Internet Appendix for "Collateral Misreporting in the RMBS Market"

Appendix C. Excerpts from appraisal standards and RMBS prospectuses

A. 2004 Uniform Standards of Professional Appraisal Practice (USPAP)

The following excerpts (including the embedded comments) are exact quotes from the 2004 Uniform Standards of Professional Appraisal Practice.

Selected definitions

APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

> **Complete Appraisal**: the act or process of developing an opinion of value or an opinion of value developed without invoking the DEPARTURE RULE.
>
> **Limited Appraisal**: the act or process of developing an opinion of value or an opinion of value developed under and resulting from invoking the DEPARTURE RULE.

APPRAISER: one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

MARKET VALUE: a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.

PRICE: the amount asked, offered, or paid for a property.

> Comment: Once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.

Selected rules

ETHICS RULE
To promote and preserve the public trust inherent in professional appraisal practice, an appraiser must observe the highest standards of professional ethics. This ETHICS RULE is divided into four sections: Conduct, Management, Confidentiality, and Record Keeping. The first three sections apply to all appraisal practice, and all four sections apply to appraisal practice performed under Standards 1 through 10.

Compliance with these Standards is required when either the service or the appraiser is obligated by law or regulation, or by agreement with the client or intended users, to comply. In addition to these requirements, an individual should comply any time that individual represents that he or she is performing the service as an appraiser.

An appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice.

Conduct
An appraiser must perform assignments ethically and competently, in accordance with USPAP and any supplemental standards agreed to by the appraiser in accepting the assignment. An appraiser must not engage in criminal conduct. An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.

In appraisal practice, an appraiser must not perform as an advocate for any party or issue.

An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions.

An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.

An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.

Management
The payment of undisclosed fees, commissions, or things of value in connection with the procurement of an assignment is unethical.

It is unethical for an appraiser to accept an assignment, or to have a compensation arrangement for an assignment, that is contingent on any of the following:

1. the reporting of a predetermined result (e.g., opinion of value);
2. a direction in assignment results that favors the cause of the client;
3. the amount of a value opinion;
4. the attainment of a stipulated result; or
5. the occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.

STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT

Standards Rule 1-1
(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, an appraiser must:
(a) be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;
(b) not commit a substantial error of omission or commission that significantly affects an appraisal; and
(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affects the credibility of those results.

Standards Rule 1-2
(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, an appraiser must:
(a) identify the client and other intended users;
(b) identify the intended use of the appraiser's opinions and conclusions;
(c) identify the purpose of the assignment, including the type and definition of the value to be developed, and, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:

- (i) in terms of cash; or
- (ii) in terms of financial arrangements equivalent to cash; or
- (iii) in other precisely defined terms; and
- (iv) if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser's opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;

Standards Rule 1-4
(This Standards Rule contains specific requirements from which departure is permitted.
See the DEPARTURE RULE.)

In developing a real property appraisal, an appraiser must collect, verify, and analyze all information applicable to the appraisal problem, given the scope of work identified in accordance with Standards Rule 1-2(f).
(a) When a sales comparison approach is applicable, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion.

(b) When a cost approach is applicable, an appraiser must:

- (i) develop an opinion of site value by an appropriate appraisal method or technique;
- (ii) analyze such comparable cost data as are available to estimate the cost new of the improvements (if any); and
- (iii) analyze such comparable data as are available to estimate the difference between the cost new and the present worth of the improvements (accrued depreciation).

(c) When an income approach is applicable, an appraiser must:

- (i) analyze such comparable rental data as are available and/or the potential earnings capacity of the property to estimate the gross income potential of the property;
- (ii) analyze such comparable operating expense data as are available to estimate the operating expenses of the property;
- (iii) analyze such comparable data as are available to estimate rates of capitalization and/or rates of discount; and
- (iv) base projections of future rent and/or income potential and expenses on reasonably clear and appropriate evidence.

Standards Rule 1-5
(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:
(a) analyze all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal; and

(b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.

Standards Rule 1-6
(This Standards Rule contains binding requirements from which departure is not permitted.)

In developing a real property appraisal, an appraiser must:
(a) reconcile the quality and quantity of data available and analyzed within the approaches used; and
(b) reconcile the applicability or suitability of the approaches used to arrive at the value conclusion(s).

