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A Maine residential appraiser's perspective - by Russell Barrows

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Year In-Review: 2020 has certainly been a dynamically challenging year, if not the most challenging year since the beginning of the “mortgage meltdown” time and likely even more than that! The year began with a continuation of declining interest rate from 2019. This resulted in there being no typical “seasonal” slowdown which traditionally starts sometime between Thanksgiving and Christmas through the end of February/early March. There simply was no let-up and most Maine appraisers, particularly those in Southern Maine, were operating at or near full capacity with steadily increasing demand. So, in addition to a greater than typical level of demand, a little situation called the Novel Corona Virus, or COVID-19 started to make its presence. This uncertainty roiled the financial markets with the bottom falling out of the bond market (which most strongly influences mortgage rates) leading to a plunge in interest rates; caused massive layoffs/increase in the unemployment rate and multiple other effects. Restrictions on if, or how properties would be marketed, and related protocols were gradually developed. The appraisal profession was deemed to be an Essential Service which both insulated us from this uncertainty as well as placed additional stress due to the existing high level of demand. This uncertainty lead to far fewer properties being marketed/listed, minimal new construction activity, and a rapid reanalysis of what property attributes market participants were seeking if, when or how one could participate in future residential real estate activities. There was a restructuring and education (or re-education) associated with revised, COVID-19 “Scope of Work.” The secondary mortgage market, lenders and appraisers all had to adjust to a significant increase in exterior and or desktop types of assignments. I know that there was some push-back from many appraisers, as they are worried about increased liability associated with decreased property specific data. For some appraisers who already had experience and comfort in this process, these types of assignments simply increase in volume. For others, it had an adverse impact on their processes until they determined how to incorporate these changes in their practices. It required a type of evolution that some appraisers have been known to resist.

Market related uncertainties started fading in June. Homeowners with stable income and equity positions continued to take advantage of continuously declining interest rates and transitioned to

shorter term mortgages or tapped into equity for a variety of reasons. The upshot continued to be steadily increasing demand. Sales activity largely morphed into two separate segments. Segment #1's participants tended to have very low down-payment / equity positions, typically FHA or other transactions with less than 10% down. Segment #2's participants were "cash" or provided substantially significant equity positions that mortgage loan appraisal waivers were granted. This latter segment also appeared to "skew" some segments. Appraisal waivers obviously removed some demand pressure. Cash transactions, however, often resulted in subsequent "refinance" after the fact, so there are additional appraisals to be completed. Anecdotal information from lenders indicates that the largest wave of refinances appear to have passed, but that, given the continued favorable interest rate environment, there should still be steady purchase and refinance activity for the foreseeable future. We have seen a significant increase in second home activity as well as some people moving in "from away", as their own work location requirements have changed. These dynamics have had a profound impact on many York County (southern-most Maine) and Greater Portland locations and sub-markets.

Fallacy of the Residential Appraiser Shortage: As noted, we have been experiencing unprecedented demand for appraisal services throughout the year. This has resulted in what some are calling an appraiser shortage. Lenders and AMC's have legitimately struggled to place assignments, particularly in more remote locations, or for more challenging/complex properties.

Like many lenders and AMC's, appraisers often "tier," or rate their clients.

It could be in the location of assignments, type / complexity, fee schedule, timeliness of payment, types of revision/modification or similar requests or a variety of other criteria. In the end, it boils down to individual business decisions. What some consumers of appraisal services have failed to realize, however, is basic supply and demand. Appraisal fees have legitimately increased, as up until recently, appraisal fees have not kept up with the combination of continued "Scope" increase and inflation. Some lenders and AMC's have utilized this as an opportunity to differentiate themselves from their competition by recognizing that turn-time / delivery dates and fees need to have greater flexibility. These tend to be clients that have greater success in placing assignments.

Some lenders / AMC's have yet to adjust and adapt. It is those users who have not adapted that appear to be experiencing greater challenges in placing assignments. TRID pricing is a real part of the process that appraisers should have some manner of basic understanding and managing this can best be by developing client / appraiser relationships. Still, we regularly receive inquiries for the same properties over many days, often extending to many weeks. Sometimes, we'll provide an "accept w/ conditions" that usually offer fee and or turn-time / delivery date options. The two most common reasons for outright decline are for fee and delivery dates. These are based on prior experiences with specific requesting entities (be they lender or AMC). We have learned which clients generally consider conditions and which do not. Other frequent reasons are often for distance and / or subject property characteristics. There are many times, however, that we'll simply decline due to offered fee, indicated delivery, as experience has shown that these are not really negotiable. A weekly occurrence is the "we need a hero" request. These are often on properties that we had previously provided some manner of reply. If our fee and / or turn-time offer two weeks prior was not

acceptable, why would it be acceptable now. Additionally, because two weeks have elapsed, that prior estimated delivery date is now no longer possible. It is challenging to understand how the borrower / consumer benefits from this process.

It is also important to understand that lending assignments are not the only users of appraisal services. We complete steady assignments for litigation, mediation, estate planning, tax planning and a variety of other reasons. Appraisal service differentiation and specialization are likely to be more important parts of the appraisal industry.

In closing, I would like to extend my most sincere appreciation and thanks to the combined efforts from the appraisers and staff that have made 2020 the most successful year in Dirigo Valuation's short history.

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