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APPRAISAL TODAY

Appraisal Today newsletter 20th Anniversary!!
Changes over the past 20 years.
What a wild ride it has been!!

The first issue of this monthly newsletter, then called Appraisal Management and Marketing was published in June, 1992.

Lots of significant changes since then, including
• Appraisal licensing
• USPAP
• Two appraisal recessions
• Shift from lender originations to mortgage brokers, then to AMCs

In this month's issue I went back over all my previous newsletters, free email and paid, to get data on the changes. I could not find another source of good information on the changes over the past 20 years, so I decided to do it myself. The July issue will contain articles on the changes in USPAP, electronic appraisal data transmission, appraisal data and information access, and computers. For example, 20 years ago, appraisers could not get MLS access unless they had real estate licenses.

HVCC summary of changes
• 3/3/08 Fannie/Cuomo agreement signed
• 3/09 New Fannie guidelines, implementing HVCC
• 5/1/09 HVCC effective
• 7/10 HVCC expires, superceded by Fannie guidelines
• 7/1/10 Dodd Frank Wall Street Reform and Consumer Protection Act
• 11/10 Interim Final Rule issued - includes how to set customary and reasonable fees
• 4/1/11 Final Rule effective for appraisal fees and independence, supercedes HVCC

Appraiser licensing summary of changes
8/89 - FIRREA/Title XI requires state appraiser licensing
1991- AQB establishes initial requirements for certified appraisers
1998 - Increased education and experience.
2008 - Increased education and experience plus added college level course requirements
2015 - Increased education and experience plus added 4 year degree requirement for certified appraisers

FHA summary of changes
• 12/2/94 new regulations - new fee appraiser panel, open FHA to all licensed and certified appraisers with training
• 1/1/96 FHA Fee Panel eliminated (not open to all licensed appraisers and could be hard to get on the panel)
• 1/30/99 - passing FHA exam required
• 2005 - Valuation Conditions (VC) form eliminated
• 2/1/08 - exam eliminated
• 10/1/09 FHA requires state certification
- 1/1/10 FHA does not allow mortgage broker originations

In This Issue

Mortgage lending from 1870s to today

Lenders drive the appraisal business and American appraisal standards

Whether or not you do any lender work, lenders drive the appraisal business.

Lenders provide the majority of appraisal business. Their requirements often set the "standard" or standard of care for both residential and commercial appraisals.

Appraising as a profession took off in the 1930s due to the bank failures in the Great Recession. The first national appraisal associations were started then, such as AIREA, ASA, and SREA.

The Appraisal Foundation was set up as a response to coming federal regulations due to the S&L scandal of the late 1980s.

Back in 1976, when I started appraising, mortgage brokers only did "hard money" loans, and S&Ls made most of the home loans. Most appraisers worked for lenders. Per NMN, mortgage debt outstanding was less than $1 trillion and the "3-6-3" joke prevailed - pay 3% on deposits, lend at 6%, and be at the golf course by 3PM.

Lender client changes over time - residential

Market share:

	1989	1990	1991	1992	1993
Comm. Banks	27.2%	33.4%	27.3%	26%	23.5%
Savings banks	5.1%	3.9%	3.3%	3.8%	4.0%
S&Ls	29.7%	26.4%	21.7%	20.7%	18.4%
Mort. Companies/Mortgage brokers	36.8%	35.2%	47%	49%	53.6%

The data above shows the shift from Banks and S&Ls to mortgage brokers since 1989.

The FIRREA regulations, set up in the late 1980s, after the S&L crisis, established a deminimus level of $100,000, later increased to $250,000. Loans under the deminimus level did not require full appraisals.

But Freddie and Fannie continued to require full appraisals as a risk-reduction for their investors. Without that, few full appraisals would be needed and there would be few appraisers left.

What was mortgage lending like 100 years ago?

• Prior to 1900 - Part of broader pattern in US history: Commercial credit develops before consumer credit. Farm mortgage originating in Midwest in 1870s could be sold to a European investor. Nonfarm mortgage market significantly less evolved

Basic non-farm institution is "Building and Loan Association". Market is local. Significant down-payment constraint (50 percent). Financial meltdown in 1890 stops this lending for awhile.

• 1900 - 46% homeownership. Federal debt is $16.60 per person

• 1913 - federal income tax starts, including home mortgage deduction

• 1933 - 49% of the $20 billion in outstanding mortgages is in default

• 1934 - FHA created

• 1938 - Fannie Mae created to purchase FHA insured loans.

• 1960 - 60% homeownership

• 1981 - Prime hits 18.87%, the highest ever recorded

• 1998 - $1.47 trillion in mortgage originations, highest ever recorded

• 2003 - $3.34 Trillion - the peak of the market

• 2008 - $1.77 Trillion - down almost 50% from the peak

The future of appraising in 1981

Tom Fryer posted a very interesting article on the NAIFA forum several years ago, written by Lynn Woodward, SRPA, originally published in The Real Estate Appraiser and Analyst, Winter 1981.

Here are a few quotes -

"The appraisal profession may be dying. Although growing, consolidating, and professionalizing, it is not broadening its influence. What is happening to the profession is happening externally without the participants recognizing the potential impact."

"Loss of present appraisal markets to other professions and the demand for non-appraisal analysis which will be provided by firms outside the appraisal industry will limit the appraiser's role in the future. At the Society of Real Estate Appraiser's International Conference in Reno in 1979, Dr. Graaskamp suggested that other professions have real advantages over the appraisal industry in establishing themselves in the analysis report markets and potentially absorbing the appraisal business."

"The secondary market, through the standardized FNMA/FHLMC appraisal form, has defined the appraisal "line by line."
The form is not in the control of the appraisal profession, but the form makers - and the appraiser follows."

"The sophisticated investors presently buying real estate equities rely on internal rate of return (IRR), net present value, financial management rate of return (FMRR), modified internal rate of return, risk or probability estimations, and sensitivity analysis models to make investment decisions. The appraisal dogma presented by textbooks and other literature stresses traditional techniques of valuation which lack the sophistication of the investors' models."

"The automated statistically based appraisal computer models can estimate the most probable selling price. A reasonable check of the selling price from the database of sold properties stored in the computer, can be accomplished in a few minutes."

Wide range of lender volume over time

Since Freddie and Fannie started in the 1970s, changes in volume of lending was controlled by interest rates, resulting in more or fewer refis.

Recently, rates are very low, but refis are down due to lender restrictions on borrowers and "upside down" borrowers.

Note: interest rates are mid-year.

