

Introduction

Midwest Loan Solutions, Inc. (MLS) is committed to the highest standards of Federal and state borrower compliance. MLS requires all management, employees and third-party originators and vendors to follow these policies and to adhere to these standards.

The purpose of this policy is to ensure MLS and its third party originators are complying with the requirements of the provisions of Federal regulations as they relate to appraiser independence rules and to implement borrower protection mechanisms as required by Federal regulation.

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout MLS' operations. In accordance with MLS' policy, the Anti-Steering policy and procedures described herein shall apply to all residential mortgage transactions and represent the full scope of products, property types, branches and geographic locations.

Background

Effective October 15, 2010, Fannie Mae, the Federal Housing Finance Agency (FHFA), Freddie Mac, and key industry participants developed the Appraiser Independence Rules (AIR) to replace the Home Valuation Code of Conduct (HVCC). The Rules apply to the mortgage lending and real estate appraisal industries.

The intended purpose of the Rules is to protect appraiser independence and prevent pressure from being applied to appraisers to produce a desired property value. The updated requirements maintain the spirit and intent of the HVCC and continue to provide important protections for mortgage investors, home buyers, and the housing market. Compliance is required for all loans backed by Fannie Mae or Freddie Mac.

Review Requirement

MLS requires this policy and procedure to be reviewed no less than annually or when Federal regulation is amended and such amendments apply to MLS and its third party originators.

Prohibited Acts and Practices

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

- Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
- Withholding or threatening to withhold future business from an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser;
- Expressly or impliedly promising of future business, promotions, or increased compensation for an appraiser;
- Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;

- Requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report.
- 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;
- Providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits;
- Removing an appraiser from a list of qualified appraisers, or adding an appraiser to an exclusionary list of disapproved appraisers, in connection with the influencing or attempting to influence an appraisal as described above (this prohibition does not preclude the management of appraiser lists for bona fide administrative or quality-control reasons based on written policy); and
- Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation, including but not limited to, the Truth in Lending Act and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).

Once the appraiser is hired by the appraisal management company, MLS may communicate only with the appraisal management company to help schedule the appraisal. MLS may not have any conversations with the appraiser regarding the value of the subject property.

It is permissible for MLS to provide the following information to the appraisal management company:

- Requesting Company
- Processor Name
- Loan Originator Name
- Borrower(s) Name
- Property Address and Property Type
- Occupancy Type
- Lien Position
- Loan Purpose and Program Type
- Sales Price (Purchase Transactions)
- Title and Escrow Company
- Appraisal Type
- Legal Description

NO OTHER INFORMATION REGARDING THE PROPERTY IS TO BE COMMUNICATED TO THE APPRAISER.

1. Conflicts of Interest

No person preparing a valuation or performing valuation management functions for a covered transaction may have a direct or indirect interest, financial or otherwise, in the property or transaction for which the valuation is or will be performed.



Employees and affiliates of MLS do not have a conflict of interest if:

- The compensation of the person preparing a valuation or performing valuation management functions is not based on the value arrived at in any valuation;
- The person preparing a valuation or performing valuation management functions reports to a person who is not part of MLS' loan production function, and whose compensation is not based on the closing of the transaction to which the valuation relates; and
- No employee, officer, director or third party originator in the MLS' loan production function is directly or indirectly involved in selecting, retaining, recommending or influencing the selection of the person to prepare a valuation or perform valuation management functions, or to be included in or excluded from a list of approved persons who prepare valuations or perform valuation management functions.

Mandatory Reporting

If MLS reasonably believes an appraiser has not complied with the USPAP or ethical or professional requirements for appraisers under applicable state or Federal statutes or regulations, it will refer the matter to the appropriate state agency within a reasonable period of time if the failure to comply is material. A failure to comply is material if it is likely to significantly affect the value assigned to the borrower's principal dwelling.

