



STATE OF WASHINGTON  
DEPARTMENT OF LICENSING  
PO Box 9020, Olympia, Washington 98507-9020

The Honorable Rob McKenna  
Washington State Attorney General  
1125 Washington Street SE  
P.O. Box 40100  
Olympia, WA 98504-40100

April 29, 2008

Dear Mr. McKenna,

It is likely that you are aware of the recent settlement between OFHEO, Fannie Mae, Freddie Mac and the New York Attorney General Andrew Cuomo. A part of this agreement is the adoption of a new document known as the "Home Valuation Code of Conduct, or the HVCC.

It is our considered opinion that the HVCC does little to protect the consumer and/or the banking system and, in fact, serves to do significant harm to homeowners and appraisers across the nation. The HVCC is a document which appears to have been entered into quickly, without an appropriate study and comment period. This agreement requires that all new Fannie Mae and Freddie Mac loans conform to the new HVCC standards beginning January 1, 2008.

The Department of Licensing Appraiser Program, members of the Real Estate Appraiser Commission and other stakeholders are joining together to respectfully request that you reject any request to enter into this proposal on behalf of Washington State until further study is conducted.

Section IV of the HVCC seeks to end lender pressure on appraisers by creating a "firewall" between the lender and the individual appraiser. Under the new rules, home lenders will be prohibited from selecting appraisers; lenders will be prohibited from using their own staff appraisers to conduct appraisals; and, lenders will be banned from using appraisal management companies owned or controlled by the lender.

The agreement seeks to end personal contact between the lender and the appraiser, thereby eliminating lender pressure for higher appraised values. Instead, a "third party entity" will order appraisals on a randomized basis. Although the goal is laudable, and the idea is good in theory, we believe that this agreement does little to attain those goals.

The HVCC, as written, will result in most residential appraisals being ordered through “third party” appraisal management companies, a practice which can only result in creating a new layer of consumer cost and potential delay. Most appraisers are familiar with these AMC’s, who typically force appraiser fees down by taking a substantial percentage portion of the typical appraisal fee charged to the client. This practice generally results in a situation where the appraisers willing to conduct appraisals for the reduced fees are less qualified. Thus, the AMC’s serve to perpetuate a situation of “*appraisal by the lowest bidder*”. This practice will likely force many of the best appraisers out of business, something the appraisal profession can ill afford.

We believe that these negative, unintended consequences will seriously constrain the appraisal profession, resulting in harm to the public, and further damage to the nation’s banking system overall.

The Department of Licensing Appraiser Program, members of the Real Estate Appraiser Commission, and other stakeholders wish to state that we do not believe that the HVCC will have any positive effect on the integrity of the lending and appraisal process. Neither will it provide any meaningful protection to appraisers or homeowners. Thus, we have no confidence in the HVCC as written.

We ask you to immediately call for the amendment of the HVCC for the following reasons:

- This agreement was reached without an adequate public response and comment period allowing appraisers, lenders, regulators and homeowners to study the agreement and respond appropriately.
- The HVCC does little to solve the problem of unreliable appraisals and faulty home loans. However, the adoption of the HVCC by Fannie Mae and Freddie Mac may well give investors and the public a false sense of security in future home loans.
- The HVCC could undermine ongoing Congressional efforts to pass meaningful legislation aimed at halting inappropriate lender pressure on appraisers.
- We believe that appraiser independence is paramount to solving the current lending crisis. However, the HVCC will do little to insure this independence. It will likely result in further harm to the lending process by forcing all appraisal orders to be placed through appraisal management companies, with no assurance that experienced, qualified appraisers will be selected.

- The HVCC has no standards in place to adequately determine the qualifications of the appraisers chosen by the appraisal management companies. This lack of a mechanism for choosing appraisers based upon experience, qualifications and expertise will only result in lower quality, less reliable appraisals. Insuring that a qualified appraiser conducts the appraisal is the most important factor in obtaining an accurate appraisal. The HVCC has no safeguards in place to insure the selection of a qualified appraiser for each property.

We in Washington State are somewhat forward thinking in that we have established mandatory Appraiser Trainee registration and training procedures as well as the newly enacted Mortgage Originator Licensing. This is not true of all states. Enacting these requirements indicates that Washington State is one of the states leading the way to creating an environment of accurate appraisals and credible home lending by requiring lender licensing and education. The HVCC serves to curtail this progress.

We recognize that the mortgage industry is in crisis, but adding another layer of bureaucracy to the industry will not solve the problem, it will only create a larger problem by reducing the reliability of appraisals, slowing down the lending process and ultimately increasing the cost to the consumer.

The Washington Real Estate Appraiser Commission believes that there are other, more effective solutions than the HVCC as written, and that these solutions should be explored in a timely, open and inclusive fashion. Only a thoughtful and complete study of the problem can possibly result in increased appraiser competency and independence in the appraisal process.

Again, we respectfully request that you reject the HVCC as written, and that you support our position of no confidence in the HVCC.

Sincerely,



Cheryl K. Farivar, Chair  
Washington Real Estate Appraiser Commission



Ralph Birkedahl, Manager  
Washington Department of  
Licensing, Appraiser Program

CC: Home Valuation Code of Conduct Response  
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[efannie.com/go/appraisalcomment.jsp](http://efannie.com/go/appraisalcomment.jsp)