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Is the New AMC business model broken?

The current AMC business model cannot handle large increases in appraisal volume. Boom and bust lending cycles have occurred for decades. Low fees, excessive revision requests, commoditization of appraisals, and overall treating all appraisers like they are not to be trusted is not working.

Appraisers can be very "picky" about the AMCs they work for. Appraisers with direct lender and non-lender clients won't work for them.

In this article, I look at the history of AMCs, analyze why they changed after HVCC, and where they are going (maybe).

AMCs have been around for a long time. The first one, LSI, was started in the 1967. There have been fee appraisers who worked for AMCs since that date.

But, they were very, very different then. There was no Scope Creep, computerized reviews, constant update requests, etc. Fees did not change much, similar to lender appraisals. There were no broadcast orders, competitive bidding on individual orders, fees were not based on supply and demand of appraisers, etc.

Not many lenders used AMCs, so AMCs did not have a large number of lender clients. Lender requirements did not vary much among lenders. No long requirements lists from many lenders.

Some AMCs employed staff appraisers, similar to lenders. Technology was much simpler than today. The internet was not widely used or as sophisticated.
Their market share, prior to HVCC starting in 5/09, was about 10%-20% (reliable data was not available). After HVCC it increased to about 80%.

I always try to write about issues that significantly affect appraisers - regulatory and business issues. When AMCs started taking over, I wrote about them frequently. I did profiles on several AMCs, went to conferences to speak directly with them, etc.

Why do so many AMCs keep calling for 3 day turn times and low fees?

Just like fee appraisal businesses, AMCs compete on fee, turn time and quality. Because there are so many AMCs, competition is very intense.

Lenders have always been primarily concerned with faster turn times, so they can close deals. Many AMCs promised their clients 3 day turn times, back when there was not a shortage of appraisers due to high volume.

"Quality" is based on conformance to CU and other review software as they have few appraiser reviewers.

What is left? Competing on fees. LenderS have never been very sensitive to fees as they pass them on to their borrowers. But, paying one AMC $50 less on an appraisal can be a lot of money with high volume lenders, such as Quicken loans.

For AMCs, every dollar they pay to appraisers is money lost, particularly today since fees have gone way up in many areas. They have no loyalty to appraisers, except sometimes the top tier appraisers doing high end proper-

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ties. In dramatic contrast to large appraisal firms, they have no relationship with their appraisers.

Agreements between AMCs and lenders are often very long. I have never seen one, but hear they are much more complicated than agreements between AMCs and appraisers.

Appraisals are commodities

Appraisals are now commodities, with one appraiser seen as the same as another appraiser.

With computerized "reviews" and very few review appraisers, it is hard to determine "quality", assuming that quality means an accurate value based on a appraiser knowledgeable in the market.

"Quality" is determined by conformance to arbitrary review requirements, which keep increasing. Many have little relationship to what appraisers see as quality.

With CU and other software review analysis, appraisers are seen as not very reliable, so all appraisers are seen as the same, not very reliable and must be carefully watched.

Wells Fargo - shifting to staff appraisers

RELS has been Wells Fargo's AMC since the mid-1990s. They recently sold it. Now, they are hiring staff appraisers.

However, they still use AMCs.

Appraisal management: AMCs vs. direct lenders vs. large fee appraisal companies

Until mortgage brokers took over loan origination in the mid-1990s, most appraisals were done by lender staff appraisers. They were hired when business was strong and then laid off when it slowed down. In 1986, when I started my appraisal business, most appraisers were lender staff appraisers. Fee appraisers were used when business was too strong for the staff appraisers to complete all the appraisals. The approved appraiser list was often locally managed, and lenders knew the appraisers personally. Staff reviewers carefully managed quality. Lenders set the fees with relatively few changes over time.

Today, direct lenders are very similar to the past.

Large fee appraisal firms are/were similar to lenders, with both staff and fee appraisers. They had review appraisers monitoring appraisal quality and knew their fee appraisers. Few had many, many lender clients. After HVCC, many of the large residential appraisal firms laid off most of their staff appraisers. Some became AMCs.

But, today large fee appraisal firms have not changed much, except there are not many left.

In the past, prior to HVCC, I had always thought of AMCs as large appraisal companies with very few staff appraisers. But, today AMCs are very, very different than direct lenders or large fee appraisal firms, unless they are small local or regional companies.

Computers instead of human reviewers decide if appraisals are acceptable. They work for many lenders, with different and/or conflicting requirements. All appraisers are seen as the same. They have very few staff review appraisers, who focus on difficult to appraise properties.

Some have hired staff appraisers, but it is not possible to hire enough to get the tens of thousands of appraisal orders they process per month.

AMCs and fees - profits shrinking

AMCs compete for lender work primarily on fees. The lower the fees they pay to appraisers, the more money they make.

Since AMCs took over, many appraisers quit the profession because they refused to work for AMCs, a significant factor in today's appraisal shortage. Many other appraisers only work for AMCs when business is slow.

Some AMCs try to get the lowest fees they can obtain.

What will happen to AMCs when they can't find appraisers do work for low fees?

Today, there are some areas where there is an oversupply of appraisers. But, there are other areas where there is a severe shortage.

This means that the AMC model of competing with other AMCs for lender business by offering lower fees is not working. Their profits are shrinking. They obtain the most profit by paying the lowest appraisal fees.

AMCs and turn times

AMCs also compete on turn time. However, many appraisers are very busy and turn down as many as 10-15 or more AMC appraisals a day. There is not much they can do about long turn times. Before AMCs took over, appraisers established relationships with their best client and gave them top priority. Appraisers can get a lower rating from an AMC for slow turn times. AMCs have little or no loyalty to their appraisers. There is always another AMC to work for.

