

EDITORIAL

The Biggest Niche

CAN THERE BE ANY DOUBT THAT SERVICING holds sway over the current mortgage market? 2010 saw 1.3 million foreclosures, another record, with predictions of higher yet in 2011. The robo-signing scandal threw an unwelcome spotlight on the shoddy foreclosure practices of the big servicers. Government programs like HAMP and HAFA tried valiantly all last year to make a difference in the default logjam (without quite achieving it). Short sales have boomed. Originations appear to be in steep decline.

All this is why we are again sponsoring the SourceMedia Mortgage Servicing Conference at the Westin Galleria in Dallas on April 5-7. This fifth iteration of our servicing show promises to be another lively and news-making event.

Even before the conference proper starts with a scheduled keynote by Richard H. Neiman April 5, New York's superintendent of banks, there will be a lot going on at the servicing conference. A "peer to peer" lender/servicer group will meet behind closed doors to air out industry issues and challenges—without vendors, lawyers or regulators, in order to get a free-flowing discussion of what is really on their minds. Also, we plan a roundtable on servicing issues that will be taped for transcription in *National Mortgage News*.

The next day, April 6, will start with a keynote by Mary Coffin, servicing EVP, Wells Fargo. Coffin is a lively and informative speaker who will look at the niche through the perspective of her giant servicer.

There will be several informative panel

sessions as well, including one on servicers that have achieved notable success during tumultuous times. Another will take a look at the future of the investor servicer model, asking the question: Is the existing pricing model working? And a third will deal with the timely topic of foreclosure prevention.

In the afternoon the conference will break out into two groups, one concerned with default servicing and REO, and the other on nondefault servicing, which was once the hottest part of the business and will be again someday. The conference concludes on April 7 with an update on the Dodd-Frank re-regulation act and a keynote on regulation by Larry Platt, the well-known mortgage banking partner at law firm K&L Gates. The final panels will be about risk management and the role of servicers in urban renewal.

We plan to again chair this worthwhile conference, which we are co-sponsoring with our sister publication *Mortgage Servicing News*. ♦

OPEN FORUM

Residential Appraisals: What's the Big Rush?

By George Demopolos

WHAT IS MOST IMPORTANT TO BANKS AND other mortgage lending institutions—fast appraisals or high-quality appraisals?

Any self-respecting appraiser or appraisal management company would like to hear that the answer to that question is "quality above all else"—hands down. Speed, of course, is always an added plus when it comes to increasing customer service levels, but it should most certainly not be the main focus of the appraiser. The ultimate goal of the appraiser should be, frankly, to produce an appraisal that is of the absolute best quality possible, with the time it takes to create such a report being a secondary priority. If appraisers lose sight of this, the industry stands to lose sight of its integrity entirely and once again to be driven into an unstable environment.

Of course, it is easy to understand how banks and other mortgage lending institutions may get caught up in the pressure of wanting to close as many deals as possible per day, and to understand how some of that pressure may trickle its way down to the appraiser. Patience, however, is a virtue that is quickly becoming overlooked by many in the industry, as mortgage lenders and brokers push appraisers to create high-quality appraisals with faster and faster turnaround times. Because of this trend, many appraisers are beginning to drown in their work, become sloppy, and therefore the quality of work that is produced is often times less than

what they are capable of, and what I feel must be demanded in the industry.

The final result of rushing an appraisal affects everyone involved in the transaction, from the home buyer to the broker to the bank lending the money for the mortgage, because in the end, the final value determined by the appraiser will affect everyone financially in some way, whether big or small. If a house is underappraised, the bank and mortgage broker lose out on the deal, while if the house is overappraised, the homebuyer

Commercial appraisers would never accept an assignment with such a short turnaround time.

stands to lose the most in the deal, not only in mortgage payments, but also when they go to sell the home down the road. When dealing with a number that can have such a measurable impact on so many people and processes, it makes no sense to approach the transaction with haste.

