

**HOME VALUATION CODE OF CONDUCT
POLICIES AND PROCEDURES
of
MANHATTAN FINANCIAL GROUP, INC.**

These Policies and Procedures regarding the Home Valuation Code of Conduct (“the HCVV Policies”) have been prepared by Manhattan Financial Group, Inc., a California Corporation (hereinafter “Manhattan Financial”) to alert you to new prohibitions and conditions imposed on mortgage loan originations, including Manhattan Financial under the Home Valuation Code of conduct (“HVCC”). A copy of the HVCC is attached hereto as Exhibit A and incorporated herein by reference.

The purpose of the HVCC is to enhance the integrity of the home appraisal process in the mortgage finance industry. It applies to all mortgage loans secured by 1-4 unit residential real property, except those which are insured or guaranteed by a government agency. (The HVCC does not apply to FHA or VA loans).

Manhattan Financial requires full compliance with the HVCC in connection with all applicable loans for which the borrower’s application is taken on or after May 1, 2009. While Manhattan Financial requires that each of its employees or agents, and all of its third party mortgage brokers, read and abide by the terms of the HVCC as written, the focus of these HVCC Policies is to ensure that everyone understands the core concepts and principles of the HVCC.

A Brief Overview of the HVCC

The HVCC provides that:

- Lenders, their agents, and third parties may not influence or attempt influence the development, reporting, result or review of an appraisal through coercion, extortion, collusion, compensation, inducement, bribery, or any other means such as
- Withholding or threatening to withhold, payment or future business from an appraiser
- Request a specific valuation
- Promising future business or providing non-financial benefits to an appraiser
- Lenders must ensure that the appraisal process is completely independent of their loan production

- Loan agents may not select, retain, recommend, or influence the selection of appraisers for specific assignments or inclusion on a lender's list or panel of appraisers
- Those non-loan production employees (which may include underwriters and loan processors) who are designated to select and interact with appraisers must be appropriately trained and qualified in real estate appraisals and must act independently of the loan agents when selecting appraisers
- Under no circumstances may a mortgage broker select, retain or compensate an appraiser. [This rule may be in flux. As of the preparation of these HVCC Policies, the "GSE's" (Fannies Mae and Freddie Mac) have apparently modified this prohibition to permit mortgage broker's, with the lender's approval, to request an appraisal from a lender-designated appraisal management company, or AMC. At this time, Manhattan Financial does not intend to permit mortgage brokers to select appraisers from a Manhattan Financial approved AMC. Any retention of an appraiser from an AMC will be initiated by a qualified designated employee of Manhattan Financial]. Moreover, a mortgage broker may not provide Manhattan Financial with an approved appraiser list for Manhattan Financial to use when ordering appraisals for that particular broker.
- The borrower may not pay the appraiser directly although, in some instances, the borrower may pay an authorized AMC directly.
- Manhattan Financial must represent and warrant that the appraisal was obtained in a manner compliant with the HVCC.

Manhattan Financial's HVCC Policies

All appraisals ordered in connection with loan applications taken on or after May 1, 2009 shall comply with the HVCC. All employees and agents of Manhattan Financial, and all third party mortgage brokers who broker loans to Manhattan Financial for funding, shall comply with these HVCC Policies, and the HVCC as may be in effect from time to time. Manhattan Financial reserves the right, in its sole discretion, to modify these HVCC Policies from time to time as necessary to ensure compliance with the HVCC then in effect.

Retail – “In-House Loan Agents”

All In-House Loan Agents of Manhattan Financial will utilize Manhattan Financial's authorized designated employee(s) in connection with the ordering of appraisals. **No Loan agent of Manhattan Financial, or any person considered a member of Manhattan Financial's loan production staff, may order an appraisal or have contact with an appraiser relative to a mortgage loan originated by Manhattan Financial.** The designated employee(s) will receive the training necessary to comply with the terms of the HVCC, and will be engaged at all times in Manhattan Financial's functions which are unrelated to loan production. These “non-loan production” designated employees may communicate with the appraiser, provided they do so in a manner which is in compliance with the HVCC.

Manhattan Financial will maintain a list of approved and qualified appraisers from which the authorized designated employee will make his/her selection. Alternatively, Manhattan Financial may establish and maintain relationships with authorized AMC's from which appraisers will be selected. All such appraisers will be licensed or certified by the state in which the property to be appraised is located.

