November 9, 2015
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Thank you for meeting with the representatives of several of our participating state appraiser organizations on October 16th in Washington. We greatly appreciated the time you took to both educate us about your Association and to listen to some of our concerns. At that meeting, you asked that we provide a list of ideas or concerns that would result in cost savings or other benefits to your members. The following issues were contributed by many different states.

It is important to recognize that the core objectives of appraisers align closely with those of your members – to value, as credibly as possible, the real estate that constitutes the collateral for mortgage loans, and to do so in a way that will ensure against errors that might result in a buyback from secondary market entities. As painful as a buyback or foreclosure on an upside-down property is to a lender, it can be equally painful to the appraiser, because it often results in a complaint, which in turn can cause a substantial loss of business or even worse. We want to get it right as much as your members.

- The Uniform Standards of Professional Appraisal Practice (USPAP) are minimum standards. Because USPAP does not preclude our clients from incorporating additional requirements, the ability to communicate directly with the lender during an assignment for clarifications, corrections, or clerical issues is critical. Those lenders that foster those lines of communication are likely to have fewer appraisal issues – whether the lender engages appraisers directly or through an appraisal management company (AMC).

Dodd-Frank and CFPB rules hold the lender responsible for appraisal quality, and USPAP requires the appraiser to identify certain aspects of the assignment problem with the client. If the middleman entity is blocking and/or distorting that communication, the potential for problems becomes significant.

- It is no secret that relations between appraisers and AMC's are often strained. We understand that some of your members have deliberately chosen to work through a third party, and we freely recognize that there are good AMC's who work hard at being a good go-between. But many seem to actually work at cross-purposes with their client-lenders, behaving like they have no vested interest in the quality of appraisals they are "managing". They

* Make assignments on the basis of strictly the lowest fee, without regard to competence in valuing that particular property. A corollary to this malpractice is engaging an appraiser without regard to competence in the subject property's geographic area or, conversely, employing arbitrary rules regarding maximum distance from the appraiser's office.

* Have additional requirements that are a composite of those of several clients – as much as 15 pages - resulting in additional effort that is both unproductive and unwanted by the lender.

* Impose unreasonable delivery times that emphasize quick turnaround at the expense of adequate research and analysis.

* Require unnecessary status reports that interrupt the appraisal process, as often as twice a day.

*Employ a cursory review process – often strictly administrative form-checking – that doesn't truly evaluate the credibility of the report, but applies arbitrary and incorrect interpretations of the GSE guidelines, resulting in time-consuming back-and-forth corrections and amendments that do nothing to improve quality.

We strongly recommend that your members who do utilize AMC's scrutinize the procedures and policies of those entities to ensure that they are contributing to the product that is wanted and at a price that reflects their worth to the lender. Lender in-house QA programs now have the potential to become more robust with minimal-to-no added cost with the advent of Fannie Mae making Collateral Underwriter available to lenders. There is no federal requirement for a lender to work through an AMC to provide a firewall – the decision to do so should be made strictly for business reasons. If the lender is more comfortable with an outside third-party firewall, the so-called Portals such as RIMS, Mercury Network, and Encompass can provide that at a very modest cost, permitting the appraiser to receive a fee commensurate with the required effort without burdening the borrower with an excessive combined AMC/appraiser fee. They also allow for faster communication. Some real cost savings are available in this area. Again, however, the lender must verify that the portal's policies ensure assignments go only to appraisers that are competent to value the specific property. Furthermore, appraisal-related delays in getting to settlement can typically be avoided by ordering the appraisal earlier in the loan process. Some lenders do so immediately after receiving the credit report, or even before; even if roadblocks occur in the appraisal process, it will then rarely affect the settlement date.

- We understood from you that your members had growing concerns about some appraisers no longer accepting assignments for FHA-insured loans. There is considerable uncertainty among appraisers as to whether the latest FHA regulations impose additional liability and competency requirements. Statements from HUD say no, that only "observations" are intended, but a careful reading reveals contradictory requirements. A solution that is within the control of your members is requiring a home inspection, with a copy of the inspection report and any contract addendums specifying repairs being provided to the appraiser prior to appraisal delivery. The appraiser can then rely on the findings of the home inspector for opinions that are outside the expertise of the appraiser.

