LSI has decided that until further notice, to assure appraisers are correctly gauging the market direction, it will require the analysis of a current offerings and pendings on all appraisals. This analysis is vital to proving the market direction statements are correct and consistent.

To that end, the following policy change regarding appraisals is being implemented pursuit to prudent appraisal practice in potential declining markets:

NEW MARKET ANALYSIS POLICY

This is a national notice of a policy change at LSI:

1. Beginning immediately, LSI will require all appraisers to demonstrate the direction of the neighborhood market by including two listings or pendings or combination thereof in every report. This applies to every form (with the exception of REO appraisals that already add listings in the addenda), in every market. In this way, you are able to show proof of the direction of the market by comparing the competitive listings to the recent sales. The listings in an upward or flat market will not reflect a decline, so reliance on the listings will not then be advisable or necessary.

2. On each listing or pending sale gridded, it is required that the appraiser investigate the list price-to-sale price ratio of the comparable sales used, and adjust the listings downward on the sales concession line for probable negotiations to estimate the likely sales price, using the same closed comps list to sale price ratio. Since the list to sale price ratio of the comps is part of your required sale history, this will not involve any additional research. For example, if Sale 4 is a listing that has been on the market for 3 months, at $100,000, and Comps 1-3's investigation indicated that the average list price to sale price ratio reflects that properties were selling on average at 97% of the last list price, the average negotiation of 3% should be deducted from each listing to estimate the probable negotiations expected. In Comp 4 that would be $100,000 less $3000 for LP/SP ratio.

3. Upon gridding out all closed sales and listings, and after adjusting for physical differences and adjusting for the LP-to-SP ratio in the listings, *BUT prior to estimation of any time difference*, please array and compare the adjusted comps from oldest to newest, including the adjusted listing prices. If you find that the adjusted sales indicate lower values as you move forward in time, then you have demonstrably proven a negative time adjustment within your own analysis. Please calculate it from oldest contract date (or COE date if contract date is unknown) to the current listing adjusted price, as a percentage change per month. Using the effective date as a baseline, apply the negative time adjustment to each sale in turn. The results should tend to tighten the indicated value range, all other factors having been dealt with appropriately.

4. **EFFECTIVE DATE: JANUARY 7, 2008** Given the importance of this policy, and to mitigate service level impact, the policy will be phased in to permit adequate time to relay the changes

Questions? Please email gvann@lsi-fnis.com. Thank you and Happy Holidays!