My January 22nd column was entitled “The War Against Appraisal Fraud Is Producing Mixed Results, Not All Good.” In it I described a new rule, effective May 1st, that was written by New York attorney general Andrew Cuomo and agreed to by both Freddie Mac and Fannie Mae.

As I studied the consequences that would flow from implementation of what’s called the Home Valuation Code of Conduct (“HVCC”), I felt certain that it would be postponed or withdrawn, but instead it went into effect as planned on May 1st. Essentially, the new rule prevents mortgage brokers or real estate agents from participating in the selection of appraisers for every “conforming” or “conventional” loan. These appraisers are barred from communicating with the mortgage brokers or real estate agents, even though we might have useful information to share about the subject property or comps.

I asked my mortgage colleague, Shelley Ervin, to give me her perspective on the situation. Shelley wrote the following for me:

Here is a recent experience with the new appraisal system: The day the system went into effect, many of the AMC’s raised their prices (now that we are required to use them). Previously, my appraiser charged $350 for a full appraisal; the AMC’s were charging $325 to $355. The AMC I have used in the past charged $325; their new price is $370. Of course, the appraisal must be paid in advance. If the loan is not approved by a particular bank, I can move the loan, but I cannot use the appraisal since it was ordered in the bank’s name, not my company’s name. The borrower now must pay for another appraisal. I cannot contact the original appraiser because I never see the appraisal…it is sent directly to the bank.

All of this was supposed to protect consumers. It seems like that was not accomplished. Now the consumer gets to spend lots more money. I have spoken to some local appraisers. Their business has dropped by 50%. Those who do not do FHA appraisals are seeing an even bigger drop. (The new rule doesn’t apply to FHA loans.) Some of the appraisers have signed on with the AMC’s, which are charging $370 to $450, but paying the appraiser only $200. The small business person is being damaged, while big business benefits.

I have put some links on my website, www.JimSmithColumns.com, which provide much more detail as to why the implementation of the HVCC rule was illegal, counterproductive and, in my opinion, stupid.

I Can’t Believe That the HVCC Appraisal Rule Has Actually Been Implemented

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