

High AMC registration fees penalize small-shop AMCs

By Jeff Schurman

I've been writing about the appraisal vendor management industry long enough to anticipate the passions this topic stokes in some who would like to see the appraisal management company (AMC) business model come to an end. The math exercise I put forth here will be of little sway to these folks. So, if this is where you are in your thinking about AMCs you're not "the intended user of this report" as they say. The intended user of this article is the small-shop AMC owner, state legislator, and AMC regulator who have a vested interest in registering AMCs without putting them out of business.

I'll start with a 3-part quiz: 1) In no particular order name the top 10 appraisal management companies (AMCs) in the country in terms of order volume. 2) Name the next five largest AMCs using the same criteria. Pencils down. The top 10 AMCs shouldn't be too tough to identify; the next five probably more so. However, the third part of the quiz – 3) Name number 16 on the list – is even more challenging. That's because, for every large AMC there are around ten very small AMCs. Identifying them by volume or many other measures is a tough row. But equally tough is overcoming the misperception that AMCs are all large firms.



Looking across the AMC spectrum, we can surmise that big AMCs make up the lion's share of the business. My own extensive research indicates that the 20 largest AMCs represent 80 to 85 percent of AMC industry market share. As such, AMC executives, state legislators, appraiser board administrators need to consider this significant statistic as they contemplate AMC registration fees. The wrench in some state's plans is that many small-shop AMCs don't do anywhere near the appraisal management volume needed to cost-justify registering in high-fee states. They'll simply stay away.

The best laid (financial) plans

A growing number of states are considering AMC registration statutes. So far in 2009, Arkansas, Nevada, New Mexico, Utah, Louisiana, and California have passed legislation requiring AMCs to register with a state finance agency or appraiser board. Next year, by some accounts another 30 or so states will take up AMC registration proposals of their own. Most of these proposals will include AMC registration fees; some as low as \$100; others are as high as \$5,000. Trouble is that at \$500, let alone \$5,000, these fees won't make sense to small businesses from an economic standpoint.

True, at \$5,000 states stand to generate lots of fee income to help fund their AMC registration programs. Suppose only one-third of the estimated 250 AMCs register in \$5,000 fee states like the proposed statutes in North Carolina and Missouri¹. If so, each of these states would generate about \$400,000 in fee income; if one-half register fee income jumps to \$625,000. Moreover, both NC and MO propose annual renewal fees of \$2,500 and \$2,000 respectively, perpetuating the windfall into forever!

I almost feel applause at the prospect of forcing smaller AMCs out of prime states. But where's the economic fun in that? Sure, there are lots of small AMCs out there. Yet crushing them with a legislative gavel won't amount to much in terms of financial windfall for appraisers, larger AMCs, or state coffers. Here's why.

The cost-per-(full) appraisal of AMC registration

A typical small-shop AMC generates between \$150,000 and \$300,000 in gross annual revenue from appraisal management operations. Take the example of an AMC that grosses \$250,000 one year. Let's say for fun that 75% of its gross is derived from managing full-appraisals; that's around 500 full-appraisals per year give or take. By doing the math using my figures, or yours if you prefer, paints a picture of what this AMC would pay to North Carolina, Missouri, and/or the next state that considers assessing high fees. This is how the math works out.

What we know so far is that the AMC in this example grossed \$187,500 in full-appraisal fees ($\$250K \times 75\% = \$187,500$). The second step is to deduct what the AMC pays its appraisers each year. Charlie Elliott, JR, MAI, SRA, the CEO of Elliott & Company, one of the largest appraisal companies in the U.S., said in a recent [article](#) that after paying the appraiser an AMC has about 30 cents on the dollar left over to pay all other expenses. Using Charlie's figure it means that this AMC has about \$56,250 ($\$187,500 \times .30$) in full-appraisal revenue left over the course of a year to pay all other expenses – including AMC registration fees. Dividing the result by the 500 full-appraisals per year previously noted equates to \$112.50 per full-appraisal to pay for all of the AMC's other expenses² and earn a small profit.

Hang in we're almost there.

Now that we've monetized the AMCs gross margin we need to break down the distribution of full-appraisal orders for this AMC by state. Suppose our AMC is a nationwide provider that generates its

¹ The Missouri legislature subsequently killed the bill.

² Administrative management costs: Sales & marketing, client services, customer relationship management, pre- and post-delivery quality control, exception management, electronic interfaces for report delivery, market value dispute resolution, process and technology firewalls to assure appraiser independence, accounting, tracking special instructions, productivity and workflow management, risk management, compliance with lender service level agreements, product development, and more.

entire revenue stream servicing 25 or so major metropolitan statistical areas (MSAs). According to HMDA reports, MSA's in North Carolina and Missouri produce about 3.5 percent and 2 percent respectively of total residential mortgage volume. As a result, it is realistic to suppose that this AMC might do eighteen (18) appraisals in NC and ten (10) appraisals in MO per year. You can see the problem.

The obvious problem for this AMC and others like it is that high registration fee(s), as measured on a per-appraisal basis, is cost prohibitive. At eighteen NC appraisal orders the AMC's registration fee equates to \$278 -per-appraisal (\$5,000/18); at ten MO appraisal orders in MO it's an eye-popping \$500 per appraisal (\$5,000/10). Given the cost of registration versus the economic benefit of doing business makes the decision to go elsewhere academic. Appraisal management is a volume-based enterprise and a net loss per order isn't easily made up for in volume.

An alternative for small-shop AMCs to think about

Even though there isn't enough volume for a small AMC to operate in every high-fee state all is not lost. One way for a small-shop AMC to justify a \$5,000 registration fee is to focus all of its appraisal vendor management efforts in just *a single high-fee state* and perhaps one or a few low- or no-fee states. Paying out big-time fees to both NC and MO, and the next state(s) looking to charge high registration fees is pretty much out of the question, as the preceding example illustrates.

At the same time, if an AMC were to do half of its volume in NC *or* in MO, and the other half in low- or no-fee states – say 250 appraisals in NC or MO and 250 in low- or no-registration fee states – the per-appraisal registration fee would dive down to \$20 per appraisal ($\$5,000/250 = \20 per appraisal). Even this is a very high number for a small business given the expenses an AMC incurs servicing clients, the geographic dispersion of orders that AMCs of all sizes tend to get, the competitive advantage big AMCs have due to economies of scale, and the additional sales and marketing cost that a single-state strategy will undoubtedly dump into the small AMC expense bucket.

An invitation to small-shop AMCs, legislators and regulators

I haven't done research around the feasibility of some of the other alternatives available to small AMCs. If you're a small-shop AMC owner/operator, I'd be interested to hear from you about how you're handling high registration fees in states that you service. My plan is to compile an e-book containing ideas and strategies to help others in the same boat to compete in high-fee states.

I'd also like to hear from state legislators, legislative aides, and AMC regulators who have questions about the AMC industry or AMC business model. Send me an email (jeff@tavma.org) and I'll be happy to touch base.

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