

The Rise of the Appraisal Management Company

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Editor's Note: Appraisal Buzz Interview with George Vann, SRA, VP- Chief Appraiser of LSI, A Fidelity National Information Services Company

Buzz: Few residential appraisers have escaped a call from one or more of the appraisal management companies (AMCs) at some point in their careers. Few can claim to have no opinion about AMCs—they either like them or they hate them. If they hate AMCs, it is generally a fee issue, or a turn time issue, yet AMCs have been around for years, and don't seem to be going away. In fact, their role in the market seems to be expanding. We approached George Vann, SRA, Chief Appraiser of LSI, the original and one of the largest mortgage service management companies, for his opinion about the current market reaction to management companies from both appraisers and lenders:

Vann: I can recall getting calls from them as far back as the early 1980s. Of course, like so many, I said “no thanks” once I learned that they wanted me to work for fees that were lower than market. It made little sense to me then—but today things are far different.

From a business standpoint, everything then was manual. Computerized MLS was in its infancy by the early 1980s, but no one had a personal computer. Production took longer, so each appraiser was less productive. In my market, the typical appraiser did one or two appraisals a day. Because of the need for typing and filing staff, most appraisers still had traditional offices and all the expenses that entailed. So, by today's standards, production was low, and the expense side of the business ledger was a challenge.

As for marketing one's appraisal services, in those days, lending was still largely a local business, and marketing was a relatively simple matter. Since that time, the financial world has consolidated into fewer, larger “mega” banks, and much of the production has been outsourced to mortgage brokers.

Marketing to large multi-state banks in far flung cities is nearly impossible for small appraisal shops. At the same time, for large banks, the task of gathering and maintaining a vendor list of appraisers, title abstractors, attorneys, and so on, has become cumbersome and costly. It makes sense for them to outsource this duplicative process to a specialized entity such as an AMC.

Buzz: What about appraiser independence?

As we're all aware, the increasing use of outsourced loan outlets such as mortgage brokers has put real pressure on appraiser independence. Appraisal Buzz's readers will recall all too well the comp searches stop and call orders, and other tricks to minimize the cost associated with brokering loan deals. At first, most appraisers went along obligingly. After all, the request was a service and this was a service business, so we wanted and needed loyal customers. Appraisers, being relatively politically impotent (particularly by comparison to lenders and Realtors®), began complaining to lenders and state regulators for relief. Eventually, the contingent value order was recognized for what it truly was – an undue bias and pressure to arrive at a preconceived value – and there is a new emphasis on enforcing existing regulations that discourage those in loan production from having influence over who is hired to perform appraisals.

Mortgage brokers still look for ways to harness the outcomes, despite new rules preventing the sharing of value estimates, but I am pleased to see major lenders have devised pre-funding strategies to isolate problem loans quickly. Some of these strategies involve products and services we provide through our appraisers, our quality control systems, and our data systems.

This current environment is working in favor of AMCs. Now, some lenders are recognizing that some AMC networks provide protection from pressure. Appraisers are signing on at a record rate because they recognize that the AMC stands between them and the lender, providing orders without marketing costs, assuring quality control, and assuring payment while also insulating them from undue pressure.

In summary, the rise of the appraisal management companies can be attributed to these independent forces:

- Technology has dramatically increased the productivity of the appraiser, typically by at least 50% compared to the pre-computerization period. Simultaneously,
- Technology has promoted a real reduction in appraiser's business expenses, permitting him to dispense with "sticks and bricks" offices, yet handle multi-member firms via the internet. Thus, though fees have declined over the past decade, many savvy appraisers have achieved real increases in income. Regrettably, the most remote areas have not shared equally in this increased productivity, but for the cities where 80% of the appraisal business actually is concentrated, production improvement and cost containment are inarguably resulting in real income gains.
- Since expenses have gone down, appraisers can now afford the "marketing arm" that the AMC provides them. Instead of spending time and money marketing their services (often to limited effect), appraisers can focus on what they are trained to do, and produce more appraisals. It matters not what the individual fees are—what does matter is that the appraiser nets more money at the end of the month. This is manifestly proven true because more appraisers have registered with AMCs over the past few years than in any time in our collective histories.
- Lenders have recognized that the sure way to firmly separate loan production from the appraisal approval process is to outsource it to a management company willing to work cooperatively with them to assure compliance with federal regulations and lender requirements while also managing vendors and maintaining competitive service levels and quality. Federal regulations are promoting this separation, though none has specifically dictated an AMC as a solution. There is no question in my mind that we meet that need and provide a reasonable solution for appraiser bias and client-applied pressure, intentional or otherwise.
- The outsourcing of cost-centric activities such as vendor management, quality control, and order handling is a basic business axiom universal to nearly all businesses; it should come as a surprise to no one that industry seeks to continually reduce salary costs. Certainly, this holds true for the mortgage business.

Buzz: When considering working with an AMC, many appraisers assume you simply choose the least expensive appraiser. They do not want to compete in this supposed drive to the bottom of the barrel...

