

How Does The Dodd-Frank Act Impact The Appraisal Process?

HVCC is out, AIR is in and appraisers are working under a new set of guidelines.

By Beatrice Zagorski

The Dodd-Frank Act is the largest financial reform bill in U.S. history, covering the vast spectrum of consumer credit products and services. Among the many regulatory guidelines contained in the act is a new game plan for the appraisal process. These guidelines are intended to ensure that home appraisals are accurate and realistic while preventing unscrupulous brokers from pressuring appraisers - whether by payments, threats or promises - to provide higher valuations.



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Prior to the Dodd-Frank Act, the appraisal process was most recently regulated by the terms of the 2009 Home Valuation Code of Conduct (HVCC), which required that mortgage lenders use a third party when obtaining an appraiser to complete an appraisal. The HVCC also prohibited lenders from having direct conversations with appraisers during the appraisal process.

As a result of these requirements, many lenders chose to outsource the entire process to appraisal management companies (AMCs). However, there was also an unexpected result of the HVCC: Some AMCs began hiring out-of-area appraisers and paying them cut rates. This practice often resulted in sloppily inaccurate appraisals conducted by appraisers who

were unfamiliar with the local market.

As of Oct. 15, 2010, the HVCC was out, and the appraiser independence requirements (AIR) were in. The new AIR standards were designed to prevent undue influence and conflicts of interest.

Furthermore, the Dodd-Frank Act makes it possible for AIR violators to be prosecuted and fined. The act went even further by stating that appraisers must be paid a "customary and reasonable rate" for the market area in which the appraisal has been ordered.

The goal of the Dodd-Frank Act was to establish legally acceptable behavior for appraisers and lenders. Its wording in some places, however, has created confusion that has fueled rumors and misinformation. The following are some common questions about the legislation as it relates to appraisals.

Q: When do the new appraisal regulations take effect?

A: While the Dodd-Frank Act took effect in July 2010, there have been additional changes in the industry. One major overhaul that has followed Dodd-Frank is the Fannie Mae and Freddie Mac Uniform Mortgage Data Program (UMDP), which has been in the process of being rolled out. Below are some of the most important dates related to UMDP:

- April 1: Automated valuation models (AVMs) must include a photo and property-condition report;
- June 1: XML testing begins;

■ Sept. 1: Appraisals must comply with the Uniform Appraisal Data (UAD) standardization requirements;

■ Dec. 1: Lenders must deliver full UAD-compliant electronic appraisal report data (if an appraisal is required) and expanded loan delivery data; and

■ March 19, 2012: Lenders must deliver full UAD-compliant electronic appraisal report data (if an appraisal is required), and loan delivery data must be provided in industry-standard Uniform Loan Delivery Dataset (ULDD) format unless manually entered in loan delivery.

Q: Will lenders be able to maintain and manage their existing appraisal networks?

A: Yes, there are several software packages that enable lenders to maintain their existing networks while remaining in compliance with new regulations.

When looking at different software options, lenders should keep in mind that, for them to remain compliant, the software must allow the user to evaluate why an appraiser was selected, as well as monitor the appraiser's ongoing performance. Some AMCs are offering this type of software solution in addition to their traditional full-service AMC solution.

Q: Are AVMs still relevant?

A: AVMs are still an option. But as of April 1, an AVM alone is no longer enough to underwrite a property loan. Additional paperwork, such as

photos and a property-condition report, is required.

AVMs can still be used for smaller loans, such as lines of credit. In addition, AVMs are still a great tool to use when validating a property value before the loan process gets under way, or even as a comparison tool when reviewing the appraisal.

Q: Will appraisal prices go up?

A: It depends on the AMC, but the answer is probably yes. With the new regulations, AMCs and appraisers are incurring new expenses, most of which will probably be passed on to consumers. Here are some of the new costs involved:

- AMCs must pay to register in each state in which they do business;
- AMCs must pay to register each of their appraisers at the federal level;

■ Appraisers who do appraisals in federally related transactions must pay an annual fee;

■ AMCs will also be spending more on compliance; and

■ The educational and experience requirements of the state appraisal certification program mean the program will take appraisal trainees three to five years to get licensed, which will lower the number of appraisers available to perform work.

Q: How will appraisers be paid under the new guidelines?

A: While the Dodd-Frank Act requires that fees paid to appraisers be “reasonable and customary” for the specific market area, it does not set actual fees. As a result, some AMCs have set fee schedules that slash rates paid to appraisers, while continuing to charge lenders the full

amount. This approach often has a detrimental effect on the quality of appraisals.

It is in a lender’s best interest to make sure that its AMC pays appraisers a fair rate. Look for AMCs that negotiate fees on a per-appraiser basis, as this is a good sign that their appraisers get fair payment for their work.

Some AMCs that use fee schedules have tried to get around the “reasonable and customary” requirement by making appraisers sign the bottom of the fee schedule, agreeing that the fees are “reasonable and customary” when they are not. **SME**

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