

Appraisal Buzz Interview with (Appraiser) Fred Holtsberry

By Joan Trice

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Fred Holtsberry is the owner of Mid-Ohio Appraisal Services, a small appraisal firm in the central-Ohio region.

BUZZ: Fred, as an appraiser, tell me what negative impact HVCC has had on your business?

The only noticeable impact of the HVCC, thus far, has been a significant increase in the number of solicitations to join the rosters of Appraisal Management Companies (AMCs). Since our best clients moved their appraisal fulfillment functions over to AMCs over the past three years, there was no apparent impact on our order volume or client mix.

BUZZ: Has HVCC had any positive impact on the appraisal community?

I think it is too soon for many to fully appreciate the positives of the HVCC. Many Appraisers have noted a sharp decline in business since implementation of the HVCC, while those who long-ago accepted AMC clients as a large part of their client mix have noted they are busier than ever - even increasing staff to handle the increased volume in some cases. So, to borrow an analogy from a popular 1980s business management book, the HVCC has definitely moved the cheese of many Appraisers. As in any other market, those who locate the cheese will prosper, while others will struggle to find their new niche. Right now, we are in that part of the change process in which many are agitating to have the cheese moved back to its previous location, which is not a credible option in my view.

In the long run, I believe the successful appraisal companies will be those who seek out and learn to work efficiently with the "Best in Class" of the AMCs. Working with AMCs for lower fees, yet maintaining or increasing profitability, is the trick, but the Best in Class AMCs can make that transition very easy. In my view, the Best in Class AMCs are those which:

- pay at least 75% of the typical "full fee" for the region; provide reasonably consistent volume within much smaller territories than Appraisers have formerly covered (e.g., territories defined by zip codes or GIS radius rather than by counties);
- have a user-friendly portal for status updates and report delivery; include a concise statement of the particular client's requirements with each order;
- are able to adjust fees on occasion when the characteristics of the subject represent non-typical challenges;
- are well-capitalized enough to pay in a timely manner; and have a professional, experienced staff.

These Best in Class AMCs offer Appraisers and lenders a win-win-win arrangement. The AMCs and Appraisers both win through enhanced bottom-line profitability and lenders win through greatly enhanced appraisal reliability due to the Appraiser's in-depth knowledge of the highly-localized territory.

In the end, that is the only kind of arrangement which can stand the test of time. Those AMCs which value ultra-low fees over all other considerations, and their lender clients, will lose out in the long run due to their short-sighted focus on short-term profits. Even in the short-term, they will suffer longer turn-times than their Best in Class competition

during periods of peak demand as Appraisers, quite-reasonably in my view, reserve their limited capacity for their more-profitable (in net terms) and more-professional clients.

The other benefits of the HVCC, which I have enjoyed with my AMC clients for several years, will be seen in the complete lack of value pressure on the Appraiser. I'm sure some clever commission-incentivized folks will come up with some new ways to pressure the Appraiser once in a while, but their lack of ability to remove an Appraiser from consideration for future business or affect payment for completed orders will take the teeth out of such efforts.

Additionally, once the IVPI is constituted, employing creative techniques to pressure Appraisers will entail no small risk of career suicide.

BUZZ: I am hearing from the naysayers that geographic competency is a big issue. Do you see those abuses occurring in your market?

I have heard horror-stories for many years about geographically incompetent Appraisers completing appraisals 150 miles from their home or office and I have seen such cases on several occasions in my review work, but those situations were well-known for many years before the HVCC was a bare twinkle in Mr Cuomo's eye - probably even before he knew he could have a twinkle in his eye. Some large national organizations have even tried to suggest a causal linkage between the HVCC and long-distance appraising, but any objective analysis of the changes brought about by the HVCC cannot rationally conclude that the HVCC encourages that practice in any way. The HVCC may not have ended that practice, yet, but that simple fact is a far cry from comprising a lucid argument that it encourages the practice. In fact, logically, the HVCC should actively discourage the practice in the long run.