Upon completion of the appraisal, Manhattan Financial will arrange to immediately provide a copy of the appraisal to the borrower but in any event, no later than three business days prior to the closing of the loan. The copy will be delivered by Manhattan Financial's designated employee(s) via one of the delivery methods noted above. It will be the responsibility of the designated employee who ordered the appraisal to confirm its delivery to the borrower. While Manhattan Financial has the right to seek a waiver from the borrower with respect to the borrower's receipt of an appraisal, the Mortgage Broker has elected not to seek any such waivers. **All borrowers will receive a copy of the appraisal.**

The Appraiser may not collect his/her/its fee from the borrower. Manhattan Financial will compensate the appraiser directly, and be reimbursed for this expense at the loan closing through the escrow.

In some instances, Manhattan Financial's authorized designated employee for the ordering of appraisals may arrange to transfer the appraisal to another lender.

Wholesale – “Third Party Mortgage Brokers”

All Third Party Mortgage Brokers who broker mortgage loans to Manhattan Financial for funding shall abide by the terms of these HVCC Policies. **Under no circumstance shall any third party mortgage broker of Manhattan Financial order an appraisal or have any contact with an appraiser relative to a mortgage loan funded by Manhattan Financial.** Only those authorized “non-loan production” designated employees of Manhattan Financial will be permitted to communicate with an appraiser relative to a loan brokered to Manhattan Financial.

Upon completion of the appraisal, Manhattan Financial will arrange to immediately provide a copy of the appraisal to the borrower but, in any event, will do so no later than three business days prior to the closing of the loan. The copy will be delivered by Manhattan Financial's authorized designated employee(s) via one of the delivery methods noted above. While Manhattan Financial has the right to seek a waiver from the borrower with respect to the borrower's receipt of an appraisal, Manhattan Financial has elected not to seek any such waivers. **Manhattan Financial will ensure that a copy of the appraisal will be sent to each borrower for which Manhattan Financial made the loan.**

The appraiser may not collect his/her/its fee from the borrower. Manhattan Financial will compensate the appraiser directly, and be reimbursed for this expense at the loan closing through the escrow. In some instances, Manhattan Financial's designated employee for the ordering of appraisals may arrange to transfer the appraisal to another lender.

By signature below, I certify that I have read, reviewed and understand the above HVCC Policies and the attached Home Valuation Code of Conduct. I agree to comply with the terms of Manhattan Financial's appraisal ordering processes, as may be amended by Manhattan Financial in its sole discretion from time to time, as necessary to ensure ongoing regulatory compliance with the HVCC.

Dated: _____

Signature

Print name

Company name

Exhibit A

Home Valuation Code of Conduct

1. Appraiser Independence Safeguards

- A. An “appraiser” must be, at a minimum, licensed or certified by the state in which the property to be appraised is located.
- B. No employee, director, officer, or agent of the lender, or any other third party acting as joint venture partner, independent contractor, appraisal Manhattan Financial, appraisal management Manhattan Financial, or partner on behalf of the lender, 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:
 - (1) Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
 - (2) Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser;
 - (3) Expressly or implied promising future business, promotions, or increased compensation for an appraiser;
 - (4) 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 an a preliminary value estimate requested from an appraiser
 - (5) 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;
 - (6) 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;

- (7) Providing to an appraiser, appraisal Manhattan Financial, appraisal management Manhattan Financial, or any entity or person related to the appraiser, appraisal Manhattan Financial Or appraisal management Manhattan Financial, stock or other financial or non-financial benefits;
- (8) Allowing the removal of an appraiser from a list of qualified appraisers, or the addition of an appraiser to an exclusionary list of disapproved appraisers, used by any entity without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards, substandard performance, improper or unprofessional behavior or other substantive reason for removal (except that this prohibition will not preclude the management of appraiser lists for bona fide administrative reasons based on written management-approved policies);
- (9) 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 lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; or,
- (10) 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 (TILA) and Regulation Z or the USPAP.

C. Nothing in this section shall be construed as prohibiting the lender (or any third party acting on behalf of the lender) from requesting that an appraiser (i) provide additional information or explanation about the basis for a valuation, or (ii) correct objective factual errors in an appraisal report.

II. Borrower Receipt of Appraisal

The lender shall ensure that the borrower is provided 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 loan. The borrower may waive this three-day requirement. The lender may require the borrower to reimburse the lender for the cost of the appraisal.

