

From: Scott Williams Appraisal Inc., Scott R. Williams
Subject: Regulation Z -- Truth in Lending

Comments:

I understand you are receiving comments on appraiser compensation issues for your rule making. I urge you to consistently exclude Appraisal Management Company (AMC) paid fees in determining what constitute "reasonable and customary" appraisal fees.

In no way are AMC fees reasonable and customary. We used to do a large volume of residential appraisals in our office until AMCs took over such a large share of the market. We still do a considerable (but reduced) volume, but rarely for an AMC. Basically they would do a fee survey of our market and then tell us the "good news" that we could do work for them at 75% of average fees. Given the stark choice of reduce fees or get no work from AMCs, we decided upon the latter option. No appraiser in our company was willing to take the pay cut. At one time, we did the largest volume of residential appraisal work in our area, but AMCs have made that impossible at this point no matter how good the quality of the appraisal work.

As a practical matter, the AMC expansion has directly led to a dramatic reduction in appraisal quality. The emphasis on fast and cheap has resulted in poor quality work. At the end of the day, any appraiser has to make a living at the appraisal profession. Something had to give and it was appraisal quality.

Everyone pays lip service to quality, but it is simply no longer an option when doing AMC work. Clients want appraisals fast, good and cheap. In reality, they can only get two out of the three. By insisting on fast and cheap, AMCs sacrificed quality without anyone having to say anything. Ironically, the review process simply rubber stamped the race to the bottom since reviewers were compensated at much higher rates for approving appraisals than rejecting them.

Appraisal Review fees are the same whether an appraisal is approved or rejected, but rejected appraisals require much more work on the part of the reviewer. If a reviewer can make twice as much per hour approving appraisals as rejecting them, all the AMC has to do is let nature take its course and many appraisals will be approved that are of poor quality. After awhile, the regular appraisers catch on that no one will call them on their mistakes and quality declines further. This feeds back to the reviewers who have a greater financial incentive than ever to approve poor quality work. A downward spiral ensued - all the while AMCs (and their appraisers and review appraisers) touting high quality work. "Follow the money" was never more apt.

In response to the deterioration in appraisal quality, clients have required increasingly more work of appraisers (extra comparable sales, listings, market analysis, etc.) Sounds like a great idea to increase quality except for two problems:

1. AMCs usually decreed that there would be little or no compensation for the extra work leading to a further deterioration in quality as all of the new requirements were treated mostly as widow dressing by AMC appraisers.

2. To the extent that appraisers insisted on and received higher fees, clients are turning to much less expensive broker opinions as a substitute for appraisals. That simply makes valuations even less reliable.

CONCLUSIONS

--For quite a few years, many if not most attempts to increase the reliability of valuations have had the perverse effect of an overall reduction in reliability of residential valuations.

--AMCs have had the unintended consequence of reducing residential valuation reliability.

--Attempts to increase appraisal requirements haven't had their intended overall effect because lagging fees forced appraisers to spend even less time on accurate valuation and more time on window dressing to "meet the requirements". Also, the new requirements have led to a rise of broker opinions as a viable alternative to appraisals, even though there are no effective standards of practice no accountability.

--Increased use of appraisal reviews hasn't helped because of the financial incentives built into the system for the reviewer to approve appraisals rather than reject them.

--This situation will only be turned around when financial incentives are redirected to promoting good quality rather than poor quality appraisals.

--Long term, there must be adequate financial incentives for reasonably intelligent people to choose residential appraising as a profession or quality appraisals will simply be unobtainable.

--There needs to be a rethink about constantly increasing the demands on residential appraisers as a means to increasing appraisal quality. It hasn't worked. The key is to hire good competent appraisers and let them do their job without crushing them with inadequate fees.

-- It would be helpful is there could be a mechanism to enable appraisers who provide top quality work to obtain a greater share of the business. The current practice of having an approved list and rotating assignments provides little incentive for improving quality.

--A CRITICAL FIRST STEP IS TO COMPLETELY AND CONSISTENTLY EXCLUDE APPRAISALS MADE FOR AMCs FROM BEING INCLUDED IN DETERMINING REASONABLE AND CUSTOMARY APPRAISAL FEES.

Sincerely,

Scott R. Williams
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