B. Uniform Standards of Professional Appraisal Practice (USPAP) Frequently Asked Questions

The following excerpts are exact quotes from FAQ guidance issued by the Appraisal Standards Board along with the Uniform Standards of Appraisal Practice. While the FAQs are guidance from the Appraisal Standards Board, they do not "establish new standards or interpret existing standards. USPAP is not part of USPAP and is approved by the ASB without public exposure or comment."

VALUE OPINIONS THAT EQUAL CONTRACT PRICES

Question:
I know appraisers who consistently conclude that the market value of any property they appraise is equal to the contract sales price. In doing so, they facilitate sales and financing of sales, which is apparently what keeps their clients happy. Is this a violation of USPAP?

Response:
A contract sale price can be a good indicator of a property's market value, and it may be logical and reasonable for the appraiser to conclude that they are the same. However, this is not always the case. In some situations, a contract price will exceed what is typical in a market. In other situations, a contract price will be less than what is typical. A contract sale price, while a significant piece of market data, must not become a target in an appraisal assignment. Rather, competent analysis of relevant and credible market data must be the appraiser's basis for a market value conclusion.

If an appraiser consistently concludes that the contract sale price of any property they appraise equals market value, particularly when a competent analysis of credible market data indicates otherwise, the appraiser's impartiality, objectivity and independence appear to have been compromised. The ETHICS RULE clearly prohibits such a practice. The Conduct section of the ETHICS RULE states, in part:

> *An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.*
>
> *An appraiser must not accept an assignment that includes the reporting of predetermined opinions and conclusions.*
>
> *An appraiser must not communicate assignment results in a misleading or fraudulent manner. An appraiser must not use or communicate a misleading or fraudulent report or knowingly permit an employee or other person to communicate a misleading or fraudulent report.*

An appraiser must develop an opinion of market value impartially and objectively. An appraiser who selects only data that complements a contract sale price or analyzes data in a manner to purposefully support a contract sale price violates the ETHICS RULE.

C. 2002 Fannie Mae Selling Guide, Part XI (Property and Appraisal Guidelines)

The following excerpts are exact quotes from the Fannie Mae Single Family 2002 Selling Guide, Part XI (Property and Appraisal Guidelines).

XI, Chapter 1: Appraiser Qualifications (06/30/02)
It is essential that a lender obtain an independent, disinterested examination and valuation of the property that secures a mortgage it intends to sell to us; therefore, the lender must select the appraiser and order (and receive) the appraisal report for each mortgage transaction, rather than allowing the borrower or any other party who has an interest in the transaction (such as the property seller or the real estate broker) to do so. The lender must not attempt to apply pressure or otherwise unduly influence the appraiser to reflect certain results in his or her analysis or reporting. However, this does not mean that a lender cannot question the appraiser's findings or provide factual information (such as comparable market data) for further consideration by the appraiser. This approach will assure that the appraiser will remain free of any outside influence in the valuation process.

XI, 102.02: Unacceptable Appraisal Practices (01/29/02)
Since we hold the lender responsible for the quality of the appraisals it uses to support the value of a security property, the lender should take appropriate action to assure that the appraisers it uses do not engage in unacceptable practices. The following are examples of appraisal practices that we consider as unacceptable:

• Development of and/or reporting an opinion of value that is not supportable by market data or that is misleading;

• Development of a valuation conclusion that is based—either partially or completely—on the sex, race, color, religion, handicap, national origin, or familial status of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property; or that is based on any other factor that local, state, or federal law designates as being discriminatory, and thus, prohibited;

• Inclusion of inaccurate factual data about the subject neighborhood, site, improvements, or comparable sales;

• Failure to comment on negative factors with respect to the subject neighborhood, subject property, or proximity of the subject property to adverse influences;

• Failure to analyze and report any current agreement of sale, option, or listing of the subject property and the prior sales of the subject property and the comparable sales;

• Selection and use of inappropriate comparable sales or the failure to use comparable sales that are locationally and physically the most similar to the subject property;

• Creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;

• Use of comparable sales in the valuation process even though the appraiser has not personally inspected the exterior of the comparable properties by, at least, driving by them;

• Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparable sales, or the failure to make adjustments when they are clearly indicated;

• Use of data—particularly comparable sales data—that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. For example, it would be inappropriate for an appraiser to use comparable sales

provided by the real estate broker who is handling the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparable sales provided were the best ones available;
• Development of and/or reporting an appraisal in a manner or direction that favors either the cause of 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 and/or employment for performing the appraisal and/or in anticipation of receiving future assignments; and
• Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice that were in place as of the effective date of the appraisal.

