

Interview with Mark Johnson, Chief Operating Officer of LSI

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BUZZ: We are visiting today with Mark Johnson, Chief Operating Officer of LSI. Mark, there is a lot to cover today but before we get into the details, will you give us a brief overview of LSI?

MJ: Thanks, Joan. I am hoping most of your readers know the LSI name. It is a strong company, with a great reputation and a forty-year history of providing settlement services to all of the largest lenders in the United States. LSI is a division of Lender Processing Services (LPS), which was spun off from Fidelity National Information Services last July. LPS is one of the nation's leading providers of [mortgage processing services](#), [settlement services](#), [mortgage performance analytics](#) and [default solutions](#).

BUZZ: What is LSI's position with respect to the Home Valuation Code of Conduct?

MJ: We are comfortable with it. We believe that the goals of the HVCC have already been required for the appraisal industry for years through USPAP, FIRREA and the regulatory framework. But, the code serves two important functions: it reminds all constituents operating within the industry, in very clear terms, that quality and independence during the appraisal process are paramount. It also sets forth procedural requirements designed specifically to complement those goals of quality and independence.

BUZZ: What do you consider to be those key areas of the HVCC that you and LSI are focusing on?

MJ: Frankly, nothing in the HVCC will disrupt the operations at LSI. In fact, I would suggest that the language complements our charter - independence and quality. The structure we have, and have had for many, many years, includes a technological and operational firewall that dis-intermediates the loan originator from the appraisal process.

Having said that, there are a few specific things we have done to comply with the HVCC:

1. We have established a unique toll-free hotline program for appraisers. This hotline will ensure that there is a confidential channel available for appraisers should they believe that any impropriety has occurred within a transaction.
2. We have developed a method to deliver the appraisal directly to the borrower should the lender so desire. We can deliver it through the Internet in a secure environment. This alleviates some of the pressure on the lender to deliver the appraisal to the borrower three days prior to the close of the transaction - as the HVCC requires.
3. The most significant change involves the relationship of the broker and the appraiser. The HVCC has created a significant barrier between the broker and the appraiser.

As a result of this change, we have developed new workflows to interact with lenders that operate in the wholesale channels.

BUZZ: There are some in the industry who are suddenly challenging the Appraisal Management Company ("AMC") model. How do you respond to that?

MJ: I think there is misunderstanding among some about AMCs.

The single largest concern that appraisers have had for years has been about appraiser independence. Almost any appraiser will tell you that independence has been a core goal of the industry. The HVCC has boldly addressed the issue and complements that goal. A properly executed AMC model should also support that goal by providing a firewall between appraisers and the lender's loan origination staff.

Additionally, I recently read in an appraisal magazine that appraisers stated that a significant focus and expenditure in 2009 will be assigned to marketing. In an AMC model, the AMC absorbs most of the marketing costs and appraisers should not have expenses for that. We are looking for good appraisers that will perform high-quality appraisals. Period.

BUZZ: What should lenders look for when partnering with an AMC, such as LSI? What questions should they ask of that potential partner?

MJ: Some would be: What type of quality control do appraisals go through? How do you ensure independence, quality and adherence to high standards?

Quality is critical in the appraisal industry. Independence is a significant contributor to quality, as is setting and maintaining high standards and ensuring that education and training is available for all involved in the appraisal process. LSI's solution addresses each of these three critical areas. Quality and performance requirements are very high for appraisers choosing to do business with LSI.

All appraisers working for LSI are required to submit to two qualifying procedures - an initial authentication process and an ongoing certification process. The initial authentication process includes a background check and is designed to validate that the appraiser has not been convicted of a felony or other crime involving dishonesty or theft. The certification program validates that the appraiser's license is active and that the appraiser has stayed current with industry trends and issues. The appraiser applicant is required to submit multiple examples of his/her work. This work-product review is designed to validate the quality of the workmanship and to establish a benchmark against future performance. The authentication process also assures that an appraiser has had a minimum of three years performance in the appraisal industry prior to joining LSI.