Consider these undisputed facts: The HVCC encourages lenders to use AMCs; AMCs are profit-motivated (almost always paying far less than "full" fees to Appraisers); and Appraiser's travel time and mileage represents a significant cost of production. Fitting those indisputable facts into a cogent argument that the HVCC encourages an increase in long-distance appraising is not possible. If some Appraisers were willing to chase a "full" fee across a 150 mile swath into areas where they lack geographic competency, they will presumably be less-willing to do so at the lower fees paid by AMCs. If not, they will soon be bankrupt. In either case, the increased use of AMCs, as encouraged by the HVCC, will have led directly to a decrease in that particular practice.

The argument mounted by the national organizations suffers from the Post Hoc, Ergo Propter Hoc (after that, therefore because of that) logical fallacy. It is much like the logically-challenged assertion that, since athletes have used Performance Enhancing Drugs (PEDs) after testing regimens were implemented, therefore, they are using PEDs because the testing was implemented. It is a baseless and laughable assertion.

Using the same facts as presented above leads to only one possible logical conclusion: AMCs pay lower fees, therefore, Appraisers cannot economically cover the same multi-county territories which might have been economical at higher fees. That is simple economic reality. It follows then that the HVCC, by encouraging increased reliance on AMCs, will encourage the use of highly-localized Appraisers - quite the opposite of the national organizations' logically-flawed assertion.

Only half-joking, I have told my Best in Class AMC clients that they should advertise the "green" elements of their service due to all the Appraiser-miles they save by using highly-localized Appraisers. For the AMCs, their clients, and their Appraiser-vendors, the "green" benefits are purely an unintended consequence of the mission to seek out greater profitability and reliability, but even unintended consequences can make good ad copy. Who knows - maybe they can even qualify for carbon credits under the Waxman - Markey Cap & Trade scheme.

BUZZ: No doubt AMC business is on the increase. How have you handled this transition?

Since our best clients completed the transition to AMC management of the appraisal ordering and review functions long ago, for us, there was no noticeable transition. Several years ago, we stopped marketing our services to Mortgage Brokers. Although that was a risky business decision at the time, we have been quite happy with our Bank and AMC clients. Although the fees are generally lower than they were with Mortgage Broker clients, the sharp decline in hassles which were more common with the Mortgage Broker clients (e.g., value pressure, comp check requests, less-professional staffs, fewer un-paid invoices, etc) more than compensated for the loss of gross income.

Since our transition to working almost exclusively with AMC clients was a gradual process, implementation of the HVCC was doubtless far less of a shock than it would have been if we had a pre-HVCC concentration in Mortgage Broker clients.

In general, we have found that we can be just as profitable working exclusively with AMCs at discounted fees within tightly-defined territories than we were when working for "full" fees over a two-county territory. Once Appraisers put pencil to paper and a clock on their work, most will probably find that lower fees can result in greater bottom-line profitability, despite the 20% - 25% cut in top-line fees.

Consider the choice I had between two orders last week: one request offered a "full" fee for an appraisal of a home located on the other side of my home county (a drive-time of approximately 35 minutes each way - approximately 50 miles round-trip) in a neighborhood I have worked in only three or four times in the past two years; and the other request offered approximately 75% of the "full" fee for a subject located 3 miles away in a neighborhood I have known like the back of my hand since childhood and in which I have completed 10 - 15 appraisals this year alone. Considering my time and mileage as a significant cost of production, the choice between the two orders was obvious. The lower-fee order resulted in greater profitability even before any consideration of the enhanced efficiency and reliability arising from my intimate knowledge of the close-by neighborhood. Once the enhanced efficiency and reliability are considered, the choice was not even close.

BUZZ: Appraisers are being accused of blowing "deals". Is that a fair assessment?

Accused?!? With no hint of apology, I plead Guilty!

