

## Bob Murphy of ValuAmerica Talks Home Value Code of Conduct

### **Sorohan, Mike**

The **Home Valuation Code of Conduct** goes into effect **May 1**. The HVCC is the result of a joint agreement among **Fannie Mae, Freddie Mac, the Federal Housing Finance Agency** and **New York State** Attorney General **Andrew Cuomo** to monitor and enforce independence and accuracy of the appraisal process, designed to provide added protections for homebuyers, mortgage investors and the housing market.

Effective May 1, Freddie Mac and Fannie Mae will no longer purchase mortgages from sellers that do not adopt the Code with respect to single-family mortgages that are delivered to Freddie Mac. Additionally, effective for single-family mortgages with loan application dates on or after May 1, GSE sellers/servicers must represent and warrant that the appraisal report is obtained in a manner consistent with the Code.

With the Home Valuation Code of Conduct going into effect in just a couple of weeks, **MBA NewsLink** spoke with **Bob Murphy**, chairman and founder of **ValuAmerica**, Pittsburgh, Pa. ValuAmerica provides banks and financial institutions access to the title insurance and appraisal-processing business through a national network of independent appraisers.

A veteran of the industry, Murphy founded **Lenders Services Inc.** back in the 1970s before selling it to Prudential Insurance. He founded ValuAmerica in 1996.

### **MBA NEWSLINK: How did ValuAmerica come about?**

**BOB MURPHY:** When my contract to non-compete with Lender Services ended, the idea came around to have state-of-the-art technology and do away with all the legacy ideas that existed with lender technology platforms. Over the past 12 years the ideas have been refined. Today, it enables companies to work with a variety of technology vendors. We provide systems to lenders to managed vendors and compliance issues.

Our business model is the technology. We're also an appraisal management company; the lender can use us to manage appraisals or as a separate service.

### **NEWSLINK: The Home Valuation Code of Conduct goes into effect on May 1. Is the mortgage industry ready for this?**

**MURPHY:** I'm not sure whether the mortgage industry is ready for it in the sense that I'm not sure that they buy into it. The compliance industry is ready. From our side of it, this way of managing appraisers is not new; it's been around for 25 years or so, so it's in place; it works like a clock. We manage vendors, we do quality control; it comes back to us.

### **NEWSLINK: Provisions of the HVCC suggest that it is no longer "business as usual" when it comes to appraisals. Are there any key provisions of the HVCC of which lenders need to be aware?**

**MURPHY:** What it's trying to do is prevent undue influence on the appraisals process and separate. You also have to document what you have to do.

If I were answering this question five years ago it would be a different answer. Five years ago, lenders were more interested in volume. In today's market, the new Code will be a benefit rather than a burden, because it will mean that lenders are getting a fair appraisal.

### **NEWSLINK: What are some immediate steps lenders and servicers can take to ensure that they are in compliance with the HVCC?**

**MURPHY:** They should decide which way they want to go: do they want their quality control department do to this, or do they want an appraisal management company to take care of it. They should be on it by this time.

**NEWSLINK:** The HVCC agreement is among Fannie Mae, Freddie Mac, FHFA and the New York Attorney General's office, but it clearly has national implications. Do you think it will become a nationwide standard?

**MURPHY:** If Fannie Mae and Freddie Mac require it for loans to be sold, eventually it will be required across the board. It makes sense for them to have one standard instead of two.

**NEWSLINK:** Valuations are called both an art and a science. Why must it be both?

**MURPHY:** I would use the term objective rather than artistic. We have a panel of thousands of appraisers. They use an algorithm that monitors their quality, service and workload. When that appraisal is completed, it's done according to state standards and local standards. It might not be exactly what the borrower wants, but it will be accurate.

We never comment on value, because we don't know anything about it; it's done according to the standards they apply. It's up to the appraiser to determine the value, not subject to undue influence. That's what we bring to the table—we bring subjectivity and objectivity to the process.

**NEWSLINK:** So you see this as a welcome development?

**MURPHY:** It's certainly welcome—and needed. This whole appraisal management process started with LSI when a client came to us and asked if we could help. They felt their appraisals were being influenced. "I have a customer, we're trying to make them a \$200,000 loan, but we think it's worth \$350,000." The appraiser knew he had to go appraise that property at \$350,000, or he wasn't going to get future work.

Part of the problem is that when the appraiser has a copy of the sales contract, he knew what he had to come in with. We hear "code words" from the broker: "He came too far;" "we think there are better comps out there;" "the appraiser is not familiar with the neighborhood." These are all code words for "we think the appraisal is too low."

**NEWSLINK:** Who uses these "code words?"

**MURPHY:** A lender/broker/commissioned loan officer. When they would receive an appraisal back that they didn't like, they were using the code words. They would have a way of saying that they wanted a new appraisal.

**NEWSLINK:** What do you do to ensure your appraisers are compliant?

**MURPHY:** Over time, we recruit appraisers for our clients. We make sure they are licensed and certified—they must give a copy of license and professional liability insurance. Second, we investigate their firm to see what kind of appraisals they can do. We ask for past appraisals. Once we're satisfied that they can perform, we put them in the system.

When we get an appraisal order, we use an algorithm that matches the appropriate appraiser with the criteria. After they return the work to us, we grade it on quality—if it's 95 percent or higher we can use them again, if not, we do not give them work until they meet those standards.

**NEWSLINK:** Do you see the current environment as an opportunity for you and your company?

**MURPHY:** We do. The industry of managing appraisers has been in place for a couple of decades, but hasn't been as widely used as we like to see it. People like to use an appraiser they are familiar with. Now that the criteria have changed, it's better for us. It's also better for the lenders, because the appraisals they get are going to be substantial and of better quality. And it's a good thing for consumers, because if properties don't appraise for what they're applying for, they won't get underwater or over their head.