Vann: The truth, however, is not just about fees. From LSI's perspective:

- Because we use technology, we seek appraisers who have or will acquire complementary software and systems, so our interfaces are as similar as possible. Appraisers who have not implemented the newer technologies will find it difficult to keep up with orders, or their submissions will cause us to create unnecessary, work-around processes.
- Because we bring high volume, the appraisers we use have to keep us continually updated by our website, so we do not have to call them to get the latest status. Appraisers who do not keep us informed will get calls, which is non-productive for both the appraiser and LSI. Appraisers who use our website tell us we are easy to do business with.
- We seek service-minded appraisers who respond to inquiries or challenges. While we certainly do not permit lenders to threaten or pressure appraisers, if they bring factual evidence that contradicts the appraisal, we do expect the appraiser to defend his position, or amend and revise his or her report as necessary. If the lender's evidence is not persuasive, we stand behind the appraiser. Many appraisers have told me that this "pressure shield" we provide is very much appreciated.
- We seek appraisers capable of keeping their word and producing on time. We consider this not only a contract between LSI and the appraiser, but a "social" contract with the fellow appraisers who will be adversely affected should performance drop and business be lost as a result.
- We seek appraisers accustomed to providing clearly written appraisals. We monitor our quality and work cooperatively with the Quality Control departments of all our clients to assure we promote the good appraisers and counsel or deactivate the bad appraisers, without regard to fee.

We grade all our appraisers on service levels, on quality, on turn time, and only then do we consider fees.

Appraisers wrongly assume LSI dictates their fees. Actually, the market and the appraiser's competitors dictate fees. Many appraisers say they never discount, and that is fine. Some never take LSI's work, and that is fine, too. Sometimes, if the market is very thin, we pay more. We actually take a loss from time to time on individual transactions, which certainly would not happen if we dictated fees. Other times, when there is fierce competition, the fees are driven down accordingly. This is business by supply and demand, not by edict.

Those who disparage our AMC appraisers for their fees fail to consider all their business options. AMC appraisers recognize the value of volume work. They know that an appraiser with idle hours of available capacity for additional work who do not fill those hours with appraisal production have lost potential income. Those that claim their "time is worth more than that" can only legitimately make that claim if all available hours are filled with production.

If by meeting our service levels and quality levels one can generate a big supply of orders, most good businessmen and women will quickly come to the conclusion that volume is worth offering their services at a discount to the full price rate. That makes sense. So, if appraisers are approved with us, and not getting enough work, they can address this by consulting the LSI state representative for their state. The state rep is willing to share the current price range being charged by the competition, and thus one can decide what is best for their business.

I have often suggested that the well-balanced firm will do AMC work, as well as estates, divorces, litigation, and mortgage broker work. That way, you can improve your margins with the low volume, higher-margin work, but make sure you are covered by a steady stream of AMC work.

Buzz: How does the future shape up for AMCs in your estimation?

Vann: The future for AMCs appears bright, and how successful we become is in our hands entirely. Opportunities for growth have never been better, but it is what we do with that growth that will count most.

For LSI's part, we value the relationship with our appraisers more than ever. We offer newsletters that distill the changes in the market to essential information and a traveling Quality Road Show to further hone our panel's skills and focus on issues that need attention. We have created auto-pay programs so they do not have to devote time to collections.

Our route to future success will be improving vendor relationships with future value-added programs, such as low-cost, high quality continuing education offerings, bulk buying programs for appraiser's business needs such as computers, cell phones, cell phone fees, digital cameras, etc. If we can continue to add more value to our relationship, together we feel the AMC model will prove to be best for the national lenders for many years to come.

Moreover, as good as we are, we can still get better. So, in addition to the education offerings, we need to continually improve our monitoring systems to capture more errors before transmitting them to our clients. While we generally surpass our competition in service levels, we can always do better there as well.

Will we ever be perfect? Clearly, no, but if we are to maintain our leadership position, we cannot rest. We must continue to improve. Once the market is satisfied that LSI's appraisal quality and service is the gold standard, our future is assured.

Finally, LSI continues to seek out and investigate companies with next-generation appraisal processes that take appraisers past form filling and encourages the use of technology to assist in the data analysis, such as in a mass appraisal format. Many good ideas fail before they see the light of day because they were not easy to implement. Zaio Corporation's GeoScore™ report, which uses mass appraisal merged with technology, promises to revolutionize the appraisal process while totally eliminating the opportunity for fraud and appraiser pressure. I can think of no process or technological advancement that has such potential for our industry. So, we are helping Zaio reach the market as a full marketing partner.

Should anyone wish to inquire how to get involved with Zaio, please visit the www.zaio.com and watch the appraiser "flash" movie. If there are questions, email me at: gvann@lsi.fnf.com. Of course, I encourage our LSI appraisers to consider this first and foremost, but we welcome participation from all forward-looking appraisers.

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