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I believe appraisal fees are best set by the market. The objective should be to obtain a quality appraisal that meets the minimum requirements (USPAP and client-engagement requirements) and will be useful and meaningful in a lending decision. It would be in the best interests of purchasers of appraisal services to set a higher standard than "minimum", but that is the entity's decision. Once minimum standards are set, the fee should be based on supply (of the providers; i.e., appraisers) and demand from the clients. In other words, the market should set the fee. The above works well in a competitive appraisal-ordering environment and where quality of the appraisal report is the primary objective: unfortunately, the ordering environment for mortgage-finance appraisals required by federally regulated (and other) institutions is less than competitive. The majority of orders go through AMC's (Appraisal Management Companies). This reduces the de facto demand-participants from many to a few, where a single AMC can order appraisals for a number of different clients. While the streamlining of ordering should be an efficiency that reduces costs associated with the appraisal-ordering process, a new cost has been introduced: that cost is the necessary profit an AMC requires to be in business. There is no empirical evidence (that I am aware of) that the appraisal cost to the consumer has been reduced due to any efficiencies introduced by centralized management. There is significant empirical evidence that shows fees to appraisers have been reduced. The one obvious change in the equation is the imposition of a third-party appraisal management participant (the AMC's) who must make a required profit to stay in business. An AMC is entitled to make a profit. There has been no reduction in the overall "cost" of an appraisal to the consumer due to the widespread introduction of the AMC model. AMC revenue is based on the contracted fee it charges to its clients. The AMC can only be profitable if it can pay for its operating expenses and appraisal-report fees with money left over from the fee it contracts from its clients (the lenders). Assuming operating costs are relatively fixed, the

variable that can have the biggest impact on an AMC's profitability is the fee it pays its contractors (the appraisers). Therefore, it is incented to find the lowest-cost provider of appraisal services possible while attempting to meet minimum quality requirements. The truth of the old saying, "price, quality, or speed, pick any two" is based on accumulated wisdom of real life experiences. That wisdom is instructive in the current appraisal-AMC debate. Although quality is a stated requirement, speed of the appraisal delivery (from the appraiser to the AMC) and fee for the appraisal are the driving forces for many AMC orders to appraisers. If speed and price are the driving forces, quality is sacrificed. As I said at the beginning, my opinion is that appraisal fees should be set by market forces (supply and demand). Appraisal fees have other factors to consider, such as complexity of the assignment, but supply and demand accounts for this as well (the more complex the assignment, presumably the fewer appraisers qualified to complete it: fee commensurate with the supply of appraisers). However, I also said that the objective of obtaining an appraisal is to obtain one that meets the minimum quality requirements (the ideal world would have lenders set their sights higher; and some do, most notably, those who do not engage AMCs as their agents!). The current model has shifted the costs of the appraisal process from the lenders to the AMCs. The AMCs, rightfully so, need to make a profit to stay in business. In order to make their profit, AMCs are lowering their fees for appraisal services. This low-fee offer combined with the demand for a speedy turn-time results in low quality appraisals. The best way to combat low quality is to hold the users of the appraisal services to a very high standard. Note that the premise of my argument is low fees create an environment where low quality is an outcome. Therefore, if the end-users (the lenders) of the AMC product are held strictly accountable for the quality of the appraisal (and accountability requires a meaningful enforcement regimen), the users of appraisal services will require that quality return as the priority objective. AMCs can continue to operate their businesses as they see fit, but they will have to meet their client requirements. If that means quality costs more than they are paying, they will have to pay it or risk losing their lenders as clients. If paying for quality results in a non-profitable business model for an AMC, then so be it; the efficiency that most presume is present in a centralized ordering process is not. If (as I suspect), participants realize that quality has a cost, then lenders will pay more to their AMCs and AMCs can pay more to obtain the necessary quality. This keeps the status quo as far as the participants, but changes the status quo as far as appraisal priority (from "how much does it cost?" to "is it the quality appraisal we require?"). Therefore, my recommendations in regards to appraisal fees are: (a) Let the market decide. (b) Hold lenders/end-users of appraisal services strictly accountable for the quality of the appraisal reports they contract out to use for their lending decisions. If I am right about quality suffering now, then fees will increase in order to obtain good quality appraisal reports. If I am wrong about quality suffering now, fees may be where they should be, and lenders are still held accountable for the quality of the report. As long as lenders are held strictly and meaningfully accountable for the quality of the appraisal report, it does not matter what process they use to obtain the appraisal; appraisal fees will be commensurate with what lenders require and with what providers (appraisers) are willing to accept, all in the general context of supply and demand. The market can and will work if allowed to do so and if quality is the priority in the appraisal-ordering process.