

None So Blind As He Who Refuses To See

Just when you thought that low interest rates and tax incentives would help stabilize the Mortgage and Real Estate market, think again. With the May 1, 2009 implementation of the Home Valuation Code of Conduct (HVCC) regulations, loan officers and realtors are no longer allowed to select or influence the selection of appraisers.

The agreement stated that the HVCC would be the standard of conduct followed by the parties and would be complemented and overseen by a newly formed Independent Valuation Protection Institute, or IVPI. The IVPI is funded jointly by Fannie Mae and Freddie Mac for a period of 28 months under the terms of the agreement.

The legislation was introduced by New York Attorney General, Andrew Cuomo. The original lawsuit by the Attorney General was filed against eAppraiseIT, an AMC, accusing it of inflating appraisals to satisfy Washington Mutual's demands. It was designed to decrease the likelihood of appraisal fraud by removing the individuals most inclined to push for inflated value. This program severed communication with the appraiser. That may sound logical, the reality is that the extra layer of bureaucracy increases cost, slows down the loan process, decreases customer service and creates an increased potential for miscommunication.

The HVCC virtually mandates that all appraisal orders must be placed through AMCs, which deprives independent fee appraisers of nearly half of their normal fees. The push toward AMCs is surprising given that the original lawsuit by the Attorney General was filed against eAppraiseIT, an AMC, accusing it of inflating appraisals to satisfy Washington Mutual's demands.

Going through a third party Appraisal Management Companies (AMCs) is inefficient. These unregulated entities (AMCs) don't acknowledge orders consistently, they charge additional fees and the turn-around times are slow. There is no guarantee that the appraisers working for the AMC will be skilled or knowledgeable about the local market.

Appraisals are now more expensive for the consumer, because the third party company charges a fee to process the order. The consumer, whom the legislation was designed to protect, can expect to pay more.

Independent appraisers can no longer rely on the patronage of satisfied mortgage professionals and realtors. They will be forced to work with the AMCs or starve. Appraisers are being asked to work for less, though the AMCs are charging borrowers more.

In the past you could opt to pay for the appraisal at the closing. Currently appraisals must be paid for up front. If the loan officer needs to change lenders before the closing for any reason, the borrower may have to pay for a new appraisal, incurring additional cost.

On every appraisal, the appraiser must check one of three boxes regarding local market conditions. The options are: "market is appreciating," "market remains stable" or "market is declining." Given the nationwide decline in home values, appraisers are most likely to cite "market is declining." This may prompt the underwriter to request a second appraisal.

As a Realtor, we now have to explain to clients that we don't know when the appraisal will be done and hope it doesn't adversely impact the closing.