

Shift Happens

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It is rather difficult to gain your footing during a seismic shift. The [FHA Mortgagee Letter 2009-28](#) that was published late on Friday, September 18, 2009 created a massive shock wave throughout the appraisal community. Actually there were three appraisal related bulletins. Here they are:

- [Appraiser Independence](#)
- [Appraisal Validity](#)
- [Appraisal Portability](#)

It is big. It is good. But don't relax, yet.

First, there is the prohibition on mortgage brokers and commissioned loan officers from "selecting and retaining" appraisers. This is strong appraiser independence language and further reinforces HVCC. Good stuff. Expect another strong reaction from the Mortgage Broker community – now that FHA has adopted this concept from HVCC, mortgage brokers will have rare opportunity to engage appraisers directly. Next there is the requirement for FHA approved lenders to pay the AMC for the services the AMC renders. Appraisers are to be compensated "customary and reasonable fees". That is straightforward enough.....appraisers must be paid the standard rate for an appraisal in their market and the AMC must segregate the cost of services they provide a lender beyond the appraisal report itself. Transparency is good. But while simple, the ramifications are huge. It turns the current compensation system on its head.

Early on I was a tremendous supporter of HVCC and I've taken my fair share of heat about it. I believe I described it as a "call to quality". I cautioned that it would take some time for that to occur but with GSE demands on loan buy backs based on faulty appraisals, eventually quality had to trickle up. Well, now you don't need to wait to see if I was right. FHA just nudged things along. Will Fannie and Freddie follow suit with similar "full fee" language and with segregation of management and review fees? Even if the GSEs do not follow suit, a multi-tiered process for lenders would be nearly impossible to manage. Most would agree that a consistent set of rules and regulations would benefit all parties.

It also affirms my contention that AMCs are not inherently evil. Downward pressure on fees emanating from lenders got pushed down the food chain. It is one of those natural laws. Lenders viewed the AMC business model as a "free lunch". They outsourced their entire appraisal department to a third party at no cost. Appraisers fell victim to that pesky law of unintended consequences and de facto funded lenders' risk management out of their own pockets. The appraisal community has long suffered from having the least leverage of the various participants in mortgage process. I'd be willing to bet that appraisers' view of the AMC as a business channel just changed overnight. Now that AMCs have no financial incentive to seek the lowest cost provider, we may experience a sea change in how they manage their panels. What was up is now down.

We are not done yet. I believe, there will be more to come. I'd view regulation, policy, and guidance around collateral valuation as dials on a dashboard. Certain components are going to get dialed up and then dialed back down. Eventually we will find an equilibrium that works. It takes leadership to be bold enough to make the necessary changes. Let's have a big round of applause for the team over at FHA. Yes, there may be some need to tighten up language here and there but generally these requirements and affirmations are an effort to draw a line in the sand.

The new mantra will be competency. The discussion around “geographic” competence is a diversion. It’s about competency regardless of how far you drive to get there. Conversations within the lender community have been for some time, that once bias is finally dealt with we might discover that we have a vast pool of poorly trained appraisers. We also need to examine the very core of what we do (process) and what we deliver (our reports). And with all of the pressures on fees and turn times hopefully now the debate has changed. Short term as well as long term strategies should be focused on accuracy and integrity of appraisals.

Let’s get our footing and contemplate next steps to advance the science of collateral risk and train and engage true professionals in valuations.

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