

HVCC: How It Can Hurt

Understanding the latest appraisal regulation is the first step toward potentially fixing it

By **Jorge Gomez**, branch vice president, 1st Advantage Mortgage

IF ONLY THE APPRAISAL WOULD come in.”

How many times have mortgage-industry professionals uttered that sentiment recently? Our customers have the credit score, income, employment history and proper documentation, but they can't refinance because the appraisal on the home is below acceptable standards.

As mortgage brokers, we are yet again the target of rulemaking that can increase consumer costs and harm small business. The Home Valuation Code of Conduct (HVCC) began causing problems as of its implementation this past May 1. The largest issue rests with appraisal-management companies (AMCs), whose use the HVCC essentially requires, potentially charging higher fees for appraisals than those brokers once ordered.

If a lender is using an AMC, the appraiser often is assigned based on a rotation with little consideration of the location of the property for the potential loan in question. Taking this into account, consumers could end with an appraiser who is not acquainted with the area and doesn't know details of the local market. The risk here is that because of lack of local insight, the appraisal that the consumer has paid for could be inaccurate, thus potentially harming that individual in terms of the ability to complete the transaction and to avoid paying for a second appraisal.

With brokers unable to order appraisals for loans set to be purchased by Fannie Mae or Freddie Mac, as per the HVCC, there is little brokers can do to help customers avoid those increased charges. Nonetheless, complaints about increased costs, delays and poor-quality appraisals continue to be directed to brokers.

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How we got here

Historically, Fannie and Freddie wrote appraisal requirements, which lenders' underwriters enforced. During the most recent real estate boom, those regulations were relaxed because of poor quality-control requirements. This led to increased value estimates that couldn't be validated but that lenders accepted because prices were increasing 5 percent to 10 percent a year. Neither regulators nor Wall Street investors seemed to care.

In late 2007 and throughout '08, however, market conditions pushed values down dramatically, resulting in delinquencies, foreclosures and short sales that forced home prices down more. Wall Street pulled out of the market, Fannie and Freddie implemented tighter regulations, and investors intensified underwriting requirements, including those for appraisals. Nonetheless, Fannie and Freddie along with New York Attorney General Andrew M. Cuomo and the Federal Housing Finance Agency (FHFA) implemented the HVCC.

Before implementation of the HVCC, brokers could call on borrowers' behalf to see if an appraisal reached the value borrowers sought. That indication would allow borrowers to make decisions about whether to continue with their refinance effort. This latitude no longer exists, and consumers are absorbing appraisal costs without knowing if the appraisal will reach their needed value.

Understanding the issue

While some brokers consider becoming bankers, that action alone will not fix the problem. For now, the only way to remedy the situation is to work toward an official repeal of the agreement (*ed. note: As of press time, numerous groups, including the National Association of Mortgage Brokers [NAMB], are soliciting comment on the HVCC. NAMB welcomes e-mails to hvcc@namb.org and says it will pass stories along to the FHFA, which oversees Fannie and Freddie.*)

One of the best ways to do this is to keep an official record of customers who have felt negative impacts as a result of the HVCC. Every time you receive a complaint from a customer because of the HVCC, write down the details. Keep this complaint log organized and establish a process and timeline for sending it to local and national legislators and regulators.

When these rulemakers begin to understand the magnitude of the problem, perhaps they will see the importance of doing away with the HVCC.

Some of the questions pertaining to HVCC-influenced appraisals consumers are asking include:

- **Why am I paying more?**
- **Why is it taking so long?**
- **How do I know if the results are reliable?**
- **Why can't my mortgage broker and I discuss the results?**

No matter how you slice it, for brokers, the



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HVCC can amount to a misdirected regulation that penalizes consumers.

Taking action

The HVCC is the latest example of rulemakers' meddling in the mortgage process without fully considering the consequences of their actions. This new system presents little to no benefit to consumers and likely amounts to little more than a feel-good attempt to improve the appraisal process.

It seems as though a majority of mortgage-industry participants nationwide now understand the negative ramifications the HVCC imparts on consumers, the housing market and the economy as a whole. It is now important to explain the problem to legislators, regulators and consumers and to work toward a future in which the HVCC no longer exists in this form.

By keeping a detailed and accurate record of the negative impact of the HVCC, brokers can describe the problem with specific examples. Brokers also can encourage their customers to voice concerns directly to legislators. The more often rulemakers hear about the negative impacts of the HVCC, the more likely they will do something about it. **■**