From: Real Value Appraisals, James J. Woodring

Subject: Regulation Z -- Truth in Lending

Comments:

To Whom it May Concern,

Regarding what are "customary and reasonable" appraisal fees is NOT as easy to define as some may think and the Dodd-Frank bill implies. The bill implies that all standard single family appraisals are the same probably because most are completed on the standard FHMA 1004 form. The "customary and reasonable fee" in the Washington, DC and metropolitan area has been $350 for many years and with the inclusion of the new Market Conditions (1004 MC) form, the "customary and reasonable" fee is around $400.

However, these fees are "customary and reasonable" only when the "Scope of Work" is also "customary and reasonable" which is generally defined by FNMA and FHMC appraisal guidelines. However, many AMC's expand the "Scope of Work" required by the appraiser so they can offer their lender/clients a "better" product for the same or, in many cases, a lesser fee and I could name several AMC's who do this as standard operating procedure. Many AMC's require interior photos in all reports, a 4th sale comparable and/or one or two listing comparables but, will pay no additional fee for the increased "Scope of Work". The expanded "Scope of Work" can add an hour to as much as several hours to the time to complete an appraisal assignment and the appraiser should be justly compensated for the additional work required by the AMC, but it never happens; they just go to the next appraiser willing to work for less.

In addition to the increased "Scope of Work" many AMC's are in the business of reviewing appraisals before they are send on to the lender/client and many times they request additional follow-up work. For example, I had one AMC, one of the largest in the country, recently request that I review their list of several properties in the market area where I recently completed an appraisal for them. They said the lender/client was not happy with the appraised value (which was a lie, they were not happy with the value) and they wanted me to consider additional sales. It took a lot of time to research the sales and explain away why I did not use each any of them in my report; it was because none of they were comparable to the subject property , they were all completely different houses. But, I still had to go through the whole process anyhow so I'd get paid for the appraisal. It was the first and last appraisal I did for LandMark, Inc. as they openly and aggressively tried to influence the outcome of the appraisal without the lender's knowledge. That should never be a part of appraisal management. (I still have all my email correspondence if you are interested in how they operate.)

On a secondary level, there is another aspect that also plays into the equation as to what is a "customary and reasonable" appraisal fee. Whether the appraiser performing the appraisal is an independent appraiser, independent contractors to appraisal companies, or an employee of an appraisal company as opposed to an Appraisal Management Company is a large factor in determining how much an appraiser actually make on an appraisal assignment. If an AMC increases the "Scope of Work" beyond what is "customary and reasonable" without increasing the appraisal fee, the independent appraisal is more likely to be able to absorb the net effect of a loss in hourly wages. The result is that normal appraisal companies with staff appraisers and independent contractors that work on a fee split basis with either take hefty cut in their net hourly wage if they take on these assignments with increased "Scope of Work" because the appraisal company overhead remains the same regardless of the increased "Scope of Work". This will eventually for staff appraisers and independent contractors to become independent appraisers to increase their net hourly wage and will ultimately run out of business many if not most appraisal companies if this trend continues.

I am at this moment seriously considering becoming a completely independent appraiser after over 31 years of appraising real estate as a staff appraiser and an Independent Contractor for a couple large appraisal companies. I can no long do all the work required in these ever increasing "Scope of Work" appraisal assignments on a fee split basis. My income has declined 60% in the past couple of years because of the increase work required on an appraisal because the fees have remained the same, or declined in many cases, and I can only complete half the number of appraisal assignments in the same amount of time it took a couple years ago. In theory, the fees should have increase with the ever increasing "Scope of Work" but, the fees have generally remained about the same or have declined.

The following are some suggestions in helping this bill do more effectively what it is intended to do. There are some AMC's that are doing the job right and all AMCs should be on the same page. An AMC's primarily job is to be a firewall between the lender and the appraisal; that is fine, is does eliminate a lot of stress on the appraiser when there is no lender influence. However, many AMCs think it is their job to review appraisals to make sure they are providing the best product to their lender/client. Some operate as if they are underwriting the appraisal for the lender; this should not be a part of their job and many AMC's that practice appraisal review are not qualified to do appraisal reviews according to USPAP unless they have licensed and certified appraisers doing the reviews. The AMC should only be a portal for processing an appraisal order and delivering the appraisal produce, period. Encompass does a good job of this for a fair fee of $10 per appraisal order. I do not think they even look at the appraisal report; all AMCs should operate this way. If the want to offer other services such as title work or underwriting services, that should be completely separate from the appraisal processing.

Another key component to any bill regarding the appraisal industry should include appraisal/appraiser oversight. There is not enough policing of the appraisal profession by the states that license appraisers. I do not know if it is a practice any more but, I thought at one time lender's were required to have one in every ten appraisals reviewed for quality control. If this was still in practice, the appraiser's who are doing a poor job because of incompetence or illegal and unethical practices could be weeded out and dealt with legally through license suspension, revocation, and or fines and jail time, if warranted. There is enough licensing law in force to adequate train and license appraisers but, little seems to be done to police and weed out the bad appraisers who are unethical. But, it is rarely if ever, that it is the appraiser that initiates the fraud; lenders and investors are general the ones who concoct the inflated values that are required to commit the fraud.

One other area that needs major oversight is how the secondary market handles the loans in portfolio. The primarily reason, in my humble opinion, for the mortgage market crash was because sub-prime loans were pooled with low risk loans and contaminated the whole lot just like a little leaven leavens a whole batch of dough. If lender's want to make no-doc, no income verification sub-prime loan, then they should be pooled them together based on their level of risk and they should be sold on the secondary market based on the level of risk of the whole pool of like kind loans.

Thanks you for your service to our country,

James J. Woodring
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