III. Appraiser Engagement

- A. The lender or any third party specifically authorized by the lender (including, but not limited to, appraisal companies, appraisal management companies, and correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. The lender will not accept any appraisal report completed by an appraiser selected, retained or compensated in any manner by any other third party (including mortgage brokers and real estate agents). The lender may accept an appraisal prepared by an appraiser for a different lender, including where a mortgage broker has facilitated the mortgage application (but not ordered the appraisal), provided the lender: (1) obtains written assurances that such other lender follows this Code of Conduct in connection with the loan being originated; and (2) determines that such appraisal conforms to its requirements for appraisals and is otherwise acceptable.
- B. All members of the lender's loan production staff, as well as any person (i) who is compensated on a commission basis upon the successful completion of a loan or (ii) who reports, ultimately, to any officer of the lender not independent of the loan production staff and process, shall be forbidden from (1) selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved to perform appraisals for the lender or forbidden from performing such work; and (2) having any substantive communications with an appraiser or appraisal management Manhattan Financial relating to or having an impact on valuation, including ordering or managing an appraisal assignment. If absolute lines of independence cannot be achieved as a result of the lender's small size and limited staff, the lender must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its loan production process.

- C. Any employee of the lender (or if the lender retains an appraisal Manhattan Financial or appraisal management Manhattan Financial, any employee of that Manhattan Financial's) tasked with selecting appraisers for an approved panel or substantive appraisal review must be (1) appropriately trained and qualified in the area of real estate appraisals, and (2) in the case of an employee of the lender, wholly independent of the loan production staff and process.

IV. Prevention of Improper Influences on Appraisers

- A. In underwriting a loan, the lender shall not utilize any appraisal report:

- (1) Prepared by an appraiser employed by:
 - (a) The lender;
 - (b) An affiliate of the lender;
 - (c) An entity that is owned, in whole or in part, by the lender; or
 - (d) An entity that owns, in whole or in part, the lender.
- (2) Prepared by an appraiser;
 - (a) Employed,
 - (b) Engaged as an independent contractor, or
 - (c) Otherwise retained by

Any appraisal Manhattan Financial or any appraisal management Manhattan Financial affiliated with, or that owns or is owned, in whole or in part by, the lender or an affiliate of the lender.

- B. Section IV.A. shall apply *unless*:

- (1) The appraiser or, if an affiliate, Manhattan Financial for which the appraiser works, reports to a function of the lender independent of sales or loan production;
- (2) Employees in the sales or loan production functions of the lender have no involvement in the operations of the appraisal functions and play no role in selection, retaining, recommending, or influencing the selection of any appraiser for any particular appraisal assignment or for inclusion on a list or panel of appraisers approved to perform appraisals for the lender or forbidden from performing such work;

- (3) Employees in the sales or loan production functions of the lender are not allowed to have any substantive communications with an appraiser, appraisal Manhattan Financial, or appraisal management Manhattan Financial relating to or having an impact on valuation or to be provided information about which appraiser has been given a particular appraisal assignment before completion of that assignment;
- (4) The lender, or its agents, and any appraisal Manhattan Financial or appraisal management Manhattan Financial providing the appraisal to the lender do not provide the appraiser and any estimated or target value of the property or the loan amount applied for (except that a copy of the sales contract for purchase transactions may be provided);
- (5) The appraiser's compensation does not depend in any way on the value arrived at in any appraisal or upon the closing of the loan for which the appraisal was completed.
- (6) The lender and any appraisal Manhattan Financial or any appraisal management Manhattan Financial providing the appraisal to the lender has adopted written policies and procedures implementing the Code of Conduct, including, but not limited to, adequate training and disciplinary rules on appraiser independence (including the principles detailed in Part I of this Code of Conduct) and has mechanisms in place to report and discipline anyone who violates these policies and procedures;
- (7) The lender's appraisal functions are either annually audited by an external auditor or are subject to federal or state regulatory examination, and , unless prohibited by law, the lender promptly provides to Fannie Mae or Freddie Mac the results of any adverse, negative, or irregular findings of such audits and examinations indication non-compliance with any provision of this Code of Conduct, whether or not the examination was conducted for the purpose of determining compliance with this Code of Conduct; and,
- (8) The lender and any entity described in section IV.A. Providing the appraisal to the lender recognize that, once the Independent Valuation Protection Institute is established, the Institute will receive complaints for review and referral regarding non-compliance with the Code of Conduct. Referrals and reports shall be made to Fannie Mae and/or Freddie Mac regarding such complaints and the Institute will provide information on the results of compliant reviews to Fannie Mae and/or Freddie Mac and make them available to the other parties to the Home Value Protection Program and Cooperation Agreement.

