



**“En Confianza”
“NAHREP Code of Trust”
For the Real Estate Industry**

NAHREP Members Are Committed to Fair Home Buying and Financing Practices

The following discussion guide is intended to serve as a sound foundation for NAHREP’s code of conduct for its members. NAHREP is at a point in history where it will draw a line in the sand and take an affirmative stance for fair practices within the homebuying and lending industries to benefit all Americans. Our members understand how valuable this effort can be to our community and they overwhelmingly support it.

A March 2007 poll of NAHREP members affirms that Hispanic real estate professionals are overwhelmingly in favor of setting standards that include:

- Stricter sanctions and standards to ensure Hispanic homebuyers are treated fairly and that sustainable homeownership is still achievable for Hispanic families
- Appropriate federal or state regulated licensing and education standards for all mortgage professionals
- A cap of 2-3% on mortgage commissions
- Industry changes that strike a fair and reasonable balance of responsibility between lenders, mortgage professionals and consumers

The Will exists among NAHREP members to define ourselves as *the* organization that will lead the way on industry best practices.

Preamble to NAHREP Code of Trust

John F. Kennedy once noted: “The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger-but recognize the opportunity.”

Today homeowners, prospective buyers, lenders, realtors and everyone else involved in the real estate industry face a crisis we have not seen in many decades in the United States. For the Hispanic community specifically, a “perfect storm” of dropping values and shrinking availability of credit threaten to undermine the homeownership gains our community has made in the past 20 years. For some who bought homes from those who turned out to be unethical practitioners, the American Dream of homeownership may now be a nightmare. For others, credit availability is

drying up and the possibility of reaching the American Dream seems further away than ever before.

But with this crisis indeed comes opportunity – especially an opportunity for NAHREP. What is demanded by the current lending environment is leadership, steady and firmly grounded in the conviction that we have the knowledge, skills and will to rebuild. NAHREP is poised to lead in helping the Hispanic community and all Americans see their way through this cycle of reduced home values and limit access to credit. We need only the courage to confront these current lending challenges head-on and dedicate ourselves to their ethical resolution.

Where should we begin? We must rebuild Trust. On one end of the spectrum we must rebuild the trust of the financial markets in the system's ability to produce investment grade financing opportunities that perform to stated expectations. On the other end, we must engender the trust of the consumer with real estate professionals that have the integrity to use their talents and skills to truly benefit the consumer. The fundamental building block is in the basic transaction of helping a family to search, acquire and keep a home for as long as they wish. The balance of the edifice, the financing mechanisms, guarantees, national and international securities markets, hinges on that fundamental building block.

Nothing builds trust better than integrity – integrity in achieving the end goal of growing the sustainable rate of homeownership not only for Hispanics, but for all Americans. That is the core of NAHREP's mission, and toward that end we commit ourselves to promoting the highest ethical standards and best practices in the real estate and lending industries. Our members are real estate and lending professionals who will always put the customer's needs first and ensure they have everything they need to make informed decisions about their homebuying experience. We will require our members to adhere to our Code of Trust when it comes to issues such as fair pricing, responsible underwriting, disclosures and fair servicing of loans. We will strive to provide consumers with the best, most accurate information possible to help them make informed decisions about homebuying. We will ensure that our members can explain this information in the clearest, simplest terms.

NAHREP members believe that customers deserve to deal with real estate and lending professionals who are experts in their field and are genuinely committed to promoting sustainable homeownership with all the consumers they serve, particularly within the growing Hispanic community in the United States. Our members will set the standard for quality service within the real estate and lending industries.

Set forth below is our "Code of Trust" for all NAHREP members. By committing ourselves to conduct all business by the principles in our code, NAHREP members will cultivate the fundamental building block that is needed to rebuild the trust of the consumers and the markets, thereby demonstrating the leadership needed to help all Americans find a way through the current crisis so it is never repeated.

Let us move forward together, confronting the problems, finding solutions and demonstrating that the Hispanic real estate professional community in the United States is prepared to work tirelessly to resolve this crisis and enable the American Dream of homeownership to be realized and preserved for generations of all Americans to come.

