



Demystifying the Home Valuation Code of Conduct

By Richard Maxstadt, Senior Vice President/Chief Operating Officer, CUC Mortgage

THE HOUSING INDUSTRY HAS BEEN UNIVERSAL IN ITS OPPOSITION to the Home Valuation Code of Conduct (HVCC). The HVCC is an agreement between the New York State Attorney General, the Federal Housing Finance Agency (FHFA) and government-sponsored enterprises (GSE's) Fannie Mae and Freddie Mac that is intended to enhance the independence and accuracy of the appraisal process.

The code was originally designed to protect appraisers from pressure to inflate their home valuations because such actions helped fuel the housing bubble and the resulting bust. In fact, the code grew from a case in which the New York State Attorney General went after the now-defunct Washington Mutual because it pressured a title company to raise appraisal values in order to push through deals.

Realtors, mortgage brokers and builders have charged that one result of the HVCC has been an increase in below-market valuations that have killed sales and further slowed already moribund housing markets. A recent survey from the National Association of Realtors reported that 20 percent of its members claimed to have lost at least one deal due to low valuations.

But what does the HVCC really mean for the industry? In short, it means that only loans sold to Fannie Mae or Freddie Mac are affected and, despite what it may seem, the code wasn't designed to impair the appraisal process. It was actually designed to enhance it.

Right now, the HVCC bans loan officers, realtors, mortgage brokers and builders—basically anyone whose compensation depends on home sales—from ordering appraisals or exerting undue influence on appraisers. Any loan that doesn't comply with the HVCC standards will not be backed by mortgage giants Freddie Mac and Fannie Mae.

Everyone can agree that it's a noble goal, and one that should be maintained, but there is a lot of room for confusion and misinterpretation of the guidelines.

"The HVCC does not prohibit interaction between

housing professionals and appraisers," says Bill Garber, spokesman for the Appraisal Institute, a trade group. "But it could state more clearly what it's legal to do."

In order to address HVCC compliance effectively, it is important to sort through the myths and learn the truth.

Myth: Lenders need to use an external appraisal management company to achieve HVCC compliance.

Truth: When it comes to HVCC, this is probably the most prevalent misconception circulating in the industry. The truth is that using an appraisal management company (AMC) is not required for HVCC compliance. In fact, using an AMC does not guarantee HVCC compliance. HVCC applies to banks, correspondent lenders and mortgage brokers, not to appraisal management companies.

Therefore, HVCC compliance ultimately rests on the shoulders of the originating company.

Myth: Production staff can never speak to an appraiser for any reason.

Truth: It's easy to understand why lenders are under this misconception, as so much of HVCC is focused on thwarting the opportunity to influence the outcome of an appraisal's value. But these individuals can

communicate about no-value-related issues, such as the borrower's contact information, property address, etc.

Myth: Multi-branch locations must use an external AMC if they want to centralize their appraisal process and stay HVCC compliant.

Truth: Again, using an external AMC does not guarantee HVCC compliance. Lenders are perfectly within the bounds of HVCC compliance if they choose to own and operate their own AMCs—as long as the staff within the organization is not reporting to any company representative directly involved in production.

Myth: HVCC is causing low appraisal values.

Truth: In general, lower appraised values are a reflection of the market. However, when HVCC went into effect, many

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the detriment of others.” And by building your credit union’s financial strength, you ensure continued service to your members.

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lenders started using external AMCs. Some AMCs assign appraisals to appraisers from literally 100 to 300 miles outside of the subject area. The problem with this is that, when it comes to neighborhood values, nuances matter. Appraisers with area expertise know this.

Conclusion

It’s important for lenders to remember that, when it comes to an issue as big as HVCC compliance, acting on rumors or hearsay is never a good idea. By separating HVCC fact from fiction, lenders can eliminate many of the so-called problems associated with HVCC. □

To learn more about the services provided by CUC Mortgage, visit www.cucmortgage.com, or contact Richard Maxstadt at richard.maxstadt@cucmortgage.com or (800) 342-9835, ext. 8115.

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