XI, 406: Sales Comparison Approach to Value (06/30/02)
The sales comparison approach to value—traditionally referred to as the market data approach—is an analysis of comparable sales, contract offerings, and current listings of properties that are the most comparable to the subject property. The appraiser's analysis of a property must take into consideration all factors that have an effect on value, recognizing that a well-informed or well-advised purchaser will pay no more for a property than the price he or she would pay for a similar property of equal desirability and utility if it were purchased without undue delay. To accomplish this, the appraiser must analyze the closed or settled sales, the contract sales, and the current listings of properties that are the most comparable to the subject property in order to identify any significant differences (or elements of comparison) that could affect his or her opinion of value for the subject property. This is particularly important in soft or declining markets because the competing current listings and contracts probably reflect the upper-end of value for the subject property as of the effective date of the appraisal (and we expect the appraiser to accurately report and reflect market conditions as of that date). The comparable market data must be verified, analyzed, and adjusted for differences between the comparable properties and the subject property. On most appraisal forms, the appraiser will identify these adjustments by assigning a dollar value to reflect the market's reaction to any features of the comparable properties that differ from those of the subject property. However, when the Desktop Underwriter Qualitative Analysis Appraisal Report (Form 2065) is used, the appraiser will identify the adjustments in terms of relative value relationships between the features of the comparable properties and those of the subject property without assigning an estimated dollar value to the relationships.

XI, 406.06: Appraiser's Comments and Indicated Value (06/30/02)
The appraiser's analysis for a property should include narrative comments about any prior sales of the subject property and the comparable sales, as well as about any current agreement of sale, option, or listing of the subject property. The appraiser's comments should also reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify the sales that were given the most weight in arriving at the indicated value for the subject property. For two- to four-family properties, the appraiser should also provide an evaluation of the typical purchaser's motivation for purchasing the property and an analysis of any current agreement of sale, option, or listing for the subject property.

XI, 409: Valuation Analysis and Final Reconciliation (06/30/02)
The valuation sections of our appraisal report forms enable an appraiser to develop and report in concise format an adequately supported opinion of market value—based on the cost, sales comparison, and income approaches to value (as applicable), and, in the case of small residential income properties, on comparable rental data. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, he or she should provide additional supporting data in an addendum to the appraisal report form.

The reconciliation process that leads to the appraiser's opinion of market value is an ongoing process throughout the appraiser's analysis. In the final reconciliation, the appraiser must reconcile the reasonableness and reliability of each applicable approach to value and the reasonableness and validity of the indicated values and the available data, and then must select and report the approach or approaches that were given the most weight. The final reconciliation must never be an averaging technique.

If the appraiser has provided a comprehensive and logical analysis of the neighborhood and the property, the lender's underwriter should be able to reach a sound conclusion on the adequacy of the property as security for the mortgage.

D. Uniform Residential Appraisal Report (updated March 2005)

The following excerpts are exact quotes and snapshots from the Uniform Residential Appraisal Report.

APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.

FIGURE D.1: Snapshot from Uniform Residential Appraisal Report, page 2

Uniform Residential Appraisal Report File #

There are comparable properties currently offered for sale in the subject neighborhood ranging in price from $ to $.

There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from $ to $.

FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3	
Address							
Proximity to Subject							
Sale Price	$		$		$		$
Sale Price/Gross Liv. Area	$ sq. ft.	$ sq. ft.		$ sq. ft.		$ sq. ft.	
Data Source(s)							
Verification Source(s)							
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) $ Adjustment	DESCRIPTION	+(-) $ Adjustment	DESCRIPTION	+(-) $ Adjustment
Sale or Financing Concessions							
Date of Sale/Time							
Location							
Leasehold/Fee Simple							
Site							
View							
Design (Style)							
Quality of Construction							
Actual Age							
Condition							