Below are fees from a national lender that does not use AMCs. Most appraisers give these clients top priority over AMC clients, so these turn times would be lower than the turn times appraisers would quote to AMCs. Or, the appraisers just say no or never reply to requests.

Most direct lender turn times I hear from appraisers is 1 to 3 weeks. Some states, such as Montana, are very long.

Average turn times by state in business days:

ALABAMA	10
MINNESOTA	9
ARKANSAS	0
MISSOURI	17
ARIZONA	16
MISSISSIPPI	10
CALIFORNIA	10
NORTH CAROLINA	14
COLORADO	24
NEW HAMPSHIRE	20
CONNETICUT	9
NEW JERSEY	11
DISTRICT OF COLUMBIA	4
NEW MEXICO	20
FLORIDA	8
NEVADA	2
GEORGIA	9
NEW YORK	16
IDAHO	10
OHIO	17
ILLINOIS	10
OREGON	31
INDIANA	14
PENNSYLVANIA	11
KANSAS	14
RHODE ISLAND	15
KENTUCKY	13
SOUTH CAROLINA	12
LOUISIANA	7
TENNESSEE	14
MASSACHUSETTS	12
TEXAS	12
MARYLAND	13
VIRGINIA	8
MAINE	28
WASHINGTON	19
MICHIGAN	13
WISCONSIN	12

These are average appraisal fees, with some below and some above. There was no information on range. Some states are not listed as the lender does few, if any, loans there so there is no data available.

What are the problems with the New AMC Business Model?

When you were a trainee, you worked for a fee appraisal company, a lender, or another institution such as an assessor's office. Think about how appraisers were managed compared with AMCs today, especially regarding how you were treated as a professional after gaining experience.

If you look at AMCs as large appraisal companies, today they are run very differently from how large non-AMC appraisal companies would be managed. In the 1990s, AMCs were similar to non-AMC appraisal companies.

As you can see below, the AMC business model has changed significantly since HVCC. For appraisers, fees, Scope Creep and trusting appraisers have significantly changed.

A business model based on supply and demand, getting bids on each appraisal, and treating appraisers as if they are all the same and not to be trusted is a significant change since before HVCC.

Scope Creep is due to increasing lender requirements. But, many AMCs work for lots of lenders. They do not have a way to send you just the requirements of one lender. Instead they send many pages combining all the lenders together.

This is not a particularly good business model, as can be seen now. AMCs cannot run their businesses without fee appraisers willing to work for them for lower fees than direct lenders. When they first took over, many appraisers refused to work for them and quit appraising, reducing supply of appraisers.

When business is slow, fee appraisers will work for them. When business increases, they cut way back on the work they will accept from AMCs.

AMCs can change overnight, depending on their lender clients. An AMC that paid well with few hassles can change to hassling appraisers. This means that it is quite difficult to find "loyal" appraisers and finding appraisers willing to work for another AMC.

Would you want to run a business completely dependent on vendors that did not like working for you?

How did AMCs change before HVCC?

There were not many changes except that computerization increased, reducing costs. Fees were stable, similar to lenders. For example, LSI used its computerization to reduce the number of employees from 995 in 1994 to 400 in 2000. This decreased expenses for AMCs. Employees are expensive.

AMCs: 1990s vs. today vs. lenders

In the 1990s, AMCs were similar to direct lenders, as you can see below. Proprietary appraisal transmission was used later shifting to the Internet, some computerization, appraiser licensing started, etc. AMCs are compared with working for direct lenders, which have not changed much, except for some increases in requirements, use of computerized reviews and number of reviews. Stable fees overall with some fee increases recently.

After HVCC, fees were based on supply/demand of appraisers. They dropped substantially and did not start increasing until a few years ago, but vary widely among AMCs. Fees can also vary widely on the same appraisal. Appraisers are seen as not reliable and all the same.

Prior to HVCC, there were relatively few AMCs. Some were appraisal companies before becoming AMCs. After HVCC, many appraisal companies started AMCs.

Comparison of direct lenders, AMCs in 1990s and AMCs today

	1990s Lenders	1990s AMCs	Today AMCs
Number	Many	25-50 est	Over 400 est.
Market share	n/a	5-20%	80%
Also had title Co.	n/a	Some	Few
Started as an Appraisal Company	n/a	Few	Many
# of clients	n/a	Some	Many
Fees	Typical	Lower	Based on supply/demand
Fee changes	Seldom	Seldom	Based on supply/demand
Fee Bidding	Seldom	Seldom	Almost always
Computerization	Some	Some	Heavy computerization
Internet	Some	Some	Heavy Internet use
Staff review appraisers	Some,	Few	Some, increasing
Staff production appraisers	Some	None	Some, increasing
Turn time Pressure	Some	More	Heavy
Revision Requests	Some	Some	Heavy
# of lender requirements	1 lender	A few lenders	Many lenders
Scope Creep	None	None	Significant
Reviewers	Appraisers	Same	Non-appraisers. Few appraisers.
Appraiser Selection	Panels selective	Same	All appraisers are the same.
Computerized Reviews	Some	Some	All
How viewed Appraisers	Experts	Experts	Not to be trusted

How many AMCs were there in 1994?

I couldn't get any firm numbers on how many national or large regional companies there were in the 1990s. Estimates of industry participants ranged from 25 to 50 firms. (In 2016, the estimate is over 500 AMCs, counting large to small AMCs, most of them starting after HVCC.)

Other companies listed in the 1994 article, but not profiled, were U.S. Property & Appraisal, Nationwide Appraisal Service General American Credit National Real Estate Loan Services

Profiles of national AMCs in 1994

In 1994, pre-Internet, it was hard to find names and contact info for AMCs. I did profiles on four national AMCs: LSI (Lender's Service, Inc.), SMS (Strategic Mortgage Services, had purchased TRW's Appraisal Business), CLT Appraisal Services, and ATM (Formerly Appraisal Title Management).

