

The AMC Value Proposition in 15 Sound Bites

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Opinions abound about the value that appraisal management companies add to the mortgage lending transaction. Judging from the 2007 October Research National Appraisal Survey, the consensus seems to be that our industry brings no value at all. Among the most pervasive criticisms include that they don't pay enough, demand unrealistic turnaround times, and split appraiser fees while bringing nothing of value to the transaction.

A wise man once said that a man can do nothing better than to eat and drink and find satisfaction in his work. And yet if the work of appraisal management has no value then how can it have any meaning? And if lacks meaning how can those who make this their careers find satisfaction in their work? If Solomon is right and all we have is our work, and if the critics are right that our work has no value, then it looks like all we have left to do is eat and drink... a lot.

But hold on. Because AMCs do add value, great value, to mortgage lenders and real estate appraisers alike. Here's why.

The World is Changing

Forty years ago, most mortgages were originated by the savings & loan industry. A person going for a loan would find the best interest rates listed in the local newspaper, put the family in the car and drive to the local branch office, take a seat across the desk from a loan officer, fill out an application, and wait. Today, most mortgages are originated by a handful of lenders, the top 25 of which originate about 75% of all loans through direct, wholesale, and broker channels. A loan applicant today searches out the best rates via the Internet, fills out a mortgage application online, corresponds with the loan officer, underwriter, and others via email or text messaging, and often closes the loan within a week or so.

A certain segment of the top lenders acquire business comes from direct lending channels. These lenders typically maintain a robust interactive websites to stay in touch with customers, park and trade documents, update statuses, and much more. They also maintain centralized processing facilities for the sake of convenience, scalability, risk mitigation, and customer service. It is these clients, the centralized processing facilities (doing thousands of loans per day in some cases) that the appraisal management industry covets. These are also the clients that appraisers are challenged to efficiently market to, acquire, and sustain longstanding relationships with.

Of the vast and numerous technological, economic, and social factors that have evolved over the years, I believe there are five (5) that stand out as being the indisputable factors underlying the

growth of the AMC industry on the mortgage lending landscape. Below are the factors upon which I base my assessment of the appraisal management industry value proposition.

Five Indisputable Factors Underlying AMC Growth

1. The mortgage lending industry is consolidating
2. Competition, productivity, and other economic factors are exerting downward price pressure on virtually every mortgage settlement service
3. Lenders continue to look for alternative products and services to (further) drive down the costs associated with mortgage loans
4. Technology is breaking down the barriers to interstate and internet-based mortgage lending
5. Transactional transparency among trading partners, codification and automation of routine processes, and advanced, scalable technology, reduces overall operational, strategic, reporting, and compliance risks associated with third-party outsourcing

I've had countless arguments with critics about the value AMCs bring to the mortgage lender. I've had even more arguments with appraisers about the value AMCs bring to appraisers. I have no doubt that the list of fifteen so-called "value propositions" will stir great passions. That's fair. And yet, in disputing any one -- or rejecting every one -- of these value propositions, one needs to be mindful of the five indisputable factors above, as they directly correlate.

The AMC Value Proposition

I have written often about value propositions. In fact, much of my work as an independent consultant involves helping my clients to communicate the self-serving benefits (to the client) that their organization brings to the table. A value proposition is something an organization does, produces, arranges, or otherwise that in some combination: a) improves productivity, b) reduces costs, c) provides competitive advantage, and-or d) generates a return of and (hopefully) on the customer's investment. It's easier said than done though.

I often hear, "Our people are better" or "We offer faster service" or "Our quality is first rate." All good stuff; and has the makings of a value proposition, as long as the competition doesn't say the same thing. In the list below, I attempt to present fifteen AMC industry value propositions in terms of productivity, lower cost, competitive advantage, and ROI.

1. AMCs maintain inside and outside sales forces, interactive websites, marketing departments, and client relations teams that are assigned specific client account responsibilities. AMCs take responsibility for client relationship management (CRM) and the complex transaction management systems technology necessary to service today's regional and national lenders. AMCs participate in weekly client conference calls with clients to review service and quality performance, technology needs and enhancements, goals and objectives. Appraisers benefit from the integrated approach AMCs take to attract, secure, and service regional and national lender clients that individual appraisers are increasingly hard pressed to secure on their own. As the mortgage lending continues to evolve from the local S&L and branch loan office lending model to a centralized regional or national direct lending platform, AMCs will continue to grow.

Appraisers who work with AMC's grow and benefit from the integrated AMC-lender relationship; those who choose not to work with AMC's do not.

2. Mortgage lenders assume significant operational, strategic, reporting, and compliance risk in any outsourcing relationship. Therefore, lenders benefit by laying off, eliminating, or otherwise mitigating some or all of these risks. More and more lenders issue Requests for Proposals (RFPs) to prospective vendors and require vendors to sign and adhere to detailed Service Level Agreements (SLAs). Few independent appraisers are strategically or operationally capable of crafting winning RFPs; few have the resources or flexibility required to adhere to detailed service level agreements. AMC's routinely engage in the request for proposal process and manage the demanding qualitative and quantitative contractual specifications in even the most basic service level agreement. AMC appraisers benefit by ceding primary responsibility for responding to requests for proposals, as well as managing SLAs, fee schedules, industry and client-specific standards, guidelines and special instructions to their appraisal management company partner(s).

