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# FEDERAL HOUSING FINANCE AGENCY



## NOTICE

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July 22, 2009

### **Strengthening Appraiser Independence and Improving the Valuation Process**

#### **Update on Enterprise Implementation of the Home Valuation Code of Conduct**

The Home Valuation Code of Conduct (Code) announced by Fannie Mae and Freddie Mac (Enterprises) in December 2008 was developed after a long period of public input and was deployed on May 1, 2009, after a four-month transition period. The Code expanded on existing Enterprise appraisal standards, seeking to redress problems that contributed to the current mortgage crisis and to improve the quality of the mortgage loans they purchase.

Unfortunately, during the 2005 to 2007 period, mortgage lending was much too aggressive and placed pressure on the appraisal process. In some cases, that resulted in unrealistically high appraisals, hurting homebuyers as well as investors. The HVCC is designed to promote professional appraisals free from inappropriate pressure from lenders, borrowers or brokers.

The Code's main purpose is to protect appraisers and the quality of appraisals from undue influence and conflicts of interest. The Enterprises continue to address questions on implementation and today provided additional FAQs. Also, they are finalizing a complaint form relating to Code violations.

Market participants should appreciate the difficulty facing appraisers when valuing properties in a declining market, especially when sharply dropping home prices and foreclosures are prevalent. The challenges of appraising properties exist with or without the Code. Market participant concerns in the current circumstances would create appraisal controversies even without the Code. Indeed, the Code should help mitigate these controversies by providing clearer protection for appraisers.

The Enterprises have taken additional actions. For example, Freddie Mac recently issued an alert to mortgage lenders advocating the use of qualified and experienced real estate appraisers, including those appraisers affiliated with a professional organization. This was similar to a Fannie Mae pronouncement. The Appraisal Institute termed this a victory for efforts to promote more professional appraisals and said it would "have a positive effect on millions of home buyers and sellers." The GSE guidances reinforce existing professional standards that appraisers must be familiar with the local market where the property is located and highlighted that appraisers must choose appropriate sales comparisons.

## **Addressing Misinformation**

Misinformation has been circulated about the content of the Code and some have tried to cite the Code as the source of unrelated market dislocations. FHFA believes that the Code is serving the intended purpose and will continue its oversight role both as to the implementation of the Code by the Enterprises and its market impact.

Some key items that the public should know:

Communications with appraisers— Contrary to some suggestions, the Code provides for communications with appraisers about errors, additional needed information and unprofessional conduct. Quality control personnel may communicate with appraisers and other lender personnel, outside of the loan origination function. The real bar is on communications that seek to influence the appraiser to adopt a set valuation, which is prohibited.

Low appraisals— Contrary to some suggestions, the Code does not lead to lower appraisals for property. The Code insulates appraisers from pressures that led to higher or lower appraisals and should now lead to more accurate valuations. This is in everyone's interest. Declining home prices began long before the deployment of the Code and relate to many other factors. Current efforts at mortgage market stabilization are a central focus at FHFA and the Enterprises, but that needs to be achieved by keeping borrowers in their homes, not urging appraisers to improperly overvalue homes.

Appraisal management company (AMC) role— Contrary to some suggestion, the Code does not favor the use of AMCs over independent or in-house appraisers. Significantly, for the first time, the Code places the same requirements for appraiser independence on AMCs as the limits placed on lenders. Lender use of AMCs was increasing prior to the Code and one of the key goals and results of the Code was to strengthen appraiser protections when engaged by AMCs.

Unqualified or out-of-area appraisers— The Uniform Standards of Professional Appraisal Practice (USPAP) requires that an appraiser be competent and knowledgeable of the local market to perform an appraisal. In addition, in reinforcing USPAP, the Enterprise appraisal guides require appraisers to have knowledge of the local market. The use of unqualified in-state or out-of-state appraisers, unfamiliar with local conditions, should be reported to state appraiser licensing agencies.

Increased costs at closing— Closing costs have risen in some instances, but that has not been a function of the Code. Lenders have tightened underwriting standards, often requiring additional comparables by appraisers and even requiring second appraisals. Market investors have focused on reducing fraud and sought greater assurances about valuations. Appraisers have been working hard to meet these requests.

Turnaround times for appraisals— The Code may initially have slowed appraisal time as it was being implemented. However, there are other reasons for turnaround time changes; these include increased demands by lenders, the efficiency of a particular lender's underwriting process and the workload of appraisers. The Code's appraiser independence standards are critical for accurate valuations, a lesson learned in the current market crisis. Assuring a good appraisal is in the borrower's interest. As the market adjusts to new underwriting standards, including those for appraisals, more efficiency will reduce turnaround times.

Transferring an appraisal — Contrary to some suggestions, appraisals are transferrable between lenders under the Code. Transferring an appraisal may obviate the consumer's need to pay for a new appraisal should the first lender deny the loan. Whether a lender decides to transfer or

accept an appraisal, however, is up to the lender, and is not related to the Code. Lender discretion in this area predated the Code.

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The Home Valuation Code of Conduct supports the critical role of appraisers and their central role in the underwriting process. Accurate appraisals, produced in line with industry standards and legal requirements, provide key protections for homeowners, the Enterprises and investors who support the markets. The poor practices of the past are being corrected and lessons learned are being addressed.

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