They were notably different in ownership, number of appraiser employees, and how they managed appraisals. All of them offered other mortgage services such as title insurance, closing management, and credit reporting. None of them was offering AVMs.

LSI - the "mother ship" of AMCs

LSI started in 1967 as Pennsylvania Property Reports and in 1979 adopted its current name and began offering appraisal management and title services. It was purchased by Prudential in 1988, then by Merrill Lynch in 1996, and had a structured buy-out in 1998, allowing them more flexibility. It was acquired as a wholly owned subsidiary of the Prudential Insurance Company of America in 1989. Headquarters were in Pennsylvania, with four regional offices.

In the 1990s, LSI (Lender's Service, Inc.) was the largest company, with over 5,000 appraisers on their fee panel, in about 3,500 firms. They were becoming heavily computerized with over 95% of appraisals received using ACI Commute, and recently installed "Navigator". With only two staff appraisers, they relied heavily on computers to perform administrative reviews. No information on total number of employees was available.

Until the HVCC boom, many AMCs were based in Pennsylvania, started by LSI former employees.

In 2013 there was a division of LPS (Lenders Processing Service). I don't know who owns them now.

SMS - 1994

In contrast, SMS (Strategic Mortgage Services) purchased TRW's appraisal division in April, 1993, and was appraiser-intensive with MAI's in the three top positions, and about 400 staff appraisers in 30 appraisal offices around the U.S. About 2,500 appraisers were on their fee panel, with the ratio of fee to staff appraisals at about 50/50. Reviews were done in the field offices.

SMS was acquired by First American Financial Corporation in 1997.

CLT - 1994

Like SMS, senior managers at CLT Appraisal Services, Inc. (CLT) were appraisers. The president, Bob Hodies, MAI, SRA was formerly TRW's chief appraiser. CLT started in June, 1993, as a computer-intensive company, including the purchase of Day 1 by the corporate parent, Commonwealth Land Title Insurance (owned by Reliance Group Holdings, Inc).

CLT had about 50 employees in one office in Devon, PA.

In 2013 it was a division of Tyler Technologies Appraisal & Tax Unit.

ATM - 1994

ATM Corporation of America (formerly Appraisal Title Management) started in January, 1993, and had about 150 employees. The firm was independently owned, with majority ownership by Fran Azur, the president. The main office was in Pennsylvania with another office in Maryland. ATM had three appraisers in quality control.

In 2013, it was still owned by Fran Azur, and "provides consulting and technology services to national mortgage lenders". I don't know if they also operate as an AMC.

Positive factors of working for AMCs in 1994

Appraisers who had worked for an appraisal management company for some time mentioned that the appraisal management firms were loyal to their top appraisers, giving them a good volume of work.

Another plus was certainty of being paid, particularly by the larger, well capitalized companies.

Negative factors of working for AMCS in 1994

To successfully work for an appraisal management company, you were required to agree to adhere to their requirements on turnaround and quality. For example, provide 3 day turnaround or you probably would not get any more work.

The biggest complaint was low fees. Too much hassling of the appraisers in second place, primarily from annoying phone calls when an appraisal was due and not turned in.

Several appraisers I spoke with mentioned delayed payment problems with some of the smaller firms.

These are still factors today, but there is appraisal bidding, broadcast orders, and appraisers being seen as not reliable, Scope Creep, etc.

Appraiser scoring in 1994

Two primary scoring criteria were used: conformance to turn-around requirements, and quality, which was measured by requests for corrections and/or supplemental information. Today many other factors are used, such as willing to work for low fees.

How much work do appraisers take from AMCs now?

As you can see in the two 2016 polls below, many appraisers do less than 25% of their appraisals for AMCs. Some don't do any AMC appraisals. I am sure that appraisers took much more AMC work, especially during the slow times after 2008.

The question is: What percentage of work do you receive from AMCs?

Less than 25%	41%
Between 25-50%	13.3%
Between 50-75%	19.7%
More than 75%	26%

Source: Voice of the Appraiser October 2016, Valuation Review survey

0%	14%
1-25%	18%
26-50%	14%
51-75%	19%
76-100%	35%

Source: AppraisalPort poll 7/16

What does this mean for you? Raise your fees. AMCs are getting desperate.

What has changed since 1994?

In 7/2010, Dodd Frank went into effect. On 4/1/2011 the Final Rule was issued, including customary and reasonable fees and appraiser independence, superceding HVCC.

Today, almost all residential appraisers work do at least some for AMCs. Appraisers' previous clients were mortgage brokers and lenders. It was easy to understand how to market to them and what they wanted from appraisers.

Since 1994, AMCs use much more technology, and employ very few appraisers. They use comperized review software and almost all "reviewers" are non-appraisers. AMCs have been trying to hire staff for awhile.

Why have AMC requirements and hassles increased so much since 1994?

Looking at AMCs as large appraisal businesses, they do what their clients ask. Their lender clients keep asking for more and more requirements, which they pass on to their fee appraisers.

Lenders are worried about buybacks, where they have to reimburse the buyers of their failed loans, such as Fannie and Freddie.

For lenders, fast turn times has always been most important. That is why there are incessant requests for appraisal "updates".

AMCs mostly compete on turn over and fees. "Quality" is based on computerized data such as turn times and conformance to requirements.

Significant appraisal downturn in early 1990s - appraisers wanted to work for AMCs

I wrote my first AMC article for this newsletter in December, 1994, when Wells Fargo started using their in-house AMC, Rels, in my area. Appraisal orders had dropped precipitously and many appraisers were desperate for work. During the big boom after 1986 (mortgage rates were 18%+ in the early 1980s), I had hired 2 appraisers and 2 clerical staff. All were full time. I laid off all of my employees except a part time assistant and almost had to declare bankruptcy. I learned the hard way about the boom and bust of residential lending.