FIGURE D.2: Snapshot from Uniform Residential Appraisal Report, page 3

COST APPROACH	COST APPROACH TO VALUE (not required by Fannie Mae)	
	Provide adequate information for the lender/client to replicate the below cost figures and calculations.	
	Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value)	
	ESTIMATED ☐ REPRODUCTION OR ☐ REPLACEMENT COST NEW	OPINION OF SITE VALUE .... = $
	Source of cost data	Dwelling Sq. Ft. @ $ .... =$
	Quality rating from cost service Effective date of cost data	Sq. Ft. @ $ .... =$
	Comments on Cost Approach (gross living area calculations, depreciation, etc.)	
		Garage/Carport Sq. Ft. @ $ .... =$
		Total Estimate of Cost-New .... = $
		Less Physical | Functional | External
		Depreciation =$( )
		Depreciated Cost of Improvements.. =$
		"As-is" Value of Site Improvements.. =$
	Estimated Remaining Economic Life (HUD and VA only) Years	Indicated Value By Cost Approach .... =$
INCOME	INCOME APPROACH TO VALUE (not required by Fannie Mae)	
	Estimated Monthly Market Rent $ X Gross Rent Multiplier = $	Indicated Value by Income Approach
	Summary of Income Approach (including support for market rent and GRM)	

FIGURE D.3: Snapshot from Uniform Residential Appraisal Report, page 2

RECONCILIATION	**Indicated Value by: Sales Comparison Approach $ Cost Approach (if developed) $ Income Approach (if developed) $**
	This appraisal is made ☐ "as is", ☐ subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, ☐ subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or ☐ subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:
	Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is $, as of , which is the date of inspection and the effective date of this appraisal.

E. Appraisal-related descriptions from RMBS prospectuses

The following excerpts are exact quotes from RMBS prospectus supplements.

NEW CENTURY HOME EQUITY LOAN TRUST 2004-3
Prospectus Supplement dated September 27, 2004

Mortgaged properties that are to secure mortgage loans generally are appraised by qualified independent appraisers. These appraisers inspect and appraise the subject property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market value analysis based on recent sales of comparable homes in the area and, when deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation and are generally on forms acceptable to Fannie Mae and Freddie Mac. The underwriting guidelines require a review of the appraisal by a qualified employee of the originator or by an appraiser retained by the originator. If the appraised value of a mortgaged property as determined by a review is more than 7% but less than 25% lower than the value as determined by the appraisal, then the originator uses the value as determined by the review in computing the loan-to-value ratio of the related mortgage loan. If the appraised value of a mortgaged property as determined by a review is 25% or more lower than the value as determined by the appraisal, then the originator obtains a new appraisal and repeats the review process.

CITIGROUP MORTGAGE LOAN TRUST 2005-HE3
Prospectus Supplement dated September 9, 2005

In determining the adequacy of the property as collateral, an appraisal is made of each property considered for financing, except in the case of new manufactured homes, as described under "The Trust Funds". Each appraiser is selected in accordance with predetermined guidelines established for appraisers. The appraiser is required to inspect the property and verify that it is in good condition and that construction, if new, has been completed. With respect to properties other than multifamily properties, the appraisal is based on the market value of comparable homes, the estimated rental income if considered applicable by the appraiser and the cost of replacing the home.

With respect to multifamily properties, the appraisal must specify whether an income analysis, a market analysis or a cost analysis was used. An appraisal employing the income approach to value analyzes a property's cash flow, expenses, capitalization and other operational information in determining the property's value.

The market approach to value analyzes the prices paid for the purchase of similar properties in the property's area, with adjustments made for variations between these other properties and the property being appraised. The cost approach requires the appraiser to make an estimate of land value and then determine the current cost of reproducing the building less any accrued depreciation. In any case, the value of the property being financed, as indicated by the appraisal, must be such that it currently supports, and is anticipated to support in the future, the outstanding loan balance.

J.P. MORGAN MORTGAGE ACQUISITION TRUST 2006-WMC4
Prospectus Supplement dated December 15, 2006

The “Loan-to-Value Ratio” or “LTV” of a first lien mortgage loan as of the date of origination, is the fraction, expressed as a percentage, the numerator of which is the outstanding principal balance of the mortgage loan on such date and the denominator of which is the Appraised Value (as defined below) of the related Mortgaged Property.

