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appraisalinstitute.org/aiconnect
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
• 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
• 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
• 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