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Scope of Appraiser Independence Rules

- Regulation Z's Appraiser Independence Rules apply to any residential mortgage loan transaction that is made primarily for consumer, family or household purposes and is secured by the consumer's primary (1- to 4-family) residence. Loans made for business/investment purposes and loans that are secured by non-owner occupied 1- to 4-family residential properties are therefore not covered.
- Regulation Z's Appraiser Independence Rules have been adopted by Fannie Mae and Freddie Mac in their respective Single Family Loans Program. FHA has adopted its own AIR. VA appraisal guidelines have incorporated independence principles for ensuring property valuation integrity.
- Regulation Z's Appraiser Independence Rules do not apply to appraisals performed for loss mitigation purposes.
- Regulation Z's Appraiser Independence Rules apply to written residential 1- to 4-family property valuations prepared by (a) an "appraiser" -- a natural person who is certified or licensed in the state in which the residential property is situated, (b) by companies that employ appraisers (appraisal company), and (c) by persons performing valuation management functions (i.e. Appraisal Management Companies). Reports generated by automated valuation systems or models are excluded from coverage.
- Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality, or violates compliance with any law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).
- All appraisal report forms must be developed with the intent that the Uniform Standards of Professional Appraisal Practice (USPAP) standards are followed, Government Sponsored Enterprises (GSEs), FHA Standards and regulatory requirements consistent with, and supportive of, fair lending practices.

Valuation Independence

The independent judgment of the person performing the valuation service is paramount under Appraiser Independence Rules. No creditor, broker, loan originator or loan production personnel, or other "settlement service provider" (RESPA defined) shall directly or indirectly influence the selection, pressure, coerce, cajole or in any other way compromise the independent judgment of a person who prepares property valuations or performs valuation management functions. Prohibited practices include:

- a. Seeking to influence the property valuation preparer to report a minimum or maximum value for the subject property;
- b. Withhold or threaten to withhold payment for valuation services performed because a property valuation does not come in at or above a certain amount;
- c. Implying to a property valuation preparer that current or future business opportunities depend on the estimated value placed on the subject property;
- d. Excluding a property valuation preparer from future business opportunities because the person reports a property valuation that does not meet or exceed a predetermined threshold; and
- e. Conditioning the compensation paid to the property valuation preparer on consummation of the subject loan transaction.
- f. Providing to an Independent Party a proposed or targeted loan amount except that a copy of the sales contract for purchase transactions may be provided to an Independent Party that has been engaged to complete an appraisal assignment;
- g. Establishing a list of approved Independent Parties or adding an Independent Party to an exclusionary list of disapproved Independent Parties designated to perform appraisal assignments for a specific Loan Originator, loan officer, or Mortgage Broker;
- h. Permitting Loan Originators, loan officers, or Mortgage Brokers to select from a list of Independent Parties;
- i. Directing an Independent Party to perform an appraisal assignment using a specific scope of work that is contrary to what the Independent Party has determined is necessary to produce credible results;

- j. Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, or (ii) unless such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the Seller adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; or
- k. Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality, or violates compliance with any law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).

Mischaracterization of Value; Conflicts of Interest

The Appraiser Independence Requirements are intended to reinforce the independence of the appraiser and establishes requirements governing appraisal selection, solicitation, compensation, conflicts of interest and corporate independence.

- No person that prepares property valuations shall materially misrepresent or materially alter a property valuation rendering it likely to significantly affect the value assigned to the subject property. Inversely, no creditor or settlement service provider shall induce a person that prepares property valuations to commit such acts.
- No person preparing a valuation or performing valuation management functions may have a direct or indirect interest, financial or otherwise, in the subject property or residential mortgage loan transaction for which the valuation is or will be performed.
- The creditor and any settlement service providers are obligated to report a reasonable belief of a breach of professional/ethical standards (USPAP) and/or any state or federal law violation committed by an appraiser, appraisal company, or appraisal management company to the appropriate state agency.
- The fee for an appraisal must be reasonable and customary in the geographic market where the property is located.

Appraisal Desk (Retail/Brokered Transactions)

- The Appraisal Desk is composed of individuals that are separate and independent of the origination staff that is utilized to manage the designated FLCBank appraisal websites.
- The Appraisal Desk is responsible for selecting and retaining AMCs and/or appraisers.
- The Appraisal Desk will consist of a designated Appraisal Vendor Manager and an Appraisal Specialist who are independent of the production team. These employees are primarily tasked to confirm payment, assign and manage orders and to manage the administrative requirements for the Mercury platform payments and assignments. The individuals are responsible for maintenance of the FLCBank approved appraiser list, files, and interacting with the appraisers and AMCs. They will monitor performance and report issues and concerns to the appropriate manager to ensure that licensing authorities are contacted, if appropriate.
- If an AMC is unable to find an accepting appraiser, the appraisal desk will assign the order to another AMC. If a panel appraiser is not available to accept an order, the Appraisal Desk will recruit an appraiser using Mercury Networks appraiser repository.
- The Appraisal Team is considered a quality control function. All department members will receive training from quality assurance, or designated staff relative to their functions within the team.
- If the Appraisal Desk has a reasonable basis to believe that an Independent Party is violating applicable laws, or otherwise engaging in unethical conduct, they will promptly refer the matter to the appropriate FLCBank Quality Control who will refer the matter to applicable State and/or Licensing regulatory agency.