NAHREP Certified Professional
Mortgage Originators
“Code of Conduct”

NAHREP Believes in Ethical & Responsible Lending

To ensure that real estate professionals promote responsible lending, NAHREP supports the following principles as minimum standards for “NAHREP Certified Professionals” serving Hispanic customers:

- NAHREP certified professionals will apply a “prime loan filter” to ensure that consumers, who qualify for a prime loan, are offered a prime loan.
- NAHREP Certified Professionals will only recommend lending products when the ability to repay is made clear by the consumer’s credit, assets and financial literacy that enables sustainable homeownership.
- NAHREP Certified Professionals will review each refinance customer’s credit profile and apply a net benefit test to prevent equity stripping, and ensure that any loans proposed will provide a demonstrable net benefit to the consumer.
- The Federal Housing Administration (FHA) qualifies loans at the start rate to enable greater customer choice. NAHREP believes this is a sound underwriting principle when adjustment caps are included to limit payment shock. NAHREP endorses that the fully indexed / fully amortized payment should apply when qualifying for a loan where the margin added to the base rates are at 3.5% or higher, and the loan adjustment fixed period is less than 5 years.
- NAHREP Certified Professionals believe consumers are better served when they have escrow accounts, especially when their Combined Loan to Value exceeds 80%. Therefore they will require that lenders provide escrow options for all mortgage loans. If consumers choose to decline, they will still receive information on the possible consequences of foregoing an escrow. Information provided must include all fees and taxes associated with the transaction.
- NAHREP Certified Professionals will educate consumers about the potentially harmful outcomes of products with “negative amortization”. Loan products with negative amortization will not be recommended for first time homebuyers. All customer options will be fully disclosed by the NAHREP certified professional.
- NAHREP Certified Professionals will offer prepayment options only to the extent they provide a demonstrable net savings to the customer by lowering their interest rate. All customer options will be fully disclosed by the NAHREP certified professional, who will ensure the period during which prepayment options apply do not exceed the initial reset period. Consumers should be provided the option of a reasonable period of time to

refinance their loans without penalty. Borrowers should be provided a disclosure within the time of the Good Faith Estimate that would show what their rate and points would have been if they had chosen an option with No-Prepayment Penalty.

- NAHREP Certified Professionals will *not* support or recommend Single Premium Credit Life or Disability Insurance.

NAHREP Believes in Protecting Consumer Choice

In order to protect consumer choice and ensure that consumers can make educated, fully informed decisions about their home loan, NAHREP Certified Professionals are committed to providing the following:

- A simple, bi-lingual information guide to educate consumers on basic choices in lending products available to borrowers.
- Available loan alternatives and how they affect the borrower's rate and terms before determining their final product choice.
- A list of lenders that adhere to the "NAHREP Code of Trust."

NAHREP Believes in Full Disclosure

Full disclosure is an important part of helping consumers make the right decision. NAHREP Certified Professionals will ensure the following disclosure steps to ensure that consumers can make informed decisions when it comes to their loans:

- Consumers receive all relevant information they need to make the right choice for their loan.
- Consumers should receive a guarantee that the final cost/fees could not exceed more than a "reasonable" percent (10%) over the original "Good Faith Estimate and Truth In Lending disclosures" unless there is a change in fees imposed by government agencies (originators can not control increased recording fees or intangible taxes or documentary stamps). The only exceptions would be if a borrower requested to pay discount points to reduce their rate or pay points to waive the escrow or prepayment penalty period.
- NAHREP believes in a level playing field for all originators. All originators should be required to disclose *all* fees and consumer choices within the good faith estimate time period. In the "Good Faith Estimate and Truth In Lending disclosures," mortgage originators should reflect all fees and charges in the loan. There should be a second disclosure at time of "lock-in" which clearly shows the change in rates if any (based on the Freddie Mac weekly average mortgage rate index) from the initial "Truth in Lending and Good Faith Estimate disclosures."

- NAHREP requires members to fully disclose Affiliated Business Arrangements.
- Where available, Federal documents and disclosures should be available in Spanish upon request. Also where available, state and local documents and disclosures should be provided.

NAHREP Believes in Accountability

Accountability is important for our customers and our industry. NAHREP Certified Professionals support the following steps to ensure accountability in our industry:

- NAHREP strongly endorses all mortgage originators be licensed, ensuring enforcement by the appropriate state or federal regulatory entities. All real estate professionals must comply with applicable state and local licensing, and submit to legal background checks.
- FHA approved brokers cannot simultaneously exercise lending and real estate sales functions in the same transaction to protect against inherent conflicts of interest for the consumer. NAHREP Certified Professionals endorse this concept, and commit to implementing an “arms length firewall” in cases where the organization is engaged in multiple business functions.
- Require all real estate professionals have a thorough understanding of applicable state and federal laws—including marketing and privacy laws.
- Lender and origination fees should be capped and reviewed to maintain pricing that is competitive in the marketplace and reflective of the buyer’s financial qualifications.

