

AMCs and Brokers – The Indirect Challenges

If you are active in real estate brokerage, you have seen or heard three letters that stand for Appraisal Management Company: “AMC”. How do Appraisal Management Companies affect your brokerage business?

Although AMCs have been around longer than many appraisers, it has only been in recent years that the AMC industry has flourished. The AMC industry has been able to capitalize on an opportunity that arose with the recent real estate market downturn. Historically, lenders and appraisers developed business relationships and conducted business as needed. However, because of state and federal regulations, including the HVCC and The Dodd-Frank Bill, some lenders feel it best to engage an AMC who in turn engages an appraiser to complete an appraisal. In return the appraiser sends the completed appraisal to the AMC who forwards the report to the lender. Keep in mind that any communication with the appraiser after submitting the appraisal goes through the same process and real estate brokers or borrowers who originated a question or concern may have a minimum of seven emails or phone calls to correct something as small as a typo. As you can see, this type of communication is cumbersome and may take hours if not days. Furthermore, there are costs associated with adding an additional layer of communication that will be paid by either your borrower client or the appraiser.

Lenders are not required to use AMCs and many choose not to use AMCs. This is because many prefer to keep a better control on which appraisers are being used to prepare their appraisals. Lenders and other large users of appraisal services recognize and track information indicating that appraisal quality sometimes diminishes when ordered through AMCs. The primary reasons attributed to this include unreasonable turn around times for the appraiser, reduced fees and no accountability on the AMC's part. However, the State of North Carolina has determined that AMCs currently have enough presence in the market to attempt to regulate some of their business practices. Being one of the few states to have enacted legislation regulating AMCs, North Carolina commenced rule-making in September 2010 for laws that took effect January 1, 2011. The result was a relatively short law of only nine pages that can be found at <http://www.ncga.state.nc.us/Sessions/2009/Bills/Senate/PDF/S829v7.pdf>. Major talking points in the rules include: any AMC that wants to do business in NC must register with the NC Appraisal Board, the AMC is required to keep and maintain records on all appraisals ordered, the AMC must name a certified appraiser as a compliance officer, the AMC must pay the appraiser, etc. Unfortunately, our new law created many new issues for appraisers but they are rules we must follow unless changed.

So how does all this affect the broker? Well, you can imagine and probably have already experienced communications hassles and delays. Of course, the problem always surfaces the day before closing. For example: for unknown reasons, the underwriter suddenly wants a picture of the crawl space of the house. This request alone takes numerous emails and/or telephone calls to pass information back and forth. Please understand delays are not always the fault of the appraiser. Usually they are the last to know that there is a condition the underwriter wants addressed.

Have appraisal fees gone up? As an appraiser/broker I am very limited in what I can say here. May I refer you to your lenders, closers, attorneys and AMCs? The spins on who is collecting the extra fees is interesting and at times ALMOST comical.

Are we losing control over who is doing appraisals in locales in which they are not competent? It will prove to be a challenge to try to assure that your property is appraised by a local appraiser because now the responsibility of engaging the appraiser may fall to an AMC. So a telephone call to the actual lender may not be effective if their response is that they rely on their AMC to dole out appraisal assignments thereby relieving the lender of the responsibility. In fact, many AMCs are trying to indemnify their responsibilities to the appraiser's E & O Insurance.

Can I file a complaint if I feel that the actions of the AMC, appraiser, lender, etc. are not in compliance with NC Appraisal Board rules and regulations? Yes. Although I cannot provide all of the options you may have, you can certainly submit complaints to the NC Appraisal Board at <http://ncappraisalboard.org/index.htm>.

What happens if I or my client need an appraisal for listing purposes, estate planning or taxation purposes? There is no reason why you should hesitate to contact an appraiser. The AMC rules do not prohibit you from contacting appraisers for other issues than for some lending appraisals. Furthermore, an appraisal firm is not necessarily an AMC and it is likely that the appraisers located in your area only work for AMCs to supplement their business.

Can I find out who these AMCs are? A list of registered AMCs is located on the NC Appraisal Board's website www.ncappraisalboard.org. However, in that the AMC registration only became effective January 1, 2011 and not all AMCs were prepared, some registrations may not be reflected and it is suggested you contact the NC Appraisal Board directly. Just a note: only five of the ninety plus AMCs registered as of the end of January 2011 provided a business location in North Carolina. Additionally, it is interesting that several of the AMCs registered with the NC Appraisal Board are owned by the lenders they represent. Conflict of interest?

AMCs have made their mark on the real estate appraisal world and indirectly on the real estate brokerage world. Because the letters “AMC” will arise in your future transactions, you should spend some time researching some of the rules and opinions concerning AMCs at some of the following websites: www.NCAppraisalBoard.org, www.NCREALTORS.org, and www.REALTOR.org.