

Doing the Math: Appraisers Who Work With AMCs (Part 2)

By Jeff Schurman

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So, I'm staring up at the light while my dental hygienist, April, finishes her work. Being fascinated by what draws a person to their chosen profession, I have questions. I learn that April has worked here part time for the past two years. She is also a part timer for a dentist across town. Happy for the most part - friendly environment, flexible schedule, decent money - April has no complaints and is grateful to apply what she learned in college. I wonder how she'd feel if instead of being a hygienist in the employ of a dental practice she was an appraiser in the employ of an appraisal management company.

I'm guessing she'd feel ostracized by her appraisal association, labeled a form-filler-outer, an un-credentialed, inexperienced incompetent. I know. I get my share of unsolicited and sometimes uncivil voice and emails. And I read the articles and blogs and HVCC comments from trade reps who think they've got it all figured out. In fact, it's beginning to dawn on me that working with AMCs, at least to some appraisers is, well, like visiting the dentist.

Why is it that AMCs are so unloved? Why do people say AMCs only appeal to bad appraisers? That only the un-credentialed, inexperienced, incompetent form-filler-outers work for them? Why is it that an appraiser who works with an AMC is somehow being forced to do it?

The appraisers who work with AMCs

In [Part 1](#) of our exclusive series called Doing the Math, I argued that AMCs use the very same appraisers as everyone else does... even designated appraisers. Your homework assignment will be to read that article. In Part 2 of the series, I go even further. Here, I present and explain four (4) observations about AMC appraisers that contradict popular stereotypes.

1. Most residential appraisers work with AMCs, or have in the last 5 years; disputing the notion that only a small cabal of lousy appraisers does AMC work.
2. The majority of appraisers who do not work with AMCs would do so if they were to earn higher fees; confirming that it's all about the money.
3. Each appraiser who works with an AMC agrees up front to the expectations regarding quality, service, and fees; evidence that appraisers who work with AMCs do so of their own free will.
4. The assertion that you get what you pay for when it comes to AMC appraisals is unfounded; AMCs give back something of value to appraisers in return for the appraiser's best pricing.

But first, I need to briefly describe what an AMC is and does for the benefit of those unfamiliar with appraisal management in the mortgage settlement services industry.

The Appraisal Management Elevator Pitch

For the record, AMCs are companies that find and engage independent real estate appraisers on behalf of mortgage lenders, mostly large centralized ones. Increasingly, local AMCs are cropping up to service mortgage brokers and community banks. However, the optimal client for the AMC business model is the out-of-area mortgage lender. Using an AMC enables these lenders to avoid fixed expenses like bricks and mortar, workspace, desktop technology - and full-time employees - to manage vendors and process appraisal orders.

Among the benefits of this arrangement is that it gives consumers more choice in shopping for lenders, often resulting in more competitive interest rates, points and fees. It also helps the lender avoid ramping up and shedding staff, plant and equipment, leased facilities, and other expenses typical to the cyclical nature of mortgage lending. AMCs also provide cost-saving benefits to appraisers that are virtually unavailable from any other client group. I'll talk more about this last point later in this article.

But for now, let's get back to the discussion at hand and my rationale for the first observation.

Observation 1: Most residential appraisers work with AMCs, or have worked with at least one in the last 5 years.

As mentioned, I've written elsewhere about the number of appraisers who work with AMCs - including a number of designated appraisers - so I won't go into it too deeply here. If you're interested, please take the adjacent link to the article entitled [Doing the Math on Appraisers Who Work With AMCs](#). Suffice it to say that the reality about the number of appraisers who count AMCs as clients conflicts with the mindset of those who portray AMC appraisers as a small band of barely qualified fraud- and mistake-prone misfits unable to find a better sort of client. In fact, the results of the 2007 October Research National Appraisal Survey suggest that most residential appraisers work with AMCs .

Here's what the appraisers who responded to the ORC survey had to say:

Question 29: Do you currently work with any appraisal management companies?

- Yes = 63%
- No = 20%
- Not now, but I have in the last 5 years = 17%

Based on the responses, fully 63 percent of residential appraisers count AMCs among their clients. Another 17 percent have worked with them in the past five years. This means that about 80 percent of residential appraisers work with or have worked with at least one AMC in the past

five years. For the charge that only "bad" appraisers work with AMCs to be true, one would have to believe that four out of five appraisers are bad. The argument that a small cabal of lousy appraisers does AMC work is simply not accurate.

Observation 2: The majority of appraisers who do not work with AMCs would do so if they were to earn higher fees.

Certainly there are a number of reasons that some appraisers choose not to work with AMCs. AMCs can be hard to work with (3 percent); too many status update calls (5 percent); unrealistic turnaround times (7 percent); conflicts with other work (7 percent); and, insufficient volume of work (12 percent), being those most cited. But by far, the biggest reason that appraisers say they don't work with AMCs is that AMCs don't pay enough to make it worth their while.

Question 30: If "No" or "Not now, but in the past five years," why?"

- Low fees = 49%
- Other = 17%
- No work from them = 12%
- Too much other work = 7%
- Unrealistic turnaround times = 7%
- To many check-up calls = 5%
- Slow/no pay = 2%
- Pressure to overstate values = 1%

When asked what AMCs need to do to recruit non-AMC appraisers to work with them, 60 percent said "Pay reasonable fees."

Question 31: What would an AMC have to do, or do differently, to recruit you to join their fee panel or approved vendor list?