The “Appraised Value” with respect to any Mortgaged Property is the lesser of (i) the value thereof as determined by a qualified appraiser at the time of origination of the mortgage loan, and (ii) the purchase price paid for the related Mortgaged Property by the mortgagor with the proceeds of the mortgage loan; provided, however, that in the case of a mortgage loan the proceeds of which were not used to purchase the related Mortgaged Property (a “Refinanced Mortgage Loan”) made more than twelve months after the related Mortgaged Property was purchased by the related mortgagor, such value of the Mortgaged Property is based solely upon the value determined by an appraisal made for the originator of such Refinanced Mortgage Loan at the time of origination of such Refinanced Mortgage Loan by a qualified appraiser.

The Underwriting Guidelines are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and requires, among other things, (1) an appraisal of the mortgaged property which conforms to Uniform Standards of Professional Appraisal Practice and (2) an audit of such appraisal by a WMC-approved appraiser or by WMC’s in-house collateral auditors (who may be licensed appraisers) and such audit may in certain circumstances consist of a second appraisal, a field review, a desk review or an automated valuation model.

Each appraisal includes a market data analysis based on recent sales of comparable homes in the area.

GSAA HOME EQUITY TRUST 2006-11 (Goldman Sachs)
Prospectus Supplement dated June 25, 2006

As of the statistical calculation date, approximately 8.53% of the group I mortgage loans and approximately 5.39% of the group II mortgage loans had original loan-to-value ratios in excess of 80%. The "LOAN-TO-VALUE ratio" or "LTV" of a mortgage loan at any time is generally, unless otherwise provided in the applicable underwriting guidelines, the ratio of the principal balance of such mortgage loan at the date of determination to (a) in the case of a purchase, the least of the sale price of the mortgaged property, its appraised value or its review appraisal value (as determined pursuant to the underwriting guidelines) at the time of sale or (b) in the case of a refinancing or modification of a mortgage loan, the appraised value of the mortgaged property at the time of the refinancing or modification.

Except with respect to the mortgage loans originated pursuant to its Streamlined Documentation Program, whose values were confirmed with a Fannie Mae proprietary automated valuation model, Countrywide Home Loans obtains appraisals from independent appraisers or appraisal services for properties that are to secure mortgage loans. The appraisers inspect and appraise the proposed mortgaged property and verify that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report which includes a market data analysis based on recent sales of comparable homes in the area and, when deemed appropriate, a replacement cost analysis based on the current cost of constructing a similar home. All appraisals are required to conform to Fannie Mae or Freddie Mac appraisal standards then in effect.

An appraisal is generally conducted on each mortgaged property by the originating lender. The appraisal must be conducted in accordance with established appraisal procedure guidelines acceptable to the originator in order to determine the adequacy of the mortgaged property as security for repayment of the related mortgage loan. All appraisals must be on forms acceptable to Fannie Mae and/or Freddie Mac and conform to the Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Appraisers may be staff licensed appraisers employed by the originator or independent licensed appraisers selected in accordance with established appraisal procedure guidelines acceptable to the originator. Generally, the appraisal procedure guidelines require the appraiser or an agent on its behalf to inspect the property personally and verify whether the property is in good condition and that, if new, construction has been substantially completed. The appraisal generally will be based upon a market data analysis of recent sales of comparable properties and, when deemed applicable, an analysis based on income generated from the property or a replacement cost analysis based on the current cost of constructing or purchasing a similar property.

BEAR STEARNS ASSET BACKED SECURITIES I TRUST 2004-FR3
Prospectus Supplement October 25, 2004

Fremont's underwriting guidelines are applied in accordance with a procedure which complies with applicable federal and state laws and regulations and require an appraisal of the mortgaged property, and if appropriate, a review appraisal. Generally, initial appraisals are provided by qualified independent appraisers licensed in their respective states. Review appraisals may only be provided by appraisers approved by Fremont. In some cases, Fremont relies on a statistical appraisal methodology provided by a third-party. Qualified independent appraisers must meet minimum standards of licensing and provide errors and omissions insurance in states where it is required to become approved to do business with Fremont. Each uniform residential appraisal report includes a market data analysis based on recent sales of comparable homes in the area and, where deemed appropriate, replacement cost analysis based on the current cost of constructing a similar home. The review appraisal may be a desk review, field review or an automated valuation report that confirms or supports the original appraiser's value of the mortgaged premises.