

**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 appraisal 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 involve 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**

**/S/ Andrew M. Cuomo**

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**Andrew M. Cuomo**

**OFFICE OF FEDERAL  
HOUSING ENTERPRISE  
OVERSIGHT**

**/S/ James B. Lockhart III**

**By:** \_\_\_\_\_  
**James B. Lockhart III**  
**Director**

**FEDERAL HOME LOAN  
MORTGAGE CORPORATION**

**/S/ Richard F. Syron**

**By:** \_\_\_\_\_  
**Richard F. Syron**  
**Chairman and CEO**