In 1993-94, many appraisers in some parts of the country were desperate for business. Wells Fargo had recently started an AMC. Appraisers purchased computers and the forms software that was required by the AMCs so they could get some work.

Significant change in fees since 1994 - shift to supply/demand based fees

In the past, even if there was little work, AMC and lender fees didn't change much. In the appraisal recession in the mid-1990s, lowering your fee was not effective in getting more work. Lots of appraisers tried, but lenders and mortgage brokers were not sensitive to $25 or $50 change in appraisal fees. They made a lot of money on each loan and did not want to lose any by charging a slightly higher appraisal fee.

Today, most AMCs do competitive bidding on each order, including broadcast orders. AMC fees vary widely, based on supply and demand of appraisers. If there is an appraisal shortage in an area, such as in rural areas, some appraisers finally figured out they could as for significantly higher fees. However, direct lender fees do not change much.

AMC fees in the past vs. today

AMC fees were overall higher than today. However, they increased significantly in 2016, as did appraiser expectations for higher fees in the last survey below.

In 1994, although many appraisers saw the appraisal management companies as being cheap, it really depended on the local market.

Typically, fees were negotiated. Fee quotes I heard varied from 70% to 120% or more of an appraiser's standard fee. For example, from $185 to $350 when a standard fee was $300. I never heard about any really low fees, such as $200, in 1994. Just like in today, the higher fees tended to be in more remote areas, or in areas where the appraisal management company has no appraisers or only one.

AMC fees in 1998 as a percent of standard fee:

% of std fee	% of orders
90-100%	51%
80-89	19%
70-79%	15%
60-69%	6%
50-59%	5%
under 50%	4%

Source: academic research project

<u>What is your typical appraisal fee? (10/16)</u>

$100-$200	1.8%
$200-$300	9.3%
$300-400	51.9%
More than $500	35.2%

Source: Voice of the Appraiser, October 2016 Valuation Review survey

I don't have any comparable data percentage data for 2016, but I am sure that many appraisers are not getting over 90% of their standard fee, even today with an appraiser shortage. But, fees have increased in the past few years, for those who ask for higher fees.

As an appraiser, how would you rate the typical appraisal fee you are paid? (10/16)

	2014	2015	2016
Low	5.5%	9.4%	28.6%
Average	10.6%	13.9%	43.6%
Above Avg.	41.5%	37.1%	18.9%
C&R	42.4%	39.6%	8.9%

Source: Voice of the Appraiser October 2016, Valuation Review survey results

Will AMCs survive?

Over time, eventually lender regulators will reduce their requirements. Fear of buy backs will decrease. The new Republican administration may help this. However, it may also reduce the demand for appraisals by allowing AVMs and other alternate valuation products.

The Cost Plus model may be used by more than a few AMCs (standard fees to appraisers).

AMCs that are seen as more "appraiser friendly" will be able to find appraisers to work for them, possibly even experienced appraisers who know how to handle complex appraisals.

What AMCs can do NOW to change and get more fee appraisers willing to accept their appraisal requests

AMCs can look at direct lenders to see how to successfully handle fee appraisers. I very seldom hear complaints about them from appraisers. Like everyone, they sometimes have difficulty finding appraisers now. But, if both a direct lender and a AMC gets called, which will the appraiser choose? They almost always have standard fees that can be increased for complex appraisals and "rush" assignments.

The processes below can be done NOW. They take too much time. For lenders, who are AMCs' clients, it means it takes longer to get an appraisal ready to use to close the loan. Plus, it makes appraisers more reluctant to work for AMCs that use these in their business.

STARTING NOW, AMCs can:

- Quit sending revision requests that do not relate to value at all.
- Hire people with appraisal training to understand what is important.
- Quit sending multiple annoying update requests by phone, text, and email.
- Spending days trying to find an appraiser to work for a lower fee.

Treating appraisers like they are professionals, not completely unreliable and stupid, would really help appraisers attitude towards AMCs. Recruitment of fee appraisers is very difficult when they are very busy, such as now.

What does this mean for you?

A few ideas that I keep repeating like a mantra...

Wh1. Get the highest fees you can now. They will go way down when lending drops way down, as it always does.

2. Save money for the inevitable downturn.
3. Keep close track of your accounts receivable. Some AMCs will go out of business during the next downturn, like they did in the last downturn.
4. If you want to prepare for the inevitable crash, this is the best time you will ever have to get non-AMC lender clients and non-lender work.
5. Take CE to improve your skills, not just "get hours" online from the cheapest provider. The future is fewer easy tract home appraisals that work well with AVMs.

New Year's resolutions for 2017. Set goals for 2017 and how you will accomplish them

Editor's note: I wrote about this in January 2016, but goal setting is a good reminder for all of us, including myself! Last month I wrote about holiday cards and it reminded me to get mine sent out.

It is easy for me to write about appraisal business topics. I just look in the mirror… Of course, this can be done at any time, but most of us think about New Year's resolutions (or did in the past) so this is a good time to work on them.

You can set goals at any time, but why not do it now?

In this article, I don't focus on losing weight, which is one of the hardest goals to achieve. This requires eating habits acquired over many years. Instead I focus on very specific goals, mostly business related, that you can achieve.

Write down specific goals and see how well you do during the year. This is very important. Dates are good to set also. You can revise your goals when you need to.

Start small. Pick two goals. For example, take one short CE class or Webinar to update your appraisal skills in March.

If you don't succeed, don't get discouraged. Just pick another goal or schedule it for another month. Having strong willpower is not something we're born with.