***NAHREP Certified Professional
Real Estate Licensees and Realtors***
“Code of Trust”

Obligation to Protect the Consumer

NAHREP Certified Professional Real Estate Licensees and Realtors are committed to protecting and promoting the financial interests of their customers in all aspects of the real estate sales process. Their obligation to serve their customers is their first priority. Equally important is an obligation to treat all parties in the real estate transaction with honesty and respect. When selling or purchasing a home:

- NAHREP Certified Professional Real Estate Licensees and Realtors pledge to protect and promote the financial interest of their client above their own personal financial interest. We will do this by recommending sources of homeownership education when necessary, providing educational materials on the lending process in English and Spanish, and to address all aspects of the transaction honestly and to the best interest of the client.
- NAHREP Certified Professional Real Estate Licensees and Realtors will ensure that properties being purchased by Latino consumers meet the customer’s stated “intended use” related to the properties zoning and other regulations required by law.
- NAHREP Certified Professional Real Estate Licensees and Realtors will ensure Latino consumers fully understand their rights as it relates to appropriate property inspections, what they should anticipate in a professional appraisal and other factors they should expect from these professional services before the contingency period has been exhausted.
- NAHREP Certified Professional Real Estate Licensees and Realtors will ensure Latino consumers understand their option to purchase a “Homeowners Warranty” protecting them from the risk of unforeseen home maintenance problems that could arise. The limits of coverage, timeframes the policy will apply and all other appropriate information will be included.

NAHREP Believes in Professional and Responsible Service Quality

To ensure that real estate professionals promote responsible lending, NAHREP supports the following principles as minimum standards for NAHREP Certified Professional Real Estate Licensees and Realtors serving Hispanic customers:

- NAHREP Certified Professional Real Estate Licensees and Realtors will consult with each customer to determine their individual housing needs, and ensure that proposed properties meet that consumer’s individual need.

- NAHREP Certified Professional Real Estate Licensees and Realtors will make a “good faith effort” to recommend homes for purchase only where the ability to repay is made clear by the consumer.

NAHREP Believes in Protecting Consumer Choice

In order to protect consumer choice and ensure that consumers can make educated, fully informed decisions about their home loan, NAHREP Certified Professional Real Estate Licensees and Realtors are committed to providing the following:

- A simple, bi-lingual information guide to educate consumers on basic choices in lending products available to borrowers.
- Available loan alternatives and how they affect the borrower’s rate and terms.
- A list of lenders that adhere to the “NAHREP Code of Trust.”

NAHREP Believes in Full Disclosure

Full disclosures are important parts in helping consumers make the right decision. NAHREP Certified Professional Real Estate Licensees and Realtors will ensure the following informational disclosures to ensure that consumers can make informed decisions when it comes to selling or purchasing a home:

- Consumers receive all relevant information including comparable home prices, and any known potential risks such as, but not limited to, flood, zoning, lead paint, asbestos or any other applicable disclosures necessary to make the right home choice for their personal and financial needs.
- NAHREP Certified Professional Real Estate Licensees and Realtors pledge to honor the letter *and the intended spirit* of the Real Estate Services Procedures Act (RESPA) to provide full and forthright disclosure of *any* financial relationships with *any* 3rd party where the customer is paying the fee.
- NAHREP Certified Professional Real Estate Licensees and Realtors should be required to disclose customer choices such as title and insurance with enough time for the consumer to exercise that choice realistically. These must comply within the regulatory and customary practices applicable in their state or region. The timeframe should generally occur during the contingency period of their purchase contract.
- NAHREP Certified Professional Real Estate Licensees and Realtors will fully disclose all Affiliated Business Arrangements that may or may not result in compensation of any sort being paid to the Realtor or Real Estate brokerage.

- When available, federal documents and disclosures should be provided in Spanish upon request. Any additional state and local documents and disclosures should be provided at the customers request as available.

NAHREP Believes in Accountability

Accountability is important for our customers and our industry. NAHREP Certified Professional Real Estate Licensees and Realtors support the following steps to ensure accountability in our industry:

- NAHREP strongly endorses all Professional Real Estate Licensees and Realtors be licensed in the state or jurisdiction where they do business, ensuring appropriate enforcement by state regulatory entities for all Real Estate Licensees and Realtors.
- FHA-approved mortgage brokers cannot simultaneously exercise lending and real estate sales functions in the same transaction to protect against inherent conflicts of interest for the consumer. NAHREP Certified Professional Real Estate Licensees and Realtors endorse this concept and commit to implementing an “arms length firewall” in cases where their personal organization is engaged in multiple business functions.
- All NAHREP Certified Professional Real Estate Licensees and Realtors commit to having a thorough understanding of applicable state and federal laws—including marketing and privacy laws.

