



The Mystery of the Missing Appraisers

You've seen it in the press: There's a supposed shortage of appraisers, and this "shortage" explains why lenders are facing longer turn times, lower quality and higher costs. But a closer look separates the facts from the fiction.

There's no evidence

The Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council (FFIEC) is an inter-agency body empowered to set uniform principles for the examination of federally regulated financial institutions. It oversees appraisal licenses and keeps a national registry of all state certified and licensed real estate appraisers. According to the ASC, the number of licenses has indeed decreased from 121,407 in 2007 to 110,026 in 2010, or by 9 percent. But according to the Mortgage Bankers Association's (MBA's) Mortgage Finance Forecast, purchase originations in 2007 were \$1.14 trillion and only \$473 billion in 2010. So the drop in appraisers doesn't correlate as it should to the 58 percent reduction in their primary source of appraisal orders.

Taken in context, this 9 percent reduction in the appraisal work force, when compared to the work available, could be seen as an overpopulation problem—and, in any case, a far cry from a shortage.

To dig even deeper, look at a la mode Inc.'s appraisal transaction data for appraisals started in 2007 compared with appraisals started in 2010, and there's only a 16 percent reduction. More than half of the nation's appraisers use a la mode's form-filling software, so the data are a good indicator of national appraisal volume. Given the severe drop in purchase origination volume over the same period, appraisers seem to have found supplemental sources of income and identified ways to out-survive other impacted sectors of professionals in the industry.

Forward-thinking appraisers have always sought alternative sources of appraisal orders to grow their businesses independently of the fluctuating fortunes of the origination market. When appraisers anticipated the real estate cycle we're currently in, they set about seeking relationships with estate planners, real estate agents, attorneys and with homeowners interested in confirming the current value of their largest investment.

Appraisers' efforts to control their own livelihoods have paid off. We find proof of this from usage levels of our own appraisal software. In 2007, a la mode provided a series of general-purpose appraisal forms for appraisers to use in its form-filling software. The general-purpose forms

were designed specifically for non-lender appraisal work and were most appropriate for clients such as those listed earlier.

Usage of this general-purpose form series is up 84 percent in 2010 compared with 2008. In short, appraisers are out there and they're working. No, they haven't recouped the income they lost as a result of the 58 percent drop in purchase originations, but many have done enough to stay in business.

So why all the 'shortage' hype?

If the numbers don't add up, why are you hearing "there aren't enough appraisers" as the reason for long turn times, low appraisal quality and higher costs? It's the fees.

Realize that the fees your appraisal management company (AMC) charges you won't vary much from the quotes you'll hear from other AMCs, because it's a fairly competitive market. But some AMCs line their own pockets by driving down the portion of the fee they actually pay to the appraiser. It's common to see these AMCs offer an appraiser \$200 to complete an assignment for which another appraisal management company will pay the appraiser \$350, when both AMCs charge you—the client—the same amount.

When other AMCs will pay more, it doesn't take a rocket scientist to see why the low-paying AMC has trouble finding appraisers. The vast majority of the appraisers who remain in the business simply won't accept the assignment, or they'll place it at the bottom of the pile.

There's not a shortage of appraisers; there's a shortage of appraisers who can afford to do appraisals for \$200 or less.

The most important reason why they won't is to safeguard their license. All appraisers are subject to Uniform Standards of Professional Appraisal Practice (USPAP) for maintenance of their license, and USPAP doesn't allow them to cut corners.

It doesn't matter if you want an appraisal written on a napkin or a 100-page report—under USPAP, every single appraisal has to meet the same standards of due diligence. It's unlikely that an expert, experienced appraiser will agree to do a cut-rate appraisal for half the fee, and put his or her license in jeopardy if corners are cut. The risks far outweigh the rewards.

"It doesn't make financial sense for me to complete an appraisal for \$200," says Marc Kamyab, an independent appraiser in Los Angeles.

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specific to their clients, resulting in even more time spent on every assignment. Spending nearly twice as much time on an appraisal for approximately half the fee just doesn't add up. As a result, I choose to work exclusively with AMC's that pay well, and I give them 110 percent of my effort and the highest quality of service, as they are my primary source of business," Kamyab says.