($ billions) Change		Rate	
1976	$112.8	8.88%	
1977	$162.0	8.84%	+30%
1978	$185.0	9.63%	+13%
1979	$187.1	11.19%	+1%
1980	$133.8	16.63%	-30%
1981	$98.2	16.09%	-27%
1982	$97.0	16.09%	-1%
1983	$201.9	13.23%	+208%
1984	$203.7	13.87%	+1%
1985	$289.8	12.4%	+30%
1986	$499.4	10.18%	+60%
1987	$507.2	10.20%	+1%
1988	$446.3	10.33%	13%
1989	$452.9	10.32%	+0%

Source: National Mortgage News, 2001

Year	$$ ($ billions)	% Change	Interest rates
1990	$458,4	0%	10.13%
1991	$562	+23%	9.25%
1992	$893,7	+60%	8.4%
1993	$1,019,9	+14%	7.33%
1994	$768.7	-24%	8.35%
1995	$639,4	-25%	7.95%
1996	$785,2	+20%	7.81%
1997	$833,6	+6%	7.59%
1998	$1,507	+99%	6.95%
1999	$1,285	-15%	7.44%
2000	$1,024	-25%	8.05%
2001	$2,030	+98%	6.73%
2002	$2,483	+22%	6.65%
2003	$3,810	+53%	5.23%
2004	$2,772	-28%	6.29%
2005	$3,023	+9%	5.6%
2006	$2,506	-17%	6.68%
2007	$2,214	-12%	6.61%
2008	$1,509	-32%	6.32%
2009	$2,114	+40%	5.42%
2010	$1,272	+34%	4.74%
2011	$1,260	-1%	4.5%
2012	$2,541	+100	4.2%

Forecast

Source: Mortgage Bankers Association

Changes in types of lender appraisal reports over time

My comment: in the early 1980s, some loan officers did the appraisals for their own loans. This had been going on for some time. This is one of the many reasons for FIRREA requiring separation of the loan officer and the appraiser.

Types of appraisal reports used by lenders have dramatically changed over time. I spoke with Don Martin, an Illinois appraiser whose family founded an S&L (Building and Loan) in Cicero, Illinois in 1914. He is a fourth generation appraiser.

Per Don, most home loans were done by S&Ls, who knew the local customers and markets very well. They started as "building societies" and loaned their own money, so they were conservative. In the early days, appraisals were just a values included in a line on a loan document. Later, in the 1950s and 1960s, a few lines of information was included.

Over 30 years ago, very brief residential reports done by staff appraisers, sometimes written in pencil were the norm. Commercial lender appraisals were often relatively brief narratives. Appraisal fees were relatively low.

Now, of course we have standardized appraisal forms from the GSEs. See the article on GSE's in this newsletter for more information

FIRREA - late 1980s, early 1990s - appraiser pressure

FIRREA required appraisers licensing and set the deminimus set at $50,000, raised to $100,000, finally raised to $250,000 in 7/94.

During the FIRREA commercial appraisal "boom times" many appraisers complained about the heavily documented reports required by lenders. But none complained about the high fees for commercial appraisal reports. Heavy reviews of residential appraisals meant fewer poorly trained appraisers could keep their clients happy.

FIRREA had minimal effect on residential appraisals as the problems were in S&L commercial appraisals, especially development loans.

In those days, FIRREA meant Finally I'm A Rich Appraiser for commercial appraisers. After the drop in volume of commercial appraisals in the early 1990s, FIRREA meant Finally I'm A Retired Appraiser.

For commercial appraisers feesnever returned to the FIRREA days.

Refis now drive lender volume

In the past, prior to the late 1960s or early 1970s, when the Freddie and Fannie were established for a secondary market, almost all residential home loans had prepayment clauses, so few people refinanced. Appraisal volume was much steadier, as it was based on the home sale market.

Now, few home loans have prepayment clauses. They are available, but few borrowers are interested.

In contrast, most commercial loans have prepayment clauses. Thus, the commercial refi volume is much less. Appraisals are usually done for loan extensions.

Staff appraisers vs. fee appraisers - the eternal lender dilemma

Recently AMCs started hiring fee appraisers for part of their appraisal volume. This is nothing new and has been going on for many years.

In the past, pre-late 1980s, fee appraisers were used for overflow work. Lender staff did most of their appraisals.

Staff appraiser time can be controlled much easier than fee appraisers. Fee appraisers have multiple clients.

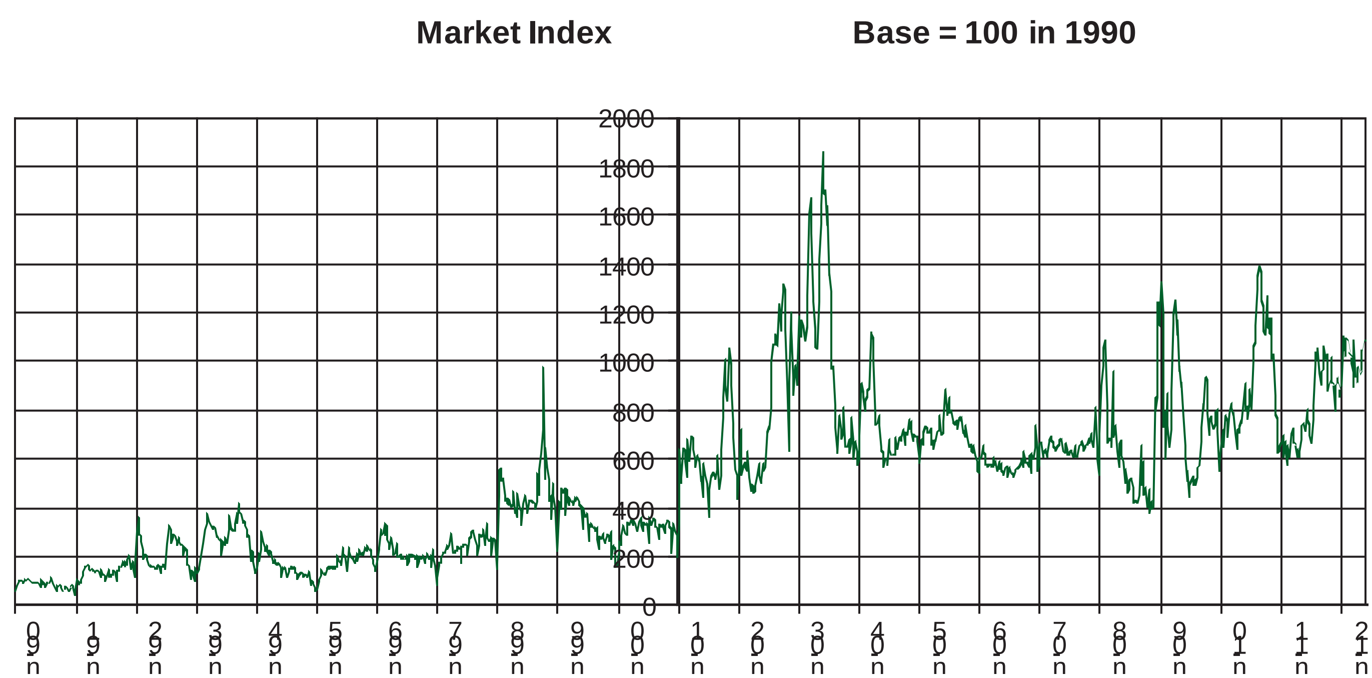
For example, if there is a rush order from a good customer, a staff appraiser can do it without any hassles.

