

One Attorney General, 2 GSE's and 3 Ways to Order an Appraisal

By Jeff Schurman

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I've been interviewed by several reporters in the last few days about TAVMA's position in the matter of appraiser independence and inappropriate client pressure. The news that Fannie Mae, and more recently Freddie Mac, has bowed to pressure from the New York Attorney General to do more to assure appraiser independence has created a flurry of media inquiries seeking TAVMA's take on the matter. Having repeated the TAVMA position since 2004, I'm happy to oblige anyone interested in our association's position.

TAVMA's Position on Client Pressure

TAVMA has been a vocal advocate for [appraiser independence](#) and keeping appraisers and lenders at arms-length. TAVMA is opposed anyone involved in a real property transaction applying undue influence on an appraiser. Moreover, we see the need for a uniform definition of inappropriate client pressure based on the legally defined terms bribery, coercion, and extortion. TAVMA continues to advance the unique position of the appraisal management industry in keeping appraisers and clients at arms-length. In addition, we advocate for state funding to adequately investigate and prosecute instances of illegal client pressure. And, we continue to be encouraged by the attention regulatory agencies are placing on the client pressure issue. So, although TAVMA has not yet published its position on the OFHEO (Office of Federal Housing Enterprise Oversight) agreement with the New York Attorney General, I suspect our position will affirm the effort to secure appraiser independence and invite the agencies to throw their support behind TAVMA's significant efforts in this regard.

My personal view of the agreement, as [articulated elsewhere](#), and that the lawyers among us would quickly remind is "not necessarily that of my employer," is that I agree with the diagnosis of the problem. However, I can't bring myself to agree to the totality of the decided on solution. I continue to be at a loss to see the distinction that is so clear to the regulators between appraisals ordered by lender-captive appraisal management company employees, and those ordered by mortgage banker or independent appraisal management company employees.

3 Ways to Obtain an Appraisal

Essentially, vendor management is the engagement in and oversight of contractual relationships with independent settlement service providers and the procurement of services needed to underwrite loans to satisfy agency and investor requirements. There are three (3) ways for mortgage bankers who sell loans to Fannie Mae to order appraisals:

1. In-source the entire function to a staff of W-2 employees with the job title of Vendor Manager. These people, mostly non-appraisers, are responsible for engaging, qualifying, and recruiting independent fee appraisers to perform valuations on the mortgage bank's behalf. They contact the appraiser, place orders and track them, conduct an administrative review of the appraisal report, send the appraisal to the underwriter, and authorize payment of the appraiser.
2. Outsource the entire function to an independent third-party appraisal management company. The appraisal management company maintains an in-house staff of W-2 employees with the job title of Vendor Manager. These people, mostly non-appraisers, are responsible for engaging, qualifying, and recruiting independent fee appraisers to perform valuations on the mortgage bank's behalf. They contact the appraiser, place orders and track them, conduct an administrative review of the appraisal report, send the appraisal to the client, bill the client, and authorize payment of the appraiser.
3. Outsource the entire function to a captive appraisal management company. The captive appraisal management company maintains an in-house staff of W-2 employees with the job title of Vendor Manager. These people, mostly non-appraisers, are responsible for engaging, qualifying, and recruiting independent fee appraisers to perform valuations on the mortgage bank's behalf. They contact the appraiser, place orders and track them, conduct an administrative review of the appraisal report, send the appraisal to the client, bill the client, and authorize payment of the appraiser.

Forgive the repetitive wording in these options. It was done with a purpose: to illustrate the similarity in what each of these people do to engage appraisers and order appraisals.

Distinctions without Differences

All this brings me to my central question. What is the difference between a W-2 vendor manager inside the bank calling appraisers to place appraisal orders and a W-2 vendor manager from an independent or lender-captive appraisal management company calling the very same appraisers to place appraisal orders?

The GSE's and the New York attorney general seek to wipe out one of the three ways to order an appraisal. Conspiracy theorists may suggest that this is part of a master plan to replace lender-captives with the GSE's as the third way to order an appraisal. Who knows; stranger things have happened. But I'm not even there yet; I'm still stuck on what seems to be a distinction without a difference. Yet I remain encouraged that a difference, if discovered, will free me to meditate on the many other questions of the age. In the meantime, I will worry about all the people who work for captives and what they'll do now that they've been deemed untrustworthy.

~ Jeff Schurman, executive director, TAVMA

Resources

[Fannie Mae, Freddie Mac Reach Landmark Agreement on Appraisal Practices
Office of Federal Housing Enterprise Oversight Press Release - Mar. 3, 2008](#)

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[Fannie Mae Agreement](#)

[Freddie Mac Agreement](#)

[Home Valuation Code of Conduct](#)