



## **The new Home Valuation Code of Conduct: An appraiser's appraisal**

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Starting this spring, there is a new policy at Fannie Mae and Freddie Mac that says the two agencies will only purchase loans that that comply with the new Home Valuation Code of Conduct (HVCC). The HVCC comes out of a joint agreement between the Federal Housing Finance Agency, which regulates Fannie Mae and Freddie Mac, and the New York State attorney general's office. Its purpose is to improve the independence of appraisers and the accuracy of the appraisal process.

The HVCC is the result of a 2007 lawsuit involving Washington Mutual, which alleged that WaMu and its appraisal company conspired to inflate real estate prices during the real estate boom. The HVCC is a good and necessary move to eliminate cozy relationships, but efforts need to be made at the same time to guard the independence of appraisers and enable the profession to succeed. As it is, appraisers are being asked to do more and more to produce accurate appraisal reports that meet all of the requirements that have come about in this new, stricter lending environment.

It is difficult to regulate the appraisal business, while ensuring that appraisers are given complete independence and freedom from undue pressure to produce certain results. While the HVCC Code should be seen as an important first step toward improving a system that was badly in need of change, there are several concerns that need to be addressed.

One is the problem of consumers having to order multiple appraisals when shopping for a loan. In the past mortgage brokers could order one appraisal that would serve the consumer while they were applying to different lenders. Under the new code that prohibits brokers from ordering appraisals, it is conceivable a borrower would have to order as much as a half dozen appraisals while shopping at different banks - a costly and time-consuming process.

Secondly and of even greater concern is the use of appraisal management companies - essentially middlemen - as the means for lenders to place a firewall between appraisers and the lenders who hire them. While appraisal management companies are in theory a sensible approach, there is the danger that they may be tempted to give out appraisal assignments based only on the lowest bids and quickest turnaround times rather than an appraiser's qualifications.

While this may appear to be a benefit to consumers, such a policy could exclude local appraisers who are more intimately familiar with their neighborhoods and are more knowledgeable about their real estate markets, leaving more and more of the business to larger, national-scale appraisal companies willing to work more quickly for lower fees.

While the notion of a firewall between lenders and appraisers is a good idea in theory, introducing a middleman for all types of appraisals could make it more difficult for independent appraisal businesses to stay alive. The appraisers will still conduct the same process, but instead may be forced to accept lower compensation by splitting their fees with the management companies. Combined with the increasing complexity of conducting appraisals in a down market, these

independent appraisers could face conditions that will make it difficult, if not impossible, to survive. Unless the appraisal management companies find a way to maintain appraisal fees at a fair level, the result could be disastrous for the very system the HVCC is intended to improve.

There is no question that the HVCC has sent the message in no uncertain terms that unlawful and deceptive practices will not be tolerated in the lending industry. The HVCC "prohibits lenders and third parties from influencing or attempting to influence the appraisal process" and says "the appraiser's compensation does not depend on the final estimate of value or the closing of the loan." These are very important long awaited rules that had to be established. But at the same time it is important that appraisers be able to go on practicing their profession using the highest standards and at a fair and just compensation. This too must be considered in the enactment of HVCC and other codes for improving the system.

Learn more about the HVCC by visiting the HMS Associates website ([www.hmsassociates.net](http://www.hmsassociates.net)) and clicking on "blog."

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