

Defining Appraisal Management

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My high school English teacher was right, a clear definition of terms *is* vital to precise communications. I should have paid more attention.

This lesson finally sunk in for me at an appraisal industry tradeshow earlier this year. There I bumped in to a young man who, from the looks of his literature, made his livelihood in appraisal management. He volunteered that his company manages a nationwide network of fee appraisers. They assign and track appraisal orders, communicate with the loan officer, and back their work with an Errors and Omissions policy.

“So you’re an appraisal management company?” I asked, aware that AMCs hire appraisers, assign and track orders, communicate with the loan officer, and, routinely maintain E&O or other appraisal warranties.

“No,” he replied. “We’re not an AMC. We’re an appraisal company.” The reason? Each appraisal report is sent to a main office and reviewed by a certified appraiser, who signs the report as the supervisory appraiser. This being something most AMC’s do not do, in his company’s view, differentiates them from the competition.

Interactions like this one raise a good question. What is an appraisal management company?

At first glance, this seems almost self-evident. An appraisal management company is just that, a company that manages appraisal vendors and all of the ordering, tracking, and delivery tasks that need to be attended to within a real estate mortgage transaction. Yet, judging from feedback that I routinely get from people in our industry, it is apparently not that simple. Alternatively, perhaps, it is that simple and they are just rationalizing why they are not willing to support TAVMA through active membership. Either way, it sounds like a definition is in order.

A reasonable starting point is to look at three (3) points of inquiry: (1) What is appraisal management? (2) What is an appraisal management company? (3) What characteristics distinguish an AMC from a group – large appraisal firms – that shares some characteristics of AMCs, but not others?

Another English lesson: In constructing definitions, it helps to first *classify* the thing being defined, and then, *differentiate* it from other things in the same genre. I will try to stay close to this formula.

What is appraisal management?

Appraisal management is a business method in which an individual or group administers a network of certified and licensed appraisers to fulfill real estate appraisal assignments on behalf of mortgage lending institutions. It involves recruiting, qualifying, verifying licensure, negotiating fee and service level expectations, administrative duties like order entry and assignment, tracking and statusing, pre-delivery quality control, and preliminary and hard copy report delivery. In addition, it involves ongoing quality control, accounts payable and receivable, market value dispute resolution, warranty administration, and record retention.

In its essence, appraisal management is the act of managing a panel of fee appraisers and performing the administrative elements needed to process and fulfill individual appraisal assignments. Order in, order through, order out.

While there is room for improvement, hopefully, this initial definition is encompassing enough to set the stage for the next point of inquiry, that is, what constitutes an appraisal management company.

What is an appraisal management company?

An appraisal management company (AMC) is a business entity that — for a management fee — administers a network of certified and licensed appraisers to fulfill real estate appraisal assignments on behalf of mortgage lending institutions. The AMC recruits, qualifies, verifies licensure, and negotiates fees and service level expectations with a network of third-party appraisers, administrative duties like order entry and assignment, tracking and statusing, pre-delivery quality control, and preliminary and hard copy report delivery. It also involves ongoing quality control, accounts payable and receivable, market value dispute resolution, warranty administration, and record retention.

An appraisal management company, therefore, is an outsourcing solution that is paid by a lender-client to act on the lender/client's behalf to engage real estate appraisers and to perform the administrative functions involved in the appraisal ordering, tracking, and delivery process.

What distinguishes an AMC from a large appraisal shop?

By now, it should be evident that appraisal management is not the exclusive realm of those identifying themselves appraisal management companies. Mortgage lenders with in-house appraisal operations engage in aspects of appraisal management. Appraisal fee shops that oversee staff appraisers and the appraisal pipeline engage in aspects of appraisal management. Moreover, lenders that outsource appraisal management to independent AMCs engage in appraisal management, although on a more limited scope. So what distinguishes an appraisal management company?

The table below presents a side-by-side comparison of major functional characteristics of AMCs versus large appraisal shops. While there will be some exceptions to the rule, this table

encompasses most of the high-level functional elements of these two segments of the valuation industry.

Functional Element	AMC	Appraisal Shop
Maintains a nationwide or regional fee panel of independent state certified or licensed appraisers on behalf of third-party lender-clients. (Appraisers for appraisal firms tend to work on orders generated only by that firm. AMCs hire small and large firms but can claim almost no exclusivity to individual appraisers' book of business.)	Yes	No
Provides a one-stop-shopping solution for outsourcing settlement service management functions as an alternative to lender-client in-house vendor managers. (Appraisal firms typically lack capacity to perform other mortgage services, whereas most AMCs offer title, flood reporting, closing service, etc. Hence appraisal firms cannot claim "one stop shop" status.)	Yes	No
Performs pre-engagement verification of the appraiser's licensure status, audits work samples, checks references, negotiates fees and service levels, monitors adherence to quality standards.	Yes	Yes
Assigns appraisal orders, tracks statuses, updates client on delays, performs customer service and mediates market value disputes.	Yes	Yes
Performs accounting – pays the appraiser, bills the client.	Yes	Yes
Develops and reports an opinion of value (i.e. engages in the practice of appraisal).	No	Yes

AMCs and appraisal shops do perform some of the same functions, but not all. While AMCs distinguish themselves by managing independent fee panel appraisers and the order flow for clients in return for a fee, they do not engage in the practice of appraisal, which is a key differentiator for appraisal companies and certified or licensed appraisers. This second point warrants some elaboration.

As a rule, appraisal management companies neither perform appraisals nor directly supervise appraisers in the sense that certified or licensed supervisory appraisers supervise associate appraisers. This does not mean that the practice of appraisal equates to automatic exclusion from the AMC ranks. A particular AMC may choose to add value by cosigning appraisals as the supervisory appraiser. That's okay, as long as the person cosigning the report is in fact the supervisory appraiser and is prepared to take on the responsibilities that go along with that role. Nevertheless, since the vast majority of AMCs do not perform appraisals, the practice of appraisal is not generally considered a part of the appraisal management job.

Conclusion

Hopefully this helps to illustrate the different roles of the appraisal management company and appraisal shops in the settlement services industry. AMCs manage the vendor relationship and order assignment to fulfillment continuum. The same can be said for lenders with in-house vendor management operations. Appraisers and appraisal firms on the other hand perform appraisals but do not provide one-stop settlement service solutions or manage panels of out-of-area independent appraisers.

In future articles, we will continue to drill down to uncover even finer distinctions within the appraisal management company role and value proposition. We will illustrate how AMCs improve a lenders' productivity, reduce overall operating costs, and provide unique competitive advantages in an increasingly challenging mortgage-lending environment. Perhaps those who feel it is advantageous to deny being an AMC may come to realize that, as Shakespeare reminds, "A rose by any other name would smell as sweet".