

Previous columns (and emailed comments from readers) are archived at www.JimSmithColumns.com

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

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of what's called the Home Valuation Code of Conduct ("HVCC"), I felt certain that it would be postponed or withdrawn, but instead it went into effect as planned on May 1st.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, in the belief that doing so would eliminate their ability to coerce appraisers into coming up with inflated values

that would support their transactions. Instead, a new industry was created — appraisal management companies (AMC's) — to act as middlemen in the hiring 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.

It seems that every professional group associated with the industry — the Realtors, the mortgage brokers, the mortgage lenders and the appraisers themselves, as well as many members of Congress — have urged the Federal Housing Finance Agency, which regulates Fannie and Freddie, not to implement this rule, but to no effect.

Moreover, the rule itself was

implemented in violation of government guidelines on the implementation of new rules. Instead one attorney general in one state coerced Fannie and Freddie, on threat of litigation, to implement this rule. The whole thing is rather incredible, the more I read about it.

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 or-

dered 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.

This rule came about as a result of a bank (not a mortgage broker) in New York that was inflating appraisals through their own appraisal management company; yet when the new rule was finalized, the banks were exempt.

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.

[End of Shelley's comments.]

I have put some links on my web site, 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.

REAL ESTATE TODAY



By JIM SMITH, Realtor®



Jim Smith

Broker/Owner

Golden Real Estate, Inc.

DIRECT: 303-525-1851

EMAIL: Jim@GoldenRealEstate.com

OFFICE: 303-302-3636

17695 South Golden Road, Golden 80401

WEBSITE: www.GoldenRealEstate.com



[Click here](#) to visit the "Our Listings" page at Golden Real Estate's website.