We also recommend that your members become more familiar with the unique appraisal and property requirements for FHA loans. The inspections take longer and the property conditions are stricter. Some properties just aren't good candidates for FHA loans.

- There has been considerable press given lately to a purported shortage of appraisers. The claim is that there are not enough appraisers to handle all the work, and the problem will get worse because the profession's practitioners are aging, and that potential newcomers are discouraged by the education and experience requirements. We – as practicing field appraisers - do not share that opinion. There are enough appraisers – but a growing number are refusing to work for fees that are not commensurate with the expertise, time, and expense required to complete an assignment, as well as the liability exposure, of mortgage work, especially when the assignments come through AMC's. The appraisal conditions, such as the number of comparable sales and complex additional reporting requirements, have been increasing, as have virtually all the business expenses, yet the allowed turnaround time – and the restricted fees – make completing a credible appraisal sometimes impossible. The lender is left with a potentially defective appraisal that results in increased risk of overvalued collateral or a buyback of a nonperforming loan. It is simply a business decision on the part of many appraisers, who find nonmortgage-related assignments, or a relationship directly with a lender, to be a more viable business model.

The entry requirements for many professions are as extensive as those for appraisal or much more so, yet there appears to be no shortage of applicants – the fee/salary structure in those careers makes the effort worthwhile. The importance of the appraisal process to lenders and the public and the level of expertise and judgment required to provide the necessary competency justify the entry requirements. The expense of those entry requirements as well as the substantial overhead and operating expenses of even a small appraisal firm must be the basis for the fee structure in order for the company to be viable. The business model of many AMC's, however, maximizes their profits by driving down appraiser fees to increase their own proportion of a fixed overall fee. This practice masks the amount lenders are actually paying for the appraisal management services – often as much or more than the appraiser's fee itself.

The solution is for lender/clients to require separate disclosure by the AMC of the fee actually paid directly to the appraiser and the amount charged for the management service. This is the only way that lenders can be sure that they are getting the best deal for themselves and their borrowers.

To summarize, the vast majority of appraisers are willing and able to be a reliable partner to lenders in mortgage transactions. Lenders who actively search out only the most competent and ethical appraisers and deal with them as the professionals they are – including fostering good communications, imposing reasonable conditions such as allowing adequate turn-around time, and paying fees that are commensurate with the time and expertise involved in performing a credible appraisal, have found fewer secondary market rejections, fewer borrowers unhappy with their appraisals, and unpleasant surprises if a loan becomes non-performing. The actions we recommend your members take are few and relatively simple, but we are convinced will in the long run result in lower costs and fewer problems.

Again, we sincerely appreciate your taking the time to meet with us, and hope you have found it useful. We believe that a continuing dialogue will aid in alleviating future as well as continuing problems and will be in the best interests of your members as well as appraisers.

Sincerely,

Appraiser's Coalition of Washington
Arizona Association of Real Estate Appraisers
California Coalition of Appraisal Professionals
Delaware Association of Appraisers
Georgia Coalition of Appraisal Professionals
Idaho Coalition of Appraisal Professionals
Illinois Coalition of Appraisal Professionals
Kentucky Association of Real Estate Appraisers
Louisiana Real Estate Appraisers Coalition
Maryland Association of Appraisers
Michigan Coalition of Appraisal Professionals
Mississippi Coalition of Appraisers
North Carolina Real Estate Appraiser Association
Ohio Coalition of Appraisal Professionals
Oklahoma Professional Appraisers' Coalition
Real Estate Appraisers Association (CA)
South Carolina Professional Appraisers Coalition
Tennessee Appraiser Coalition
United Appraisers of Utah
Virginia Coalition of Appraisal Professionals
West Virginia Council of Appraiser Professionals
Wisconsin Coalition of Appraisers