C. In underwriting a loan, the lender shall not use an appraisal report prepared by an entity that is affiliated with, or that owns or is owned, in whole or in part by, another entity that is engaged by the lender to provide other settlement services, as that term is defined in the Real Estate Settlement Procedures Act, 12 U.S.C. § 2601 et seq., for the same transaction, *unless the entity that provides the appraisal;*

(1) Has adopted written policies and procedures implementing this Code of Conduct, including, but not limited to, adequate training and disciplinary rules on appraiser independence (including the principles detailed in this Code of Conduct) and has mechanisms in place to report and discipline anyone who violates these policies and procedures;

(2) Recognizes that, once the Independent Valuation Protection Institute is established, the Institute will receive complaints for review and referral regarding non-compliance with the code of Conduct. Referrals and reports shall be made to Fannie Mae and/or Freddie Mac regarding such complaints and the Institute will provide information on the results of its review of such complaints to Fannie Mae and/or Freddie Mac and make them available to the other parties to the Home Value Protection Program and Cooperation Agreement.

D. Notwithstanding the requirements herein, the lender also may use in-house staff appraisers to (i) order appraisals, (ii) conduct appraisal reviews or other quality control, whether pre-funding or post-funding, (iii) develop, deploy, or use internal automated valuation models, or (iv) prepare appraisals in connection with transactions other than mortgage origination transactions (e.g. loan workouts), if it complies with the terms of this Code of Conduct.

E. The provisions of this section do not apply to institutions (including non-banking institutions) that meet the definition of a “small bank” as set forth in 12 U.S.C. § 2908, and which Fannie Mae or Freddie Mac determines would suffer hardship due to the provisions, and which otherwise adhere to this Code of Conduct.

V. The Independent Valuation Protection Institute

An Independent Valuation Protection Institute (Institute) shall be created as approved by the parties. Subject to section IX, when the Institute is established, the

lender will provide information to appraisers and borrowers regarding the availability of the Institute's services, which are expected to include: (1) a telephone hotline and email address to receive any complaints of Code of Conduct non-compliance, including complaints from appraisers, individuals, or to other entities concerning the improper influencing or attempted improper influencing of appraisers or the appraisal process, which the Institute will review and report as best practices for independent valuation. The lender shall not retaliate, in any manner or method, against the person or entity that makes a complaint to the Institute

VI. Appraisal Quality Control Testing

The lender agrees that it shall quality control test, or by use of retroactive or additional appraisal reports or other appropriate method, a randomly selected 10 percent (or other bona fide statistically significant percentage) of the appraisal or valuations that are used by the lender, including the results of automated valuation models, broker's price opinions, or "desktop" evaluations. The lender shall provide to Fannie Mae or Freddie Mac a report of any adverse, negative, or irregular findings of such quality control testing, and any findings indicating non-compliance with any provision of this Code of Conduct, with respect to loans sold to Fannie Mae and Freddie Mac respectively, and the Enterprise may enforce all applicable rights and remedies, including requiring the lender to repurchase mortgages or the Enterprise's participation interest in mortgages.

VII. Referrals of Appraisal Misconduct Reports

Any lender that has a reasonable basis to believe an appraiser or appraisal management Manhattan Financial is violating applicable laws, or is otherwise engaging in unethical conduct, shall promptly refer the matter to the applicable State appraiser certifying and licensing agency or other relevant regulatory bodies.

VIII. Representations and Warranties

A lender shall certify, warrant, and represent that the appraisal report was obtained in a manner in compliance with this Code of Conduct. If the Enterprise determines, on its own or from a referral made by the Institute, that a lender is in breach of a material aspect of this Code of Conduct or in violation of a provision of the Code by a complaint referred from the Institute, the Enterprise will enforce all applicable rights and remedies, including suspension or termination of the lender's eligibility to sell loans to the Enterprise, if the lender fails to remediate.

IX. Scope of Code

Nothing in this Code of Conduct shall be construed to establish new requirements or obligations that: (1) require a lender to obtain a property violation, or to use any particular method for property valuation (such as an appraisal or automated valuation model) in connection with any mortgage loan or mortgage financing transaction; (2) affect the acceptable scope of work for an appraiser in connection with a particular assignment; or (3) require the lender or any third party acting on behalf of the lender to take any action prohibited by federal or state law or regulation.