

From: David Covington
Subject: Regulation Z -- Truth in Lending

Comments:

Dear Sirs/Madams;

I'd like to present my concerns regarding Appraiser Independence, fees paid by lenders and third party groups known as Appraisal Management Companies (AMCs).

The free market in the United States is primarily controlled by consumers who determine if a product is worth its' costs. Service providers compete by providing services at the lowest possible price that will enable them to obtain an established margin of profit. That service and the associated costs is, in essence, controlled by the consumer and the providers ability to offer a high quality of service at a competitive rate. The costs of services, however, is never directly controlled by the consumer. This has become the opposite in the world of appraising. Lenders and AMCs have taken control of a market that threatens the existence of the appraiser by continuing the threat of "no work" unless you (the appraiser) agree to fees we (lenders and AMCs) have determined to be reasonable. The ability of the appraiser to provide a "quality" service at a reasonable fee has been taken away. Along with the loss of the ability to charge a reasonable fee for services is the question of the appraiser's independence.

With AMCs reportedly controlling 80% of appraisal orders, appraisers have been forced to accept fees that are far below the standard for our profession. For example, in the year 2000, appraisal fees were in the neighborhood of \$350. Since 2000, cost of living and cost of business indexes indicate an approximate 20-25% increase, or a fee that should now be approximately \$420 to \$438. However, many AMCs are paying from \$175 to \$250 for a standard residential appraisal. Thus, appraisers have realized a 43% decline in fees. The foundation of business principles is based on the ability of a service provider to reduce costs to consumers by increasing volume. I have an extensive background in manufacturing engineering management. My position was responsible for refining processes, and increasing capacity or volume by removing wasted time from processes that would provide reduced costs that could be passed to consumers. I've attempted, on numerous occasions, to apply these same methods to the appraisal process, unsuccessfully. While technological advances exists that assists an appraiser in reducing a minimal amount of time from a process, the fact remains that technology does not exist that will assist an appraiser in analyzing data. Counteracting time savings through the use of technology is the excessive, often irrelevant requirements included in appraisal orders from lenders and AMCs that have actually increased the amount of time it takes to develop a credible and reliable report that meets the conditions of The Uniform Standards of Professional Appraisal Practice (USPAP). Combined with excessive requirements is the fact that, once a report has been submitted to an AMC and/or lender, appraisers are constantly forced to respond to issues that are meaningless and time-consuming. Failure to comply to such requests poses a threat of loss of work for the appraiser.

AMCs sell their services to lenders, implying they inject quality into the appraisal process. As AMCs profess to instill higher quality in appraisal reporting and development, they instill nothing more than the insurance that a

report meets the guidelines presented to the appraiser when the order was issued, or that the forms have been completed satisfactorily. I cannot count the times my office has submitted reports which passed an AMC's quality review, and the report was sent to the lender (indicating acceptability of the report) only to later receive a rejection from the AMC stating that the lender wanted additional information or clarification. Nor, can I count the times when the AMC received the request from the lender, did not investigate the requests, and simply forwarded the request to my office. My time was consumed by reviewing the requests, reviewing my report, finding that the information was already within the report, and notifying the AMC of the existing data. I have often ask AMCs if they reviewed the legitimacy of the lender's request prior to interrupting my work schedule, as I consider this to be a function they provide. I have often asked, too, why the report passed the AMC quality audit and was sent to the lender if the report was inadequate. On the one hand, the AMC is telling me and the lender that the report is good (passed quality review). On the other hand, the AMC is telling me a report that passed quality review "did not pass quality review" but was sent to the lender, regardless. And, I cannot count the times where the requests were related to the lender simply not reading the reports in their entirety. The notion that an AMC increases appraisal reporting quality is ridiculous and can be easily be disproven!!

The "added" quality provided by an AMC is merely related to form filling and whether or not the appraiser's report addresses client or lender-specific requirements provided to the appraiser upon placing the order with the appraiser. The quality of an appraisal report can only be determined by those who have access to the data for the specific market and by those who have daily access of information and occurrences in a market that either positive or negatively affect it. An AMC that is located as close as one hundred miles of a property will still not have the information needed to determine the overall quality within a report if they are not familiar with the specific market and the occurrences that impact it.

However, lenders and AMCs are working outside of the free market and have forced appraisers to accept lower fees for services based upon what AMCs and lenders consider to be fair fees. The so-called fair fees paid by AMCs and lenders are based upon nothing more than the fact that they control the work and they are more focused on increasing profitability rather than consumer protection and appraisal reporting quality. Consumers are unaware of the involvement of AMCs in the appraisal process. One such consumer informed me of him paying \$600 for his appraisal, asking me why the fee was so high. Because of my contract with the AMC, I could not tell him. This is a clear indication that consumers are not aware of what is occurring and thinking the fee paid for the appraisal is what the appraiser is charging. "Consumers are being misled." If I provide a misleading report, I face the possibility of prosecution. Yet, there appears to be no consequence when the consumer is misled by other institutions.

I strongly urge the Federal Reserve Board to further review the Customary and Reasonable Fee issue and how it is impacting consumers, the housing market, and the economy. Do not let this issue fall by the wayside. Professional appraisers, those who have a good understanding of pricing and services, are up

in arms over this issue. Blogs continually tell the story. An uprising in the appraisal profession is eminent if this issue is not addressed and a means provided that puts appraisers on a level playing field. As requirements and qualifications for becoming an appraiser increase, the control exuded by lenders and AMCs that keep fees minimal will stifle our profession as those who may consider becoming an appraiser will turn to other professions that will provide more significant means of income. One thing that cannot happen is for automated valuation modules to replace one who knows how to analyze a market's condition, can see the condition of the interior of a home, can determine impacts on value based on locations, analyze external and functional obsolescence, and present an objective and unbiased opinion of value based on the aforementioned factors. And one thing that certainly cannot happen is relinquishing the value process to those who are not objective and unbiased. Unless, and until, the appraiser's ability to obtain a reasonable fee for the service he/she provides, lenders and consumers remain at risk of lower quality appraisal reporting from what may be less than professional individuals.

Regards,

David Covington