Staff appraisers could "skim" the easier appraisals, leaving the more difficult and time consuming appraisals for their fee appraisers.

During the lender recession of 1980 to 1985, with interest rates over 18%, many appraisers, both staff and fee, left appraising.

MBA Loan Origination Index from 1/90 to 4/12

Changes in number of loan applications



Effects of licensing - positive and negative

Pre-licensing, residential appraisers typically were staff appraisers at lenders. Most appraisers were 4-year college graduates. Many people had never heard of appraisers and didn't know much about it, including myself. There were relatively few fee appraisers and to get a job typically you were a relative or friend of the appraisal business owner.

Post-licensing there were defined appraiser criteria and USPAP applied to all licensed appraisers.

Timeline

8/89 - FIRREA/Title XI requires state appraiser licensing

1991- AQB establishes initial requirements for certified appraisers

1998 - Increased education and experience.

2008 - Increased education and experience plus added college level course requirements

2015 - Increased education and experience plus added 4 year degree requirement for certified appraisers

Appraiser licensing history

Appraising in the U.S. got established during the Great Depression, when real estate agents were hired to appraise foreclosed properties.

A few states had licensing for many years, but most states implemented licensing by the deadline was 12/13/91, or within about a year.

FIRREA was passed by Congress in August, 1989, as a result of bank failures due to risky commercial real estate loans.

FIRREA required appraisers licensing and set the deminimus set at $50,000, raised to $100,000, finally raised to $250,000 in 7/94.

Many appraisers wanted some sort of policing of appraisers. California appraisers, mostly residential, had been working on California state regulations for some time, without much success.

No one even knew the names of all the appraisers, unless they were in a professional association. With licensing all appraisers were subject to the same standards and complaints could filed against them.

Positive effects of licensing - summary

1. Appraisers could be disciplined.
2. All licensed appraisers had the same standards - USPAP
3. Defined path to "becoming" a professional appraiser
4. Licensed appraisers could get MLS access.

Negative effects of licensing - summary

1. The primary criteria for appraisal selection is having a license for many clients, especially for residential appraisers.
2. Poor education and training, as compared with pre-licensing.
3. Costs of keeping a license.

Negative effect on national appraisal associations

National recognized appraisal associations (ASA, NAIFA, Appraisal Institute, etc.) ocused on getting professional designations, which allowed clients to find out about an appraiser's education and experience. Complaints could be filed with the associations. Sometimes actions were taken.

After licensing, the associations continued to focus on getting designations, rather than becoming licensed.

Unfortunately, the larger associations opted out of new appraiser education, so most of the training was done by proprietary schools, with widely varying instructor requirements.

Often, particularly in the beginning classes, the courses focused on passing the appraisal exams.

Because of this, most new appraisers did not take classes from the associations, which focused on becoming a professional appraiser.

Today, having a professional designation is much, much less important that being certified. Association membership is much less important, except for the MAI designation.

Membership in the Appraisal Institute, the largest association shifted to commercial appraisers over time. Residential appraisers started dropping out relatively soon after licensing when residential designations became much less important.

Licensing became the primary criteria for lenders and other clients.

Pre-licensing, clients reviewed work samples, education, etc. Clients usually had specific appraisers they worked with, on their approved appraiser panels. For the public, it was difficult to find out about appraisers.

Many people got appraiser names from referrals, which still happens today.

Trainee appraiser "tracking" - either commercial or residential, not both

Pre-licensing, typically all appraisers started in residential. Some moved into commercial. When I started in 1976, you were observed by your supervisor for a while. After a few years in residential appraising, appraisers were selected to move into commercial from residential.

Starting sometime before licensing new appraisers were typically "tracked" into commercial or residential. Obtaining training in both commercial and residential was much more limited.

Appraisers going to jail

Pre-licensing, there were only a few appraisers in the news for being involved in scams. With no defined criteria for all appraisals and appraiser conduct, lawsuits against appraisers were very difficult and there were few of them. For lending scams, typically the appraiser was not named. Also, Finding appraisers could be difficult as there was no national Registry.

Post-licensing, licensed appraiser information was available on www.asc.gov (National registry) and state regulatory agencies. USPAP defined what appraisers were supposed to do. Lawyers were happy.

Today, appraisers are often added to many lawsuits, along with others who participated in the scams.

Appraisal/appraiser professional standards.

Pre-licensing, the only appraiser professional standards were from the professional appraisal associations. Only their members were subject to the requirements.

Post-licensing, USPAP defined how to do appraisals and what to put in appraisal reports. It affected all appraisers.

"One size fits all" - all appraisers were seen as very similar.

Unfortunately, licensing ended up as "every appraiser is the same," particularly for residential appraisers, and significantly lowered the ability to get more work by being more experienced and educated.

Increasing appraiser licensing requirements

Appraiser licensing requirements have been increasing since 1991. As of 1/1/15, newly certified appraisers must have 4 year college degrees.

Positive effects of increasing licensing requirements

To me, the 2015 requirements are going back to the past, when most new appraisers had 4 year college degrees. It took the AQB almost 20 years to get there.

Currently certified appraisers will be "grandfathered" into the new criteria.

Negative effects of increasing licensing requirements

I started appraising in 1976, long before licensing. I worked for an assessor's office which had its own criteria and training. Typically a college degree was required.

I was soon aware of the huge cyclicality of lending. When I got my MBA in 1980, I planning on doing commercial fee appraising. But there was little work and low pay. I went into corporate real estate management and made much more money.

I had planned on going in and out of appraising.

In 1986, I started my fee appraisal business. I was very lucky and could get as much work at full fee with no hassles from direct lenders. I would go to a lender's local office and pick up appraisals from the very large stacks of appraisal order files.

