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I am a certified residential appraiser of 23 years. In my humble opinion, the entire valuation process needs overhauled to reflect the current market and the advances in the application of data for the valuation of real estate, primarily residential real estate. I am referring to the rise to power of the Appraisal Management Company (AMC). The following is a commentary very well written by Mr. Ken Varrett and appearing in Live Valuation Magazine. I hope you take two minutes to read this and consider the long term ramifications of not supporting "Reasonable and Customary" fees for those of us who are in the trenches day to day trying to perform a credible, professional service for the public interest. I am currently searching for another profession. I have lost hope that the real estate appraisal profession will ever regain its prominence as the most critical part of the home buying process. AMCs provide advantages to the appraiser and to the appraisal business. They provide the volume spigot; cash flow consistency; and lack of value pressure. AMCs are a good conduit that provides efficiencies and value added to both their customer lenders and to their appraiser vendors. The major flaws are also apparent. The market is dominated by a few. An estimated 80% of the first and second mortgage originations flow through the top four or five lenders and the handful of appraisal management companies that service those lenders. That handful represents an oligopoly. The characteristics of oligopolies include: High barriers to entry; the players need not fear others removing their advantage Few participants; individual firm actions can influence all Interdependence; actions and counteractions are always a consideration of all market players Long-run profits; because they control the market, they can continue to maintain domination and profits. Those top AMCs employ the haircut-pricing model. When the lenders outsourced the appraisal management function decades ago, they imposed a pricing model that kept their cost of the appraisal at the same level as before outsourcing. How was that possible? Pretty simple, really: the major instructed the captive AMC to employ the power of their market dominance and force the independent fee appraiser to accept a fee that

was 30-50% lower than they were receiving before the AMC was created. Because the AMC was a power player, the appraisers were forced to accept the reduction or lose a significant part of their business . perhaps the majority of their business! The haircut-pricing model was accepted. The lender dictated an agreement with the AMC to pay the same price for appraisals as before, and required the AMC to pass their cost of doing business on to the appraiser. The lender reduced their cost by eliminating the appraisal department, and incurred no increase in the appraisal cost received from the AMC. The major lenders and their handful of AMCs saw the advantages of the pricing model and all adopted it. The majors could do that because they created an oligopoly. They took advantage of the characteristics that define oligopolies in the market. The tactic was a boon to the majors and a disaster for the real estate appraisal profession! Both the boon and the disaster continue today. What business or profession could absorb a 30-50% reduction in revenue for services without severe consequences? The appraisal profession is composed of entrepreneurs, the bedrock of our country, the major source of jobs and innovation in all communities. They found ways to survive, diversify, and continue on. But the damage remains. The appraisal profession is seriously weakened by that single issue: the haircut originated and continued by the oligopoly and applied by a significant number of other AMCs, which are following the leadership of the oligopoly. Why Should Anyone Care? The fundamental reason I'm in the appraisal business is to provide a service to my community. I maximize that benefit to my community by supporting the single-family residential loan origination market. It is the largest sector of the lending market by far, dwarfing commercial real estate lending. The housing market is a foundation of our economy. It is a major provider of jobs in every community. My role as a professional real estate appraiser ensures that all parties to the transaction will have an unbiased expert opinion of the value of the property in question. What hurts my business ultimately hurts the community and collectively the country. It also hurts the very lenders who created and perpetuate the AMC haircut-pricing model. The lenders depend upon licensed appraisal professionals as the only independent party to provide opinions of value on the collateral they are using to secure the loans they make. It matters not that the lender is a mere conduit today, selling the loans to investors and using the proceeds from that sale to make additional loans. If the collateral is not well supported, the loans sold will incur higher risk to the investor and therefore bring lower prices in the market. The lender maximizes their revenue by engaging licensed and certified appraisers to issue credible value opinions. Hurting the appraiser hurts the long-run interest of the lender. The haircut-pricing model is the single major problem the appraisal profession faces today. Eliminate that and AMCs could become a boon to both lenders and appraisers. The Debate Today and Why Appraisers Will Lose . Again Close on the heels of the HVCC taking effect in May 2009, HUD/FHA took notice of the appraisal profession condition and announced their intent to support unbundling of fees in the appraisal process, and to support "reasonable and customary" fees being paid to the appraiser. The announcement didn't receive much support the summer of 2009, but I certainly noticed and applauded it. By the fall Valuation 2009 Conference in New Orleans, HUD/FHA had backed away from the idea. The major lender lobby was the reason. In the spring of 2010 Congress took up the challenge when constructing the financial system overhaul. They adopted "reasonable and customary" and unbundling of fees paid to the AMC and to the appraiser. FinReg passed both Houses and was signed into law in the summer of 2010. Unbundling and "reasonable and customary" survived in the law. Implementation was set for October 18, 2010. FinReg also turned interpretation and implementation of the

new law over to the various regulators. It now depends on another version of what "is" means. This time the phrases in question are "reasonable and customary" and "unbundled." The major lender lobby went to work. By the time October 18 arrived they had made progress. October 18 was moved to April 2011 to give the regulators more time to study "reasonable and customary," among other things. Coincidentally, it gives the major lender lobby time to apply their considerable pressure to dilute the interpretation of what "reasonable," "customary," and "unbundled" mean. I predict that in April 2011 the status quo will remain. The major lenders will keep their cost of appraisal services at the oligopoly-enforced levels. AMCs will not be required to unbundle the fees they charge for their services. The haircut-pricing model will survive. The appraisal profession, important to our citizens, our communities, our lenders and our country, will continue to incur damage and many good appraisers will ultimately be driven to the brink of extinction. Hopefully I'm wrong. Hopefully we'll use this opportunity to correct market interference that has gone on long enough. Many AMCs prosper with unbundled fee structures and paying "customary and reasonable" fees to the appraisers. Acorn focuses on that niche, and limits the amount of business we accept from the oligopoly. But many others don't have that option and need our assistance. We should all care. We should support "customary and reasonable" fees and the unbundling of AMC charges from the appraisal fee, and the elimination of the oligopoly-enforced haircut-pricing model. Make those two changes and the AMC has a supportable niche in the market, the lenders will be paying the proper fees for the services identified, and the appraisal profession will begin to recover while continuing to serve their communities.