



# Home Valuation Code of Conduct

## ➤ Enhancing the Independence and Integrity of the Appraisal Process

### Background

The Home Valuation Code of Conduct (the Code) is the result of a joint agreement made in March 2008 between Freddie Mac, the Federal Housing Finance Agency (FHFA), and the New York State Attorney General to enhance the independence and accuracy of the appraisal process.

As part of this agreement, we held an open comment period from March 14 through April 30, 2008, to solicit comments on the Code from Sellers and other industry participants regarding operational challenges, clarification of terms, and unintended consequences of the Code. All feedback was provided to FHFA and the New York State Attorney General and was used to develop the revised Code.

The revised Code has been added to the Guide as Exhibit 31, *Home Valuation Code of Conduct*. The revised Code provides enhanced protections for homebuyers, mortgage investors, and the housing market.

### Effective Dates

Effective May 1, 2009, Freddie Mac will no longer purchase mortgages from Sellers that do not adopt the Code with respect to single-family mortgages delivered to Freddie Mac.

Also, effective for single-family mortgages with loan application dates on or after May 1, 2009, Freddie Mac Seller/Service providers must represent and warrant that the appraisal reports are obtained in a manner consistent with the Code.

The sale of the following mortgages is exempt from the Code: FHA/VA, Section 184 Native American, and Section 502 Guaranteed Rural Housing.

### Lender Requirements

The revised Code:

- Prohibits lenders and third parties from influencing or attempting to influence the development, result, or review of an appraisal report.
- Requires lenders to ensure that borrowers are provided a copy of the appraisal report no less than three business days prior to closing, unless the borrower waives the requirement. The lender may require the borrower to reimburse it for the cost of the appraisal, but the lender must provide a copy of the appraisal report to the borrower at no additional cost.
- Requires any third party specifically authorized to perform certain actions on behalf of the Seller to be in compliance with the Code.
- Requires lenders or third parties authorized by lenders to be responsible for selecting, retaining, and providing for payment of all compensation to appraisers. The Code does not allow any other third parties to perform these activities.
- A lender, in connection with the loan being originated, may accept an appraisal report prepared by an appraiser for a different lender provided that the lender obtains written assurances from the other lender that it has adopted the Code and determines that such appraisal conforms to appraisal requirements and is otherwise acceptable.

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- Requires absolute independence within a lender's organization between the appraisal function and loan production and limits communication with the appraiser.
  - A lender's loan production staff is prohibited from being involved in the selection of the appraiser, or having any substantive communications with an appraiser or appraisal management company about valuation.
  - The loan production staff consists of those responsible for generating loan volume or approving loans, as well as their subordinates. This includes an employee whose compensation is based on loan volume or the closing of a loan transaction. Employees responsible for the credit administration function or credit risk management are not considered loan production staff.
- The lender's use of an appraisal report prepared by an in-house appraiser or an affiliate in underwriting a loan must meet certain conditions including:
  - The appraiser, or the company for which the appraiser works, reports to a function of the lender independent of sales or loan production, and sales and loan production staff have no involvement in the operation of appraisal functions or selection of the appraiser.
  - Sales and loan production staff are not allowed to have substantive communications with in-house appraisers relating to or having an impact on valuation and do not provide the appraiser any estimated or target value of the property or loan amount (except a copy of the purchase contract may be provided.)
  - The appraiser's compensation does not depend on the final estimate of value or the closing of the loan.
- The lender has written policies and procedures implementing the Code and has mechanisms to report and discipline any violators.
- The lender's appraisal functions are either annually audited by an external auditor or are subject to federal or state regulatory examination, and the lender provides to Freddie Mac any adverse audit findings indicating Code non-compliance.
- Allows lenders to also use in-house staff appraisers to: 1) order appraisals; 2) conduct appraisal reviews and other quality control functions; 3) develop, deploy, or use internal automated valuation models; and 4) prepare appraisals in connection with transactions other than mortgage origination transactions, such as workouts, if the lender complies with the terms of the Code.
- Lenders may use appraisal reports prepared by other entities engaged by the lender to provide other settlement services for the same transaction, as long as certain conditions are met.
- Requires lenders to quality control test a randomly selected 10 percent (or other bona fide statistically significant percentage) sample of appraisal reports or valuations used by the lender, and report any adverse findings, including non-compliance of the Code, to Freddie Mac with respect to loans sold to us.
- Allows Sellers with an asset size of less than \$250 million to be considered a small bank as defined in 12 U.S.C. Section 2908 and exempting them from the requirements in Section IV of the Code. Sellers that qualify for this exemption must represent and warrant that they have in place appropriate policies and procedures, as well as adequate controls to prevent undue appraiser influence.

### **Independent Valuation Protection Institute**

We will work with the New York State Attorney General, FHFA, Fannie Mae and other mortgage market participants regarding the Independent Valuation Protection Institute (Institute). The Institute has not yet been established, and therefore, the provisions regarding the Institute are not effective.

### ***Learn more about the Home Valuation Code of Conduct:***

- Call (800) FREDDIE
- Visit [www.FreddieMac.com/singlefamily/home\\_valuation.html](http://www.FreddieMac.com/singlefamily/home_valuation.html)