Nothing in this article is new. I am just applying these well-known techniques to appraisers. There have been many studies showing that they really work.

I have included some personal goals. What is more important, your business or your family and friends? Don't forget your non-work personal goals, such as taking a class in something you have always wanted to learn about, such as wine tasting, wood working, or having lunch with old friends.

How much time will this goal planning take?

It will take little time to write down your goals. What is more challenging is taking the time to really think about them. Set aside some "quiet" time to get some ideas. Think about it while you are driving around.

There are many, many possible goals, both personal and business Decide some that you are likely to accomplish.

What if you don't want to do this now?

I just picked New Years resolution as the title of this article. Many people do set New Years resolutions so it seemed like a good time to write about goal setting. You can certainly do this at any time. But, maybe January 1 will get you inspired. I did it myself for 2015 for the first time. It definitely helped me get motivated.

Don't just say "I will do it some time". Instead, make a definite date and set how many goals, such as setting two business and two personal goals by March.

What time period to use?

Instead of doing goals for one year, start with 3 months. See how it goes and whether it needs modification.

What is most important to you?

Don't set too many goals. Is it increasing income, decreasing expenses, learning new appraisal skills, etc. Make a list of what you want to accomplish. It is different for every appraiser and changes over time.

Why New Years resolutions fail

50% of Americans set New Years resolutions.

A 2007 study by Richard Wiseman from the University of Bristol involving 3,000 people showed that 88% of those who set New Year resolutions fail, despite the fact that 52% of the study's participants were confident of success at the beginning. Fewer resolutions fail when you share them with others.

- Pick one, or a few, resolutions.
- Start with small, specific goals.
- Tell others.
- Write them down for yourself.
- Identify obstacles and possible solutions. Expect setbacks and learn to recover from them.
- Reward yourself when you accomplish your goal. For example, going to a movie or reading a fiction book, such as a mystery, thriller or any other type for a few hours. I am a big science fiction fan, but don't seem to have time to read much or watch movies.

Share your resolutions with friends and family

You will be much more likely to do them. For example, tell your spouse or a good friend that you are going to take a vacation at least four days long in the month of May. Or, tell an appraiser that you will attend one meeting in March of a local appraisal group that he belongs to. Or, tell a local Chamber of Commerce regular that you will see her at a scheduled event in April.

Or, have a spouse "date night" once a month.

I have found that when I let others know about my goals, I am much more likely to accomplish my goal/resolution. Every time I speak or see the person I am reminded.

Email a weekly or monthly report to a friend, even if it only says "nothing done this month". This definitely helps.

Business resolutions

Below are examples. Setting specific dates is very important. You know what is important to you.

- Set up a budget for 2017 by the end of February
- Bring your lunch one day of the week when working in the field. (Saves time and money, plus is healthier)
- Fire two AMCs by the end of February.
- Start working on your income taxes in January.
- Update your Web site by the end of March.
- Work on getting a more positive attitude toward your clients, fees, etc. Pick one client to start with.
- Work on not getting very upset with client stupid requests. The client does not care and it takes a lot of your time and energy "steaming". Even more important, don't let it affect your family. Start with one client or one incident. Relaxation techniques and excercise can really help.
- Get one good new client in the first six months. Start your search in February. Get another new client before the end of the year - start looking in April.
- Maintain contact with a few local appraisers that you know. Call them every other month, starting in January. Discuss local appraisal issues, data services, etc. Try not to do too much complaining.
- Learn how to do something new on your software programs or databases.
- Learn how to use a new software program or smart phone app. Examples (pick what is important to you):
- Using more of your MLS' (or any other data source) features plus how to use them more effectively. Your goal for April.
- Take two CE classes to update your appraisal skills, not just "get hours". Check provider calendars or on-line offerings. Do one in the first half of the year and the other on the second half of the year. Pick specific dates and sign up early so you will be less likely to cancel. Local often work best, especially if it is a local instructor. I will be checking out online offerings from various providers and will write an article in the future.

Pick one or two business activities to do.

Examples:

- Attend a local Chamber of Commerce meeting every other month, starting in January
- Attend a meeting of a local appraisal group. Set the date.
- Attend a local, regional, or national appraisal conference. Sign up ahead of time. There are not many now. You don't have to be a member to attend.
- Start your own local appraisal group.

Personal resolutions

- Plan a vacation and pay for it ahead of time so you will be reluctant to cancel it.
- Schedule specific times for your family and friends and don't cancel.

Examples:

- Regular "date nights" with your spouse on the 2nd and 4th Sundays of the month.
- Regular family events, such as attending a sporting event, child's music performance or sporting event. Put it on your calendar.
- Take a non-business short class to learn something. Look for class offerings. Register for them so you will attend. There are many, many excellent free online lecture classes such as Kahn Academy and free classes from top-rated universities. Or, something you used to do in the past, such as photography, and want to get updated. Set a specific time, such as the 2nd Saturday of the month.

Local community colleges and adult schools offer short classes. Senior centers are a good place,for those over the age limit (50 in my city).

My mother took classes her whole life, in all types of topics. She never got a degree, but really wanted to learn. I have taken a lot of live non-business classes over the years, in topics I am interested in.

Where to get more information

There is some advice online, but it mostly focuses on personal New Year's resolutions. Some articles give overall advice, similar to what I have written. Google "small business New Year's resolutions".

Meet the New Boss….CU. Practical advice from a lender reviewer

By Jared Mickel, SRA, RG

Editor's note: Here is a link to see what underwriters (and lender staff reviewers) https://www.fanniemae.com/single-family/collateral-underwriter and scroll down to CU 4.0 Overview Video.

AMCs are typically not allowed access to the CU interface. The author has access to the CU interface that the underwriters use.

