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**To:** Clients and Friends

**From:** David F. Dulock

**Subject:** New Appraiser Independence Requirements Replace HVCC –  
Fannie Mae Announcement SEL-2010-14

On October 15, 2010, Fannie Mae issued the above Announcement notifying its Sellers that appraisals conducted in connection with single-family mortgage loans (other than government insured or guaranteed loans) delivered to Fannie Mae, with application dates on or after October 15, 2010, must conform to the new Appraiser Independence Requirements (AIRs). In addition, the Announcement states that all conventional, single-family mortgage loans with application dates on or after May 1, 2009 must continue to comply with the Home Valuation Code of Conduct (HVCC) until November 1, 2010. This means that for the next two weeks the AIRs and the HVCC will overlap and on November 1, 2010, HVCC will no longer apply to loans with application dates on or after November 1, 2010.

The Announcement states that the AIRs contain no significant changes to core principles of the HVCC and incorporate language that clarify questions regarding implementation of the HVCC.

To aid you in understanding this change in appraiser requirements, we have attached the text of Announcement SEL-2010-14 (one page) and the Appraiser Independence Requirements (four pages). You may also access them at the following Fannie Mae web address: <https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/>

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*Attachments:* Fannie Mae Announcement SEL-2010-14  
Appraiser Independence Requirements

## **Appraiser Independence Requirements**

Fannie Mae has been working with the Federal Housing Finance Agency, Freddie Mac, and key industry participants to develop Appraiser Independence Requirements to replace the Home Valuation Code of Conduct (HVCC). The Appraiser Independence Requirements maintain the spirit and intent of the HVCC and continue to provide important protections for mortgage investors, home buyers, and the housing market.

The revised requirements pose no significant changes to core principles of the HVCC and incorporate language to clarify questions that arose in the implementation of the HVCC. Fannie Mae has also removed certain provisions from the updated requirements as they already exist elsewhere in the *Selling Guide*, such as the need for lender quality control testing for appraisals.

Fannie Mae is committed to supporting strong appraiser independence requirements and will continue to review the appraiser independence requirements to address market developments and regulatory actions taken pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which may include rules relating to conflicts of interests and fee disclosure by appraisal management companies. Fannie Mae may issue additional guidance in the future with respect to these issues and other aspects of the requirements.<sup>3</sup>

### **Lender Representation and Warranty**

The lender represents and warrants that any appraisal conducted in connection with a single-family mortgage loan (other than government-insured and -guaranteed loans) delivered to Fannie Mae, with an application date on or after the date of this Announcement, conforms to the Appraiser Independence Requirements.

In addition, all conventional, single-family mortgage loans with application dates on or after May 1, 2009 must comply with the HVCC until the earlier of the release of the Interim Final Rules by the Federal Reserve as required by the Dodd-Frank Act or November 1, 2010.

### **Effective Date**

This Announcement is effective immediately.

The Appraiser Independence Requirements are posted on eFannieMae.com. The *Selling Guide* will be updated to incorporate these policy changes at a future date.

Lenders who have questions about this Announcement should contact their Customer Account Team.

John S. Forlines  
Vice President  
Single-Family Chief Risk Officer

# Appraiser Independence Requirements

## I. Appraiser Independence Safeguards

- A. An “appraiser” must be, at a minimum, licensed or certified by the State in which the property to be appraised is located.
  
- B. No employee, director, officer, or agent of the Seller, or any other third party acting as joint venture partner, independent contractor, appraisal company, appraisal management company, or partner on behalf of the Seller, shall influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner including but not limited to:
  - (1) Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
  - (2) Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser;
  - (3) Expressly or impliedly promising future business, promotions, or increased compensation for an appraiser;
  - (4) Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;
  - (5) Requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser’s completion of an appraisal report;
  - (6) Providing to an appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the Borrower, except that a copy of the sales contract for purchase transactions may be provided;
  - (7) Providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits;
  - (8) Removing an appraiser from a list of qualified appraisers, or adding an appraiser to an exclusionary list of disapproved appraisers, in connection with the influencing or attempting to influence an appraisal as described in Paragraph B above (this prohibition does not preclude the management of appraiser lists for bona fide administrative or quality-control reasons based on written policy); and

(9) Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).

## **II. Acceptability of Subsequent Appraisals**

A Seller must not order, obtain, use, or pay for a second or subsequent appraisal in connection with a Mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the Mortgage file, or (ii) such appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines, and so long as the Seller adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or (iii) a second appraisal is required by law.