Appraisal Ordering

- No fees other than the credit report fee is to be collected and/or the appraisal cannot be ordered until at least one borrower signs the Creditors Intent to Proceed unless the appraisal fee is paid by the mortgage loan originator or broker and is not imposed on or paid directly by the consumer. The mortgage loan originator or broker can pay for the appraisal prior to ITP and be reimbursed at the time of closing. FLCBank will still require an invoice indicating the broker or branch card was utilized in the transaction.
- Appraisals are to be requested by the Retail LO or Processor or by the Broker via the FLCBank's Loan Origination System/Appraisal Portal. The order then flows through to the Mercury system to be automatically assigned for AMC orders and manually assigned by the Appraisal Desk for panel orders. All direct interaction with the vendor is limited to the Appraisal Desk team as only they have access to the Mercury platform.

Payment Processing

FLCBank approved customers are required to request the appraisal via Mortgagebot and a link for payment is automatically sent to the borrower when the vendor assigned accepts the appraisal order. The Borrowers or any interested party to the transaction MUST NOT pay the appraiser directly.

Quality Control Review of the Appraisal

Each AMC performs an internal QC Review prior to posting the appraisal to the website. For appraiser panel orders, a Certified Residential Appraiser will review all orders prior to posting the appraisal. The Quality Control Review will include the following:

1. AMC QC Staff reviews for non-USPAP and non-value requirements.
2. Ensures UAD, USPAP, FHA, Fannie Mae/Freddie Mac compliance [as well as compliance with all applicable federal, state and local laws, including the Fair Housing Act and other federal, state or local anti-discrimination laws](#) and either request revisions from the appraiser or pushes the report out to the website/lender if correct.
3. Ensures the appraisal report does not reflect unacceptable practices such as the use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
 - "Pride of ownership," "no pride of ownership," and "lack of pride of ownership";
 - "Poor neighborhood";
 - "Good neighborhood";
 - "Crime" (and its variants such as crime ridden area);
 - "Desirable neighborhood or location"; or
 - "Undesirable neighborhood or location such as gentrified, working class, inner city, preferred community, up and coming";
 - Use of additional subjective terminology such as; "employment stability" and/or "judgement";
 - Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
 - Development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments
4. Ensures comparable selections, consistency, sound methodology and reasonable adjustments, are present in each appraisal.
5. Ensures the appraiser has used sound reasoning and provided evidence to support the methodology

chosen to develop the value opinion.

6. Ensures the lender's appraisal assignment requirements are met.
7. Appraiser's License is valid.

Annual Review and Semi-Annual Certification Review of AMC's and Appraiser Panels

- **Retail and Brokered Transactions:** The Appraisal Desk performs annual and semi-annual reviews for monitoring and assessing the overall quality of the work performed by the appraisers and the AMC's utilized on Retail and Brokered transactions. This process includes the review of the AMC most recent quality control findings report and the completed "Form Appraisal Management, AIR and PDCIR Certification" requested from the AMC by the Appraisal Desk, in order to perform the review and remit the results of the review and supporting documents to FLCBank's Quality Control Department.
- **NDC Transactions:** The TPO Administration performs annual and semi-annual reviews for monitoring and assessing the overall quality of the work performed by the appraisers and the AMC's utilized on Non-Delegated Correspondent transactions. This process includes the review of the AMC's most recent quality control findings report and the completed "Form Appraisal Management, AIR and PDCIR Certification" requested from the NDC by the FLCBank's TPO Administration Department.

Important: TPO Administration will provide during the application process to new NDC customers the "NDC Appraisal Management and Appraiser Independence Certification" Form for completion and request a copy of their AMC's most recent quality control findings report and review within 5 business days of receipt.

FLCBank Underwriter Review

The Underwriter's role is to review the appraisal report to ensure that it is of professional quality and is prepared in accordance with FLCBank appraisal standards and guidelines, Investor, GSE and/or aggregators' guidelines. Furthermore, the Underwriter must evaluate the property's acceptability as collateral for the mortgage in view of its value and marketability.

The Underwriter must pay particular attention and apply due diligence for loans in which the appraised value is believed to be excessive, or where the value of the property has experienced significant appreciation in a short period of time since the previous sale. If the Underwriter has concerns with any aspect of the appraisal report that questions the reliability of the opinion of market value, the issues must be addressed by the appraiser.