There was no licensing. I had never worked for a lender or seen a Fannie form. However, I was a well trained appraiser and got work quickly. Most appraisers dropped out of appraising during the slow period of 1980 to 1985. It was easy for us to come back into appraising. Some of us did come back.

Now, keeping a license until the market turns around is expensive - CE and licensing fees must be paid. Once you give up your license, most states have limits on how long it can be inactive before you lose your license.

When the discussions started on requiring 4 year college degrees, I was one of the few asking how the huge volume changes in residential appraising over time would be handled.

Lots of appraisers leave during the downturns, including the current one. Fewer appraisers will be entering the business because of increased requirements. Residential fee appraisers will be subject to the ups and downs of fees. Commercial appraisers have always had fee changes as most appraisal assignments were done on a bid basis.

After 1/1/15, supervisory appraisers can only supervise 3 trainees. This has a significant effect on residential trainees. For larger fee appraisal companies, lenders and AMCs eliminates Supervisory appraisers who only supervised and did not do appraisals. Supervisory appraisers were used to train large numbers of new appraisers during large upswings in the market.

Increases in appraiser requirements after licensing

1991 - licensing started

I couldn't find any information, but there were education and experience requirements. No college course work was required. Verification of experience varied widely among the states. In California you simply "attested" to the experience hours. Many appraisers needed to be licensed at the same time. Many states decided not to require experience reviews.

1991 - original requirements

Experience: 2,000 hours for certified residential and certified general.

Education: 90 classroom hours, including 7 hour National USPAP,

CE: 10 hours per year.

College class hours: None

1998 - increased requirements

Experience: Res. Cert from 2,000 to 2,500 hours

Gen cert from 2,000 to 3,000 hours

Education: No change except 15 hour National USPAP required

CE: Increased to 14 hours per year

College class hours: None

2008 - increased requirements

Experience: No change.

Education: Cert. Res. 90 to 150 hours

Cert Gen 180 to 300 hours

CE: No change

College class hours: Degree or specified classes

2015 - increased requirements

Experience: No change.

Education: No change

CE: No change

College hours - 4 year college degree require for certified

Licensed (not certified)

There are currently only voluntary national AQB requirements for Licensed appraisers. Each state determined the requirements and they varied widely.

In 2008, the AQB had some voluntary recommendations to the states: take 75 hours of education, including the 15-hour National USPAP.

1/1/15 requirements: 30 semester credit hours of college level education OR an Associate's degree or higher (in any field).

Trainees

Currently, there are no National AQB trainee requirements. Many states have their own trainee classification. The AQB has voluntary requirements, including taking 75 hours of education, including the 15-hour National USPAP.

For 2015, no licensing exam required. 75 hours of classes including the 15 hour National USPAP class. Completion of a course on Supervisory Appraisers and Trainee Appraisers.

The Trainee Appraiser classification is intended to incorporate any documented non-certified/non-licensed real property appraisers which are subject to the Real Property Appraiser Qualification Criteria.

Recognizing that individual credentialing jurisdictions may use different terminologies, "Trainees" include, but are not limited to: registered appraisers, apprentice appraisers, provisional appraisers, or other similar designations created by state appraiser regulatory agencies.

The Appraiser Trainee Appraiser shall be subject to direct control and supervision by a supervising appraiser Supervisory Appraiser in good standing, who shall be state•certified.

Trainee Appraisers shall be required to complete a course that, at minimum, 490 complies with the specifications for course content established by the AQB, 491 which is specifically oriented to the requirements and responsibilities of Supervisory Appraisers and Trainee Appraisers

Supervisor requirements • start 1/1/15

For 2015, A Supervisory Appraiser may not supervise more than three Trainee Appraisers at one time, unless a state program in the licensing jurisdiction provides to progress monitoring, supervising certified appraiser qualifications, and supervision oversight requirements for Supervisory Appraisers. Note: there are some exemptions. See the proposed regulation.

Appraiser licensing requirements • details

Under the provisions of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Appraiser Qualifications Board(AQB) establishes the minimum education, experience, and examination requirements for real property appraisers to obtain a state license or certification.

State appraiser regulatory agencies are required to implement real property appraiser licensing and certification requirements that are no less stringent than those issued by the AQB in the Real Property Appraiser Qualification Criteria (Criteria).

19 - The original Criteria, adopted by the AQB in March 1991, included the following real property appraiser classifications: Licensed Residential, Certified Residential, and Certified General. The Trainee Appraiser classification was later adopted by the AQB in 1993. There was no licensed classification.

2008 - Changes to the 1991 requirements included increases in education and experience hours, as well as a requirement for individuals to take the 15-Hour National Uniform Standards of Professional Appraisal Practice (USPAP) Course (or its equivalent) to become an appraiser. Major revisions included an increase in the educational hours, as well as the introduction of a Required Core Curriculum for each classification. In addition, college-level education for the Certified Residential and Certified General classifications was required for the first time.

1/1/2015 - Certified appraisers must have Bachelor's degree or higher (in any field) from an accredited college of university. A Supervisory Appraiser may not supervise more than three Trainee Appraisers at one time, with a few exceptions.

Note: Interpretations and Guide Notes were made over the years. Interpretations further clarify the Criteria and are binding requirements. Guide Notes are intended to guide the state appraiser regulatory agencies with enforcing the Criteria, and are not binding requirements.

6 If the market for appraisal services shifts to certified appraisers, there will be more work for certified appraisers.

Get certified ASAP, even if you don't do FHA appraisals.

When the next refi boom hits, there will be big problems as many of the older baby boomers (including myself) are doing less work and some are retiring completely.

All training must be done by certified appraisers who cannot supervise more than three appraisers. Savvy states will set up registration where trainees register with their supervisor(s). Otherwise they don't get any experience credit. Hopefully, this will stop the appraisal "mills" with large trainee staffs from starting up again.

Many appraisers are leaving the business. This may result in more licensed appraisers leaving as they don't want to go through the hassles and expense of upgrading, particularly when they don't have much work.

Where will future appraisers come from?

Becoming certified is much more difficult now than prior to the 2008 AQB requirements. In 2015, 4-year college degrees will be required.

Many of us got licensed in the early 1990s, when licensing started and the exams were easy. Now, the exams are much harder and significantly more education is required.

Appraiser training was shifted from lenders to fee appraisers in the past 15-20 years. This didn't work out very well as few fee appraisers have any training in supervising and mentoring other appraisers. Trainees were desperate for hours and didn't know a good mentor from a bad mentor. In some areas Aappraisal mills had large numbers of trainees with minimal supervision and mentoring.

When the AQB was working on significantly increasing certification requirements, I was one of the few that spoke up on the unintended consequence of an appraiser shortage in the future.

