



nerej

The Home Valuation Code of Conduct Era begins

May 06, 2009 - Appraisal & Consulting

The Home Valuation Code of Conduct (HVCC) is effective May 1st. The first HVCC (Code) was met with fairly uniform levels of incredulity, if not outright anger, from appraisers, lenders, appraisal groups, and even regulatory agencies and legislators. The second version also met with informed and consistent resistance but proved to be the final version despite a number of very valid concerns. Reason, logic, and the comments of multitudes of experienced and ethical professionals were not persuasive to the architects of the Code.

Solutions and remedies were clearly needed to address our current problems. The Code represents the means toward a solution but is not an effective one in its present form. While it addresses problems, it doesn't go far enough in many respects. Reasonable remedies that the industry could buy into weren't provided. The HVCC looks as if it is designed to placate interested outsiders. The Code solves the origination/risk management problem by further punishing appraisers. The result is a one with which no one is happy and which creates another set of problems.

The Code's coming has created great angst and confusion among appraisal users, appraisers and others. The most significant confusion created relates to third party vendor management firms (AMCs). After reviewing inhouse appraisal management functions, lenders selling loans to FNMA/FHLMC may have to revamp operations. Some may make unnecessary changes due to misconceptions about the Code.

Major misconceptions include:

- * All lenders must meet the requirements of HVCC. Lenders selling to FNMA/FHLMC must meet this requirement. A key HVCC concept - separating appraisal functions (risk management) from loan production (originations) already is in place for federally insured institutions: it's known as is FIRREA. It's been in place for a time and generally has worked well.
- * Lenders must use appraisal management companies. This is not true. The Code requires that loan production staff not be involved in ordering appraisals. Use of appraisal management companies is not the only means to achieve HVCC requirements. The HVCC document lacks clarity in this regard.
- * Because they are third parties, appraisal management companies will reduce risk to institutions. Not necessarily. Blind reliance on third parties played a large part in our financial meltdown. An institution shifts responsibility in that manner at its own peril. Further, appraisal management companies won't necessarily reduce costs or guarantee competent appraisers.
- * Loan production staff may not communicate with appraisers. This is incorrect. The Code notes that loan production personnel may not involve themselves in ordering, selecting, or influencing appraisers. HVCC intends to break origination's hold over the appraisal process by removing their influence in selecting appraisers, ordering appraisals, influencing values, and retaliation against appraisers.
- * Lenders may not conduct the appraisal ordering function internally. On the contrary, lenders may

conduct this function as long as separation between production/origination and risk management/appraisal function is maintained.

* Small banks are at a particular disadvantage. Untrue. Just like FIRREA, HVCC provides for exceptions for smaller institutions. Creating demarcations between the two functions is key and may be a matter of setting up independent reporting lines within these small institutions.

A major point of contention is Appraisal Management Companies' (AMCs) role in HVCC's system. AMCs have a tarnished (not undeservedly) reputation of attracting less competent appraisers with lower fees, thus creating a downward spiral. Maybe this is all about to change. For now, the industry faces a significant challenge to find workable solutions with AMCs.

The Code correctly identifies major industry issues and makes efforts to solve some of them. It's not clear that the Code as written will solve these problems effectively. And, it looks as if new problems are created. The Code poses solutions which seem likely to exacerbate existing industry problems. The Code is upon us. We have to learn to live with it. Any bets on when HVCC Revised comes out?

Bill Pastuszek, MAI, SRA, is principal of Shepherd Associates, Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540