The underwriter will also:

1. Request changes to the appraisal report if incorrect information needs to be addressed; or if additional comments are necessary to be made by the appraiser.
2. The underwriter will review CU/LCA collateral's risk score flags, warnings or messages alerting the needed for additional due diligence which may include the requirement to obtain additional appraisal products i.e. Desk Review, or Field Review.
3. Utilize the fraud detector tool DataVerify to ensure that the appraiser is not listed on an agency or an investor exclusionary listing.
4. Review the UCDP Submission Summary Reports (SSRs) for all Conventional/Jumbo to ensure the submission indicates a "successful" result [or successful submission to FHA's Electronic Appraisal Delivery \(EAD\) portal](#).
5. Confirm that a copy of the appraiser's license is attached to the appraisal and not expired.

Appraisal Conditions and Reconsideration of Value Requests

The following are acceptable practices that are handled by the Underwriting Team:

- Asking a person that prepares a valuation to consider additional, appropriate property information, including information about comparable properties, to make or support a valuation.
- Requesting that a person that prepares a valuation provide further detail, substantiation, or explanation for the person's conclusion about the value of the consumer's principal dwelling.
- Asking a person that prepares a valuation to correct errors in the valuation.
- Obtaining multiple valuations (appraisal and/or AVM) for the consumer's principal dwelling (particularly on high value and unique properties) to select the most reliable valuation (but only charging the borrower for the chosen appraisal).
- Taking action permitted or required by applicable federal or state law, regulation or agency guidance.
- Effective with loan applications dated on or after October 31, 2024, FLCBank will provide the borrower with a Reconsideration of Value disclosure twice: an initial disclosure at the time of the loan application and again when the copy of the appraisal report is delivered to the applicant.
 - If the borrower requests a reconsideration of value, FLCBank will complete the appraisal review before initiating the ROV process.
 - The underwriter will validate the request received from the borrower confirming it contains sufficient details prior to sending to the appraiser within 2 business days of receipt; otherwise, the underwriter must obtain necessary information from the borrower if the ROV request is unclear, deficient or needs more information (the borrower will have 2 business days to provide additional documentation).
 - The underwriter will submit the ROV request to the appraiser with supporting documentation.
 - The appraiser must acknowledge the receipt of the ROV request and review all information and market data received from the underwriter and summarize the analysis of all information provided by the underwriter within a revised version of the appraisal report regardless of whether the Appraiser determines that changes are not needed to address the issues identified in the ROV within 2 business days.
 - The underwriter will complete the review of the updated report and communicate the final resolution with the borrower in writing within 2 business days of receipt.
 - No costs associated with an ROV may be charged to the Borrower and only one borrower-initiated ROV is permitted per appraisal.
 - If the underwriter identifies material deficiencies on the appraisal, or indication of potential violation of fair housing laws or professional standards related to nondiscrimination and the underwriter considers the Appraiser unable to resolve material deficiencies due to the nature of the deficiency, the underwriter may forgo communication with the Appraiser and will require a second appraisal at no cost to the borrower. The underwriter will notify FLCBank's National Credit Policy and Quality Control Management about the appraisal being replaced with a new second appraisal report due to material deficiencies and Quality Control will proceed to report the issue to the applicable State Appraiser Regulatory Agency and Government Agencies.

Delivery of Appraisal

As required by the Appraisal Independence Policy and per Regulation B, completed appraisals and other written valuations developed in connection with the mortgage are emailed or delivered by mail if no email address was provided upon value acceptance, or three business days before loan closing whichever is earlier by Mortgage Operations. The timing requirement for the appraisal delivery may be waived by the borrower(s) as permitted by Regulation B in which case the appraisal delivery takes place at or prior to the signing of loan documents.

[Note: Effective with loan applications dated on or after October 31, 2024, upon delivery of the appraisal report, FLCBank will provide the applicant/borrower with the second disclosure explaining the borrower the Reconsideration of Value \(ROV\) process with instructions for borrower initiated ROV, the expected turn times, the process for requesting clarifications, and or corrections unrelated to the conclusion of value.](#)

Transferred Appraisals

FLCBank does not accept any appraisals that have been transferred from another lender with the exception of FHA and VA appraisals.

Request for Appraisals to be Transferred

Requests from a Broker (MLO) to transfer an appraisal to another lender must contain the reason for the request and the full name of the lender the appraisal is being transferred to along with the appraisal transfer portability letter request. The appraisals may not be transferred to the Broker directly.

Any appraisal that is transferred by FLCBank to another lender is transferred "as is," and without any representations or warranties made by FLCBank as to the reliability of the appraisal or the competency and integrity of the person who prepared the appraisal.