Internal Controls

Together with the Underwriting and QC Departments, MLS' Compliance Department is responsible for adopting and reviewing policies and procedures that establish an effective appraisal and evaluation program. The program:

- Provides for the independence of the persons ordering, performing, and reviewing appraisals or evaluations. MLS employees in the mortgage sales and production functions and its third party originators have no involvement in the operations of the appraisal function.
- Establishes selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations. All appraisal orders are placed through Appraisal Management Companies. These companies are evaluated through the established vendor management process on a regular basis to ensure continued monitoring of performance. As these AMC's are approved as third-party service providers and reviewed for continued approval, MLS' vendor manager communicates this information to the Quality Control department where an approved appraiser list is maintained.
- Establishes that all appraisers are not on an Investor's banned lists. If the AMC does not have an appraiser in a specific area, the Underwriting Manager will research the area to find appraisers from Investors' lists and/or from FHA approved list. The Underwriting Manager will request a resume, sample appraisals and a license for review. If all are satisfactory the information will be forwarded to the AMC for a full review and if appraiser passes, they will be added to the AMC roster.
- Ensures that appraisals comply with the Agencies' appraisal regulations and are consistent with supervisory guidance based on the criteria outlined for each Agency.
- Through underwriting desk reviews of all appraisals and 10% quality control field reviews, ensures that appraisals and evaluations contain sufficient information to support the credit decision.

- Maintains criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices.
- Develops criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction. These criteria include expiration dates and adherence to program guidelines established by the Agencies and Investors.
- Establishes criteria for monitoring collateral values.
- Establishes criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of the agencies' appraisal regulations.
- If MLS determines that the appraisal was not eligible as delivered, it will advise agency or investor of these findings.

A. Selection of Appraisers – Appraisal Management Company

MLS has established criteria for the selection, evaluation, and monitoring of the performance of appraisers and persons who perform evaluations. These criteria ensure that:

- The person selected possesses the requisite education, expertise, and experience to competently complete the assignment;
- The person selected is capable of rendering an unbiased opinion;
- The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction;
- The appraiser selected to perform an appraisal holds the appropriate state certification/license and bond requirements at the time of the assignment. Persons who perform evaluations must possess the appropriate appraisal or collateral valuation education, expertise, and experience relevant to the type of property being valued.

MLS requires its third-party AMCs to maintain documentation to demonstrate that the appraiser or person performing an evaluation meets the minimum requirements as listed above.

B. Subsequent Appraisals

MLS or its third party originator may not order, obtain, use or pay for a second or subsequent appraisal in connection with a mortgage 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 mortgage file.

If an appraisal is found to be faulty, the underwriter may request management review. The underwriting director, QC underwriter and compliance officer will review the appraisal and determine whether a second appraisal is required.

C. Transfer of Appraisals

MLS does NOT allow conventional appraisals from other lenders. FHA and VA appraisals are allowed in accordance with agency guidelines.

Borrower Receipt of Appraisal

MLS ensures that borrowers are provided with a copy of any appraisal report concerning the borrower's subject property promptly upon completion at no additional cost to the borrower, and in any event no less than three days prior to the closing of the mortgage. MLS will send the copy of the appraisal to the borrower via email, or if there is no email address on file, it will be sent to the borrower's home address via first class mail, or hand delivered. In the event that the loan is withdrawn or denied, the borrower is still entitled to a copy of the appraisal at no additional charge.

MLS may provide a revised copy of an appraisal and information as to the nature of any revisions, as long as the revisions have no impact on value, to the borrower at closing.

The borrower may waive this three-day requirement if the waiver is obtained at least three days prior to the closing of the mortgage. The use of waivers is discouraged, and will only be used as an exception. MLS requires the borrower to reimburse the cost of the appraisal at closing.

Disciplinary Action

Failure to comply with this appraisal procedure will result in disciplinary actions which may include immediate termination of the third party origination approval.

Appraisal Management Company Guidelines

MLS requires the use of Appraisal Management Companies (AMCs) and will not allow for appraisals ordered through in-house nor affiliated appraisers. MLS will not accept appraisals ordered outside of an AMC, except in the case of VA loans.

MLS will not accept any appraisal report completed by an appraiser selected, retained or compensated in any manner by any other unauthorized third parties.

All AMCs allowable through the broker channel are required to be approved through MLS' vendor management monitoring and due diligence policy and procedures. In addition, all appraisals receive a desk review by underwriting with an additional 10% of the appraisals receiving a field review by our third party quality control auditor, Meta Source.

For AMCs not on MLS' approved vendor list, an AIR Certificate will be required with the receipt of the appraisal report on a loan level basis.