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AMCs & the dumbing down of the appraisal profession

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On December 22nd the Home Valuation Code of Conduct was finalized and released by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the attorney general of N.Y. The code, known as HVCC, is to become effective May 1st. First announced in March 2008, the code was developed to improve appraisal quality and protect consumers. One of the goals of the code is to promote appraiser independence by eliminating appraisal pressure. Like many regulations generated with the best of intentions, the unintended consequences of the HVCC may actually decrease appraisal quality and continue to harm consumers and the overall economy.

According to HVCC, mortgage brokers will be prohibited from selecting appraisers and lenders will be prohibited from using "in-house" staff appraisers to conduct initial appraisals. While these prohibitions definitely have merit, the unintended consequence is that mortgage brokers and lenders will turn to appraisal management companies to manage the appraisal process. Unfortunately, appraisal management companies or AMCs are totally unregulated. In other words, there is no regulation or regulatory entity to oversee the operations of AMCs.

While some AMCs are well run, many others are not. The last several years have witnessed the proliferation of appraisal management companies, all of which are vying against each other to capture market share and to maintain profitability. As such, the AMCs are very price competitive with each other.

For discussion sake, let us say that a typical appraisal fee for a single-family residence is \$350. In order to capture market share, an AMC may offer its services for \$345. As the low bidder this AMC will obtain the contract to provide the appraisal to the mortgage broker or lender. The AMC will then contact numerous appraisers and dictate what the appraisal fee will be, usually about 50% of the fee the AMC receives or \$175. In addition, many of the AMCs also dictate the turnaround time, usually 24 to 48 hours. The appraiser willing to accept the stated fee and turnaround time is awarded the assignment.

Timing and fee take precedence over quality of appraisal. In discussions with other appraisers as well as my own experience, the time needed to conduct a thorough single-family residential appraisal is between five and eight hours. At a fee of \$175, the hourly fee is between \$21.88 to \$35, assuming the entire fee is paid to the appraiser. If the appraiser works in a fee split shop, the actual hourly fee is as little as \$10.94 to \$17.50. From that, subtract expenses such as mileage and errors and omissions insurance to name a few, and the fee is totally inadequate for a professional.

If the subject property of the appraisal is at all unique in the marketplace and the appraiser clearly (and correctly) states this in the appraisal, the AMC will question the appraiser and ask for additional supporting documentation which can consume several more hours of work for no additional compensation. In addition, there are no regulations that prohibit the AMC from pressuring the

appraiser to alter his or her appraisal.

For the most part only inexperienced, unqualified appraisers would be willing to work for such low fees and unrealistic turnaround times. This situation clearly negates the intent of the HVCC. Hopefully, congress and the other powers that be will recognize the situation and act appropriately to safeguard the consumer and the overall economy.

Fortunately, the Washington, D.C. office of the Appraisal Institute is sounding the alarm. A number of states recognize the problem and are implementing AMC regulations. Model AMC regulatory legislation is available on the Appraisal Institute Website at www.appraisalinstitute.org.

Patricia Amidon is principal at Amidon Appraisal, Portland, Me.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540