Focus on Appraisals, Appraiser Hurdles, and AMC's; Bank of America Details Mortgage Exit Strategy

By: Rob Chrisman | Tue, Oct 4 2011, 11:34 AM

"As previously announced, Bank of America Home Loans plans to exit the correspondent mortgage lending channel and focus entirely on retail distribution for its mortgage products and services. **After a comprehensive review of market opportunities, Bank of America will close its Correspondent Lending channel by the end of 2011**, following an orderly transition with Clients. Effective immediately, no new Negotiated Trade pool or flow trades will be offered. Best Efforts and Mandatory locks will be accepted through close of business Monday, October 31. (All locks during this time frame must be 45 days or less in duration. Existing extension, relock, renegotiation, and trade extension/rolls policies will apply, but commitments will not be allowed to extend beyond December 15.) AOT's and Direct trades will be offered through close of business Monday, October 31. Impacted Clients will receive a separate communication shortly with key dates. Loans must be purchased by Correspondent Lending on or before December 15. Existing locks extending beyond December 15 as of October 3 will be honored. Bank of America will work closely with Correspondent Lending Clients to ensure an orderly transition for customers with mortgage loans in the pipeline. All loans currently in the pipeline will receive full support and continue through the process. Bank of America Warehouse Lending is operating business as usual while Bank of America evaluates opportunities for that line of business." Straight from the horse's mouth, 'nuff said.

In talking & writing with loan agents, I continue to **appraisal issues**. Some comments are constructive, others not. For example, here is someone trying to help solve the confusion on the coding used in appraisals: "I am surprised by the number of appraisers who don't understand (or maybe it's the software companies) **the true meaning of some of the terms**. Since the beginning of September the number of appraisers who have taken what FNMA means differently is amazing. Probably 3 out of 4 appraisals have the C - Contract date and S - Settlement dates incorrect. Most appraisers take the C to mean Closed Date and the S to mean listing status, thereby having the dates reversed as FNMA specifically states C is CONTRACT DATE and S is SETTLEMENT Date. I have actually had to send them the pages directly from FNMA guidelines to get them to change the dates - just thought I would mention this coming from an operations/underwriting point of view. Here's the reference, and a quick look at pages 22-24 might help.

Others use math to illustrate examples of **AMC economics**. "We have someone in our office that is an appraiser, so we have a little better insight into how some of the AMC's work. Today he received an order for a field review. What the order shows in nothing short of ridiculous. The fee breakdown is as follows: Customer fee $460, Vendor fee $125, AMC Mgmt fee $335. So 73% of the fee charged to customer is being paid to the AMC for ordering the appraisal?! My question to you is to find if there is any government agency to report this to? Is there even any agency that cares?"

Mark Eastman from **SouthEastern Evaluation** wrote to me. "Over the past several years Real Estate Appraisers have been dealing with increased demands in the appraisal report. This is called in the profession as "scope creep". Back in the good old days when the appraiser received an appraisal request it seemed a lot easier than it is now. The appraiser would do the research, put three or four comps in the report and send it to the client and very rarely would there ever be any questions. **Now days, with "scope creep," the appraiser's engagement letter reads like an instruction manual for a new gas grill.** Fannie Mae and Freddie Mac have made substantial additions to the appraisal guidelines. In 2009-2010 the Fannie Mae introduced of the Market Condition Report (1004MC). This report requires the appraiser to give marketing trends in increments: 7-12 months, 4-6 months and current - 3 months, Number of sales, absorption rates, active listings and months of housing supply. Also the median sales price, days on market, listing prices and the medium sales price as a percent of average list price. All of this information in the time increments listed above."

Mark continues, "Appraisers were told that no additional fees were warranted as they were already researching this information. This is just one of Fannie Mae and Freddie Mac new guidelines. This new requirement is only part of the increased scope of work. **Lenders typically have overlay appraisal requirements**. These may include: two comparable sales in the past 90 days, aerial photo of subject property, if subject property appraises for more than one million it requires 4 comparables and two listings, urban properties report distances in blocks, suburban in miles, zoning-make the determination if property destroyed more than 50% can it be rebuilt, cost to cure on listed repairs, and a turnaround time 4 days from when it was assigned.