## **III. Borrower Receipt of Appraisal**

The Seller shall ensure that the Borrower is provided a copy of any appraisal report concerning the Borrower's subject property promptly upon completion at no additional cost to the Borrower, and in any event no less than three days prior to the closing of the Mortgage. The Borrower may waive this three-day requirement if such waiver is obtained at least three days prior to the closing of the Mortgage. The Seller may provide the Borrower at closing, a revised copy of an appraisal and information as to the nature of any revisions, so long as the revisions had no impact on value.

The Seller may require the Borrower to reimburse the Seller for the cost of the appraisal.

## **IV. Appraiser Engagement**

- A. The Seller or any third party specifically authorized by the Seller (including, but not limited to, appraisal companies, appraisal management companies, and Correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. The Seller will not accept any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including Mortgage Brokers and real estate agents).
- B. There must be separation of a Seller's sales or Mortgage production functions and appraisal functions. An employee of the Seller in the sales or Mortgage production function shall have no involvement in the operations of the appraisal function.

(1) Certain parties are prohibited from:

- (a) Selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved or forbidden to perform appraisals for the Seller; and

- (b) Having any substantive communications with an appraiser or appraisal management company relating to or having an impact on valuation, including ordering or managing an appraisal assignment.

These parties are:

- (i) All members of the Seller's Mortgage production staff;
- (ii) Any person who is compensated on a commission basis upon the successful completion of a Mortgage; and
- (iii) Any person whose immediate supervisor is not independent of the Mortgage production staff and process.

Seller personnel not described in Section IV.B (1)(i) through (iii) above are not subject to the restrictions described above, and may engage in communications with an appraiser. In addition, any party, including the parties described in Section IV.B (1)(i) through (iii) above, may request that an appraiser provide additional information or explanation about the basis for a valuation, or correct objective factual errors in an appraisal report.

- (2) If absolute lines of independence cannot be achieved as a result of the Seller's small size and limited staff, the Seller must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its Mortgage production process.

C. Any employee of the Seller (or if the Seller retains an appraisal company or appraisal management company, any employee of that company) tasked with selecting appraisers for an approved panel or substantive appraisal review must be:

- (1) Appropriately trained and qualified in the area of real estate appraisals; and
- (2) In the case of an employee of the Seller, wholly independent of the Mortgage production staff and process.

## **V. Use of Appraisal Reports by In-House Appraisers or Affiliated Appraisers**

A. In underwriting a Mortgage, the Seller may use an appraisal report:

- (1) Prepared by an appraiser employed by:
  - (a) The Seller;
  - (b) An affiliate of the Seller;
  - (c) An entity that is owned, in whole or in part, by the Seller; or
  - (d) An entity that owns, in whole or in part, the Seller.

- (2) Prepared by an appraiser employed, engaged as an independent contractor, or otherwise retained by an appraisal company or any appraisal management company affiliated with, or that owns or is owned, in whole or in part, by the Seller or an affiliate of the Seller, provided that the Seller complies with the provisions of these Appraiser Independence Requirements.

B. The Seller also may use in-house staff appraisers to:

- (1) Order appraisals;
- (2) Conduct appraisal reviews or other quality control, whether pre-funding or post-funding;
- (3) Develop, deploy, or use internal Automated Valuation Models; or
- (4) Prepare appraisals in connection with transactions other than Mortgage origination transactions (e.g., Mortgage workouts), if the Seller complies with the provisions of these Appraiser Independence Requirements.

## **VI. Transfer of Appraisals**

A Seller may deliver to Fannie Mae a conventional Mortgage with an appraisal prepared by an appraiser selected by another lender, including where a Mortgage Broker has facilitated the Mortgage application (but not ordered the appraisal). The Seller delivering the loan to Fannie Mae makes all representations and warranties to Fannie Mae regarding the appraisal set forth in the Mortgage Selling and Servicing Contract, the Selling Guide and related documents, including the representation that the appraisal is obtained in a manner consistent with these Appraiser Independence Requirements.

## **VII. Referrals of Appraisal Misconduct Reports**

Any Seller that has a reasonable basis to believe an appraiser or appraisal management company is violating applicable laws, or is otherwise engaging in unethical conduct, shall promptly refer the matter to the applicable State appraiser certifying and licensing agency or other relevant regulatory bodies.

## **VIII. Compliance**

Sellers must adopt written policies and procedures implementing these Appraiser Independence Requirements, including, but not limited to, adequate training and disciplinary rules on appraiser independence, including the principles detailed in Section I. Additionally, Sellers must ensure that any third parties, such as appraisal management companies or Correspondent lenders, used in conjunction with the sale and delivery of a Mortgage to Fannie Mae are also in compliance with these Appraiser Independence Requirements.