So why is the industry demanding such quick turnaround times? Shouldn't we all slow down and pay more attention to the quality of these vital components of mortgage documentation? As an experienced, senior appraiser who is president and chief corporate appraiser of a national AMC, I have seen the result of rushed appraisals; more mistakes and ultimately a quality which is more often

than not certainly not acceptable. Yet, many lending institutions don't understand an appraiser's need for a reasonable timeframe in order to deliver their best appraisal product, therefore by initiating these requests for expedited appraisals they don't realize the appraisals may be done in a manner that will likely yield these poor results.

At Lincoln Appraisal & Settlement Services one of my missions has been to instill in every member of our corporate appraisal internal review teams that nothing is more important than producing the highest-quality appraisal for all our clients. In my personal opinion, with the current state of the industry and the economy as a whole, I strongly believe that now more than ever, we should all be intensely focused on the accuracy and quality of appraisals above all else. When the lack of high-quality appraisals was one of the issues which led us into the real estate crisis, how could this not be a top priority and focus in the today's real estate market? For the long-term viability of the real estate market is has to become one.

When I first began in the industry 20-plus years ago, appraisers typically had about seven to 10 business days to complete a residential appraisal. That is unheard of today. At Lincoln Appraisal & Settlement Services, if we told a bank today that it would take 10 business days to deliver an appraisal, they would most certainly not be contacting us for work again anytime soon. Today's appraisers are expected to produce quality appraisals in just three to five business days, and more often than not they are pushed to deliver in three days or less.

Given the amount of research, documentation and inspection that is required for a high-quality appraisal, an expected turnaround time of any less than three days is relatively unfeasible, especially for a larger, more expensive residential property. Unfortunately, lenders often seem to be in even more

Continued on page 19

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Residential Appraisals—What Is the Big Rush?

Continued from page 4

of a rush to close on properties with higher values, so time constrictions many times are even tighter in these situations. This does not make sense from an appraiser's standpoint. Commercial appraisers would never accept an assignment with such a short turnaround time. Why residential appraisers are being held to such high and unrealistic standards is baffling to the best appraisers who have been in the industry and have extensive experience. To maintain integrity and bring long-term stability to the real estate market, lenders' expectations should focus more on quality and accuracy, regardless of the size and ticket price of the property, rather than on fast turnaround times and closing as many deals as possible.

By no means am I saying the appraisal process should be drawn out unnecessarily. It is understandable that a lender would want an appraiser to do all they can to prevent unnecessary delays; however, there are certain obstacles that often come up during the appraisal process that are out of the control of the appraiser. While many obstacles can be avoided or at least anticipated, many are unanticipated. In fact, there are a few common obstacles that appraisers run into on the job which can slow the process down significantly.

There are three common obstacles we face at Lincoln, which slow down our appraisers' turn-times:

1. One typical obstacle is not having access to get into the property that is being appraised.

It seems as if this would be a simple issue to avoid. However, when brokers and agents and owners don't communicate, an appraiser may be left waiting to access a property or may have to reschedule the inspection all together, which may result in wasting time that could have been better spent working on other aspects of the appraisal report.

2. Another issue that comes into play is obtaining accurate information on the property listing.

Although MLS listings do offer some basic information about the property that is certainly used in the overall appraisal valuation process, sometimes the information in these listings is not 100% accurate. It is the appraiser's job to verify this information with municipal records sources and data.

3. We also find underwriting guidelines change on a daily basis, making it difficult for independent appraisers to remain up to speed on the latest rules and regulations.

Having to re-do reports to meet compliance standards can slow the process down considerably. It is important for appraisers to keep up to speed on the latest guidelines, just as it is important for underwriters to communicate updates and changes in a timely and clear manner to avoid delays due to miscommunication. I am still amazed at how many lenders change guidelines or policies and fail to tell the AMC and/or appraiser doing the requested work.

In truth, the best appraisers would always rather produce a better-quality appraisal, rather than rush to deliver a lower-quality appraisal. This is not to say that they would want to drag their feet, but what they do want

to do is have the time to double check their work to be sure that the information they are passing over to the lender or client is 100% accurate before a deal is closed. Shouldn't the entire industry be focused on accuracy and

quality rather than speed? Why the big rush? Wouldn't it make sense to slow down and give appraisers the time it takes to produce the exceptional, high-quality product we were hired to deliver? ♦

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