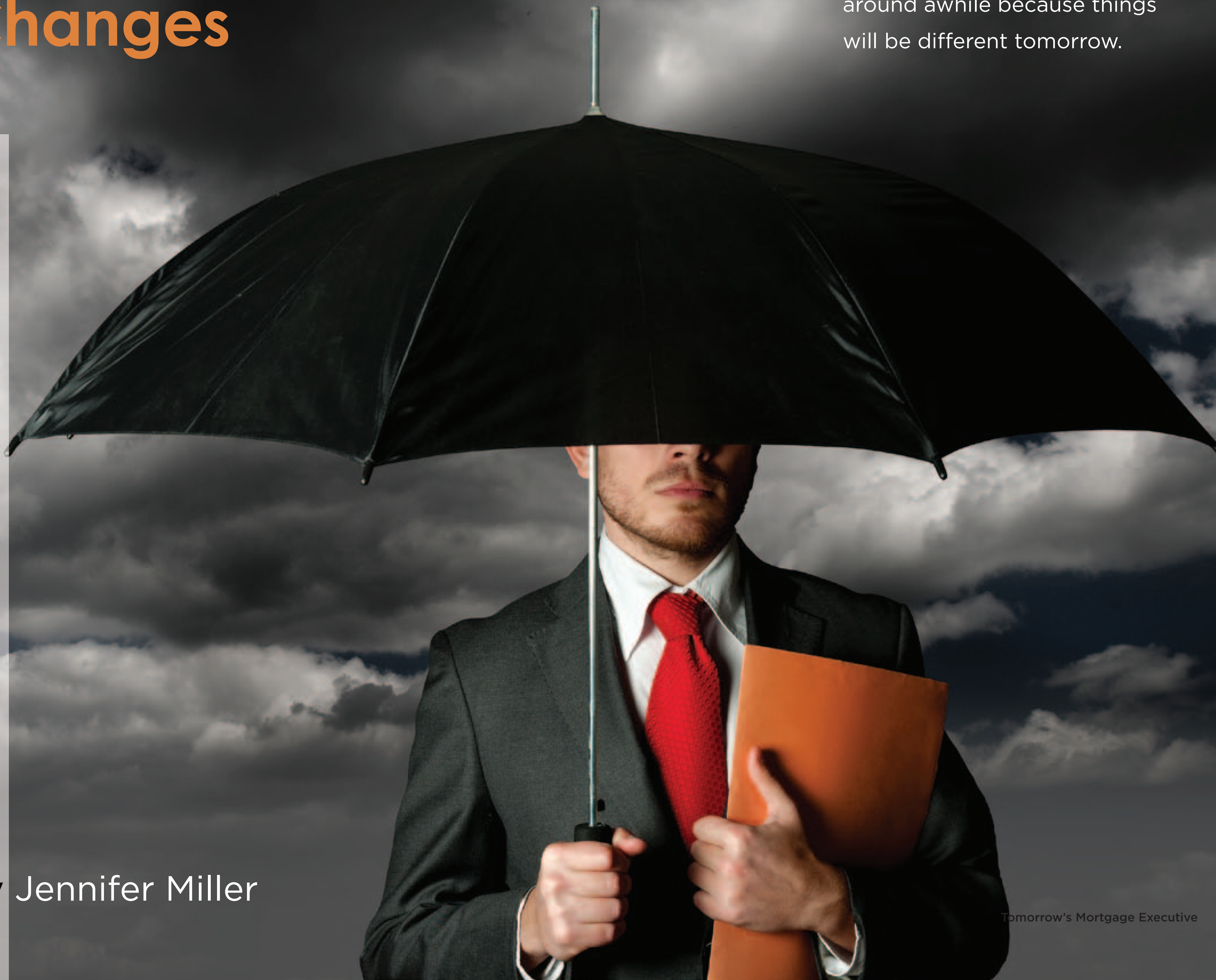
Surviving The STORM
of Appraisal Changes

If you don't like what's going on with appraisals, just stick around awhile because things will be different tomorrow.

From HVCC to AIR, "customary and reasonable" to UAD, UMDP and DFA, only one thing is certain; The appraisal industry is undergoing tremendous change and there's likely more on the horizon.

When it comes to appraisal operations and compliance, many lenders don't know which way is up, and no one can blame them. The pace of change has been tremendous, Federal and state regulations have been piling up on top of each other, and individual investor requirements are changing every day. To say it's been a rough few years would be an understatement.

In a climate like this, it's not a surprise that some lenders would either over invest in compliance officers, internal training and systems, or throw their hands up and hope to avoid an audit. But I have good news: There's a much easier way to successfully navigate these changes.



By Jennifer Miller

The conversations I have with lenders and AMCs center on going above and beyond the latest regulation, because we all know there's more around the corner anyway. We need to rise above the compliance fog on the ground, and make decisions based on what makes business sense from a high-level view. In the valuation arena, whether it's BPOs or appraisals or AVMs, there's not a lot in Dodd-Frank or other regulations that wouldn't have been addressed by a comprehensive collateral valuation strategy. In other words, many lenders don't have a compliance problem, they have a workflow problem. The workflow of collateral valuation, if properly designed by valuation workflow experts, accommodates Dodd-Frank and other regulations easily.

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My advice is to engage valuation workflow experts and don't just shoot for solutions to short term compliance problems. Your experts can be an appraisal management company (AMC) or one of the technology platforms for self-management of your appraisal desk. Choose the long-term solution that makes the best sense for your organization. After all, compliance with the latest reg is a moving target, but quality valuation management isn't. Focus on the latter and the former will take care of itself.

