# Managing Property Appraisers

## Reducing risk is all about the company you keep

By George K. Demopulos

Whether you're a mortgage originator, investment banker, lawyer, mortgage servicer or mortgage insurer, you have no doubt felt the pressure of substantial regulation when working with appraisers and appraisal-management companies (AMCs). To ensure that your company continues to succeed in this competitive and highly regulated environment, it is imperative that you go above and beyond to meet or even exceed compliance standards in today's industry.

To get a full picture of today's regulated mortgage industry, you first need to look back to the savings and loan crisis of the 1980s. In the wake of this financial crisis, the federal government enacted a new law known as the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The Uniform Standards of Professional Appraisal Practice (USPAP) were created at the same time and mandated by FIRREA to promote public trust in the appraisal process.

FIRREA also established the Appraisal Subcommittee, the Appraisal Foundation, and new Appraisal Practices, Qualifications and Standards boards, as well as 50 individual state-level appraiser boards. When working on mortgage loans with government entities like Fannie Mae, Freddie Mac, the Federal Housing Administration, the U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs and the U.S. Department of Agriculture, appraisers must follow specific appraisal guidelines that were first implemented over 25 years ago and have been updated regularly ever since.

Yet, even with all of this regulation and oversight, the subprime mortgage crash of 2008 still happened. Was it loose lending standards and government policies? Could there have been appraiser involvement and even pressure from homeowners and Realtors?

### Dodd-Frank

As most mortgage professionals still working in the industry today know, the result of the 2008 financial crisis was the Dodd-Frank Wall Street Reform and Consumer Protection Act. Dodd-Frank, enacted in 2010, was designed to protect consumers by instituting additional laws, rules and regulations in the financial sector for federally-related transactions (FRTs).

Under Dodd-Frank, lenders, banks and mortgage companies became responsible for all vendors, including appraisers and AMCs. In addition, AMCs became regulated entities, and all states were mandated to have licensing requirements in place by 2017. According to the post-recession law, AMCs residing in states without licensing could not work on loans linked to FRTs.

The new regulations are clearly focused on protecting consumers and not appraisers or other mortgage professionals. As a result, new relationships and responsibilities are now being established between lenders, AMCs, appraisers, borrowers, loan originators and other parties. All of this is only being made more challenging by new mandates that require professionals involved in FRTs to report appraisers to state boards if they engage in unprofessional and unethical behavior as defined under USPAP.

With lenders now responsible for everyone involved in a transaction, it is not just essential that compliance and best practices be implemented: It is required. These compliance best practices include ensuring appraisal quality control in underwriting and reviewing, as well as all business operations. Compliance-management programs must be established that include issue management and the identification and implementation of regulatory changes compliant with USPAP.

In addition, lenders and mortgage companies must ensure that their third-party vendors, including AMCs, adhere to the Corporate Unfair Deceptive or Abusive Acts or Practices (UDAAP) standards and Americans with Disability Act (ADA) policies. Lenders

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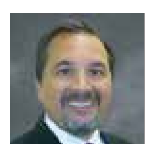

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also are required to provide quality assurance and to establish a corporate system of controls, verification and testing to make certain that appraisals and evaluations provide credible market values. New policies must be in place to ensure that the selection of appraisers results in the appropriate qualifications and demonstrated competency for the assignments.

## The solution

The best and most efficient way to reduce risk is to work with a compliant AMC, one that operates in accordance with all protocols set forth by the Consumer Financial Protection Bureau. Additionally, you should take steps to ensure that AMC vendors embrace all federal and state laws, agency policies and client requirements as they pertain to consumer protection and appraiser independence.

As a valuable strategic partner, an AMC must be committed to an enhanced level of compliance standards and exemplary customer service. By providing fast, accurate, high-quality real estate valuations and appraisal-management services, compliant AMCs raise the standard of excellence in the industry.

The three most critical factors to consider when assessing an AMC are consumer protection, third-party compliance and the appraisal-management process. To ensure all consumer-protection protocols are adhered to, an AMC should promote information-technology security through consistent security reviews, provide fraud- and loss-prevention protection, establish risk-governance programs, document its business-continuity plan and enact employee-security awareness training.

In addition, key third-party compliance measures for an AMC partner include ensuring that it is licensed in all states, maintains compliance-management policies and documentation, employs appraiser-independence firewalls, and retains a vetted appraiser panel with all required certifications and documentation. An AMC also should make use of an industry-leading quality-assurance process; robust reporting capabilities with daily, weekly and monthly metrics; and appraiser performance scorecards.

An AMC committed to consumer protection and third-party compliance also must maintain a superior appraisal-management process. This starts with a dedicated client-services team to ensure that all client needs are met in a timely, professional manner. The team should be charged with inputting and tracking all orders; updating and addressing client concerns; and expeditiously delivering information to and from appraiser partners, including assigning orders and requesting updates.

The AMC's appraisal-management team also plays an integral role in ensuring a seamless process. That team should recruit and maintain an appraiser partner panel in accordance with all federal, state and client requirements. Other responsibilities of the appraisal-management team should include completing appraiser profiles, as well as overseeing order assignment, tracking and client notifications.

In addition, An AMC should have in place an exceptional quality-assurance (QA) team comprised of licensed and certified in-house appraisal employees. This team monitors independent appraiser quality and overall performance. The AMC's QA team should score appraisers on quality, timeliness, number of revision requests, responsiveness and competitive fees. The QA team should be dedicated to a higher level of customer service. By reviewing appraisal reports for methodology, USPAP compliance, client requirements and Fannie Mae, Freddie Mac and FHA guidelines, the QA team works to mitigate risk for clients.

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Working with a compliant AMC, one that possesses a strong leadership team and a solid appraiser panel, will allow your company to thrive in this highly regulated environment. ■