

## **APPRAISAL INDEPENDENCE RULES POLICY**

It is CMG Mortgage, Inc., dba CMG Financial's (CMG) policy to comply with all aspects of Regulation Z Section 226.42 Appraisal Independence ("AI") Rules, implementing Truth In Lending Act (TILA) Section 129E. The following serves as a restatement of federal Appraisal Independence Rules and how CMG Mortgage will implement them in concert with its Appraisal Desk.

### **Scope of AI Rules**

- Regulation Z's AI 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 AI Rules have been adopted by Fannie Mae and Freddie Mac in their respective Single Family Loans Program. FHA has adopted its own AI Rules. VA appraisal guidelines have incorporated independence principles for ensuring property valuation integrity.
- Regulation Z's AI Rules do not apply to appraisals performed for loss mitigation purposes.
- Regulation Z's AI 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" (ie, appraisal management companies). Reports generated by automated valuation systems or models are excluded from coverage.

### **Valuation Independence**

- The independent judgment of the person performing the valuation service is paramount under the AI Rules. No creditor, broker, loan originator or loan production personnel, or other "settlement service provider" (RESPA defined) shall directly or indirectly influence, 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.

### **Mischaracterization of Value; Conflicts of Interest**

- 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.

#### **Acceptable Lender AI Practices**

- Asking a person that prepares a valuation to consider additional, appropriate property information, including information about comparable properties, to make or support a valuation. Such inquiries at CMG Mortgage are handled exclusively by the Appraisal Desk.
- 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. Such requests at CMG Mortgage are handled by the Appraisal Desk.
- Asking a person that prepares a valuation to correct errors in the valuation. Such requests at CMG Mortgage are handled by the Appraisal Desk.
- 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).  
*Note: CMG Mortgage only allows this in instances where the additional appraisal or AVM is ordered pursuant to written, pre-established *bona fide* pre- or post-funding appraisal review or quality control internal processes or underwriting guidelines.*
- At the senior management level of CMG Mortgage only -- Withholding compensation due to breach of contract or substandard performance of services.
- Taking action permitted or required by applicable federal or state law, regulation or agency guidance.

#### **Appraisal Ordering**

- Appraisals are to be ordered exclusively by CMG Mortgage's Appraisal Desk and only after CMG Mortgage has received a loan applicant's written Intent To Proceed with the loan transaction. Loan production personnel are to have no involvement in appraisal ordering, the selection of appraisers/appraisal management companies, or in the evaluation of property valuation analyses and reports.
- All appraisals, with the exception of VA appraisals, must be ordered through an Appraisal Management Company (AMC). Currently CMG Mortgage uses Gotappraisals.com.
- Only CMG Mortgage as the lender in the transaction, or a third party specifically authorized by CMG Mortgage (i.e., appraisal companies, appraisal management companies and correspondent lenders) may directly pay an appraiser for appraisal services. CMG Mortgage may charge the borrower or their broker/mortgage loan originator (MLO) for the appraisal fee. If paid by the MLO, they may collect the fee and be reimbursed through escrow.

- Appraisals may not be ordered until the day after the initial TIL has been provided to and receipt acknowledged by the borrower. If the appraisal is ordered out of compliance, the originator will be required to pay the Appraisal Management Company for the requested appraisal.
- Additionally, if the borrower's credit card is used to pay for the appraisal, the borrower must also have been provided a Good Faith Estimate (GFE) and have received their Intent to Proceed.

**Appraisal Conditions**

All interactions with appraisal management companies, appraisal companies and appraisers, including appraisal inquiries, conditions and/or reconsiderations of value must be ordered/submitted exclusively by the CMG Mortgage Appraisal Desk, unless the condition requires the appraiser to reinspect the property. All reinspections are ordered directly through the appraisal management company.

**Receipt of Appraisal**

All property valuations (appraisals) are to be received exclusively by the CMG Mortgage Appraisal Desk.

1. A copy of the appraisal with cover letter on CMG Mortgage letterhead is forwarded to the borrower, with a cc to their MLO (wholesale) or CMG Mortgage Account Manager (retail).
2. The CMG Mortgage Appraisal Desk enters the date the appraisal was sent to the borrower in Datatrac and adds a Prior to Document (PTD) condition stating when documents can be signed by the borrower. This date must be three (3) days after a copy of the appraisal has been sent to the borrower via email. If the appraisal is mailed, the time frame is extended to five (5) days.

*Note:* You may count weekends and holidays and the day the appraisal is sent. The borrowers can sign on the 3<sup>rd</sup> day or 5<sup>th</sup> day.

3. Appraiser's name, license number and issuing state are entered into Datatrac.

**Transferred Appraisals**

CMG does not accept any appraisals that have been transferred from another lender with the exception of FHA appraisals. Requests from a Broker (MLO) to transfer an appraisal from CMG Mortgage must contain the reason for the request and the full name of the lender the appraisal is being transferred to. Appraisals may not be transferred to the Broker. Any appraisal that is transferred by CMG Mortgage to another lender is transferred "as is," and without any representations or warranties made by CMG Mortgage as to the reliability of the appraisal or the competency and integrity of the person who prepared the appraisal.