



Valuation Review

June 5, 2006

Your source for 24/7 Valuation Industry News: www.valuationreview.com

Volume 5, Number 3

AMC technology loosens pressure's grip

Technology helping AMCs in role as the industry's buffer

In an environment of increased vigilance over lender pressure on appraisers to "make the loan," lenders and regulators alike have endorsed independent, third-party appraisal management companies (AMCs) to manage the valuation end of the lending process.

The value of the AMC to both lenders and appraisers has become clear over the years. AMCs can help lenders manage peaks and ebbs in business with a variable-cost model, warrant the quality of appraisals and ensure valuation work meets Fannie and Freddie guidelines. For appraisers, AMCs manage marketing tasks and absorb many acquisition costs. Also, because most of the leading lenders use their own vendor management company or a third part, AMCs can deliver work from national lenders that smaller appraisers otherwise wouldn't be able to reach.

But it's the role AMCs play as a buffer between lenders and appraisers that represents perhaps their greatest value today. AMCs have turned to both commercially available and homebuilt systems to ensure an even greater level of unbiased vendor selection and high quality appraisals.

These systems are similar in function to vendor management technology such as the GATORS platform, which includes an appraisal management module.

The systems help manage and automate

orders for lenders and rate service providers based on factors such as dependability, order turnaround and cost.

According to **Patrick C. O'Brien**, COO of appraisal management firm AMCO, AMC platforms — most of which are built in-house — bear a special responsibility in the real estate transaction.

"Anybody else who has a platform has to build it so it's sensitive to the issues of independence in the process," he said. "All the other processes are downstream from the value, so if you haven't completely isolated how you're coming to that value, and if that group is somehow involved in doing the title or other inspection services, you're setting yourself up for a rough day."

Given the attention that appraiser pressure is receiving, AMC systems are often built specifically to ensure that property valuations remain objective and that appraisers don't have direct interaction with loan officers and brokers.

Tech strategies for AMCs

Appraisal management firms have made great strides in automating ordering, tracking and quality assurance using homegrown systems. AMCO in Cleveland, Ohio, built its appraisal management system from the ground up. It considered several third-party systems but didn't find them to be detailed

enough or configured for how it operates.

Dubbed VANTEX, the platform is built to improve communication and visibility to clients. Lenders working with AMCO don't have to integrate directly with the system, but they can. Most clients prefer to use "Client Web," a Web site that provides an interface where clients can log in to place orders, get updates, receive orders or view appraisal notices, verifications, etc., said O'Brien.

In addition to direct integration, lenders can connect on the front end through online portals such as Realec, OTX and FNC.

Big versus small

A lot of smaller and midsize lenders that don't have large back-end systems go the Client Web route, O'Brien added, while some larger clients prefer the direct interface. However, direct interfaces bring significant advantages — for example, updates on appraisal orders are "pushed" to the mortgage company in real time. Also, MISMO standards will improve that even further through standardized data transfer.

"The key is providing [lenders] with a fluid system that works with their operating procedures today," he said.

eAppraiseIT also built its AMC technology internally. After starting on a platform it called Appraisal Management

System (AMS), it acquired Source One Services and adopted its proprietary Web-based system. Since the acquisition, that system has been customized to serve eAppraiseIT's business.

Source One's system was attractive because it was Web-based and offered more functionality for appraisers, said **DeAnna McCann**, the company's vice president of valuation consulting. For example, it could sort appraisal orders by priority level.

eAppraiseIT's system includes database components for client profiles, an appraiser panel and orders. It tracks quality issues as well, including average turn time. Users can also manually enter notes to track service problems — e.g., if an appraiser misses deadlines too often.

Objectivity and vendor selection

eAppraiseIT said its technology has been designed to help clients remain compliant with regulatory requirements governing appraiser assignments.

“Regulators have been very specific that they don't want loan officers or production staff to be able to pick the appraiser. It was important that our technology allow us to manage our appraiser panel but also ensure our customers' compliance,” McCann said.

A number of guidelines address the issue of pressure. In 2003, the Office of the Comptroller of the Currency (OCC), Office of Thrift Supervisions (OTS), Federal Deposit Insurance Corp. (FDIC), Federal Reserve and National Credit Union Administration issued a joint guideline that borrowers can't order their appraisals. Other guidelines and regulatory audits also direct the pressure issue and how lenders assign appraisers.

Automation is key to compliance. Within eAppraiseIT's system, every appraiser on its has a profile, which includes territory, appraisal products not offered (e.g., review appraisals), the maximum number of orders that can be open at

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once, etc. When a new order comes in, the system collects a pool of eligible appraisers and selects the best option.

