

Doing the Math: Quantifying the AMC Loophole

By Jeff Schurman

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Today's post updates a recent reply to a reader's comment, in which I shared my belief that the Appraisal Institute and other critics have overstated the so-called appraisal management company (AMC) loophole while pressing for state regulation of AMCs. The AMC loophole, as the story goes, enables an appraiser whose state appraiser license or certification has been revoked to become (gasp) an appraisal management company.

Running the numbers to quantify the odds

There are 120,000 certified/licensed appraisers on the Appraisal Subcommittee (ASC) National Registry of appraisers. Let's put the split among residential and non-residential appraisers at 60/40 (72,000 residential appraisers; 48,000 non-residential).

ASC records indicate that 2,100 licenses/certificates have been revoked since the states began reporting revocations to the government agency. Looking at the Registry it appears that the ASC has been collecting revocation data back to 1993; 15 years now. That's about 140 appraiser licenses/certificates per year (2,100 revocations divided by 15 years equals 140 revocations per year.)

Next, let's apportion the 140 revocations based on residential or non-residential appraiser orientation. That would be about 84 residential revocations per year; 56 non-residential. That's just .07% of the residential appraiser population! Critics would argue, correctly, that even one defrocked appraiser going AMC on us is too many. But to make this a cornerstone in the argument for AMC regulation seems a little, well, overstated.

Descending to the Dark Side

A great unknown is just how many of these 84 bad actors would descend so far as to become... an AMC. I contend that the chances are remote. Certainly it can be done. In fact, a trusted regulator alerted me to one such case in Florida. But to believe this is as widespread a phenomenon as some appraisal trades suggest is a stretch.

Becoming an AMC has a few very high hurdles. First, it requires at least one big client, or a number of small clients right off the bat. Second, it requires a good amount of start-up funding. Third, it requires expensive vendor management technology systems operated by trained personnel. And it requires a scalable infrastructure.

Perhaps the highest hurdle though is order volume. For an AMC to be viable, it needs to manage something north of 250 orders per month, assuming appraisal management is the only source of

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revenue. Why? Because margins in appraisal management are tight. But as an MBA student might remind: 'A small number times a big number is a big number.' Lesson: Economies of scale are helpful in this business. A newbie -- especially one who's just been thrown out of their last gig -- would be challenged to make the career change.

So, realistically, how many of the 84 could clear these hurdles? One? Five? Ten? Suppose that 90% realize they clear the hurdles and find something else to do. That leaves fewer than ten to try their hand at appraisal management. Which works out to .1923 individuals per state. That's a small number in the big picture.

I'm not saying these 10 couldn't pose a risk. They could. But there's nothing like a little quantification take some of the hype out of the hype.