As appraisers we've all been there. You get a new client. You read the order letter, seems like all the standard stuff. Of course, the client will have their own particular set of quirks and hot-buttons that you will have to discover and adapt to.

But, you'll figure them out and get on with life, business, and making money. No biggie. Its all part of the job right?

Well, I recently got a new boss. I am now looking at appraisals from across the country for a major lender. Part of my evaluation of the appraisals includes using the Collateral Underwriter desktop utility.

I have found that there are a lot of appraisers out there that don't understand what CU does and as a result are needlessly hurting their business and exposing themselves to additional liability.

What I've put together here are a few notes for appraisers based on my observation of CU. I hope these ideas will help Appraisers interact with the new boss in a more friendly and profitable fashion.

CU Risk Scores and Warnings

Every UAD report submitted to FNMA is assigned a risk score. Scores range from 1 (minimal risk) to 5 (highest risk). Reports with lower scores will often receive less scrutiny in the review process. Reports with higher risk scores will receive more scrutiny, and quite often, a revision request aimed at solving the issues that elevated the risk, as well as any other problems the reviewer discovered during their extended perusal of your report.

Risk scores become elevated when the CU finds things in the report that are unexpected, illogical, or contrary to known facts or consensus findings by other appraisers in the market. CU reports these potential issues as "warnings".

As a reviewer, I'm tasked with looking at these warnings deciding which are false-flags, which are legitimate but, perhaps not material to the overall result of the valuation, and which represent legitimate concerns for the Intended User of the report because they could materially affect the results of the assignment.

When I find a material warning, the hope is that I can resolve the issue with the appraiser to clear the warning and reduce the risk score. Reducing the risk score is to everyone's benefit, as it is much less damaging to all involved to resolve these issues before closing than after closing (bad), or during foreclosure (worse).

No one can predict the future, But, if someday FNMA is looking at a stack of foreclosures and trying to decide which they should investigate further, I'd bet that the riskiest appraisals will get looked at first.

Discrepancy Warnings

CU compares your reporting on the subject and comparables with public record, with what other appraisers have reported, and with what you yourself might have said about these homes in a previous appraisal. When a discrepancy is found, CU warnings are generated. A typical warning message might read something like "Comp 2 - The condition rating is materially different from that which has been reported in a previous appraisal and what is reported by other appraisers."

A click of the mouse will provide the reviewer with a table that includes essential data from every instance where CU has seen that property as a subject or as a comp. All of your reports on a property will be highlighted in green to make it easy to see and compare what you have reported previously. The CU system seems to be generally tolerant of the occasional small discrepancy; if you call it a C4, but, most other appraisers called it a C3, a warning message will be generated But, that warning will not drive up the risk score noticeably.

However, multiple discrepancies with other appraisers suggests a poor grasp of the UAD, poor quality control of the data that gets entered, and might also point out an intentionally fraudulent report. These are all good reasons for an Intended User to be concerned. So as the discrepancies add up, so does the risk score.

The important things to remember about avoiding discrepancies are as follows:

1 Make sure you have fully absorbed the nuances of UAD reporting, particularly the Quality and Condition definitions.

You should be putting properties into the category whose UAD definition BEST fits the situation, not a category definition that can be stretched to fit.

Remember, the reviewer has the opinion of perhaps dozens of other appraisers in your market concerning the quality, condition, size, views, locations, etc, that they can use to gage the reasonableness of your reporting.

Your reporting does not need to be precisely the same as the other appraisers in your market. But, when an appraiser is too often out of step with the opinions of their peers it is a big red flag for CU.

2 Employ some sort of recording keeping system so that you know when you've used a comparable before (many software packages do this for you). You should avoid changing your reporting of comps unless it is absolutely necessary for accuracy.

Properties do change over time and you may uncover data that contradicts that which you previously reported. That's fine. Just take the hit on the risk score and write a comment in the addenda about what occurred that made you change your opinion of a property.

Comparable Selection Warnings

CU generates a list of ranked comparables that are, on paper at least, reasonable substitutes for the subject you have described. When your appraisal does not use at least a couple of the highly ranked comps, the CU will issue a warning concerning use of comps other than those "predicted by the model".

This particular error adds a lot of risk points and will very quickly (sometimes all by itself) put your report in the stack that gets extra scrutiny.

Just like the old boss, CU really likes comps that are proximate, and similar to the subject. Where the new boss is different relates to the acceptable age of the sales. The CU will regularly give high rank to sales as old as 1 year. The old 3-month/6-month guidelines are something you should forget, as they don't seem to apply any more.

In a training conference call I attended, a representative from FNMA indicated that they studied this issue and realized that market condition adjustments were far more reliable and easy to substantiate than adjustments for dissimilar improvements or adjustments for neighborhoods of potentially different appeal.

The result is a much greater acceptance of older sales when reasonable consideration of market trends has been provided. You should be excited about this. It basically doubles the number of comps available for your use if you're willing to do your market analysis and calculate a reasonable market condition adjustment.

Obviously, recent sales are more reliable than older sales all things being equal. But, if you have a difficult to comp property you should be looking back at least a year in time for comps. Likewise, if you find a killer comp (very similar and very proximate) that sold in the last year, you should consider using it, even if there more recent sales that are similar enough. That killer comp could easily be a Top 5 property despite being 11 months and 29 days old.

Comparable warnings from misrepresenting the subject

The other way appraisers needlessly generate comparable warnings occurs when they misrepresent the subject.

CU is actually very trusting. It believes what you tell it about the subject and so the sales it presents will be selected and ranked to match your representation of the subject.

When you call the subject a C3 it expects that it *is* actually C3, and that you will compare the home to other properties that have been identified as C3 by the other appraisers in your market.