“If we have a staff appraiser available for that order, the system auto-assigns it,” McCann said.

About 75 to 80 percent of the company's orders are now assigned without manual intervention.

According to McCann, regulators are willing to accept lenders that maintain their own appraisal staff or internal AMC as long as they can show a clear rotational basis — for every market, they have more than three appraisers and they can show in an audit that the system uses a rotation to ensure the loan officer can't pick the appraiser. eAppraiseIT recently purchased Network Appraisal Service, which McCann described as appraisal management “lite.” Rather than bringing its own panel of appraisers, it absorbed a lender's panel. NAS brings on the appraisers and then manages the rotation to ensure compliance.

The embedding process

With VANTEX, AMCO first focused on embedding appraisal review — including rule-based appraisal “scrubs” — on the back end. Improving those back-end operations to manage risk was a key goal from the beginning. Now, it is working to improve the front-end functionality via automated vendor selection. But according to O'Brien, an independent AMC itself ensures objectivity in the valuation process, regardless of the technology it uses.

“We select in random fashion,” he said. “We have processors who interact in the region, and report cards for all our appraisal vendors. We do our selection process based on performance. It's not only turn time, but also their tag rates.”

That process could potentially be automated, which represents a near-term goal for AMCO.

“We want to make sure there are absolutely no issues on the front end,” O'Brien said.

Additional services

He believes the industry is moving toward requiring vendor management companies that handle other services beyond appraisal to have automated selection at the front end to address objectivity requirements, he said. However, lenders can also meet those requirements just by working with a pure AMC, he added.

“A lot of the lenders are pushing their vendors to have an automated selection up front,” he said. “If a lender selects a completely independent AMC — that's not an overall vendor management platform — they've already fulfilled the goal of independence and objectivity, even though I have people selecting appraisers on my end.”

Lenders that run their own AMCs and vendors such as Fidelity and First American have not addressed the independence piece, he said.

So simply choosing an AMC in the first place should satisfy most regulators. Beyond that, AMC technology itself can help ensure full separation between loan officers and appraisers. McCann cited a field in eAppraiseIT's system that lets users enter a sales price or an estimated value. However, if a customer does not want that information to go to the appraiser, eAppraiseIT can suppress the information.

"We can suppress that, and we're seeing more and more requests to do that," she said.

An underserved market?

Appraisers who desire to grow into an AMC don't have many options for AMC platforms, and building their own represents a significant investment.

a la mode, one of the most prominent appraisal technology providers, does not currently offer a back-end AMC platform — it focuses on "off the shelf" retail technology rather than enterprise-scale systems. However, it offers Web services-based software designed to ensure AMCs can receive appraisal reports directly into their core system. Its XSites Network is designed for integration with lenders and management companies — a la mode integrates with the GATORS system, for example — letting those companies connect to the networked directory to search for and locate appraisers.

Most AMCs are building their own back-end systems, according to **Jennifer Miller**, executive vice president of special projects for a la mode.

"We've shied away from the big enterprise projects," she said. "Many AMCs have come to us and said, 'Build my system for me.' But it's not really our core competency."

There is a need, though, for packaged AMC solutions for smaller and midsize management companies, she added.

"It's difficult for them to get their foot in

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the door because the investment required is substantial. At this point, they basically have to write a customer solution," Miller said.

The small or newer AMCs that manage the IT side successfully usually have a technical background and can manage or help code a project, she said.

"I'm not saying we'll never do it, but if we can come up with something that meets their needs that's retail in nature — where we aren't doing custom work for everyone — then we'll definitely do it. As our XSites product matures, we might just fill that niche," she told *Valuation Review*.

Y-Waite Solutions' Magellan Settlement Services Platform handles vendor management tasks and is used by companies offering title and closing services, in addition to appraisals.

According to President and CEO **Dwayne Waite**, vendor management systems such as Magellan or GATORS would work fine for an AMC, which is really just a subset of a full vendor management company.

Waite said he's currently marketing his system to appraisal management firms because no AMC-specific products exist in their market.

"Appraisal management is just a subset of vendor management or bundled services, so any software that applies to that, an appraisal company can use," he said.

Another option would be for an AMC to

commercialize its homebuilt system in the same manner GAC did with GATORS. AMCO has considered offering its technology to the open market.

"We've thought about it, to some extent. Until I get it fully built, I can't do that at this point. I still have to get the front-end automation in place, but the potential is always there," O'Brien said.

However, eAppraiseIT's McCann pointed out to *Valuation Review* that the AMC business is "high-touch" and AMCs can be so idiosyncratic in how they operate that a generic application probably wouldn't be useful for many companies.

"It's hard for me to envision a commercial third-party system that could do it all," she said. ■