

Six Unintended Consequences of the HVCC

Knowing what can go wrong could prevent implementation of a bad proposal

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The most difficult management tasks fall to the problem solvers. Executives called upon to fix what goes wrong are expected to be more than good managers. They must also predict what the most likely outcomes of their work will be. As systems have become more complex, this task has become much more difficult. Today, we are accustomed to dealing with unintended consequences, those negative outcomes that we were unable to predict.

When legislators and regulators are called upon to fix systems, this problem becomes more serious. Since these professionals rarely work in the fields in which they are applying corrective measures, they are much more likely to miss a likely outcome. In the case of the [Home Valuation Code of Conduct](#) (HVCC), we believe that we will see many unintended consequences that could, in total, be worse for everyone than not implementing HVCC at all.

In this short article, we outline six negative outcomes that we feel are very likely to occur, should the HVCC go into effect January 2009.

Undue influence on appraisals will increase. Vendor Management Companies (VMCs) and Appraisal Management Companies (AMCs) are less susceptible to pressure than other providers of appraisals, and actually mitigate lender pressure on appraisers by acting as true intermediaries between lenders and appraisers. Additionally, they provide support by protecting appraisers in their networks from manipulation or coercion. Statistical data based on appraiser surveys support these facts, and exclusion of VMCs and AMCs from the appraisal business would prevent appraisers from working through companies designed to protect their integrity and give greater control to those entities that are more likely to exert undue influence.

The likelihood of appropriate appraisal assignments, and thus the quality of appraisals, will decrease. VMCs and AMCs ensure that their networks include licensed, insured, experienced and qualified appraisers. They also ensure that each appraisal assignment is directed to an appraiser possessing the qualifications to perform an appraisal in the particular market and on the particular type of property transaction. Exclusion of VMCs and AMCs may lead to a greater percentage of more haphazard or even random assignments without consideration of individual appraiser qualifications, thereby threatening a decline in the number of quality appraisals.

Quality control will decline. VMCs and AMCs perform unbiased quality control reviews of all appraisals both before and after loan closing. They are typically familiar with the complex

federal and state laws and regulations that govern appraisals in the various states where they do business and are in a better position than lenders to ensure appraisers' compliance with them. Exclusion of VMCs and AMCs will leave the appraisal industry in the hands of entities that do not have the capability to achieve the same level of objectivity and stringency.

It will be more difficult to monitor appraisal activity. VMCs and AMCs have invested millions of dollars in technology and record keeping practices that make it substantially easier to monitor appraisal activity and identify undue influence on property valuations. Exclusion of VMCs and AMCs therefore will result in the availability of even less information.

The market's ability to satisfy appraisal demands will be strained and costs to consumers will increase. Due to their maintenance of advance technologies and efficiencies of scale, VMCs and AMCs are in a better position than other appraisal ordering channels to assure timely delivery of appraisals to consumers at reasonable prices. Their exclusion from the appraisal business would force smaller appraisal firms to assume their business portfolios (consisting of many millions of appraisals per year) and pass on the costs of doing so to consumers. That is, if such smaller providers have or can swiftly acquire the workforce, capital, and technology to cover the increase in workload. The exclusion of VMCs and AMCs also would result in increased costs to lenders, which would be forced to bring appraisal functions in-house, as well as increased costs to appraisers, who would be forced to assume responsibility for marketing and client management that VMCs/AMCs otherwise do for them. Lenders and appraisers in turn would pass on their increased costs to consumers, who would suffer higher prices for ultimately slower and lower quality services.

The safety and soundness of the GSEs will be further compromised. The exclusion of VMCs and AMCs from the appraisal business ultimately would jeopardize the GSEs' financial safety and soundness. For the reasons discussed above, their exclusion would increase the risk of undue influence on appraisers and thus inflated property valuations, decrease the likelihood of appropriate appraisal assignments and thus the likelihood of quality appraisals, and impede quality control and appraisal monitoring, thereby reducing the overall quality of appraisals and thus the value of the mortgage loans sold to the GSEs. These effects would negatively impact the GSEs' credit risks and thus undermine the credit risk management aspect of their financial safety and soundness.

It is not possible to create change without experiencing some negative consequences. There is no question that the current industry practices regarding collateral valuation for home mortgage lending must be changed. But implementing a change that will bring with it so many negative consequences seems unwise. The more time a professional has spent working in this industry, the less wise it will seem.