Consensus C3 properties will be ranked high by CU; all the C2 and C4 properties will be ranked low. If the actual condition of your property is most consistent with C4, and you bring in competitive C4 properties, those will be low rank sales.

Warnings will be generated because it looks like you're overlooking more comparable properties. As with the discrepancy messages discussed above, make sure you know the UAD definitions inside and out and use them as faithfully as possible.

Adjustment Warnings

CU provides the reviewer with 2 utilities to gauge the reasonableness of the adjustments in an appraisal. One tool is a set of adjustments that are based on a regression model. The other is a histogram style plot of how other appraisers in this market have adjusted on a particular line item.

Of all the things CU does, I have found the adjustment tools to be the most controversial and the least useful feature.

Generally, you find that if the appraiser has accurately represented the subject, presented the best available comparables, and has made adjustments that reasonably narrow the range of adjusted prices, then the appraiser will have used adjustments that are largely in line with what their peers have done and what the model predicts. The new boss is the same as the old boss in that way.

Where appraisers get into trouble is when they misrepresent the subject or the market.

Here's a couple of ways that goes wrong.

1 In the first scenario, the appraiser misrepresents the market by zeroing out an obvious adjustment. This is usually done to avoid having an unbracketed adjustment for some difficult to comp feature (lot size, view, location, etc).

If the CU model is telling the reviewer a significant adjustment is indicated based on regression, and the reviewer sees that other appraisers provided significant adjustments for this amenity, the appraiser should not be surprised if they are asked to come forward with their own market evidence, or at the very least, provide some discussion of the potential magnitude of the missing adjustment, and maybe give that issue some consideration in reconciliation.

2 In the second scenario, the appraiser seems to be more worried about maintaining low net and gross adjustments and so provides adjustments so small as to be meaningless and that are ineffective in narrowing the range of adjusted values.

CU will send warnings concerning both the size of adjustments (too small, too big), as well as warnings for a set of adjustments that are not narrowing the adjusted range, or worse, actually increasing the adjusted range of value (don't laugh, it happens far too often).

While these kinds of warnings are difficult to condition on, they definitely will cause the reviewer to scrutinize the report far more than they otherwise would have.

As it turns out the new boss is not really looking for anything too different than the old boss….

• Stay up to date on client expectations and peer performance standards,

• Don't misrepresent the subject.

• Don't misrepresent the comparables, and

• Make reasonable comparisons to the best available market data.

•Be diligent about providing the reader with a set of adjustments that reasonably explain market reaction.

Final comments

Many of the conditions I send are intended to help appraisers cure CU warnings where the system was unnecessarily triggered.

If the appraiser follows my lead, they can remove some of the perception of risk that has unreasonably become attached to their product.

Next time you get a set of conditions, you might consider for a moment that perhaps the reviewer likes your work, but needs your help to convince FNMA that you have produced a worthwhile product.

About the author

Jared Mikel lives in Auburn CA and has been appraising since 2007.

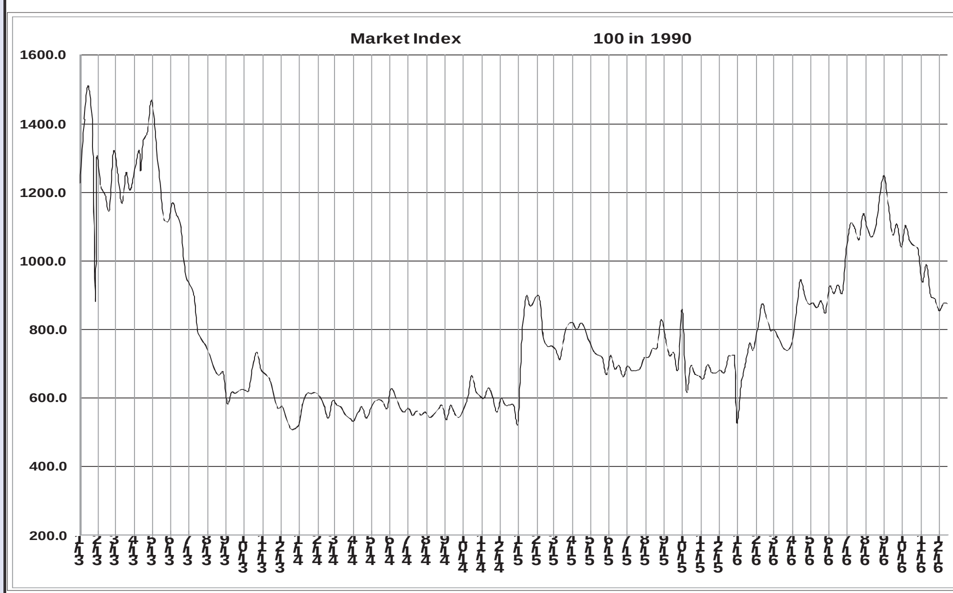
Like most appraisers, Jared had a previous career. The "RG" after his name means he is a California Registered Geologist, his previous career for 15 years. As a residential appraiser, he brought his analytical skills, investigative mindset, and audience focused communication skills from environmental consulting to the appraisal field.

Most of his spare time is spent riding with and coaching a high school mountain bike team. This started out as he was re-habbing after a knee surgery and is now nearly a full time job.

He just turned 50 in October and to challenge myself himself, he trained up and participated in a 50 mile MTB race. .

Below is a picture of Jared (right side), his wife and son, and of course Jet the Rescue Berner, after the race.