Why would someone work for someone else for many hours, take college classes if they didn't have a degree, and take appraisal classes, only to have to leave the business, or have a significant drop in business, in the next downcycle.

Also, many appraisers are approaching, or are in, their retirement years so are leaving appraising. If they stay in appraising, they are unwilling to work the 60-80 hour weeks during the boom periods. I won't do it again.

What does this mean for you?

Don't give up your license during down cycles! You will be desperately needed during the up-swings.

Of course, that means more business for those that are left.

I have no idea where the new appraisers will come from.

HVCC - appraiser independence and low fees

After years of appraisers complaining loudly about appraiser pressure, mortgage brokers were finally no longer able to order appraisals directly from appraisers. There has been a very significant reduction in appraiser pressure.

If HVCC would not have resulted in low AMCs fees would appraisers be objecting so strongly? No.

What does this mean? Is money more important than ethics? There were relatively few mortgage brokers who did not heavily pressure appraisers, but not enough for all loans. Appraisers continued to submit to pressure even when they were so busy they were turning down work during the boom times and continuing to take work from sleazy mortgage brokers.

Shift to mortgage broker originations

With the shift to mortgage broker originations, appraiser pressure dramatically increased. Banks were subject to FIRREA's separation of loan officer and appraiser, but mortgage brokers were not. See the related article on mortgage brokers in this newsletter.

Prior to the early-1980s, mortgage brokers primarily worked for hard money lenders and other non-bank originators and FHA loans. There was some pressure, but FHA had a rotating appraisal Panel then, so appraiser pressure was minimal.

In the mid-1980s, study after study showed that mortgage brokers were "low cost" originators, particularly in contrast with retail bank residential loan officers.

The market continued to shift to mortgage broker originations when banks set up wholesale lending divisions, which used mortgage broker originations.

Another factor was the increase in mortgage banker companies, which were not federally regulated doing loans,. Mortgage bankers became the predominant residential lenders. They tend to rely on brokers for origination.

At the peak, in 2004, mortgage brokers did an estimated 55% of loan originations.

Finding mortgage brokers who did not use excessive pressure was difficult. During the boom years, many new appraisers entered the profession. Getting work from mortgage brokers was relatively easy, especially if you were "flexible". Post licensing education and training was overall inadequate, particularly ethical training. The new appraisers just did what they were told.

There have always been mortgage brokers who did not pressure appraisers. Many had two lists: honest appraisers and "lets make a deal" appraisers. They were hard to find, especially during the peak lending years with many, many new mortgage brokers entering the business, who could make lots of money if they closed deals without appraisal "problems".

Timeline of HVCC

- 2001 - Appraisers Petition protesting pressure has over 11,000 names and is closed to further names - already had enough.
- 2001-2009 - many appraisers, appraisal associations, and others complained about the pressure.
- Early 2007 - Florida appraiser Pamela Crowley states on her web site, wwww.mortgagefraudwatch.com that eAppraiseIT had been opening appraisal PDFs. eAppraiseIT filed a lawsuit which it later dropped. Lots of national news on this.
- May 2007 - New York attorney General Andrew Cuomo issued a subpoena to eAppraiseIT in his investigation of whether mortgage brokers pressured appraisers to inflate property values. eAppraiseIT values up to 15,000 homes a year in New York, per the president, Anthony Merlo Jr.
- 3/3/08 Fannie/Cuomo agreement signed
- 3/09 New Fannie guidelines, implementing HVCC
- 5/1/09 HVCC effective
- 7/10 HVCC expires, superceded by Fannie guidelines
- 7/1/10 Dodd Frank Wall Street Reform and Consumer Protection Act
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What does this mean for you?

I don't know if we will ever return to residential appraisal fees that seldom change. You need to keep close track of your fees. AMC fees are now going up. Are you getting higher fees?

When fees go down, will you delay lowering your fees and possibly lose lots of work?

Appraiser income and fees - changes over time

The data below is from previous Appraisal Today newsletters in 1994 and 1996. See how your current appraisal business compares with the past.

Size of company - significant downsizing
10/92

Number of appraisers in appraisal firm (full and part time)

One	22%
2-3	25%
4-6	25%
7+	27%

Average = 5.4

Support staff (full and part time)
10/92

at least 1	95%
Average number	2.5

10/92
Years of experience - business owner
Average of "between 5 and 10 years"

Residential Billings
(NAR 2006 survey)

Under $20,000	9%
$20-40k	11%
$60-80k	11%
$80-100k	11%
Over $100k	17%
decline to answer	24%

URAR fees - changes over time
1/94 Average = $288, range of $200 to $450
7/96 Average = 286

	1/94	7/94
AZ	$275	$245
CA	$306	$288
CT	$256	$296
FL	$246	$275
GA	$288	$250
HI	$436	$425
IL	$242	$253
IN	$237	n/a
MD	$285	n/a
MA	$250	n/a
NC	$254	n/a
NJ	$241	n/a
NV	$312	n/a
NY	$253	$269
OH	$218	n/a
OR	$416	n/a
PN	$225	$250
TX	$312	$300
VA	$295	n/a
VT	$275	n/a
WA	$400	$400
WI	$222	$240

2001 appraisersforum.com survey
URAR fees:

$251-300: 46.48%
$301-350: 26.95%
$200-250: 12.50%
$351-400: 8.98%
Over $400: 4.30%
Under $200: 0.78%

Commercial fees - 7/96
Apartment form reports - Typical 25 unit property

	Past	present
National avg.	$2,053	$1,907
Midwest		$2,004
$1,798		
Northeast		$1,617
$1,550		
Southeast		$1,500
$1,600		
West (excl CA)		$2,550
$2,375		
CA		$2,207
$2,209		

Apartment narratives - 25 units, 50-75 page report

National avg.	$2,961	$2,853
Midwest		$2,900
$2,726		
Northeast		$2,829
$2,529		
Southeast		$2,217
$2,467		
West (excl CA)		$3,333
$3,406		
CA		$3,543
$3,143		

Are appraisers satisfied with their businesses?

• **1/94** 77% were satisfied with their business
• **6/96** 62% were satisfied with their business

Reasons for dissatisfaction

	1/94	**7/96**
Lender hassles	60%	61%
Personnel	25%	65%
Low fees	48%	45%
Collection	21%	21%
Declining fees-res		2%
Declining fees-comml		42%
Regulatory change-res		11%
- comml		38%

Data sources used in this article

1998 - Washington State University research - all appraisers and some residential appraiser data. One of the reports, sponsored by the Appraisal Institute, compared designated vs. undesignated appraisers.

