

## **Vendor Fees in AppraiseUtopia**

By Jeff Schurman

2-5-08

I've been wondering what would happen if appraisers got their wish that appraisal management companies (AMCs) paid retail fees.

I tend to fall on the side that believes that AMCs generally pay market driven wholesale fees for the appraisals (title and closing services too). If a given market supports 'X' number of appraisers, the one, two, four or whatever number of appraisers compete against each other for AMC appraisal orders. Those offering the best value package (price, service, and quality) get the bulk of the work. Those that don't choose to compete are thus free to hunt for bigger game. And I'm OK with that. But not everyone agrees.

This afternoon, I was doing some research for a presentation that I am giving at a conference early next year when I came across a fee-related survey response. In the 2007 National Appraisal Survey (Volume II), by October Research Corporation, we are told that 60% of the appraiser respondents suggested that AMCs should "pay reasonable fees" as a way to attract more appraisers.

This statistic reminded me of my recent blog on [vendor fees in a down market](#). In that article I argued that lowering appraisal fees can have an adverse affect appraisal quality over time. I boldly proclaimed that lowering vendor fees can actually result in higher vendor fees as low-cost but washed out, burned out, or just plain exhausted providers leave the business in search of something more profitable to do. I suspect that some who responded to the ORC appraisal survey share and may even applaud this opinion. Maybe I should have stopped there but I can't help myself.

It seemed to me then that a balancing action kicks in to prevent appraisal fees from dipping below a certain level. If this is the case, it leads to the question "If appraisal fees drift too low thereby causing a balancing action to kick in, might there also be a balancing action that keeps appraisal fees from drifting too high?" I believe the answer is 'yes', and that the Law of Supply and Demand provides that balancing action.

Consider. In the town of AppraiseUtopia, which I'm using to illustrate the point - and to keep the discussion firmly in the hypothetical realm - AMCs pay very well; so well that they offer full retail price for each appraisal, plus a generous premium for a good attitude, good quality, and professional service. Naturally, the AMCs doing business here are adored (tolerated might be more believable) by throngs of appraisers who willingly accept the work. So instead of having 3-4 appraisers on their fee panel, AMCs in AppraiseUtopia have say 15-20 motivated souls.

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Of course, not every appraiser can meet the turn time, status update, and client specific reporting requirements. So the pool of ready, willing, and able appraisers whittles down to say 10-12 of the very best appraisers who are paid retail fees, plus a generous premium for a good attitude, good quality, and professional service. But this is where the story reaches a definite reversal of fortune. That is because AppraiseUtopia is not immune to the Law of Supply and Demand.

The Law of Supply and Demand works against retail fees (or 'reasonable fees' as the ORC survey phrased it). Appraisal fees in AppraiseUtopia are bound to decline. Here are just a few events that I anticipate happening to precipitate the decline:

- 1) As the supply of appraisers goes up the demand for the services of each individual appraiser will go down assuming client order volume remains static;
- 2) As appraiser fees continue to rise client fees will also rise (in rough proportion to the appraiser fee increase);
- 3) The rise in client fees will prompt clients to seek cheaper alternatives such as lower-end products and/or pesky AMC competitors that emerge from the mire touting lower client fees;
- 4) As clients bail there will be fewer appraisal orders to go around and the demand for the services of the 10-12 appraisers will decline.
- 5) As demand softens some of the AppraiseUtopia appraisers will break ranks and differentiate themselves by maintaining a good attitude and professional service and (gasp) lowering fees. And these appraisers will get the business.

The moral of the story is this: As demand goes up and supply remains static or falls then fees will very likely go up. As demand goes down and supply remains static or increases then fees will very likely go down. And that friends is the beauty of the free-market society we live and work in.