"We pay appraisers a customary and reasonable fee, have always been transparent on what the appraiser and the AMC earn, and we've never had a shortage of highly qualified appraisers. As a matter of fact, we have a waiting list of appraisers looking to join our elite national panel," says Kim Perotti, director of operations at San Rafael, California-based AXIS Appraisal Management Solutions. "We have nationwide appraiser coverage, great turn times, competitive pricing and an incredibly qualified panel of appraisers who deliver the highest-quality appraisals because they depend on our business," Perotti says.

For lenders using an AMC, it's apparent that choosing one that pays the appraiser well makes sense in order to avoid running the risk of being short-changed in quality or service. If your AMC pays appraisers poorly, you can expect to wait in line behind the other assignments that pay better. It's also understandable why you could be experiencing lower quality. The highly experienced appraisers are working for high-paying AMC's or focusing on non-AMC work.

Who else benefits from the 'death of the appraiser' myth?

In many discussions about the loss of appraisers, the industry often hears a "not to worry" response—that automated valuation models (AVMs) have improved to such a degree that they will be able to offset the loss of appraisers. When you hear this argument, it would be wise to consider the source. Ask yourself: Is this the arm's-length reasoning of an independent expert or is this the logic being offered by an AVM provider?

But the shortcomings of AVMs in common situations are worth repeating. For example, in nonconforming areas, how can an automated valuation model account for such critical market influences as a panoramic view, a lot of 100-percent utility versus one of limited-use, or a property with 100-year-old moldings and woodworking rarely replicated today?

And do we really want our real estate market to be valued from a 100,000-foot vantage point, or to, in essence, be reduced to the equivalent of a credit score that tells only a very fragmented and incomplete story?

For the most part, it seems we finally have industry consensus that while broker price opinions (BPOs) and AVMs definitely have a place in the market, they're no substitute for an appraisal performed at origination.

In fact, the Interagency Appraisal and Evaluation Guidelines issued by the Federal Deposit Insurance Corporation (FDIC) state: Under the agencies' appraisal regulations, the

result of an automated valuation model, by itself or signed by an appraiser, is not an appraisal, because a state certified or licensed appraiser must perform an appraisal in conformance with USPAP and the agencies' minimum appraisal standards. Further, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 provides, "in conjunction with the purchase of a consumer's principal dwelling, broker price opinions may not be used as the primary basis to determine the value of a piece of property for the purpose of loan origination of a residential mortgage loan secured by such piece of property." (For more information, visit www.fdic.gov/regulations/laws/rules/5000-4800.html#fdicfoot1_1_link.)

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But what about the future of appraisers?

"I do hear from appraisers that had they not found some direct-lending work or AMC's that pay reasonable and customary fees they would be considering retiring earlier than planned from the profession. It is also tougher today to provide the required mentoring to trainees," says Bruce J. Ford, lead review appraiser at AXIS.

Many AMC's and lenders will not accept supervisor-signed appraisals, and the lower fees to appraisers makes splitting that fee further with a trainee economically impractical. The barriers to entry in the profession continue to rise at

the same time that real earnings have decreased for appraisers working for a bulk of the industry.

It's critical that we actively encourage new entrants to the profession through industry organizations, and with programs from vendors and appraisal management companies.

A call to action

It's never been more important for the real facts to come out about the current state of the appraisal industry. If you're using an AMC, find out what portion of the fee is actually going to the appraiser. Well-supported and accurate appraisals from "boots on the ground" appraisers are critical to the recovery and security of the fragile real estate and lending marketplace.

And there are excellent appraisers ready and willing to provide professional appraisals, but who refuse to risk their license for a \$200 fee.

It is incumbent on the industry to look past the myths, ask tough questions of their AMC partners and perhaps demand changes. The next time your AMC tells you there's nothing it can do about the two-week turn time or poorly written report, ask tougher questions. Your best-in-class appraisers are still out there—they are just making careful choices about the clients with whom they can afford to do business.

Jennifer Miller is executive vice president of products for a la mode Inc.'s Mortgage Solutions Division in Oklahoma City. She is charged with development and support of a la mode's Mercury Network, its vendor management platform for the mortgage lending industry. She can be reached at jennifer.miller@alamode.com.