

How AMCs Help Lenders Expand Into New Markets

Appraisal management companies can be an invaluable ally for originators seeking to grow their business into unfamiliar territories.

By Brian Levine

As the residential mortgage industry continues to retrench and rebound, some lenders are choosing to expand their geographic footprint to reach more potential borrowers. However, many of these lenders will need to develop relationships in new markets where they may not have experience or context.

Appraisal accuracy is one of the relationship-driven functions that can be difficult to replicate when a new branch or office is established in a new community. For lenders, selecting the right appraiser can be a daunting task to ensure the required level of quality and performance to originate solid loans. To help smooth the path into a new market, lenders should consider taking the needed time to develop a relationship with an appraisal management company (AMC) that can help create those new links to the community and provide an added layer of due diligence.

The capacity is there to assist lenders in managing expansions into new markets. According to the Appraisal Subcommittee of the Federal Financial Institutions Examination Council, there are more than 100,000 active appraiser credentials in the U.S., and more than 53,000 are certified residential.

Furthermore, there are the still-unfolding regulatory scenarios putting parameters around how lenders are permitted to develop relationships with appraisers. Entities such as the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp. (FDIC) and Fannie Mae require lenders to perform due diligence and be familiar with the appraisers providing valuations services. Ultimately, the lender is responsible for the merits of the valuation of the collateral. In addition, the lender is responsible for ensuring appraisers follow the processes to meet underwriting requirements.



However, these same federal entities require that appraisal independence regulations be followed. This means that loan originators are prohibited from selecting or being involved in the appraiser-selection process.

The FDIC is particularly clear about the relationship between the lender and the appraiser. In its appraisal policy, the FDIC firmly states, "The collateral valuation program is an integral component of the credit underwriting process and, therefore, should be isolated from influence by the institution's loan production staff. An institution should establish reporting lines independent of loan

production for staff that administers the institution's collateral valuation program, including the ordering, reviewing, and acceptance of appraisals and evaluations. Appraisers must be independent of the loan production and collection processes and have no direct, indirect or prospective interest, financial or otherwise, in the property or transaction."

These two seemingly contrary mandates leave a gray area for lenders to navigate as they select a viable panel of appraisers without violating any regulations, even in their home communities. Because of its structure, an AMC can provide the quality assurance lenders need, while also providing the buffer between the appraiser and the loan production team that is required.

AMCs have compiled and managed historic data on thousands of appraisers around the country. AMCs manage and maintain panels of quality appraisers by collecting resumes and references, and examining sample reports from the work performed. They also monitor federal and state exclusionary lists that identify suspect appraisers, as well as those who may have any reports of questionable performance.

AMCs rate appraisers based on performance and the quality of their reports on a regular basis, so lenders can be confident they are getting the most up-to-date information. Lenders benefit from these

pre-existing relationships and the screening programs established by an AMC. The bottom line is that an AMC can provide an additional layer of quality checks to ensure the valuation process meets all necessary requirements, as well as provide local resources to ensure an efficient expansion of a lender's business.

Selecting an AMC

So how should lenders proceed? When selecting an AMC, some questions that lenders need to raise include the following:

What is the AMC's process of qualifying appraisers? Lenders must pay close attention to the appraiser-approval processes used by the AMC. Ultimately, the quality of the valuation rests upon the lender. Can the lender be confident about the panel being assembled by the AMC?

One quick check is to ensure the appraisers on the panel are either certified or licensed (or both). Today, AMCs are regulated in 25 states, and the common language in these regulations is that AMCs use certified and/or licensed appraisers. This should be a given, because if an appraiser is not certified or licensed, he or she should not be placed on a panel.

Beyond that, consider that AMCs

provide various layers of protection in addition to the basic certification requirements. These companies research appraisers' standings to ensure there are no major outstanding complaints or disciplinary actions. They also acquire referrals and samples of an appraiser's work to gauge the merit of the valuations being done.

The ability of an AMC to monitor appraisers is based on these evaluations and prior experiences with appraisers. When lenders enter a new community, they are borrowing that relationship and those evaluation standards. Lenders should have the confidence that the AMC reviews appraisers' efficiencies and proactively has a program that works to identify appraiser skills that might need improvement. This can prove to be beneficial, as skill requirements may change over time.

How does the AMC categorize and select appraisers? Appraisers should not be selected strictly for their ability to meet timelines. In fact, regulatory requirements favor quality over speed. This is why lenders should confirm that the AMC selects appraisers based on a balance of the quality of their work and their performance. The ideal candidate is an appraiser who knows how to effectively

manage required timelines while producing a quality product.

How does the AMC scrub its panel? It is important that an AMC regularly conduct reviews and re-evaluate its panel of appraisers. This process will ensure the most current information on an appraiser to prevent any discrepancies on a valuation. Lenders should review the AMC's criteria for adding appraisers to an active panel.

What is the AMC's reputation? Another important aspect lenders should review in selecting an AMC is its reputation. When an AMC is competitive and fair regarding work done for other lenders, as well as payments to appraisers, the company will have a good reputation and a wide group of appraisers with whom to work. In other words, the AMC should have as much respect from its appraiser panel as it does from lenders.

For lenders that want to begin capturing market share and set a new location up for success, working with an AMC is a crucial partnership and one that can be beneficial for both the short and long term. **SME**

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