

LIA RISK REPORT

A STATISTICAL VIEW OF APPRAISAL MANAGEMENT COMPANIES

JUNE 2014 – ISSUE NO. 2

ABOUT THIS REPORT. LIA provides insurance and bonds to approximately 20,000 professionals and firms delivering appraisals and other lender services. For this LIA Risk Report, we have compiled and presented economic and statistical information concerning appraisal management companies. The data has been collected from both the 100+ AMCs insured by LIA in its program and also AMCs not insured by LIA. All of the AMCs in the data pool are non-lender-owned operations.

Here are some of the interesting points that emerge from the statistics:

- Most AMCs are small businesses – 86% have annual gross revenue less than \$10 million.
- Despite recent declines in mortgage origination, the largest AMCs are generally predicting that their respective appraisal volumes will increase in the next year.
- 24% of AMCs operate in a single state.
- The largest AMCs generally carry no more professional liability coverage than the smallest.

In considering this statistical view of AMCs, it is important to note that the AMCs from which our data is collected generally represent more stable and more financially responsible business operations relative to the overall population of AMCs. The AMCs in this pool of data are those who seek to insure their liability risks, have capital at risk, and are able to pay for the cost of appropriate insurance. A significant number of AMCs outside of this dataset do not maintain any professional liability insurance coverage for their appraisal management activities.

AMC BUSINESS OBSERVATIONS BEYOND THE REPORT. Beyond the statistics in the LIA Risk Report, here are some of the business trends we are observing within the AMC field:

- AMCs are more frequently adopting a “cost plus” pricing model for their services – *i.e.*, charging a separate fee for their service to the lender and transparently passing through the fee paid to the appraiser.
- The volume of commercial appraisal work being handled by AMCs is increasing modestly each year.
- As AMCs mature as businesses, they are increasingly looking to diversify into providing other mortgage and lender-related services.
- Lenders and large AMCs are realizing that AMCs with high volumes should be carrying higher limits of insurance – a point driven home by the OCC’s new risk management guidance and perhaps also by the recent settlement of an AMC lawsuit for \$30 million relating to approximately 200 appraisals.

LIA ADMINISTRATORS & INSURANCE SERVICES

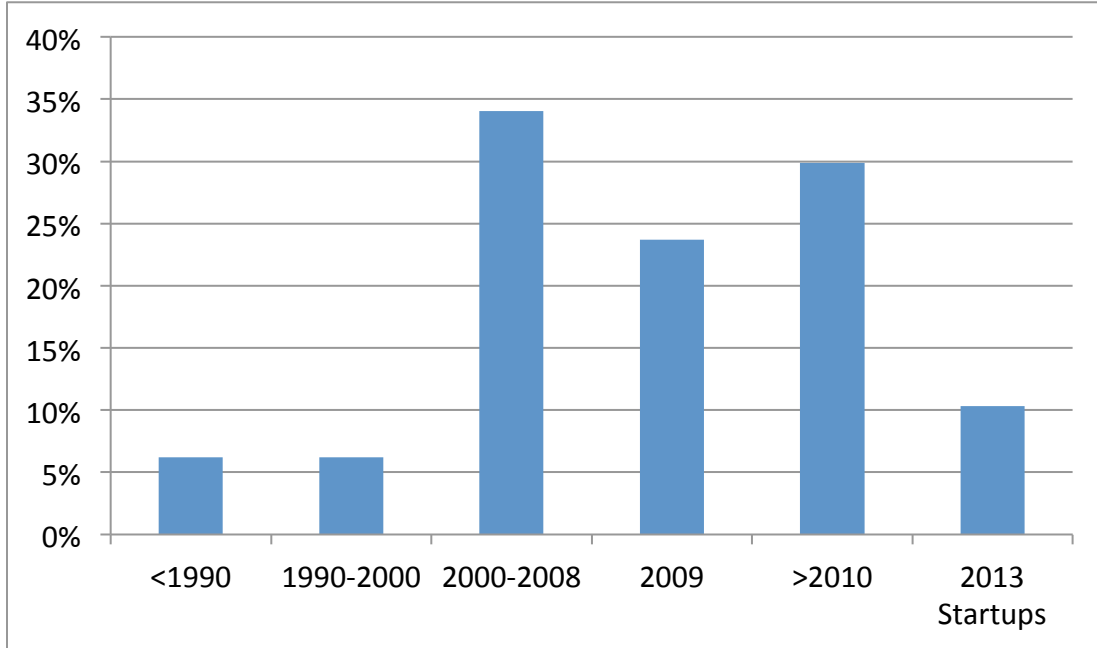
LIA provides professional liability insurance and bonds to appraisal firms, AMCS and other lender service businesses in all 50 states.

