nerej
EST 1963 CELEBRATING 55 YEARS

# Understanding HVCC: Good intentions gone awry

April 08, 2009 - Appraisal & Consulting

From my standpoint, the Home Valuation Code of Conduct (HVCC), which is about to become effective May 1st, is an excellent example of good intentions gone wrong. The intent of the code is to protect the independence of the real estate appraiser from pressure to arrive at a particular value from those with an interest in the deal closing.  Only by appraisers acting as truly disinterested third parties when valuing a property are we protecting the financial well-being of not only the consumer but also the financial institutions.

The HVCC is an outgrowth of an agreement between New York attorney general Andrew Cuomo and Fannie Mae, Freddie Mac and the Office of Federal Housing Enterprise Oversight (OFHEO). This agreement, originally announced March 3rd, was a response to the subprime debacle in N.Y. state. Originally scheduled to go into effect January 1st, the agreement also included the creation of Independent Valuation Protection Institute (IVPI), an agency that was to act as a clearinghouse for complaints from appraisers and users of appraisal services. The most recent HVCC makes no mention of IVPI.

We are all painfully aware of the tactics that have been used to coerce the appraiser ranging from non-payment of an invoice to blacklisting to the extent that very fine appraisers have been forced out of business because they remained true to their professional ethics. We all agree that this is an untenable situation. The way the code is currently written, the independence of the appraiser continues to be severely undermined, perhaps even more so than before HVCC.

Many users of appraisal services are indeed under the impression that the only way to order an appraisal after May 1st is through an appraisal management company or AMC.  Although there are some AMCs that operate in a manner that does not reduce the fee to appraisers, many too many dictate the fee and turnaround time to the appraiser, a fee that is substantially below a meaningful level that adequately compensates the appraiser for the time and analysis that must go into a competent report, not to mention the time it took to train to become a qualified appraiser. In addition, the turnaround time which often is 48 hours is an insufficient amount of time to competently complete the assignment. This is why the field is not attracting new people - an appraiser cannot make a decent living.

Unfortunately, sufficient numbers of appraisers are willing to do this work for so little pay. There are two reasons for this. First, they feel they have no choice, at least for the time being as they are happy to even have a job during these difficult economic times. Second, and more disturbing, they are unaware of what is involved in producing a credible report. The end result is an appraisal product of questionable quality which hurts not only every appraiser but also the consumer, the financial institutions, even the integrity of our economic system.

AMCs are beginning to spring up around the country as this is a great opportunity to serve a need they see coming down the pike. With few exceptions consisting of those states that have passed legislation, these AMCs are unregulated. Unfortunately, some of these new AMCs are being created by former appraisers who have had their appraisal licenses revoked. This is also untenable.

At the moment the HVCC is aimed at the residential appraisal process concerning loans purchased by Fannie Mae and Freddie Mac. One school of thought is that it is only a matter of time before such regulations spread across the board to cover all appraisals including commercial. Fannie and Freddie have released FAQs on the HVCC which are available on-line at www.freddiemac.com/singlefamily/hvcc_faq.html.

Patricia Amidon, MAI is principal of Amidon Appraisal Co., Portland, ME.