Why am I being charged for the Appraisal? . . . and why is it so expensive?

These are fair questions to ask, a brief explanation and a short summary will hopefully address these excellent questions.

The appraisal is completed for the lender, and it is for their use and benefit. Lenders and loan officers earn commissions by making loans, since they have a financial interest in the transaction, paying the appraiser directly for their service can appear like a “bribe” of sorts. In order to avoid any appearance of impropriety the appraisal fee is added to the borrower’s closing costs. Obviously, the borrower can’t pay the appraiser directly either. The systems are set up to place a ‘firewall’ between any party with a financial interest in the transaction and the appraiser. The Appraiser Independence Requirements (AIR) were developed by Freddie Mac, the Federal Housing Finance Agency (FHFA), Fannie Mae and went into effect on October 15, 2010. AIR does not prohibit a borrower from directly paying a mortgage broker, a lender or AMC for an appraisal. However, the borrower is prohibited from directly paying the appraiser for an appraisal. Since the lender or borrower can’t pay an appraiser directly, it seems it would be fair for the lender and borrower to split the cost of the appraisal, but banks are banks and they will do what banks do to maximize profits unless customers complain. It may be worth it to negotiate with your lender on all closing costs and fees, chances are there is some flexibility, there’s no harm in asking.

If you’ve had appraisals completed over the past 15 years you’ve probably noticed, they are getting more expensive and the cost range is extremely wide. Sadly, for the appraiser fees have not increased very much over the past 15 years. The reason for this seaming paradox is Appraisal Management Companies [AMCs], these companies are the Ticketmaster of the mortgage business, and for the most part they are unregulated.

A little history, prior to the 2008-09 housing crisis loan officers could hire appraisers directly, most appraisers had very long-standing business relationships with lenders. Many banks had appraisal departments set up where underwriters and loan processors could work independently, most larger institutions had at least a few full-time appraisers on staff. This ‘firewall’ kept the loan officers away from the processors, underwriters and appraisers. These long-standing business relationships worked well for many years, however, as local banks were absorbed and merged into larger institutions, relationships and protocols broke down which likely played a part in the housing crash. The Dodd-Frank Act was passed in 2010, AIR is part of this large bill, the legislation now requires lenders to place a third party between the lenders and appraisers, thus creating a sudden need for many more Appraisal Management Companies. Lenders can elect to keep the process in-house, however, most choose to farm appraisals out, raising concerns about conflicts of interest and potential reductions in the quality of appraisals.

AMCs have been around for a long time, many larger lenders owned and operated these businesses as their ‘appraisal divisions’ in the past, some still do. Since the passage of AIR this long existing cottage industry has grown exponentially, AMCs now handle most of the appraisal volume in the country. AMCs take appraisal orders from the lenders and assign or bid out the orders to appraisers registered with their company. Like any industry there are some good players and some bad ones. A good AMCs thoroughly vets its appraisers for quality and competency and pays them fairly. They also treat them with respect for the professionals that they are. They charge a reasonable fee for their services which is typically a fraction of the total appraisal fee. The bad AMCs will accept any appraiser with a valid license and Errors & Omissions Insurance. Work quality, experience and competence are immaterial when adding an appraiser to their panel. Orders are awarded to the lowest bidder who offers the shortest turn-time rather than the most competent appraiser. These companies charge a fee, many times this fee exceeds the fee being paid to the appraiser. Some States require disclosure of the appraisal fee, many do not, and only a few States require the fee paid to the appraiser be disclosed separately from the fee paid to the AMC. To serve the public some transparency regarding appraisal fees is desperately needed, disclosure of all fees associated with any loan should be made part of Dodd-Frank and clearly stated on the HUD closing statement.

In the public interest AMCs need to be watched more closely, they are largely responsible for the large increase in appraisal fees and long delays. These companies often take weeks collecting bids for appraisal orders hoping to find an appraiser willing to do the work at a discounted rate in order to maximize their profits. The reports in the media of an 'appraiser shortages' is largely an exaggeration, many appraisers will not take work from low paying poorly managed AMCs. To complicate things further for the appraiser, lenders choose the AMC, the larger banks will often work with many, the appraiser is forced to work with the bank's chosen AMC, both the good and bad. When the AMC loses a large Bank client the appraiser also loses that book of business. A lender could be very happy with a particular appraiser's work, but if the AMC in general delivers substandard work or the lender finds a better deal, the entire panel is terminated, and the lender moves on to another AMC. The borrower currently pays the appraisal fee in its entirety, it's odd the lender should be so cost conscious on the fees while accepting avoidable delays and, in many cases, inferior appraisals.

Sadly, the appraiser gets blamed for these delays. Sadly, for the borrower, the appraisal is often sub-standard, appraisers with little competency complete and submit orders riddled with errors. Sadder still, many of these AMCs have 'staff' appraisers on their payroll who complete reports, thereby defeating the purpose of the impartial third party, this seems like a violation of AIR. And yes, the AMC keeps the entire fee paying the staff appraiser an hourly wage. The bad AMCs do little to review the appraisals, if the value opinion in the report gets the loan through underwriting that's good enough [for now], they just hope the loan will perform. As a borrower you have the right to challenge an appraisal, please refer to my article, *Some Insight into the Appraisal Process, and Maybe Save a Deal!* While this piece is directed at Realtors, the recommendations are the same and easily understood. The bad AMCs are scorned by good reputable appraisers, many of us fault these companies for ruining our business and reputations. In the past assigning, reviewing and managing the appraisal was part of the underwriting process, these activities were supervised and paid for by the lenders as a cost of doing business. Now the appraisal process has been turned into a profit center, the average consumer is unwittingly paying the price for these services that the bank provided in the past; transparency is sorely needed.

Again, it would be fair for the lender and borrower to split the cost of the appraisal. Like in the past the bank should pay the AMCs portion as an administrative cost to the underwriting process, the borrower would be responsible for the actual fee paid to the appraiser. Both fees should be disclosed prior to closing any loan, and again on the closing statement.

These issues are extremely complex, I hope I answered the two questions sufficiently. Lately the use of waivers and hybrid appraisals have been put into widespread use, the person inspecting your property may not be a licensed appraiser, its best to ask the person taking measurements, photographs and videos of your property if they are an appraiser or have a license of any kind. Lastly, unsubstantiated charges of systemic racism have also been thrown at appraisers lately; these are subjects for another day.

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