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Lending Valuations

Hey 50-percenters, there is no "appraiser shortage" so knock it off

The reality of the appraisal industry is much more complicated

June 15, 2017
Jonathan Miller
6 Comments
KEYWORDS AMCs Appraiser shortage reasonable and customary fees

HousingWire recently published an "appraiser shortage" blog screed that was tone-deaf to the problems facing appraisers. To their credit, Jacob Gaffney, the editor-in-chief, reached out to me for a rebuttal after reading all the negative appraiser feedback in the comments section. Rather than address specific failings of this piece, I opted to focus on current appraiser reality.

To start, the residential appraisal industry has a perception problem.

We haven't been very good at speaking up for ourselves, so other industries stepped in long ago and did it for us. I've characterized us as "lone wolves" who don't have anyone representing us. Sure we have some trade groups, but they are no match for the lobbying juggernauts behind real estate agents, appraisal management companies, GSEs and the mortgage banking industry.

As a result, no one seems to understand our role in the mortgage-lending process. We are seen in a bi-modal way: "deal killers" or "deal enablers," not unbiased valuation experts providing banks with a neutral benchmark to make an informed lending decision on the collateral.

Appraisers have long been beaten down by all parties involved in the home buying transaction.

Everyone is smarter than us because they already know the "number" in a mortgage transaction. The mortgage broker, bank lender, buyer, seller, buyer's attorney, seller's attorney, appraisal management company or AMC and title company all know that number well. We, appraisers, arrive late to the party in the mortgage process and can spoil everything if we don't agree with "the number." And us lone wolves are often subjected to direct and indirect financial pressures when we don't agree to "the number."

Since the financial crisis, our role has been spun to the negative by other industries sensing a large-scale payday. The story shifted from a systemic mortgage system breakdown to one that blamed us lone wolves as "bad actors" who colluded with mortgage brokers during the boom.

To prevent history from repeating itself, AMCs - those third party institutional intermediaries - pushed a self-dealing storyline that promoted the separation of appraisers from interacting directly with banks to prevent collusion and improve quality and efficiency.

To do that, AMCs take half of the market rate appraisal fee to manage us. This administrative fee is earned by confirming we had a license, forcing us to interact daily with 19-year olds — chewing gum checking on the status of their appraisal — subjecting us to expanding scope creep to validate their existence and run analytics on our appraisal opinions to keep us accurate. This relationship is done all in the name of compliance even though there is no regulation requiring banks to use AMCs. And remember that litigation of cases involving AMCs such as eAppraiseIT showed collusion on a much larger scale.

AMCs pushed the idea that a 50% fee reduction net to the appraiser would not have any impact on quality. Of course, if that were true, wages across all industries in the U.S. would be halved almost immediately. And best of all, the 50% pay cut to appraisers would be hidden from the consumer to reduce their "confusion" as advocated by REVAA, the AMC trade group. The AMC industry doesn't want the public to know that valuation expertise in the mortgage lending process is given the same weight as administrative bureaucracy. The 50% appraiser pay cut fee effectively helped banks comply with post-financial crisis regulations at no cost, placing all their savings on the backs of the lone wolves who can't afford public relations firms.

But over time, something interesting happened. AMCs started to run out of appraisers willing to work for 50% less than the market rate. Good appraisers responded to the pay cut by moving on to other clients who would pay them a fair fee for their valuation expertise. This problem became greatly exaggerated as mortgage rates fell and appraisal refinance assignments surged. Now the "appraiser shortage" narrative became a full-fledged crisis to the AMC industry. AMCs pressed even harder with their "appraiser shortage" narrative that never existed as described. They portrayed us lone wolves as greedy and self-serving, just for shifting to clients who pay a fair wage.

Isn't this America?

Isn't it ironic that appraisers, who are in the business of valuing assets by measuring the forces of supply and demand, are not allowed to participate in the free market system that is based on supply and demand?

Yes, there are spot shortages of appraisers on occasion and frequently in rural areas. But those shortages are fee-driven as AMCs try hard to apply fee uniformity across the nation. I'm going to go out on a limb and contend that the cost of an appraiser operating in Montana is different than in Manhattan.