- Pay reasonable fees = 60%
- Nothing, not interested = 19%
- Other = 9%
- Provide more business = 7%
- More realistic turnaround times = 4%
- Pay fees on time = 1%

Although the survey doesn't give those currently working with AMCs the opportunity to weigh in, my sense, based on the articles, blog posts, emails, and appraisal trade association comments on the subject, is that many would agree that AMC fees are generally thought to be too low. From everything I've read and heard over the past 20 plus years, and the results of this survey, and the 2004 ORC appraiser survey, low fees are the root of the problem AMCs have with appraisers.

Observation 3: Each appraiser who works with an AMC agrees up front to the AMCs expectations regarding quality, service, and fees.

A fundamental part of the appraiser approval process for an AMC is to nail down an agreement with the appraiser about the quality of the work product, delivery timeframes, and the appraiser's fee schedule. The negotiation and the engagement typically end the moment the appraiser and AMC recruiter cannot agree on a fee schedule. All this must mean then that residential appraisers who work with AMCs willfully enter into whatever fee arrangement they have with their AMC client(s). Otherwise they wouldn't have made it onto the fee panel.

Now, I'm not saying they're happy with the fee. After all, my contention is that the main rap against AMCs among appraisers is the fee issue. What I am saying is that they made a business decision and agreed to the fee. Eight out of ten appraisers agreed to the fee. Those that subsequently decide to cancel the arrangement are likewise free to go. Thus, the argument that AMCs "force appraisers to work" for such-and-such fees is unfounded.

There is no question that negotiating with an AMC can be viewed as a classic take-it-or-leave-it business proposition - the appraiser usually being the one on the take-or-leave end of the deal. Yet to portray appraisers, as critics often do, as being somehow forced to work for "unethically low fees" is a mischaracterization. AMCs would rather an appraiser decline to work with them than to invest all the time and expense in conducting due-diligence on an arrangement that won't work for either party.

Observation 4: The assertion that "you get what you pay for" when it comes to AMC appraisals is unfounded; AMCs give back something of value to appraisers in return for the appraiser's best pricing.

Appraisers often say you get what you pay for when referring to AMC fees. Well then, I have questions.

As a fee appraiser, you consider yourself competent, don't you? Of course, you'd say. Most any professional would rightly profess competence in doing what they do for a living.

Have you ever done a job (an appraisal, or in my case, a consulting project) in which the work completed was more difficult than the fee paid for the work justified? Yes, you'd argue. We've all had this happen in our careers.

So, why didn't you just slough it off? Shirk as we risk consultants say. Turn in a lousy product? Because, as a professional, I'd never allow myself to do this, might be your righteous reply. We're conscientious about our work!

My point exactly! I don't believe appraisers routinely produce better or inferior work depending upon the client or the fee. They are professionals and comport themselves that way.

But why would an appraiser work for an AMC for anything less than his full retail price?

The Total Cost of an Appraisal

The total cost of an appraisal or anything else consists of two parts: Production cost and transactions cost. Production cost is just that: The cost to produce a product or service. In an appraisal it is the cost to process the order, inspect the subject property, drive the comps, collect and analyze data, develop the appraisal and report the results. But this is only part of the overall cost. There's also the transactions cost.

Transactions cost represents the costs of running a business that are not related to production costs. Transactions cost includes the cost to find and secure clients, maintain licensure, attend continuing education courses, buy production technology, implement quality controls, resolve service issues, manage exceptions (delays, market value disputes, rescheduled appointments, etc.), learn about new products, and collect on current and delinquent invoices, to name just a few.

Transactions cost also includes the cost of risk. A trainee misses a critical fact, or worse, fakes a comparable or fudges some adjustments. A subcontractor shirks, doing less than he was contracted to do, supposing he'd never get caught. Errors and omissions policy claims. A coworker poaches your best customer. There are all kinds of strategic, operational, reporting and compliance risks in the appraisal business today. Working with AMCs, appraisers lay off many of the transactions costs and risks associated with appraisals for mortgage lenders.

Generally, AMC fees do fall below what an appraiser collects on a retail basis from local mortgage lending clients. And yet, there are many conscientious appraisers who are willing to work for less than their retail fees.

Here are just a few tradeoffs that AMCs offer appraisers they work with:

- Independence from client pressure
- Additional quality controls
- Access to national clients not otherwise available to an appraiser
- AMCs don't compete with appraisers for local clients or preclude them from making full retail fees
- Expanded client base and a stable income

For those interested, TAVMA has developed a flyer we call "[The 'Value' of AMCs to Residential Appraisers: 14 Great Reasons Why You Should Think About Working With an AMC.](#)" Copies of the flyer are available by calling the TAVMA office at 412-507-2318.

In conclusion

My great one-liner is that I've been in the AMC business for 24 years, 12 of the best years of my life. Ok, maybe it's not so funny. The point though is that we all had our ups and downs in our chosen professions, and I'm no different. Yet throughout these ups and downs, I've come to two conclusions. The first is that I am convinced that the AMC business model is a sound one that offers mortgage lenders an alternative to self-managed appraisal networks and that offers appraisers an alternative to cold calling prospects half a country away to earn a place on a fee panel that may never bear fruit.

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My second conclusion is that AMCs are worth more to their client than the fees they charge. And the same is true for appraisers. Appraisal fees have been stagnant for years, not just with AMCs, but virtually every other client type. Mortgage lenders, in their zeal to push down the cost of making mortgages, almost always look to reduce the cost to obtain appraisals and manage the appraisal pipeline. And yet this is the environment in which we all must compete. That is why the decision to work with an AMC, or not, is a financial and business decision that every appraiser must make.

If you are the 1 in 5 appraisers who'd never ever work with an AMC, that's fine. Just don't paint the other four as un-credentialed, inexperienced, incompetent form-filler-outers. The numbers on that argument simply don't add up.

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