Gerry McCoombs, AACI, P.App, Chair, Ad Hoc Real Estate Fraud Task Force

AMCs and appraiser independence

The residential appraisal market has been witness to tremendous change in the recent past, not the least of which are the significant impacts resulting from the use of information technology. The prevalence of Appraisal Management Companies (AMC) operating nationally across Canada as well as in niche markets confirms the trend being witnessed regarding their increasing usage by lending institutions to rely on the AMC to manage the appraisal process within the mortgage originating process.

At last count, there are at least nine AMCs operating in Canada, or on the doorstep, poised to enter the Canadian market based on their dominance in the US marketplace. AMCs are operating in the appraisal service sector, acting as third party companies between the lender and the appraiser who has been retained to provide a valuation.

AMCs also provide additional services that are secondary to the appraisal report. Lending institutions rely on AMCs to provide a qualitative review and an appraiser performance review system. The qualitative review is to ensure compliance with appraisal standards, and additional appraisal criteria imposed by the lender. The performance review is based upon an appraiser's fee, turnaround times, accuracy, and borrower satisfaction (in the event of a dispute regarding the value). It is on this additional service that lenders are placing increasing reliance. Since the report is submitted on the AMC appraisal management platform, it is possible that the report, in its entirety, may not be provided to lenders, since they no longer need to rely on it.

It has been reported that some AMCs may be collecting the information contained in appraisal reports, which then allows them to compete directly, not only with appraisers, but with AVM service providers. Thus, AMCs are significantly impacting the residential marketplace, both as appraisal service managers and as providers of appraisal information products.

> *"The AIC encourages members to contact the Counsellor, Professional Practice whenever they feel they are being pressured to attain a specific outcome by anyone, including AMCs."*

AMCs require appraisers to sign contracts that may prohibit appraisers from contacting lenders directly. This effectively distances appraisers from their clients. AMC contracts prescribe fees and turnaround times, and they ultimately determine whether an appraiser can continue working for them. In some cases, they impact the ability of appraisers to work for other lenders by use of exclusionary lists, 'blacklists,' or 'do not use' lists.

The Appraisal Institute of Canada (AIC) has heard from some members that certain AMCs have been aggressively driving down appraisal fees, while at the same time demanding higher levels of service. Fees are a matter of choice, and private sector appraisers need to appropriately gauge the value of their services including the time and professional expertise they provide to the client. Based on the current demand for residential appraisals and the available supply of appraisers servicing the residential marketplace, fees ought to be rising instead of decreasing.

The AIC reminds appraisers that they must not sacrifice the quality of their work and risk breaching the professional practice standards. There is a concern that low fees and quick turnarounds may compromise the quality of work. As professionals, appraisers must always provide independent professional valuations, and, in doing so, they must strive to compete on quality and not solely on fee. The AIC is aware of the situation and continues to monitor it to assess if AMCs could be exerting any kind of negative impact on the quality of appraisal work through their appraisal service requirements.

The AIC encourages members to contact the Counsellor, Professional Practice whenever they feel they are being pressured to attain a specific outcome by anyone, including AMCs. Remember, acquiescing to such pressure is unprofessional and puts appraisers in serious breach of AIC appraisal practice standards. The AIC has addressed these concerns directly and will continue to do so when brought to the Counsellor's attention.

Of interest is a recent message from the Registrar of Mortgage Brokers published by the Financial Institutions Commission of British Columbia (FICOM) – *Dealing With Appraisers Avoiding Undue Influence.* That message has been reprinted on page 42 of this issue of the magazine.

Ad Hoc Real Estate Fraud Task Force
Gerald McCoombs, AACI, P. App – Chair
Paula Malcolm-Schaller, CRA
Kimberly Maber, AACI, P. App
Ed Saxe, CRA
George Ward, AACI, P. App
Bill Balsom, AACI, P. App
To contact this committee by email:
fraudinfo@aicanada.ca

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