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The Home Valuation Code of Conduct progress report

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The Home Valuation Code of Conduct (HVCC) became effective May 1st and profoundly affected the ordering and conduct of residential appraisals. The second version of the HVCC (Code) was met with degrees of incredulity, if not outright anger, by appraisers, appraisal groups, regulatory agencies and lenders, as many intelligent suggestions for improving its requirements went unheeded. Six months into the HVCC era, there is no lack of vitriol for the code in its present form.

As clear as it was that solutions were needed to remedy the problems arising out of the abuses of the great mortgage crash of the first decade of the new millennium, the code did not seem to provide common sense solutions to the problems of undue influence on appraisers by originators.

While there are many in the industry that rail against the code, there are many more who don't have a problem with it. Those that are dead set against it include a.) most of the mortgage origination industry (that's not a big surprise), since it has lost control of the appraisal function; b/ many real estate agents, because they believe that their transactions are being shot down due to "low" valuations or by incompetent, out of area, appraisers; c/ some appraisers, who think they have been closed out of many long term, productive relationships as appraisal management companies (AMCs) have taken over appraisal ordering in many cases.

Certain broker organizations have mounted a campaign against the HVCC and have been joined by certain appraisers and many mortgage brokers. It's an interesting alliance.

It looks as if the HVCC is here to stay. It's likely to be "tweaked" and maybe overhauled but its basic characteristics aren't going to change very much. The FHA, in essence, has adopted the HVCC. Many appraisers have not found the HVCC has crashed their business: other factors are doing that. This code is beginning to look like the future.

The central theme of the code is that origination and appraisal are separate. This is not a bad thing. FIRREA did this by law twenty years ago with much moaning and gnashing of teeth. At this point there aren't a lot of complaints. Unfortunately HVCC started off badly. Nonetheless, it looks like it may be with us in some form.

The HVCC is far from perfect. As with much that is engendered in a crisis, it's rough around the edges. It was developed and thrust at the real estate industry imperiously and insensitively and the process lacked transparency and opportunity for meaningful public input. Keep in mind, the HVCC arose in a financial meltdown, and the end result is by no means certain.

Absent a political sea change or an instantaneous economic recovery of tsunami-like proportions,

the opposition is not likely to prevail. There aren't enough of them, they are perceived as a large part of the problem, and they don't have sufficient clout in a political environment where "re-regulation" is the new way of doing business. Nowhere is this truer than in financial and housing matters.

HVCC has a problem where bad AMCs are "shorting" appraisal fees, thus causing substandard appraisals. Good AMCs are out there and there are likely to be more in a free market of AMCs where AMCs compete for customers and appraisers and the good ones edge out the bad ones. This needs to be the next evolution of the HVCC. Once this starts to happen, greater stability will be apparent in appraisal markets.

A national registry of AMCs is an idea advanced by some observers. This would allow lenders to accept appraisals done via "registered" AMCs. This concept exists under FIRREA and would create "portability of appraisals" which could be a boon to lenders, homebuyers, homeowners, and appraisers.

Some interest on AMCs is apparent politically. The Mass. Board of Real Estate Appraisers (MBREA) is pushing forward some legislation to this end. MBREA states that distinguishing between appraisal companies and appraisal management companies "so that larger appraisal companies would not be subject to registration" was a major challenge in establishing qualifications and standards for registrants. The Board of Registration for Real Estate Appraisers would have authority to discipline AMCs that "fail to comply." MBREA's appears willing to move the bill forward vigorously.

The code represents the means toward a solution but it's a pretty blunt instrument now. Freeing up the AMC "market" and is a reasonable refinement and serves to advance many of its essential features.

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