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The Home Valuation Code of Conduct today - A problem solver or making it worse

March 10, 2010 - Appraisal & Consulting

As we pass the one year anniversary of the Home Valuation Code of Conduct (HVCC), one might ask if it has been a problem solver or has made matters worse. Appraisers, mortgage originators and real estate brokers have, in different ways, found the new regulations do not always result in a better product or process. Mortgage originators have been removed from the ordering process which, in some circumstances has been a good thing. But for the overwhelming majority, who maintained a proper level of integrity and long established relationships with appraisers, the path of origination to closing is breaking down too often.

Two of the biggest issues in the mortgage/appraisal process have been the lack of recognition of agency guidelines regarding geographic competency and concerns about appraisal management companies (AMC's) and attendant appraiser pressures. With regional fears about declining values, an appraiser's knowledge of local markets and familiarity with real estate brokers in the area helps to streamline the process and protect the loan's integrity. Faced with increasing underwriting requirements, appraisers without local knowledge have to develop new data sets for each report and travel longer distances. In addition to the increased time, these circumstances have lead to missing data, unrealistic adjustments, inaccurate values and numerous complaints from local real estate brokers. And what happens with an underwriter call back, for one more comp, days after the report was completed?

AMC's tend to be primarily focused on the lowest fee and the quickest turnaround time. If those criteria are met, an appraiser might be sent anywhere. Appraisals based on low fees, longer travel, quick turn around and additional underwriting scrutiny will frequently result in a failed origination, for no good reason.

Those ordering appraisals do so with the belief that limiting geographic areas to small groups of appraisers is not an option. Initially, assignments were rotated evenly among an entire group of approved appraisers used by a lender, assuming that the location was listed in the appraiser's coverage area. In general, only modest changes to this process have been made since. Yes, many appraisers say they cover many counties on a map, but hardly if ever visit many of the cities they list. In fact, the real estate broker's number one complaint is the appraiser's lack of local knowledge. Today an appraiser might show up in a town, not having been there in years and end up $15,000 short on a $500,000 value, based on unrealistic adjustments.

Since the adoption of HVCC, Fannie Mae, the Federal Housing Administration (FHA), various other federal agencies and the Uniform Standards of Professional Appraisal Practice have made statements on the importance of geographic competency. It is the lender's obligation to use appraisers that have the necessary knowledge and familiarity with the communities they represent. Fannie Mae, in its Guidance for Lenders and Appraisers, "requires a lender to use an appraiser who has the knowledge and experience that is required to perform a professional quality appraisal in a specific geographic location...and must have the knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located. A lender must not assume, simply by the fact that the appraiser is state-licensed or state-certified, that the appraiser is qualified and knowledgeable about a market area..." Similar language can also be found in the HUD Mortgagee Letter 2009-28, regarding Appraiser Independence.

The Uniform Standards of Professional Appraisal Standards (USPAP) requires an appraiser to be competent and knowledgeable of the local market to perform an appraisal. An appraiser who is not competent should not accept the assignment unless he or she devotes sufficient time to researching the market to gain competency. It's doubtful this can happen when the report is due 48 hours after the order is placed.

Solving the problem

Lenders need to recognize that limiting appraisers to a small geographic area is acceptable. Lenders that cover large geographic areas should make every effort to limit distances appraisers travel for assignments. Updated coverage areas should be requested from approved appraisers that delineates where their appraisal office is located along with the home locations of all appraisers associated with that company. Considering that most appraisers have a solid knowledge of no more than 20 communities, the map will demonstrate where an individual's geographic areas of expertise can be found. This approach to selecting appraisers will help to insure quality, coverage and timeliness. By design, it can accommodate both small and large appraisal companies.

Lenders who use AMC's should also be aware of how appraisals are assigned and should suggest a similar approach to qualifying geographic coverage. The lender should review the fees charged to appraisers to insure they meet industry standards. Fees that are arbitrarily low may result in a subpar appraisal product. Lastly, lenders should insist that appraisers have a membership in a recognized appraisal organization. Since many appraisers are independent, key information on changes affecting appraisal requirements and procedures can often get overlooked.

The role of the appraiser, in spite of automated valuation systems, Zillow and the like, is more relevant than ever before. Increased underwriting and requests for additional data has made the process harder and more time consuming. We all have to recognize that when appraisers get too stretched by time, distance or fees, there can be unintended consequences.

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