

# Appraisal Shakeup

How to cope with the new rules for appraisal | **By Marcie Geffner**

**T**hese are but a few of the choice words REALTORS® have used to describe the new Home Valuation Code of Conduct (HVCC), which dictates certain practices lenders must follow with respect to appraisals related to loans they intend to sell to Fannie Mae or Freddie Mac. • The HVCC was worked out through an agreement between Fannie Mae, Freddie Mac, and the New York Attorney General's Office (NYAG) in response to an investigation by the NYAG into Fannie and Freddie. The purpose of the HVCC is to insulate the appraisal process from undue influences by placing tight controls and restrictions on the ordering of the appraiser, as well as guidelines for communicating with the appraiser during the process. HVCC is a private agreement. HVCC does NOT apply to FHA or VA loans. • The code, which became effective May 1, specifically prohibits practices that may influence or attempt to influence an appraiser's opinion of a home's value. For example, the code requires lenders to order appraisals themselves, rather than accept any appraisal completed by an appraiser who was chosen, hired, or paid by a mortgage broker, real estate agent, or other third party. The code allows an appraisal to be transferred from one lender to another, but only if the original lender gives written assurance that the appraisal is HVCC-compliant and the new lender accepts that assurance.

**Challenging**

**Problematic**

**Wild**

**Bizarre**



## REALTORS® Report HVCC Snafus

The HVCC mentions real estate brokers only parenthetically, yet REALTORS® have reported a variety of negative effects on real estate sales transactions. Specifically, REALTORS® have noticed:

- ▶ A significant (and otherwise inexplicable) increase in the cost of appraisals.
- ▶ Valuations that have differed dramatically from perceived market values.
- ▶ An increase in alleged factual errors in appraisals.
- ▶ Delays of several days or as long as three weeks in completion of appraisals.
- ▶ Appraisers who've been assigned to value properties as far as 40 miles away.

## New Rules Require New Practices

So how can REALTORS® cope with those challenges? Here are some suggestions:

- ▶ **Allow for delays.** Mary Lynn Pinto, a mortgage broker and broker/owner of Bayshore Real Estate Services in Salinas, says brokers need to write into real

estate sales contracts longer timeframes for removing appraisal contingencies.

"The recommendation is to allow more time for contingency removal and contract periods," she says. "We have a little less control than we used to in setting the contract dates."

- ▶ **Qualify the appraiser.** Guy Rivera, a senior loan officer with Pacific Riviera Mortgage in Santa Barbara, says REALTORS® should qualify the appraiser when he or she makes an appointment to inspect a home.

To do so, the REALTOR® should ask about the appraiser's experience and knowledge of the local area, Rivera suggests. A few questions REALTORS® might want to ask are:

- ▶ How long have you appraised homes in this area?
- ▶ How many properties do you typically appraise in this area each month?
- ▶ How many properties do you typically appraise each day or on a given day?
- ▶ What are your data sources and how often are those sources updated?

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# HVCC Help

**Office of Real Estate Appraisers:** Stay abreast of California HVCC developments at [www.orea.ca.gov](http://www.orea.ca.gov).

## Fannie Mae

**Fannie Mae Home Valuation Code of Conduct (HVCC):** Read the full text of the HVCC at [www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/hvcc.pdf](http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/hvcc.pdf).

**FAQs:** [www.magnetmail.net/images/clients/Appraise/attach/FannieMae\\_HVCC\\_FAQs.pdf](http://www.magnetmail.net/images/clients/Appraise/attach/FannieMae_HVCC_FAQs.pdf)

**Guidance for Lenders and Appraisers:** [www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisal-guidance.pdf](http://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisal-guidance.pdf)

**Announcement 09-01:** Amendments to Selling Guide: [www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2009/0901.pdf](http://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2009/0901.pdf)

## Freddie Mac

**Freddie Mac Home Valuation Code of Conduct (HVCC):** [www.freddiemac.com/singlefamily/pdf/122308\\_valuationcodeof-conduct.pdf](http://www.freddiemac.com/singlefamily/pdf/122308_valuationcodeof-conduct.pdf)

**Webinar:** [www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=SR\\_HVCCrec](http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=SR_HVCCrec)

**FAQs:** [www.freddiemac.com/learn/pdfs/uw/srhvcc.pdf](http://www.freddiemac.com/learn/pdfs/uw/srhvcc.pdf)

**Fact Sheet:** [www.freddiemac.com/singlefamily/pdf/hvcc\\_746.pdf](http://www.freddiemac.com/singlefamily/pdf/hvcc_746.pdf)

**Bulletin Number 2009-07:** [www.freddiemac.com/sell/guide/bulletins/pdf/bl1097.pdf](http://www.freddiemac.com/sell/guide/bulletins/pdf/bl1097.pdf)

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If an unqualified appraiser shows up to inspect a home, the REALTOR® should not let him into the home, Rivera suggests.

"We sent back a Ventura County appraiser who came up to do an appraisal in Santa Barbara County. We sent him away," he says.

► **Offer comparable sales data.** The HVCC states: "It would be inappropriate for an appraiser to use comparable sales data provided by the real estate broker who is handling the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparable sales provided were the best available."

That seems to suggest REALTORS® can provide comps, but appraisers may choose to refuse, reject, or ignore the REALTOR®'s information if the appraiser

can't verify the accuracy of the information or determines that other comps are better suited for the purposes of the appraisal.

Pinto says the REALTOR® should give the appraiser a current comparable market analysis (CMA) and explain the local market areas, even though that extra effort may be burdensome and the appraiser's response may be disappointing.

"Don't pull out the CMA you did to get the listing and hope that will work. You have to update it and give it to the appraiser at the time of the inspection. Don't wait until after the inspection, and don't do it through the lender," she advises.

Here's a related tip from Rivera: The REALTOR® may want to black out the sales prices on the comps that are given to the appraiser to allow him or her to accept the information and look up the details as part of his or her own investigation.

"Black out the prices, but have like properties and educate the appraiser as to the neighborhoods," he suggests.

► **Complain to Congress.** REALTORS®

may have little opportunity to lodge formal complaints about the HVCC through the mechanics of the code itself since the Independent Valuation Protection Institute (IVPI) envisioned within the code has not been implemented. The IVPI was supposed to set up and operate a telephone hotline and e-mail address to receive complaints.

Given that lack of redress, REALTORS® should call their elected representatives and make their concerns heard, Pinto suggests. California Congressman Gary Miller has introduced H.R. 3044, which would place an 18-month moratorium on the recently imposed HVCC. C.A.R. is supporting H.R. 3044, and is asking California's Congressional Delegation to sign onto the bill as a cosponsor.

"We are working hard to get an 18-month postponement," Pinto says. "I would encourage REALTORS® to get a hold of their Congress people." ♦

*Marcie Geffner is a freelance real estate reporter.*