2004 - Appraisal Foundation survey all appraisers and some residential appraiser data.

5/92, 10/93, 12/94 - Appraisal Today subscriber survey - all appraisers

What does this mean for you?

How do your current fees compare? The residential market was very strong in 1992, and declined in 1996, but there were no significant changes in residential fees. Commercial fees declined because of the loss of RTC/FIREEA business.

This article shows that the appraisal business goes up and down over time. Looking at the past can help adapting to the present and shows that it is not very stable.

How have AMC market share and fees changed over time?

AMCs have been around for a long time. The first one, LSI, was started in the 1960s.

After HVCC, lenders outsourced appraisal from mortgage brokers to AMCs.

Changes in lender appraisal ordering

Lenders outsourced much of their appraisal ordering to mortgage brokers because several studies showed mortgage brokers were cheaper than bank loan officers for mortgage origination. Relatively few lenders had their own fee panels. Another significant factor was lender mergers. Managing fee panels became difficult when lenders merged.

When HVCC and Dodd Frank became effective, lenders did not have their own fee panels and outsourced appraisals to AMCs.

AMC market share

I wrote my first article on AMCs in December, 1994. At that time, I estimated a 5% market share after speaking with various lender and AMC personnel.

Mortgage brokers had an estimated 80% market share of appraisal ordering until the HVCC was effective in May, 2009. Previously the AMC market share was small.

Today AMCs have almost all of the pre-HVCC (5/1/09) mortgage broker market and all of the top 50% Big Three lender share. Most mortgage brokers went out of business and their share of the market shifted to lenders.

A market share of around 75-80% seems reasonable.

AMC fees go up and down

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

The current fee structure is a significant change from 1998. Fees vary widely today, but there are few paying 90-100% of non-AMC fees.

Since LSI started in the 1960s, there have always been appraisers who worked for AMCs for various reasons. As you can see, fees were higher in 1998. Lender work was at a high peak in mid-1998 for a few months.

AMC fees are now market driven

Until AMCs took over, residential appraisal fees were very steady. If the market was strong or weak, fees didn't change much. During the 1990s downturn, offering to work for a low fee didn't help much in getting business. Lenders and mortgage brokers were not price sensitive. The appraisal fee is a very small part of the total loan fees that lenders receive.

Just like commercial appraisers, residential fees now go up and down. Competing on fees is a death march to the end

Whatever business you are in, competing only on fee drives fees down. It worked for Walmart, but even it is changing as the market changes, offering more than the lowest price.

What does this mean for you?

Lending changes over time. Fees go up and down. A fact of life for fee appraisers, even if you don't do lender work. Competition from lender-oriented appraisers drive down fees for non-lender work.

Stable residential fees was great while it lasted - from 1930s to 2009.

FHA - changes in volume of loans and appraiser requirements

FHA's role in mortgage lending

The Federal Housing Administration (FHA) is a United States government agency created as part of the National Housing Act of 1934. It insured loans made by banks and other private lenders for home building and home buying. The goals of this organization are to improve housing standards and conditions, provide an adequate home financing system through insurance of mortgage loans, and to stabilize the mortgage market.

Until 1996, FHA appraisals were assigned on a rotational basis, using a panel of approved appraisers. Getting on the list was difficult. In 1/96 the panel was eliminated and replaced with a Roster, open to all licensed and certified appraisers. The reason was to make FHA less cumbersome and more competitive with conventional loans.

FHA appraiser changes

- 12/2/94 new regulations - new fee appraiser panel, open FHA to all licensed and certified appraisers with training
- 1/1/96 FHA Fee Panel eliminated (not open to all licensed appraisers and could b e hard to get on the panel)
- 1/30/99 - passing FHA exam required
- 2005 - Valuation Conditions (VC) form eliminated
- 2/1/08 - exam eliminated
- 10/1/09 FHA requires state certification
- 1/1/10 FHA does not allow mortgage broker originations

FHA lending loan volume changes starting in 2008

To increase mortgages and home ownership, FHA lending dramatically increased.

Stats on number of FHA loans:

FY 2006 (June 2005 to July 2006) 501,894

FY 2007 532,337 loans

FY 2008 1,999,624 loans

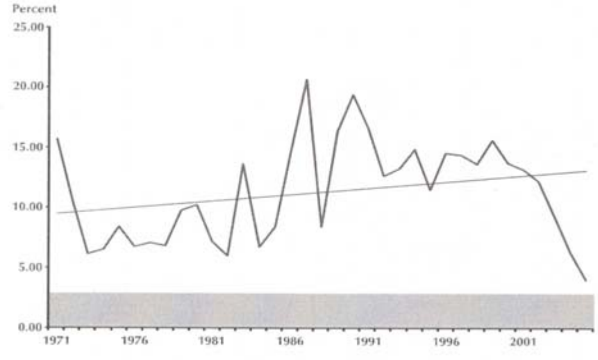
FY 2009 Est. 2.5 million loans

In recent years, the FHA has experienced dramatic changes. The FHA's market share stood at about 10.5 percent in 2000, then fell sharply over the first part of the decade, to about 3 percent in 2005 and 2006. Although total volume initially grew from 841,531 loans in 2000 to 1,184,731 loans in 2003 as the number of FHA-to-FHA refinances surged in response to low interest rates in the early part of the decade, it plunged thereafter, reaching a low of 387,548 loans in 2006. (That FHA market share fell at the beginning of the decade even as its loan count was rising reflects the expansion in scale of originations in the market as a whole, including, perhaps, a greater use of second liens in the non-FHA portion of the

Weicher

Figure 1

FHA Share of the Home-Purchase Market, 1971-2005



NOTE: FHA purchases during the 1970s exclude homes for low-income families with subsidized mortgages insured under Section 235 of the National Housing Act and include refinances as well as home purchases. Variables are constructed as described in the text.

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market.) FHA lending by dollar amount followed similar patterns over the period in terms of both volume and share (Tables 4 and 5 and Chart 7).

With the start of the housing crisis in 2007, this pattern reversed. In contrast to originations in the market as a whole, FHA loan originations increased in both total number and total dollar amount that year, and the FHA's market share increased as well. A further sharp increase in originations occurred in 2008, to more than 1.24 million, a level of FHA originations somewhat higher than loan counts between 2001 and 2003, and to a total dollar amount of $215.7 billion, also a new high for the decade. Market share rose to 17.6 percent.

In 2009, growth in FHA loan origination continued. The total number grew year over year by 46.6 percent, to more than 1.8 million – once again, a new high for the decade – and total dollar amount grew by 53.9 percent, to $331.9 billion. As of 2009, the FHA's market share of mortgage originations was approximately 21 percent by loan count and 18.5 percent by dollar volume.