Over the past year, a growing swath of appraisers decidedly value their worth now and are speaking out.

We can see this with the membership outrage towards the Appraisal Institute for their long neglect of residential members among other issues. We can also see the appraiser push back by the inability of AMCs to find enough appraisers willing to work for half the market rate.

We need more transparency in the mortgage lending process, not less. In a free market system, the appraisal fee should be market-based, and the AMC fee should be applied separately so that the consumer can see and understand to whom they are paying what.

We can only hope that the housing market media that covers the appraisal industry will stop relying on optics of press releases and take some time to talk to us lone wolves for both sides of the story.

The move by HousingWire is a good start.

Lone wolves aren't in short supply, and we don't always bite.

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Jonathan Miller is President and CEO of Miller Samuel Inc., a real estate appraisal and consulting firm he co-founded in 1986. He is a state-certified real estate appraiser in New York and Connecticut, performing court testimony as an expert witness in various local, state and federal courts.

7 Comments HousingWire jonathanmiller

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James Worden • an hour ago

As a residential appraiser employed by a bank to independently engage and a review appraisal services, I can see several sides to this issue. Our preference is to directly engage appraisers from our approved panel. We cannot compete with the volume offered by larger lenders, so we are aggressive with the fees we pay in order to attract the best appraisers, which also ensures compliance with the regulatory expectation to pay customary and reasonable fees. AMCs can be useful when the property is out of footprint and we lack the time to recruit and vet an appraiser. However, we will only use AMCs with a "cost plus" model, charging a flat management fee separate from the appraisal fee. This way of managing a bank's appraisal function is strongly encouraged as best practice at the highest regulatory level. Unfortunately, regulatory feedback at a large national bank is very different than it is at a small community bank or non-bank mortgage lender. This needs to change.

In my opinion, the best thing residential appraisers can do to improve public perception is to step up their game with regard to quality and professionalism. Too many act as data collectors; measuring, taking photographs, and reporting market data, but failing to provide meaningful analysis and truly support their conclusions. Many are resistant to new technology and methodology that would improve efficiency and credibility. There are also the appraisers that are slow to respond to requests for clarification, defensive in their responses, and in the worst cases, cut off communication with their client completely. Appraisers must find a way to deliver a quality product timely and with the professionalism of a true market expert. Otherwise, users of appraisal services will always feel like they know better and continue to look for an alternative.

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Ryan Lundquist • an hour ago

You are so right here Jonathan. I just had an AMC blast an order to me. I have never worked with this AMC before, and they asked me for a fee quote and turn-time for a property that is located literally two hours from my office. I asked them to remove me from their blast list because it's not in my best interest to work for "clients" like that. I only wish this was an isolated incident, but it's not. A big issue right now in the appraisal industry is many appraisers are opting not to work with AMCs like this (or AMCs at all). Something has to give here.

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Debi Palbykin Jones • 2 hours ago

Nail on the head as usual. Great article Jonathan!

3 • Reply • Share ›

APPRAISALSOURCE • an hour ago

Nothing else to add Jonathan, you said it all and you said it well.

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Dave Towne • an hour ago

As always, Jonathan exposes the real meat on the bone. And it's an even worse story when one of the better AMC's (Solidifi) slides into the realm of other low echelon AMC companies by abandoning their staff to vendor appraisers personal relationships as they once had, and have begun distributing assignments to lowest bidder/quickest TT appraisers by broadcast emails.

2 • Reply • Share ›

Bill Johhson • an hour ago

Feel free to use me as a source Mr. Miller, as much of what you discussed is contained in my 800 comments on this site over the past two years. The comment below is from a couple of days ago.

"Here's a theory that may give lenders the impression of an appraiser shortage. If big box lenders A, B, and C, all outsource to an AMC for an appraisal assignment, then what makes them think ALL appraisers in any given area will be available to work with them? If appraisers X, Y, and Z, only choose to sign up with ONE AMC company (A, B, or C), then in reality, the lenders and their hired AMC puppets only have access to 33% of the local appraiser population. The impression of a shortage is a lie, and in part is due to unsound and bad business practices by lenders and AMC's."
Thank you Mr. Miller.
Seek the truth.

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Sean Dobson
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