MBA Loan Volume Application Index – 1/13 to 12/16



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What's UP in technology

by R. Wayne Pugh, MAI, CRE, FRICS, CCIM

TrackR

https://thetrackr.com
TrackR, Inc.
Up to $29.99 (single unit price)

If you've spent time trying to find lost items like your keys, wallet, or phone, you know the frustration of trying to mentally retrace your steps in hopes of locating the item. Thanks to a little device called TrackR Bravo, those days are over. The TrackR Bravo is a small sleek Bluetooth device that can help you locate anything the device is paired with. Just attach the device to what you are prone to losing, and the TrackR app will help you find it.

Figure 1: TrackR quarter sized devices

Ever leave your keys or wallet at a restaurant?
I tested the device by grabbing my iPhone and leaving my restaurant table walking towards the front door. When my distance broke the Bluetooth connection, the TrackR app played a programed sound on my phone to remind me I had left my keys at the table.

I could also have used my iPhone to make the TrackR device play an audible sound to guide me exactly to where my keys were located if I had accidentally dropped them. A weakness to this option is the inadequate volume of the sound being played by the TrackR device. Likewise, if the button below the Tracker logo is pressed, the connected phone will also respond by playing a sound.

Should you leave your wallet at the restaurant, and travel home, TrackR can also provide directions and a map using the TrackR Crowd Sourced GPS Network.

The TrackR Device
The TrackR is a light device measuring 1.2 inches across. The TrackR logo is positioned on the front just above the pairing button. The device is also available in multiple colors. It is powered by a CR1616 coin sized battery cell that should last twelve months. It would be smart to put a self-reminder to replace the battery every eleven months.

You can turn these alerts on or off in the TrackR app's setting's option. Custom alarm sounds can also be chosen from your phone's music library.

The TrackR is designed to easily fit most any key ring, wallet or any other device attached to using the circular adhesive tape supplied with the package.

The tracker works with Bluetooth 4.0 devices running Android 4.4 or later and iOS 8 or later. Up to ten devices can be tracked with your smartphone.

What can TrackR do for you?

Find your misplaced devices with TrackR

Your connected smartphone and the TrackR device will notify you when carried out of range of one another. So, if you leave your keys behind, your phone will sound a familiar alarm once you have traveled out of the devices Bluetooth range, and likewise the TrackR device on your keys will play a sound when you leave your phone. As mentioned above, TrackR alert volume is rather low which can make the device difficult to find in a noisy environment.

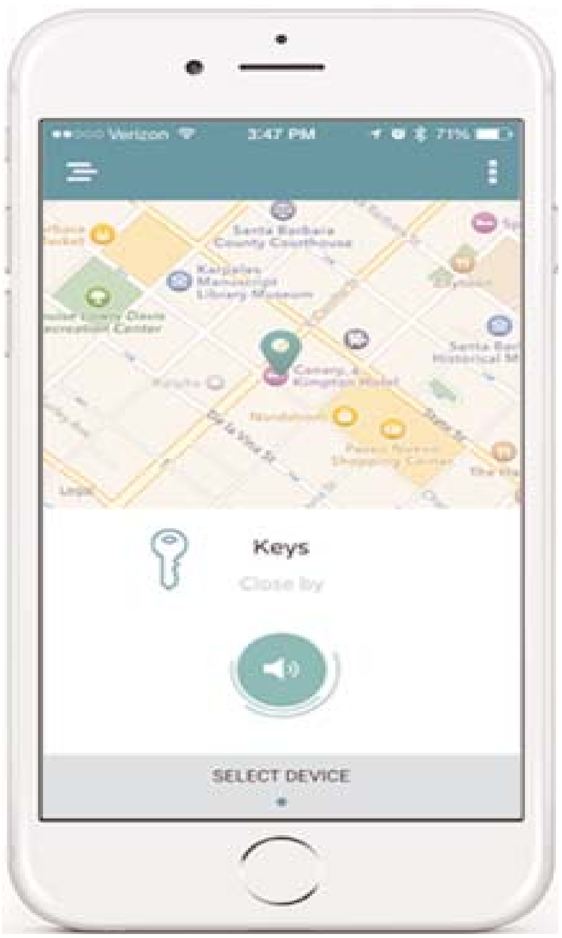

Figure 2: TrackR app, map showing location of keys

Using the Crowd Sourced GPS to find your device

4.5 million TrackR devices shipped

What if your item loses connection with your phone and you have no idea where you left it? Don't worry TrackR solves this with their item tracking network. When your device loses its connection with your phone, and another user comes within range of your device, you will be updated with directions to your device on a map. When getting close to the identified location, tapping an icon on the app will sound an audible alarm on the device to make it easier to find. This audible sound can be difficult to hear in a noisy room.

In addition, you can choose to share access to your TrackR device with a community of users to allow strangers to anonymously ping your lost phone or TrackR to help you locate your device. An alert will notify you if a good Samaritan has found your lost item.

Family Sharing

This new feature provides an easy way for colleagues, families, friends, and neighbors to collaborate in the effort to keep track of lost belongings. Each member of the group can share in the ability to track the same TrackR-ed item providing a much more efficient and convenient way to locate lost belongings.

Customer Service

Many of the sites, like Amazon, provided user reviews of the TrackR device. Most felt the features of this product were credible; however, many felt the customer service was poor.

Conclusions

I prefer the TrackR Bravo to its competitor, "Tile". The TrackR is smaller, so it's a better fit for your devices. The replaceable battery is also a better design choice, even though you can't tell when it's running out.

About the author

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R. Wayne Pugh is a past international president of the Appraisal Institute, former Chair of the Louisiana Appraisal Board, and the current CEO of R. Wayne Pugh and Co., a real estate valuation and advisory firm he founded in 1975 in Baton Rouge, Louisiana. Mr. Pugh also heads Software for Real Estate Professionals Inc., and is a principal member of Real Estate Counseling Group of America (www.recga.com), a national organization of analysts and academicians founded by the late William N. Kinnard, Ph.D.