"These are just a sample of the requirements from lenders and appraisal management companies. Appraisers were very happy when they read the section of Dodd Frank that addressed appraisal fees. Appraisers were to be paid a fee that is "reasonable and customary". The verbiage in the Dodd-Frank bill was very specific as to how to determine "reasonable and customary appraisal fees". Reasonable and customary was to be determined WITHOUT including fees paid by appraisal management companies. Simply stated only fees paid directly to appraisers by banks, mortgage companies, and other entities could determine what is "reasonable and customary." Appraisers however were in for a surprise when the Interim Final Rules were published. Suddenly the small paragraph about R/C was 18 pages of verbiage with 2 presumptions of compliance. Presumption one allowed for business as usual and that was the option that most AMC's used. For the appraisers it was a disappointing revelation of how our government works with lobbyists.

"No one in the appraisal profession wants to set fees, however between 60 -70% of all residential mortgages and appraisals flow through 5 or 6 companies. This represents an oligopoly. They set the appraisal fee market. It is not reasonable to think an appraiser can effectively negotiate with one of these multi-billion dollar banks. In my humble opinion the best way is more transparency. AMC's owned by banks have become profit centers for the bank. More immediate profits are derived by paying the appraisers less money. Again, this is short sighted from the banks perspective. The old adage you get what you pay for is true. If an appraiser is paid a reasonable market fee it is reasonable to believe the report will be a higher quality report.

"One of the quickest and best ways to fix this problem is transparency. The AMC's scope of work and their fee should be negotiated separately with the lender. This way there is no incentive to pay the appraiser less money. The appraiser's fee should be determined as detailed in the Dodd-Frank bill. Surveys commissioned by Universities, trade organizations and/or government entities are good way to determine what is "reasonable and customary".

The URAR was last updated in 2005. There are several new valuation products on the market. These products can analyze years of sales data in seconds. An appraiser skilled in regression analysis can produce a statistically accurate property valuation with local market knowledge. Fannie Mae and Freddie Mac are the drivers of the residential real estate appraisal reports and acceptable methods. When they embrace this new technology our profession will once again be a trusted part of mortgage lending. There is no shortage of opinions on how to fix our profession. There is no aspect of the mortgage business that is easy. The Dodd-Frank bill is 2,300 pages of new regulations that touched every aspect of the financial sector. We all have to deal with a difficult changing environment." If you'd like to reach Mark, write him at mchapman@see-amc.com.

Of course classes dealing with appraisals abound. For example, one is offered by Streetlinks Lender Solutions. "Lenders today are faced with various options for managing their appraisal process. Picking the right process that will appeal to a marketplace's demand for speed, laser accuracy and competitive costs can be daunting...in this webinar you will learn Process Styles: AMC vs. Self-Managed appraisal solutions, Key Considerations: Understanding and evaluating your own needs, What to Look for in a Provider: Key questions for potential appraisal management partners" You can go to: https://www1.gotomeeting.com/register/540313873.

Lenders & investors are trying new things. For example, "To better facilitate your appraisal request needs, **Stearns Wholesale has just added an alternative AMC**. This now provides you with an additional selection from the one that is accessible from the Stearns Wholesale website." And last Thursday "**Mountain West Financial has partnered with AXIS Appraisal Management Solutions** as an additional appraisal resource option for your FHA and Conventional transactions."

Yesterday, despite the ISM Factory Index unexpectedly climbing, stocks dropped and bonds rallied. For those in the mortgage biz, the Fed's buying program commenced yesterday, which may have helped 10-yr T-notes rally more than a point and close near 1.79% although current coupon MBS prices ended the day "only" better by .375-.50. But what helped our rates more were the increased odds of a Greek default.

For fun today we have Chairman Bernanke's testimony on the "Economic Outlook and Recent Monetary Policy Actions" before the Joint Economic Committee beginning at 10AM EST, with the only economic release being Factory Orders. In the early going stocks are pointing lower (how are old folks supposed to retire when their stocks keep going down?) and rates are lower: **the 10-yr is at 1.80% and MBS prices are worse.**

Tom, an eighty-year-old rancher, was in town for his quarterly supply visit. He had lost his wife and rumor had it that he was marrying a "mail order" bride.
Being a good friend, the banker asked Tom if the rumor was true. Tom said "yes" and with a wink said, "And she'll be twenty-one before years out."
The banker knew the "appetite" of a young woman could not be satisfied by an eighty-year-old.
The banker tactfully suggested that Tom should consider getting a hired hand to help him out on the ranch (knowing nature would take its own course).
Tom thought this was a good idea, "I sure needed some help."
Four months later, Tom was in town again.

"How's the new wife?" asked the banker.
Tom proudly said, "Good - she's pregnant."
The banker, continued, "And the hired hand?"
Without hesitating, Tom said, "She's pregnant too."
NEVER underestimate old guys.

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