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Does Your Lender Use the Right AMC?

You often can't order appraisals. But you can help ensure your lender taps a quality valuation source

MANDATORY APPRAISER INDEPENDENCE appears poised to stick around for the long term. Mortgage brokers can use this to their advantage by working with lenders that assure only the highest-quality appraisal management and delivery.

By looking more closely at appraisal-management companies (AMCs), brokers can reduce their exposure to risk, provide clients better service and maintain regulatory compliance.

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As the mortgage industry moves forward, appraisal independence likely will remain a requirement of lending guidelines, regardless of specific developments related to the Home Valuation Code of Conduct (HVCC). Mortgage brokers' ability to satisfy clients' needs and to deliver solid loans to lenders could depend on their capacity to work with lenders that use high-quality AMCs.

Understanding the history of AMCs can help. So can following a five-step process for evaluating which lenders use the best AMCs.

How AMCs started

AMCs are valuation operations that manage a network of third-party appraisers who work independently or by contract. The advent of AMCs was a result of mortgage-industry conditions that witnessed banks and other lending institutions expand their geographic coverage. There was a greater need to organize and manage larger appraiser panels. In addition to independent AMCs, larger lenders set up their own AMCs to identify and evaluate



Illustration: Dennis Wunsch

appraisers based on competency, regulatory licensing and other metrics.

The HVCC, which prohibits brokers from ordering appraisals when working with loans to be sold to Fannie Mae and Freddie Mac, and a similar appraisal-independence mandate by the Federal Housing Administration (FHA) further strengthen the future of AMCs.

While HVCC, implemented this past May, could expire naturally following its original implementation period of 18 months, Fannie Mae and Freddie Mac appear likely to continue prohibiting broker-ordered appraisals. In addition, similar FHA rules are set to take effect Feb. 15, delayed from Jan. 1.

Generally, mandated appraisal independence intends to reduce the risk factors associated with mortgage lending. By keeping mortgage brokers from ordering appraisals, regulators aim to reduce the chance that appraisers will be pressured to produce certain value estimates.

Identifying quality AMCs

Mortgage brokers can benefit when the lenders to which they send their loan packages use high-quality AMCs.

Quality AMCs provide a one-stop solution for appraiser management, multistate coverage, dedicated support staffs and experienced in-house reviewers. In addition, AMCs should work with the best

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independent appraiser partners throughout the country by adhering to strict appraiser-evaluation models. Finally, they should do all of this at a competitive price that's also attractive to the mortgage industry.

In general, AMCs should insulate the valuation process from collusion, fraud and substandard valuations. They also should allow mortgage brokers to focus on their primary business of helping consumers secure the most appropriate mortgage.

High-quality AMCs also should provide exceptional customer service to all of their clients and nationwide coverage to those who need it. The best AMCs provide dedicated, client-specific service teams that work hard to manage the appraisal process from order until delivery and beyond. Client-service teams should have extensive backgrounds in real estate, mortgage lending, loan processing and the appraisal process.

Top-notch AMCs dedicate substantial resources to quality control and quality assurance and help ensure the delivery of quality appraisal reports the first time. AMCs should work hard to solicit the services of only the best appraisers. In addition, AMCs should conduct ongoing performance evaluations on their appraiser network to ensure field appraisers maintain excellent quality and service standards.

AMCs also should invest in in-house appraisal reviewers, all of whom should be licensed or certified appraisers with extensive industry experience. These in-house appraisal-review teams should conduct an administrative and technical review of every appraisal to ensure quality and to keep revisions to an acceptable level for clients. They also should review for adherence to guidelines established by Fannie Mae, Freddie Mac, FHA and others, including customized, client-specific requirements.

5 steps to take

Brokers looking to work with lenders that use high-quality AMCs can take the following five steps:

1. Confirm the lender's AMC has a solid track record with other lenders and brokers. There is no better way to evaluate future success with a potential AMC than to speak with its references.

2. Make certain the AMC employs a leadership and management team with relevant industry experience. A thorough review of senior executives could be in order.

3. Ask detailed questions about the AMC's quality-control process. If a lender's AMC can't verify that it has an internal review team staffed with licensed or certified appraisers in its main office, the lender might not be working with the right company. In addition, the review process should be straightforward and understood easily.

4. Review the AMC's procedure for adding appraisers to its network and assigning jobs. Some AMCs assign appraisal work to the lowest-bidding appraiser, often the least-desired and lowest-qualified.

5. Find out how the AMC addressed HVCC and the FHA's appraisal-independence policy. A high-caliber AMC will have a clear internal policy sheet it should be able to provide upon request. This should be a straightforward document detailing how the company addressed regulatory guidelines. Your review of this document should verify that the AMC understands and complies with policies and regulations.

Claims against AMCs

The consequences of mandated appraisal independence frustrate some brokers and appraisers. Both groups have been stripped of long-time relationships, and many appraisers have had to work on fee-split bases with AMCs.

Some of the claims against AMCs include that:

- **They don't add value** to the appraisal process;
- **They bid out appraisal jobs** and accept the lowest-cost appraisers with complete disregard for quality and competency;
- **They steal fees from local appraisers** and make it impossible for independent appraisers to generate an appropriate income;
- **They contribute to low valuations**;
- **They don't conduct** appraisal-quality reviews;
- **They slow the loan process**; and

• They disregard appraisers' geographic competency.

These claims may be true at times. But they aren't indicative of high-quality AMCs.

In addition, while the new FHA guidelines don't require the use of AMCs, they do require lenders to ensure appraiser independence and to pay appraisers at a rate that is "customary and reasonable for appraisal services performed in the market area of the property being appraised."

In cases where AMCs are used, FHA also requires that the management fees AMCs charge be "for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing" and that AMC fees don't "exceed what is customary and reasonable for such services provided in the market area of the property being appraised." The fee charged for the completion of the FHA appraisal must not include management, processing or any other fees outside the actual performance of the appraisal.

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High-quality AMCs and their mortgage-industry partners have teamed up quickly and efficiently to comply with HVCC and FHA appraiser-independence guidelines. Brokers and lenders also have invested time and money to comply with guidelines and regulations.

Compliance itself, however, doesn't guarantee good appraisals or solid loan packages. To achieve those things, brokers must team with lenders that use only the best AMCs to realize the most-accurate estimates of property values while also providing great customer service at a reasonable price and managing the needs of brokers, lenders and consumers.

Brokers who differentiate between lenders using substandard AMCs and high-quality AMCs can benefit from business partnerships that nurture successful relationships and foster strategic advantages over the competition. Most important, a high-quality AMC will deliver the level of certainty, performance and trust critical for brokers to achieve their highest level of loan production. ●