FHA market share changes over time

FHA's market share usually follows the alternating trends of relaxed and restricted lending. Whenever financial side-doors open up for people with bad credit and no money down, FHA's market share goes down. When those doors close again, FHA loans become more popular.

This is what we saw in the late 1990s and early 2000s. Those were the days when anyone could get a loan. FHA market share went way down.

But now that most of those high-risk mortgage products are gone, it's a love affair with FHA loans once again.

FHA loan limits are also a significant factor. I quit doing FHA appraisals in 1986, as our home values were way over the FHA limits.

Year	**Percent of home purchase loans**
1993-2002	- stable, ranging from 1.5 to 14%
2003	9%
2004	6.4%
2005	4%
2006	3.8%
2007	4.1%
2008	12.6%
2009	18.7%
2010	19%
2011	14.6%
2012	15.9%

FHA share dropped with the refi boom and significantly lowered requirements for non-FHA loans starting in 2003. When the market crashed and conventional loans were difficult to obtain, FHA market share increased.

Data prior to 1990 is spotty, but there were ups and downs in the 1970s and 1980s. Below is a graph for 1971 to 2008

History of FHA lending

During the Great Depression, the banking system failed, causing a drastic decrease in home loans and ownership. At this time, most home mortgages were short-term (three to five years), no amortization, balloon instruments at loan-to-value (LTV) ratios below fifty to sixty percent.[1] The banking crisis of the 1930s forced all lenders to retrieve due mortgages. Refinancing was not available, and many borrowers, now unemployed, were unable to make mortgage payments. Consequently, many homes were foreclosed, causing the housing market to plummet. Banks collected the loan collateral (foreclosed homes), but the low property values resulted in a relative lack of assets. Because there was little faith in the backing of the U.S. government, few loans were issued and few new homes were purchased.

In 1934 the federal banking system was restructured. The National Housing Act of 1934 was passed and the Federal Housing Administration was created. Its intent was to regulate the rate of interest and the terms of mortgages that it insured.

In 1965, the Federal Housing Administration became part of the Department of Housing and Urban Development (HUD). Since 1934, the FHA and HUD have insured over 34 million home mortgages and 47,205 multifamily project mortgages.

Following the subprime mortgage crisis, FHA, along with Fannie Mae and Freddie Mac, became the source of much of the United States mortgage financing. The share of home purchases financed with FHA mortgages went from 2 percent to over one-third of mortgages in the country as conventional mortgage lending dried up in the credit crunch.

The creation of the Federal Housing Administration successfully increased the size of the housing market.

What does this mean for you?

Stay on the FHA Roster, even if they aren't very active now in the mortgage market.

The VA panel opened briefly in 2003 but many appraisers did not apply as they were "too busy". Now, the VA appraisers are swamped with work.

Keep your options open. Lending changes.

The GSEs (Freddie and Fannie) - changes in lender standards, guidelines and appraisal reporting forms

The GSEs (Government Sponsored Enterprise) have a significant impact on residential lending, including appraisals. They set the appraisal reqirements for loans they purchase. Their requirements have become a "standard" for many loans, not just loans sold to the GSEs.

The GSE's control the appraisal forms and requirements/guidelines used by lenders.

FIRREA's deminimus - GSE's did not adopt the deminimus and continue to require appraisals for their loans

FIRREA required appraiser licensing and set the deminimus set at $50,000, raised to $100,000, finally raised to $250,000 in 7/94.

However, this did not affect residential lending. The GSEs still don't use the deminimus levels to decide when appraisals are required as they decided that was too risky for their investors.

Residential appraisal forms

Mid-1970s - Fannie Mae standard form, called the "Green Hornet" because of its color on the side bars.

1987 The new URAR was effective 4/1/87.

1992 - Revised URAR (and other forms) implemented.

2005 Revised URAR (and other forms) use of new forms required. Changed length and formatting with more blank space available for comments and optional Cost and Income Approach sections. New 2055 (drive-by) form.

4/1/09 1004MC Addendum to URAR required

9/1/11 UAD effective date – Not a form change - additional data formatting specifications per GSE requirements

The first form: The "Green Hornet"

Source: George Opelka article on ACI web site - www.aciweb.com Thanks George!!

Appraiser F. Gregory Opelka created appraisal form "#17-PRA" in 1962.

The appraisal report form was presented to the Appraisal Committee of the U.S. League for review and consideration for adoption and use by savings and loan associations across the United States. The form was initially presented on green paper with green ink strictly for marketing spin.

The form was approved for nationwide members' use by the U.S. League's Appraisal Committee and was numbered form #17-PRA, Professional Residential Appraisal by the U.S. League staff.

Form #17-PRA was then printed and sold by the Accounting Division of the U.S. League. Remember, this occurred in 1962 (pre-personal computer), so the completion of this form was intended to be a handwritten field report, and submitted accordingly.

It wasn't until after the form was released and in production when the appraisal staff of the First Federal Savings and Loan Association of Indianapolis submitted a report critiquing the new form. This critique was published in a monthly professional trade magazine of the Society of Residential Appraisers. Of historical note, it was this local Indianapolis S&L appraisal committee that affectionately dubbed the new form "The Green Hornet"!

Ironically, the name stuck and even today, almost fifty years later, the Green Hornet continues to charm and identify with the residential appraisal process.

The first URAR

Source: George Opelka article on ACI web site - www.aciweb.com

1984, twenty-two years after the birth of the Green Hornet, a new initiative to create a standard appraisal form was spearheaded by the Society of Real Estate Appraisers. Aside from the SREA, the Institute, Fannie Mae, Freddie Mac, FHA and the VA, there were a few other government agencies, and all were actively involved in the development of this new form.

The advent of the personal computer provided better tools to develop the successor to the Green Hornet—an appraisal form using spreadsheet-like software. Initially, Opelka designed the new form in Visi-Calc and then shifted to developing it in Lotus 1-2-3.

The new form committee meetings were all held at the SREA Washington Headquarters Offices in the Watergate Office Building. The form development, given changing updates from meeting to meeting, took approximately two years to perfect a version acceptable to the committee and all the various agencies represented.

When design was finalized and approved by the appraisal committee and the various organizations they represented, the form was adopted and called the Uniform Residential Appraisal Report…the URAR (named by Fannie Mae).

The URAR, like its forerunner, the Green Hornet, twenty-two years its senior, featured Market Data Approach to Value sections in the form, wherein current and local timely comparable sales were included and processed through to Indicated Opinions of Value.

