



AMERICAN REPORTING COMPANY

## **NEW FANNIE/FREDDIE GUIDELINES ON APPRAISAL INDEPENDENCE**

Guidelines will be required for any loans **originated** as of May 1<sup>st</sup> 2009 and subsequently sold to Fannie Mae or Freddie Mac.

On March 3<sup>rd</sup> 2008 New York Attorney General Andrew Cuomo announced an agreement with Fannie Mae, Freddie Mac and the Office of Federal Housing Enterprise Oversight to establish a Home Valuation Code of Conduct (HVCC). HVCC demands significant changes to the real estate appraisal process for residential mortgage transactions. Effective May 1<sup>st</sup> 2009 Fannie Mae and Freddie Mac agreed not to buy loans unless banks, credit unions and direct mortgage lenders prove they ordered appraisals from independent parties who will provide objective valuations.

As a result of these new guidelines, documentation of the appraisal process is as critical as documentation of the loan process. Appraiser independence, compliance to USPAP standards, documentation of appraiser performance, and disclosure changes must now be evidenced and documented under HVCC.

***Below are the main guidelines described in HVCC, which ARC's current appraisal process conforms to -***

**Appraiser Independence** - ARC provides a process which automatically selects and assigns an appraisal based on past performance of appraisers. ARC communicates the order request through an engagement letter which is in line with the requirements set forth in HVCC. Each engagement letter is stored within each appraisal assignment. ARC maintains both an approved appraiser list and an ineligible appraiser list.

**Compliance to USPAP Standards** - is addressed by a comprehensive series of checks and balances within ARC's process. Each appraisal report ordered through ARC receives a USPAP compliant review which is an HVCC requirement. This review is a separate document generated by ARC which resides within the order file along with the appraisal report and engagement letter. ARC's staff reviewers provide an additional level of confidence by reviewing each appraisal, ensuring a quality product is delivered to our clients.

**Documentation of Appraiser Performance** - HVCC requires documentation of whether the appraiser meets the appropriate laws, regulations and performance criteria. ARC tracks appraiser performance at a transactional level, as well as through checklists, audits and periodic appraiser ratings. The appraiser's rating is adjusted based on appraiser performance.

**Appraisal Disclosure** - HVCC has two main disclosure requirements. First, Regulation B (CFR 202.14) requires the applicant (borrower) a "notice of right" to a copy of their appraisal. The HVCC requires the borrower (free of charge) to receive a copy of their appraisal regardless of notice. ARC provides a service that would send a copy of each appraisal to the borrower along with proper documentation. Secondly, HVCC requires written notice of messages directed to appraiser regarding each appraisal assignment to be maintained. This would include standard communication, substandard performance, documenting improper or unprofessional behavior, and violations to USPAP and state licensing standards.

**Appraisal Quality Control Testing** - HVCC requires that the lender shall quality control test a randomly selected 10 percent (or other bona fide statistically significant sample) of appraisals or valuations used by the lender in a lending decision. ARC provides desk and field appraisals as well as a findings report which is required by Fannie/Freddie for any adverse, negative or irregular findings through the review process.