Quality is king within our AMC model, and we expect it to continually evolve. LSI provides appraisal services to all of the country's top lenders. Each lender-client has specific quality control expectations that are articulated within the body of its service agreement. As a practical matter, it is ultimately better for LSI and its customers for LSI to apply as many of the unique quality standards requested by an individual client to all clients. This streamlines LSI's processes, brings a higher level of service to the client and creates a higher level of expectation with any individual appraisal. We believe this to be a sound strategy.

BUZZ: Are LSI and the partners you choose compliant with regulatory requirements? What type of auditing does the company have?

MJ: There has been a recent concern raised by some regarding the level of regulatory oversight that exists within the appraiser and AMC communities. Some argue that AMCs, like LSI, have no legal or procedural boundaries within which it must operate. This is technically and procedurally inaccurate. LSI is acting on behalf of its clients, including many of the top U.S. banks. As such, LSI must adhere to and comply with the regulatory framework set for those banks. LSI is acting as the surrogate quality control arm of the lender, so the USPAP standards and requirements are superimposed on LSI. More specifically, LSI is hired to independently ensure that USPAP standards are followed by the appraisers providing services to the bank's borrowers. Additionally, the banks generally have a Chief Appraiser and/or appraisal oversight group that is monitoring the quality and compliance of LSI. Many of LSI's client agreements also include specific auditing requirements to confirm such compliance.

LSI, as part of a large, publicly traded company, is also subjected to a substantial amount of auditing from other internal and external sources. LSI's financial statements, operational controls, policies and procedures, adherence to RESPA, GAAP, SOX, GLBA and SAS 70 Type II analysis are all a part of the LSI audit process.

BUZZ: Can you address the issue of appraiser fees? What types of costs do AMC's absorb?

MJ: The challenge for each appraiser, especially in this difficult market, is that if there are other providers equally capable of and available to provide the same quality of work, and one has set his or her fees more competitively, that provider will probably be awarded the business. This promotes competition and should provide the most favorable terms for the consumer.

There are other, rarely discussed, hard and soft costs that have shifted to the AMC community. These costs have historically been paid by appraisers, but having them paid by an AMC can reduce the burden on the appraiser.

- Some third-party transactional fees are paid by LSI, often for the delivery of the final appraisal on an external platform or website required by the lender. This can be anywhere from a \$1.00 to a \$10.00 charge per order.
- Fees for appraisal software that are provided to appraisers by third-party providers in some cases have been negotiated to a lower rate when the software is purchased through LSI.
- LSI provides training through three channels:
 - LSI's Quality Road Show: A team of LSI professionals travel to various cities throughout the year and provide training. *The training provided by LSI has been certified by many states as continuing education.*
 - "VanntagePoint Newsletter" is a quarterly publication authored by LSI's Chief Appraiser, George Vann. The newsletters bring forth the issues of the day and are provided to appraisers, at no charge.
 - Instructional training is provided daily at the transactional level as requested by the appraiser, or as deemed necessary by an LSI quality review person
- Substantial representations and warranties are required by many of the largest lenders that extend beyond an appraiser's E&O coverage. LSI provides a warranty for service and appraisal quality, and often absorbs the losses for valid claims against the warranty.
- There are additional soft cost reductions associated with doing business with LSI:
 - LSI eliminates accounts receivable issues for its appraiser partners.
 - Marketing expenses are eliminated. LSI assigns work directly to appraisers, thereby saving them marketing and advertising expenses.
 - Costs to maintain certain elements of infrastructure are absorbed by LSI (e.g., all of the top lenders require that their business partners maintain substantial business continuity planning/disaster recovery programs and provide lenders with representations and warranties for such programs).

One final point - even the small local appraisal shop, the shop that might protest against a larger AMC, often has multiple appraisers on its staff. This, by definition, means that the appraisal fees must be pooled and utilized to some degree to pay for the collective costs of overhead, whatever those costs are - this model is fundamentally similar to the LSI model, but on a smaller scale.

BUZZ: Last thoughts?

MJ: We strongly believe that a properly executed AMC model provides a solid combination of high quality, risk mitigation, lower costs and consistent performance.