3. The AMC industry was founded in the late 1950's on the lending industry's growing need for consistency and uniformity of reporting, quality, and service across multiple jurisdictions. Throughout the years, the mortgage lending industry (along with virtually every other industry) has seen the positive relationship between consistently developed, reported, and delivered products and services, and increased productivity and lower overall operating costs. Lenders, particularly those with centralized processing facilities, are challenged to deliver consistently high quality loan originations and best-in-class customer service across the country without the benefit of professionally managed vendor management and appraisal management company partners. VMCs/AMCs oversee appraisal, title, closing, funding and recording operations on the client's behalf by monitoring fee panels of independent service providers, educating appraisers and others on changes in industry- and client-specific standards and guidelines, and performing accounts payable and accounts receivable functions. They also keep the vendor and client at arms-length to assure independence.

4. AMC's manage the pipeline of appraisals, monitor appraisers' work in progress (WIP) and adjust daily and weekly order assignments to maximize appraiser productivity, reduce order volume fluctuations, and improve appraiser performance. AMC's build robust reporting capabilities into their transaction management systems that enable clients to see the real-time performance for each appraiser in the network. They provide this feedback with the appraiser for performance improvement purposes.

5. AMC's hire and extensively train professional operations and quality control managers and problem solvers to quickly address exceptions to the normal flow of orders. Between 10-25 percent of all orders encounter some type of problem that needs to be resolved. This includes rescheduling on-site inspections, working through production delays, recruiting appraisers in areas lacking coverage, intersession by realtors and other parties to the transaction, and other hurdles that impede smooth work flow. AMC's act as the primary facilitators in resolving these delays freeing the appraiser to focus on revenue-generating appraisal development and reporting activities.

6. AMC professionals mediate market value disputes and take on the lead role in resolving client disputes concerning market values, work product, and appraiser performance.

7. AMCs provide pre-delivery quality control (automated and-or administrative review) that benefits the appraiser by assuring that each appraisal report gets "another set of eyes" before delivery to the client.

8. AMCs invest extensively in electronic interfaces with numerous portals, a huge benefit to appraisers that assures them of smooth work flows, delivery confirmation, and report delivery in whatever format a particular client demands (Website, email PDF attachment, fax, EDI, etc.). Moreover, appraisers benefit by avoiding the sunk-costs involved in establishing, maintaining and upgrading electronic interfaces by using the delivery tools developed by their AMC partners.

9. AMCs take responsibility for accounts payable and accounts receivable. Moreover, AMCs prepay appraiser fees before receiving the money from lender-clients (which often arrives 30-90 days later). AMCs also take responsibility for collection of fees due from the client. AMCs are in a far better position than individual appraisers to collect fees that a client refuses to pay when a deal doesn't close.

10. AMCs act as a buffer between the lender and appraiser taking the "pressure for a value" almost off the table.

11. AMCs keep their fee panel appraisers abreast of current market changes as well as lender specific changes or interpretations. Centralized loan production teams often adapt their requirements over time in response to issues that arise from time to time. The rules also change as underwriters turn over and new underwriters bring past employers' standards and guidelines along with them. Lenders often do not have a centralized repository that individual appraisers can tap to quickly adapt to changes in the rulebook. AMCs can, in part, because lender changes are captured and communicated system wide through hard coded and onscreen instructions.

12. AMCs enable appraisers to participate in the one-stop-shopping model and provide instant internet connectivity to the AMC and client that more and more lenders demand. Moreover, AMCs monitor product trends in the mortgage industry and are often "first adopters" of new client products and methods.

13. AMCs provide warranties and high level E&O insurance that lender-clients demand as recourse for losses due to appraisal deficiencies (or issues not directly related to the appraisal but are blamed on the appraisal/appraiser to justify a buy-back demand).

14. AMCs provide employment opportunities for thousands of staff appraisers, chief appraisers, review appraisers, and quality control appraisers. Some of these appraisers are involved in technology and product development for initiatives with national implications.

15. Finally, AMCs are a microcosm of a growing school of economics that argues that there is an inverse relationship between the number of vendors under management and number employees needed to oversee vendor operations. In other words, a client that manages say 4-6 AMC

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relationships requires fewer FTEs (full-time employee equivalents) than would be necessary to manage a 5,000 appraiser fee panel. As this trend continues, more and more lenders will begin to realize the benefit of having smaller, more versatile, panels of specialists. Appraisers that become part of an AMC panel benefit by catching the wave in this trend. For others it may be too late.

Conclusion

Appraisers may not like it that AMCs have become such a large part of the competitive landscape, and may wish it was otherwise. They may see AMCs as a sea change and a threat to the appraisal profession. However, more and more lenders are migrating toward AMCs for the reasons described here in, among others, and the growth trend for the industry is unlikely to abate. Therefore it benefits appraisers to be part of this same model.