Finding the right partner is easier said than done, but I've outlined three critical criteria to look for in selecting a company that will be ahead of the industry and give you the tools you need, no matter how many changes tomorrow brings.

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WHAT ARE THEY HIDING?

I admit it makes for a sensational headline, but when you're looking for a long-term partner, make sure everything is out in the open. This is too important of a decision to trust only a salesperson's word. Request a thorough demonstration of the service, or even a pilot period so you can get a true sense of how the service will improve your operations, your appraisal quality, and ease your compliance burdens.

Some vendor management platforms, or self-management software apps, don't have trial versions or a way for you to log in and really put the service through its paces. In any technology decision, this is a red flag for me. If I can't get in and try it myself, I wonder if reality matches the advertisements.

Don't sign contracts before you actually see the service in action, and don't lock yourself into long term commitments. If the service isn't for you, you should be free to walk away at any time without penalties.

I've heard too many lenders complain that their AMC or technology platform isn't right for them, but they're suffering through it because they're stuck for nine months when their contract expires. There may be more reasons for locking you in to a lengthy contract, but the only one I can think of is to protect their revenue if/when you decide you want out. If a company is tailoring policies around clients walking away, you should ask yourself why.

WHO ARE THEIR FRIENDS?

This requirement has a few important meanings, and they're all important to your overall decision. First, the AMC or software you choose needs to have a solid industry reputation. Ask for client references, ask your peers in the industry, check online message boards, and do a little due diligence on the company's overall reputation. Some companies have popped up in the last few years and haven't been around the block when it comes to collateral valuation. They may not be prepared to support you during large-scale industry changes, and you could be left in the cold as they learn to catch up with those who have been around the block. You should prefer a partner with significant experience, and the longevity and stability that results from solid business practices.

Second, the software or AMC you choose should have the ability to integrate with the software and services you already use. Some examples include integrations with your LOS provider so loan officers can compliantly order appraisals from the LOS, or an online portal for easily and quickly placing orders with the AMC. Flexible APIs and modern technology make all of this (and much more) possible, and it's a far better solution for your long-term efficiency. Make sure your partner is innovative, responsive to your unique workflow, and have the business relationships in the industry to help you connect everything your mortgage lending team need into one efficient, compliant solution.

Third, check their client list. Make sure industry leaders have also chosen this solution. If your prospective partner can handle the volume and complex requirements of industry leaders, you can feel more confident in your choice. Rest assured, those large companies have done extensive due diligence and there's no shame in leveraging their work to make your decisions a little easier.

HOW DO THEY GET PAID?

Everybody gets paid. Make sure that you know for certain how your prospective partner, whether AMC or software platform, generates revenue. It sounds like a simple concept, but this is a significant factor in judging the overall value of the solution. Here are a few examples of situations you should consider avoiding:

- Avoid an AMC that takes a large cut of the appraiser's fee. This AMC is probably generally working with less-talented appraisers who are willing to work for very low fees. Their profit margin is dependent on how low they can get the appraiser to go, and how high they can get you to go. If you're concerned with appraisal quality and compliance, this is not a good practice.
- Beware of bait-and-switch scenarios. Sometimes full service AMCs offer a "self-managed" option based upon less expensive, tech-based services. Because choosing between an AMC and a self-managed technology platform has traditionally been considered an either/or choice, a vendor offering both solutions can be perceived as being a safer option. In reality, once a client is hooked, the vendor has a financial incentive to guide them to a more costly solution regardless of their actual needs. If you choose one of these blended vendor's technology platforms and have a normal customer support question, you might be escalated to higher priced AMC services. Make sure you're not getting baited on less expensive products just to find out later you're being sold on more expensive AMC services you may not even need.
- Skip implementation fees or upfront costs. Whether it's a software platform or an AMC, paying upfront fees usually isn't necessary. If they have to develop your solution, and thus want an implementation fee, you should question their experience. Testing and launching custom implementations is a long-term project fraught with unforeseeable delays and expenses, and it's rarely a good experience for the lender. Don't foot the bill for someone else to develop a new solution. If it's new, it hasn't been tested, and there are plenty of tried and tested solutions out there so you don't have to risk additional upfront expense.

Finding a long-term partner is an incredibly important endeavor, especially in this regulatory environment. As a lender, you need to focus on origination and service, and rely on valuation workflow experts to help you with specific workflow operations. With the right partner, you can rest assured that you'll be ready no matter what happens next.

I hope these guidelines help you make the best choice for your organization. You can download a checklist with more tips and compliance information at www.MercuryVMP.com/PartnerChecklist. The checklist will give you more guidance as you get down to the business of selecting a partner that will give you the peace of mind that your valuation operations are compliant, and result in the highest quality reports to help your institution make the best lending decisions. ❖

CHOOSING AN APPRAISAL PARTNER?

Avoid these 10 pitfalls:

1. There's no way for you to "try it out" or look under the hood
2. They want to lock you in to long contracts or order minimums
3. They don't work well with others, and have limited integrations with other platforms or companies
4. They won't provide client references
5. Your industry peers haven't ever heard of them
6. The big guys in the industry don't rely on them
7. They take a large cut of the appraiser's fee
8. They don't bother with improving their product or service with updates or new features
9. They're too eager to sell you additional services
10. You are forced to pay implementation fees or upfront costs

About The Author

Jennifer Miller is president of a la mode's Mortgage Solutions Division. Her focus is Mercury Network, the nation's premier vendor management platform responsible for 20,000 appraisal deliveries a day. She manages the daily operations of the division, the continuous additions of new features to Mercury Network, and the support of the growing client base. Jennifer can be reached at Jennifer.Miller@ alamode.com