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# Effective Collateral Risk Management

i.e. – Scope Creep and Band Aids are  
not the solutions to our problems

# PANELISTS



- Lee Trice – The Trice Group
- Rick Foos – Foos & Associates
- Danny Wiley – LPS/LSI
- Mark Liley – Flagstar
- Bob Murphy – Fannie Mae
- Ernie Durbin – Valuation Vision

# CAUSE

- Lending was local
  - No securitization
  - Risk retained
  - Loan participants were vetted and known
    - Pre licensing – designations, education and experience were instrumental for approval status
  - Low historic mortgage default rate

# CAUSE

- The Secondary Mortgage Market
  - The GSEs and Wall Street allowed Lenders to sell mortgage portfolios
  - The GSEs established standards for residential appraisal reporting and underwriting
  - Until abused, this was an effective risk management tool

# CAUSE

- Mini Crisis – Savings & Loan
  - While triggered by fraudulent commercial loans, this crisis brought us FIRREA and State Appraiser Licensing
- As mortgage securitization rapidly expanded, the appraisal report standards coupled with the new appraiser qualification standards (i.e. licensing) truly commoditized the residential appraisal industry
- Securitization ushered in national mortgage lending – and the AMC was born to help manage this more complex environment

# CAUSE

- The illusion of “risk free” mortgage lending further diminished the role of the appraiser
- Lending used to rely on the “3 Cs” – Character, Credit, and Collateral.
  - National lending and anonymous black box FICO scores made Character a non factor
  - No doc loans threw Credit out the window
  - Collateral just needed a rubber stamp because “house values never declined”

# CAUSE

- Major Crisis – 2008
  - The banking/mortgage industry collapsed
  - HVCC was born to ensure Appraiser Independence
    - The irony is HVCC stemmed from a lawsuit against WAMU and two major AMCS – however, the unintended consequence of HVCC was a rapid expansion in the use of AMCs
  - HVCC was sunset
  - Dodd-Frank was enacted into law
  - Mortgage Lenders have experienced wide spread re-purchase risk



# EFFECT

- Increased regulation
  - Appraiser Independence measures
- Historic defaults
- High level of REO & Short Sale activity
- Record level repurchase demands

# EFFECT

- Proliferation of AMCs
- Cost and Speed trump education and quality
- More data
  - 1004 MC & UAD
  - More sales & listings – often MLS sheets
  - More photos & maps
  - Regression beginning to emerge
- ADDENDUM REQUESTS

# Types of Risk

- Vendor Risk
- Market Risk
- Value Risk
- Product Risk
- Fraud Risk
- Error Risk
- Repurchase Risk
- Risk Scores

# SOLUTIONS?

- Vendor Risk
  - AMCs
    - State Registration and Regulation
    - How are they measured for Quality vs Service
  - Appraisers
    - Background checks
    - Education
    - Training & Mentoring

# SOLUTIONS?

- Market Risk
  - Rapid Increase
  - Declining
  - Micro vs Macro
  - Lag in identifying change in market direction

# SOLUTIONS?

- Value Risk
  - How to identify?
  - AVM as benchmark
  - “What about these other comps?”
  - ROV processes

# SOLUTIONS?

- Product Risk
  - Appraisal
  - BPO
  - AVM
  - None

# SOLUTIONS?

- Fraud Risk
  - Fabrication
  - Omission
  - Collusion



# SOLUTIONS?

- Error Risk
  - Competence
  - Magnitude

# SOLUTIONS?



- Repurchase Risk
  - Is this driving Scope Creep?

# SOLUTIONS?



- Risk Scores
  - Do they work?
  - Are they confused with accuracy or quality?

# SUMMARY



- Stakeholders
- Next Steps
- Q & A