

## Why Appraisal Management Companies are Important

*The value proposition lenders can't afford to ignore.*

By Charlie W. Elliott, JR., MAI, SRA

Lately Appraisal Management Companies (AMCs) have been in the news. In fact, few people had heard of AMCs until recently. Perhaps that is because they are business-to-business entities, usually not catering to the general public.

AMCs, by definition, are vendor management companies acting on behalf of appraisal users. AMCs are becoming more popular among lenders and not everyone is pleased. Why would anyone care whether a bank outsources its appraisals? Further, why would a bank want to farm out its appraisals?

Lenders outsource these services for three reasons. First, it helps reduce fraud between the lender's salespeople and the appraiser, thus reducing losses while pleasing the regulators. Fannie Mae and Freddie Mac recently implemented new rules regarding this which some say favors outsourcing to AMCs. Secondly, it saves the bank money. Banks have high overhead and cannot compete with the efficiencies AMCs offer. Finally, some banks are subscribing to vendor management because of federal RESPA laws. RESPA, in part, is designed to protect consumers from fee gouging. Banks must account for closing cost fees charged to customers. It is hard for them to define and recoup all of these costs. Collectively these issues cause banks to outsource their appraisals. It is easy to explain to regulators, it protects their bottom line and it frees management to do what they do best, make loans.

Now, back to who would object to banks outsourcing appraisals. Ironically, the idea seems to be okay with everyone except some in the appraisal profession. One may think that all appraisers would appreciate the reduced loan officer pressure offered by the AMCs. This is simply not always the case. Some appraisers villainize AMCs. Appraisers and appraisal organizations are banding together to promote anti-AMC legislation at the state level that would require, among other things, that AMCs register with state appraisal boards. Among those other requirements are large registration fees and complex regulatory demands. Some say that requiring AMCs to register in 50 states and to comply with all regulations will put AMCs out of business. This would appear to be the goal of those sponsoring the legislation.

There are two primary reasons these groups are opposed to AMCs. First, many appraisers do not like the scrutiny offered by AMCs, opting for the more relaxed relationship and oversight offered by the lender. There is opposition to delivery schedule timetables sometimes imposed by some AMCs. There is further opposition to the AMC appraiser fee controls, similar to that experienced by the medical profession regarding doctors and insurance companies.

It should be noted that not all AMCs operate in the same way nor do they have the same policies. Just as with banks and appraisers not all AMCs are perfect. Secondly, in spite of what many appraisers say about wanting independence, some are willing to trade this for the cozy relationship they enjoy with lenders, who select them to do work. Appraisers have the option of either doing AMC work or declining it. Appraisal management is part of our free enterprise system.

There are misconceptions about fees collected and paid by AMCs. I have heard appraisers say that AMCs collect full fees and pay out only a portion of the fee to the appraiser. AMCs do operate on a gross margin of profit, just like many other businesses. No management company is going to be any more willing or able to perform services for free than an appraiser would be.

Fees charged for a standard home appraisal vary from region to region, but we can talk about percentages. Typically, the gross margin a well-managed appraisal management firm will earn will fall between 20 and 40 percent. That means that the AMC will operate on about 1/3 of the fees typically charged for the valuations delivered to lenders. Therefore, of every \$100 earned by the AMC in gross income, the appraiser earns, on average, about \$70, leaving the AMC with \$30 to pay all of its expenses and provide any profit that it may make.

For this fee the AMC must:

- Accept the appraisal order
- Proof and edit it
- Select the best appraiser
- Negotiate a fee
- Place the order
- Monitor the progress

- Take product delivery
- Review the appraisal
- Supervise corrections
- Ship the appraisal
- Field any client questions
- Bill the client
- Pay the appraiser
- Collect client fees, and
- Securely store the product for five years

These functions involve mostly labor expenses associated with communicating with the client and vendor and processing information. They do not reflect other overhead costs incurred by the AMC, such as rent, utilities, janitorial, liability insurance, equipment, supplies, advertising, legal, accounting, technology, and more. Nor do they reflect the extensive sales and marketing or travel and entertainment expenses that come with marketing the AMC and its fee panel appraisers to national and regional lenders.

There will be varying opinions on AMCs and their role in the vender management process. It is not suggested that every lender should use an AMC or that every appraiser should work for one. Lenders and appraisers have the right to pursue a variety of different business relationships. They should be allowed to exercise this right without disruption from those who do not have a dog in the fight. AMC registration in each state is simply a burdensome minefield and is perceived by some as a violation of free trade. Any AMC regulation should be at the federal level, only one fee should be charged and rules should be uniform across the country.

Finally, there can be no question that AMCs offer by far the best possible solution to deter mortgage fraud. The true separation of the lending and appraisal processes can only be accomplished in this manner. Separating these processes removes most of the opportunity and temptation for participants to become involved in collusion, which is the root of most valuation fraud cases.

AMCs also represent our best option for holding down mortgage fee cost to consumers and encouraging competition among appraisers. In these trying economic times given the mortgage crisis and the economic meltdown, AMCs represent a bright ray of positive direction for the mortgage industry.

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