GSEs - what they do

Source: GSE web site

A government-sponsored enterprise (GSE) is a financial services corporation created by the United States Congress. Their function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent.

The desired effect of the GSEs is to enhance the availability and reduce the cost of credit to the targeted borrowing sectors: agriculture, home finance and education.

Fannie Mae and Freddie Mac were created by Congress to perform an important role in the nation's housing finance system – to provide liquidity, stability and affordability to the mortgage market.

The Enterprises provide liquidity (ready access to funds on reasonable terms) to the thousands of banks, savings and loans, and mortgage companies that make loans to finance housing.

Fannie Mae and Freddie Mac buy mortgages from lenders and either hold these mortgages in their portfolios or package the loans into mortgage-backed securities (MBS) that are sold to the public.

Lenders use the cash raised by selling mortgages to the Enterprises to engage in further lending. The Enterprises' purchases help ensure that individuals and families that buy homes and investors that purchase apartment buildings and other multifamily dwellings have a continuous, stable supply of mortgage money.

By packaging mortgages into MBS and guaranteeing the timely payment of principal and interest on the underlying mortgages, Fannie Mae and Freddie Mac attract to the secondary mortgage market investors who might not otherwise invest in mortgages, thereby expanding the pool of funds available for housing. That makes the secondary mortgage market more liquid and helps lower the interest rates paid by homeowners and other mortgage borrowers.

Fannie Mae and Freddie Mac also can help stabilize mortgage markets and protect housing during extraordinary periods when stress or turmoil in the broader financial system threaten the economy. Further, a majority of the mortgages purchased by Fannie Mae and Freddie Mac finance dwelling units that are affordable to low- and moderate-income households, or are located in geographic areas that the Department of Housing and Urban Development believes are underserved. The Enterprises' support for mortgage lending that finances affordable housing reduces the cost of such borrowing.

A brief GSE history

Congress created the first GSE in 1916 with the creation of the Farm Credit System; it initiated GSEs in the home finance segment of the economy with the creation of the Federal Home Loan Banks in 1932; and it targeted education when it chartered Sallie Mae in 1972 (although Congress allowed Sallie Mae to relinquish its government sponsorship and become a fully private institution via legislation in 1995).

The residential mortgage borrowing segment is by far the largest of the borrowing segments in which the GSEs operate. GSEs hold or pool approximately $5 trillion worth of mortgages.

From 1938 to 1968, the Federal National Mortgage Association (Fannie Mae) was the sole institution that bought mortgages from depository institutions, principally savings and loan associations, which encouraged more mortgage lending and effectively insured the value of mortgages by the US government.

In 1968, Fannie Mae split into a private corporation and a publicly financed institution.

To provide competition for the newly private Fannie Mae and to further increase the availability of funds to finance mortgages and home ownership, Congress then established the Federal Home Loan Mortgage Corporation (Freddie Mac) as a private corporation through the Emergency Home Finance Act of 1970.

The charter of Freddie Mac was essentially the same as Fannie Mae's newly private charter: to expand the secondary market for mortgages and mortgage backed securities by buying mortgages made by savings and loan associations and other depository institutions.

GSE underwriting and appraisal guidelines

This is "the" source for guidance. The guidelines change regularly.

What about the future of the GSEs?

No one knows if Freddie and Fannie will go out of business. There are many, many issues to be resolved as the GSEs are heavily integrated into the mortgage business.

GSEs are heavily influenced by Washington politics, making changes even more difficult.

Shift to mortgage brokers starting in the late 1980s

Why did mortgage brokers become the predominant mortgage originators?

Prior to the 1980s, mortgage brokers filled in the gaps left by thrifts and savings banks, which dominated the industry. Brokers were in much smaller markets such as private money, seconds, and some commercial lending segments.

De-regulation of the thrift industry in the late 1970s with the loss of the 0.25% interest rate advantage over banks, and historically high mortgage rates in the early 1980s, causing shifting of investor funds from thrift deposit to money market funds, resulted in a serious loss of profits in the thrift industry. Staff reductions and branch closings occurred.

By 1983 when rates started to decline, laid-off loan officers and managers saw an opportunity and started mortgage brokerages that specialized in originations and did not normally do servicing or financing.

In the mid-1980s securitization by Fannie Mae, Freddie Mac, and financial services companies increased, leaving the thrifts behind. To control costs many banks and thrifts set up wholesale divisions, relying on mortgage broker originations.

Other factors are the relative lack of regulation of mortgage brokers compared with lenders, and accounting changes for lenders favoring purchased loans over originated loans.

When a retail lender (or any funding source) acts as a wholesale lender they are outsourcing originations to mortgage brokers.

Study after study showed that mortgage brokers are "low cost" originators, particularly in contrast with retail bank residential loan officers.

Mortgage bankers became the predominant residential lenders, who tend to rely on brokers for origination

Percent of mortgage broker originations, 1989-1993

	1989	1990	1991	1992	1993
Comm. Banks	27.2%	33.4%	27.3%	26%	23.5%
Savings banks	5.1%	3.9%3.	3.0%	3.8%	4.0%
S&Ls	29.7%	26.4%	21.7%	20.7%	18%
Mort. Companies/ Mortgage brokers	36.8%	5.2%	47%	49%	53.6%

How many mortgage brokerages were there?

Note: data on number of individual mortgage brokers was not available, similar to pre-licensing for number of appraisers.

Year	*No. of brokerages*
1987	7,000
1988	8,400
1989	10,100
1990	11,900
1991	12,500
1992	13,900
1993	18,500
1994	16,500
1995	19,700
1996	22,900
1997	Data not available
1998	36,000
1999	33,030
2000	30,000
2001	37,000
2002	44,000
2003	50,000
2004	53,000
2005	53,000
2006	53,000
2007	40,000
2008	30,000
2009	Under 20,000 (est)

Source: Access Mortgage Research and Consulting, Inc.

What percent of originations were done by mortgage brokers?

	Market share
1987	20%
1988	31%
1989	37%
1990	34%
1991	42%
1992	45%
1993	50%
1994	45%
1995	50%
1996	53%
1997	n/a
1998	70%
1999	n/a
2000	65%
2001	n/a
2002	n/a
2003	n/a
2004	58%
2005	n/a
2006	55%
2007	n/a
2008	n/a
2009	20% (est.)

Source: Access Mortgage Research and Consulting, Inc.

What does this mean for you?

Mortgage brokers can do originations, but they cannot order appraisals. Some have relationships with lenders who order appraisals and have their own fee panels.

DON'T BE TOO DEPENDENT ON ONE TYPE OF LENDER CLIENT!!