NAHREP Certified Professional
Title, Escrow, Home Inspection and other Loan Closing Services
“Code of Trust”

NAHREP Believes in Full Disclosure

Full disclosures are important parts of helping consumers make the right decision. NAHREP Certified Professionals will ensure the following disclosure steps to ensure that consumers can make informed decisions when it comes to their loans:

- Consumers receive all relevant information they need to make the right choice for their loan and closing service products and service alternatives available to them, and how they affect their rate and terms before determining their final product choices.
- NAHREP Certified Professionals will ensure Latino consumers fully understand their rights as they relate to appropriate property inspections, what they should anticipate in a professional appraisal, and other factors they should expect from these professional services before the contingency period has been exhausted.
- Consumers should receive a guarantee that the final cost/fees could not exceed more than a “reasonable” percent (10%) over the original “Good Faith Estimate and Truth In Lending disclosures” unless there is a change in fees imposed by government agencies (originators can not control increased recording fees or intangible taxes or documentary stamps). The only exceptions would be if a borrower requested to pay discount points to reduce their rate or pay points to waive the escrow or prepayment penalty period.
- NAHREP believes in a level playing field for all real estate professionals. All real estate professionals should be required to disclose *all* fees and consumer choices within the good faith estimate time period. In the “Good Faith Estimate and Truth in Lending disclosures,” real estate professionals should reflect all fees and charges in the loan. There should be a second disclosure at time of “lock-in” which clearly shows the change in rates if any (based on the Freddie Mac weekly average mortgage rate index) from the initial “Truth in Lending and Good Faith Estimate disclosures.”
- NAHREP requires members to fully disclose Affiliated Business Arrangements.
- Where available, Federal documents and disclosures should be available in Spanish upon request. Also where available, state and local documents and disclosures should be provided in Spanish upon request.
- Require all real estate professionals have a thorough understanding of applicable state and federal laws—including marketing and privacy laws.

NAHREP Believes in Protecting Consumer Choice

In order to protect consumer choice and ensure that consumers can make educated, fully informed decisions about their home loan, NAHREP certified professionals are committed to providing the following:

- A simple, bi-lingual information guide to educate consumers on basic choices in lending and closing service products and services should be available to borrowers.
- Borrowers will be made aware of available loan and closing service products and service alternatives available to them, and how they affect their rate and terms before determining their final product choices.
- NAHREP will make available a list of lenders that adhere to the “NAHREP Code of Trust.”

Appraisals

- NAHREP certified professionals will comply with FIRREA and USPAP policies for appraisals. These policies dictate only state licensed or certified appraisers will be used to perform appraisals. NAHREP also stipulates that no one with a financial interest in the transaction may order or influence the selection of the appraiser, or attempt to influence the property valuation. NAHREP Certified Professionals should make access available to the published USPAP guidelines.
- NAHREP Certified Professionals should ensure that its consumers fully understand their rights as it relates to appropriate property inspections, what they should anticipate in a professional appraisal and other factors they should expect from these professional services.
- NAHREP Certified Professionals will advise customers that no one with a financial interest in the transaction may order or influence the ordering of an appraisal or the selection of the appraiser.

Closing Services

- NAHREP Certified Professionals believe consumers are better served when they have escrow accounts, especially when their Combined Loan to Value exceeds 80%. Therefore they will require lenders provide escrow options for all mortgage loans. If consumers choose to decline, they will still receive information on the possible consequences of foregoing an escrow. Information provided must include all fees and taxes associated with the transaction.
- NAHREP Certified Professionals will **not** support or recommend Single Premium Credit Life or Disability Insurance.
- NAHREP Certified Professionals will ensure Latino consumers fully understand their rights as they relate to appropriate property inspections, what they should anticipate in a

professional appraisal, and other factors they should expect from these professional services before the contingency period has been exhausted.

- NAHREP Certified Professionals will ensure Latino consumers understand their option to purchase a “Homeowners Warranty” protecting them from the risk of unforeseen home maintenance problems that could arise. The limits of coverage, timeframes the policy will apply and all other appropriate information will be included.

NAHREP Supports Community-Based Counseling and Regulatory Enforcement

- Working with the Conference of State Bank Regulators NAHREP Certified Professionals support the establishment of a “whistle blower hotline” for industry professionals and consumers to report allegations of misconduct or warn authorities about predatory lenders and practitioners. An industry based “peer review with due process” including the opportunity for response from individuals reported to the hotline is recommended.
- NAHREP Certified Professional support partnerships with counseling providers to educate borrowers on homeownership for consumers in need of assistance during the lending process.
- NAHREP Certified Professionals support the establishment of a borrowers’ hotline to provide counseling and support services for consumers in need of assistance when they are at risk of default or foreclosure, and are committed to counseling customers to “call their lender” as soon as possible when they are faced with the potential of payment default.

Builders

- NAHREP believes in a level playing field amongst lenders and closing agents. Currently, on transactions where there is a builder involved who is offering financing through a “preferred lender”, there is little or no protection for the borrower. Borrowers should be provided with a fully completed HUD 1 & 2 from the “preferred closing agent” no later than 30 days prior to the expected closing date. This should include an option to lock the loan in at the rate and price quoted for this pre-closing statement. The lock period should be for 60 days to allow for any unexpected delay in the closing. In this manner, the borrower can fully and completely assess if the “preferred financing” will be a benefit or if the borrower would be better served by closing through a different broker and/or title agent.