Appraisers are SUPPOSED to "blow deals". When the market tells us in no uncertain terms that a property's Market Value is less than the top line on the contract, we MUST "blow deals". At the end of the day, that is the bottom-line essence of our service. I realize that some Realtors, some Lenders, most sellers, and even many Appraisers would be shocked to hear that foundational principle in such stark terms, but if Appraisers don't "blow deals" when the market dictates, then our service is of no value to our clients.

The popular notion among the commission-incentivized that "accurate" Appraisers should ALWAYS "make value" has contributed to the grievous damage recently done to our national economy and given rise to significant doubts among lender clients regarding the value of appraisals in general. If the purely self-serving concerns regarding our clients' perceptions of the value of our product are not enough, Appraisers should consider that our grandchildren have been involuntarily indentured to the ruinous debt we have incurred to repair the damage caused, to some extent, by that notion. We would be irresponsible beyond imagining were we to ignore this harsh lesson of recent history.

BUZZ: How do you think IVPI should be structured?

Wow, that is the \$64 Bazillion question.

In theory, the IVPI would serve as a central valuation hot-line for Appraisers who feel they have been pressured to deliver an appraisal report with a value that is not supported by market data, as well as for lenders and consumers who feel they have been harmed by sub-standard valuation services. The trick will be in making sure that communications between the IVPI, various state boards, and law enforcement agencies are a two-way street, with the IVPI not only passing along complaints, when appropriate, to the proper authorities, but also collecting such complaints which are made directly to the state boards and law enforcement. Requiring such two-way reporting would probably require some form of enabling legislation at the federal level, if not within each state, so it may be impractical to make such two-way communications an absolute requirement, but since a comprehensive database of such complaints accrues to the benefit of all participants, cooperative agreements might be negotiated without going the legislative route. If not, perhaps there is already something in place in the enabling legislation behind the ASC.

It would also be helpful if Appraisers and other market participants could call in a "heads up" for the benefit of lenders when we see transactions which appear to be fraudulent. For example, several years ago I came across a home which was literally falling down but had been sold only days before at a price which would barely be supported for the best homes in that particular neighborhood. I tried to call the lender noted in the mortgage documents to deliver the warning that they had just closed on a loan which would almost certainly never be paid, but none of the people I contacted knew what to do with such information.

That lender ended up closing several dozen more such loans in that neighborhood over the next 12 months, all ending rather badly for the lender. Appraisers are probably the first market participants to identify such curious transactions and it would be helpful to all concerned if that information could be efficiently communicated to the right office within each lender / servicing organization.

The IVPI, as proposed, would require that members of the board have no financial connection to Fannie Mae or Freddie Mac, but would leave the New York Attorney General's (NYAG) office with approval authority over members of the board. While I have no reason to believe that the current NYAG and his staff would not be faithful stewards of the public interest in that regard, and have no objection to their participation in that role in the initial constitution of the board, it does not seem wise to perpetually vest a political office with that kind of authority.

The HVCC and IVPI are designed to last long after the current NYAG has moved on to other things and the future politicians in that office may not share the same degree of dedication to the HVCC's mission. It would probably be better to vest that authority in the NYAG only for an interim period, transitioning to a committee drawn from appraisal and lending organizations after the initial board is established.

The composition of the board itself seems to be a work-in-progress at this point. Since the HVCC and IVPI are designed to accrue to the benefit of all market participants, I hope they eventually decide to be highly inclusive of representation on the board. Since valuation issues are at the heart of the IVPI, as outlined, representatives of appraisal organizations should probably constitute a plurality of board membership, but not an outright majority, with additional representation derived from lender organizations, SEC, Justice Department, NAR, and NAMB, among other interested parties. It would be nice to include board representation from the various AMCs, but that might not be practical at the outset due to the recent proliferation of AMCs and the highly-fluid nature of that market. Once the AMC wars are mostly resolved, perhaps some representation from that industry would be practical.

Fred Holtsberry
fred@midohioapp.com