

Fannie Mae Votes Lender-Captive AMCs off the Island

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The last few days have been a whirlwind of requests for comment on the just-released Fannie Mae email in which the GSE (Government-Sponsored Enterprise), in league with New York Attorney General Andrew Cuomo, seeks to halt buying loans from lenders with in-house appraisal units or captive vendor management companies. The news first broke in Bloomberg.com, and was subsequently reported in the American Banker. As I have said to anyone who will listen I have mixed feelings about the proposal.

In the "Good for Vendor Management" category, any action to keep originators and the appraisers at arms-length to maintain appraiser independence is consistent with and supports the appraisal management industry value proposition. In addition, the Fannie Mae proposal will help the VMC industry in that it calls for Fannie to reject loans that include appraisals ordered by loan brokers. Brokers are not typical VMC clients and are reputed to like to control the appraiser selection and property valuation process. So this aspect of the proposal ought to cause more lenders and brokers to consider using vendor management companies. In part, I suspect, they'll do so to show regulators that they've separated the originator from the appraiser by outsourcing that role to the VMC.

In the "Bad for Vendor Management" category, discriminating against lender-captive VMCs seems strangely out of step with the trend in the mortgage lending industry to embrace vendor management as an alternative to procuring appraisals using in-house staff. It also doesn't seem warranted given the lack of evidence that such a drastic step is needed. Granted, it probably is for mortgage brokers who have consistently cited among appraisers (see the 2007 October Research Appraiser Survey) as inappropriately pressuring appraisers to hit predetermined values. And yet the case against captives has not yet been made.

After meditating on all this, I've come to the conclusion that the underlying problem is that the GSE has inadvertently blended the terms "in-house appraisal unit" and "captive vendor management company" into a definition that considers them as one in the same thing. But they aren't the same thing. The rest of this article will explain why.

You say tomato, I say tomato; you say apples, I say oranges

Back in the S&L days many lenders maintained in-house staff appraisers who would perform appraisals exclusively for their lender-employer. Loan applications originating in the branch office were walked by the originator maybe two desks over to the in-house staff appraiser. Both were typically W-2 employees of the S&L (before the IRS made it worth while to classify workers as independent contractors rather than W-2 employees). The pertinence of this particular arrangement is that the in-house staff appraiser developed the real estate appraisal (USPAP Standard 1) and reported the results of the appraisal (USPAP Standard 2) for and to his/her lending institution employer.

Fast forward. Today, few lenders maintain in-house staff appraisers, particularly large national lenders like Countrywide,

WaMu, and Bank of America. Over the years lenders discovered that in-house appraisers cost a lot of money. Salary and benefits, taxes, physical facilities, data, office equipment and other costs made it cheaper to procure appraisals from independent appraisers. Besides, Over 70 percent of all loans are originated by one of the top 100 lenders through direct and broker channels. The continuing consolidation of the mortgage lending industry and national footprint the big lenders enjoy has made it impractical for most lenders to maintain the staff appraiser model.

In place of in-house staff appraisers lenders migrated to the vendor management platform. Most staff appraisers went on to work for themselves as fee appraisers. The few that remained became chief appraisers and review appraisers whose job was to oversee the work quality and performance of outside appraisal vendors. Also, these former in-house appraisal units were renamed and became "vendor management units." The new job description became that of recruiting fee appraisers, placing and tracking orders, conducting due diligence, quality control, etc. These vendor managers don't do the appraisals nor go into the field. Theirs became an administration, quality control, and appraisal standard setting and monitoring role.

The Devil's in the Definitions

I commented to one reporter that appraisal reports don't just magically appear on the lenders desk. Someone has to engage the appraiser, place the order, track the order, do some level of QC, and pay the appraiser.

The reality is that few lenders use an in-house appraisal unit; almost all use some form of in-house appraisal management unit. Whether it is a large captive VMC like Countrywide's Landsafe, or a small department of vendor managers like BofA or WaMu's, who for the most part oversee a cadre of independent vendor management company partners to procure third-party appraisals, virtually every lender has an in-house vendor management unit. These folks procure appraisals and oversee the vendor base. They do not appraise in the field.

Maybe I'm putting too much western thought into the eastern art of meditation. However, it makes no sense to me that Fannie would seek to draw a distinction between a lender's in-house W-2 employee with the job title of vendor manager who calls independent appraisers to place orders, and a lender-captive's W-2 employee with the same job title who calls the same independent appraisers to place orders.

Certainly, Fannie Mae and Attorney General Cuomo have the power to bring out the big stick and poke lenders with it if they want to. I'd just like to see a little more big-picture thinking and a little less stick.

~ Jeff Schurman