For assistance with AMC insurance or bonds, please contact Susan Lomeli at 800-334-0652, ext. 139 or susan@liability.com.

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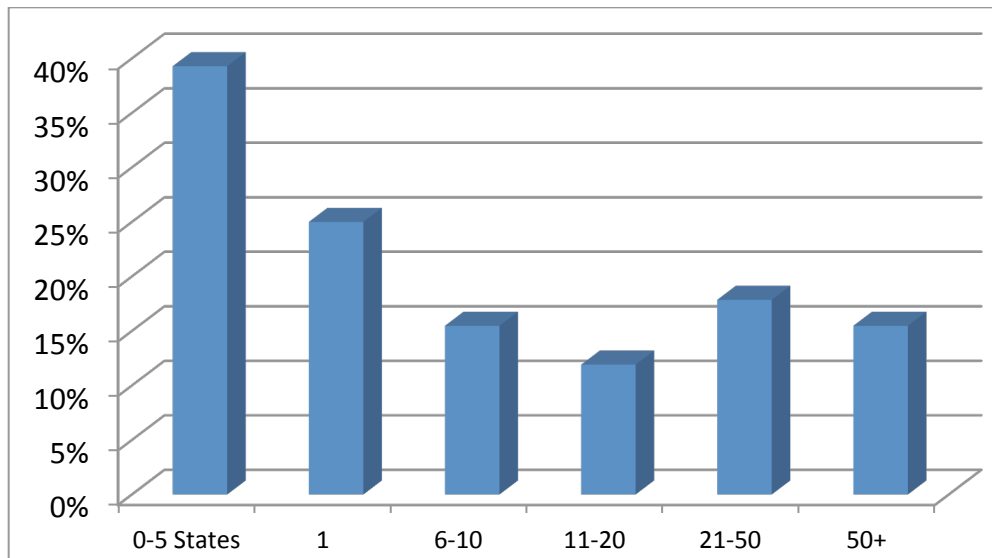
AMCs by Longevity

Year of Formation



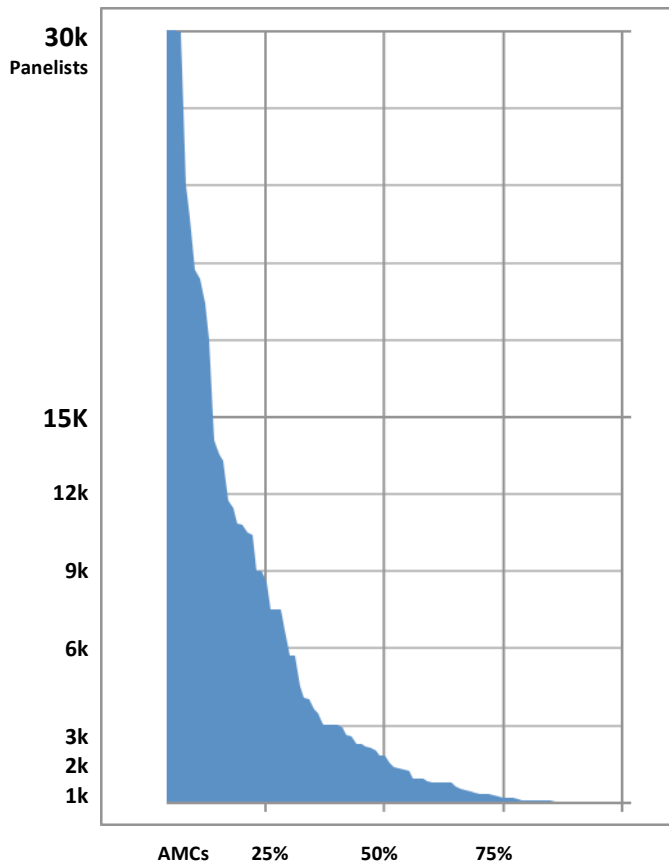
As most in the valuation industry are aware, the implementation of the HVCC in 2009 dramatically spurred the use of AMCs by residential lenders and, as a result, many new AMCs were formed in 2009 and after. 23% of AMCs currently in existence began operating in 2009 alone. Only 6% were formed before 2000. (Moreover, because of the stability of AMCs in our data pool, our sample likely contains a higher representation of “older AMCs” within the AMC field.)

Number of States in Which AMC Operates



Many AMCs concentrate their services in just a few states. Indeed, almost 40% of AMCs operate in five or fewer states, and included among these AMCs are 24% who operate in just one state. AMCs operating in a small number of states are usually following one of two paths: the AMC was created to offer services principally to a regional or single-state lender or the AMC is a startup. At the other end of the spectrum, 14% of AMCs report that they operate in all states and territories.

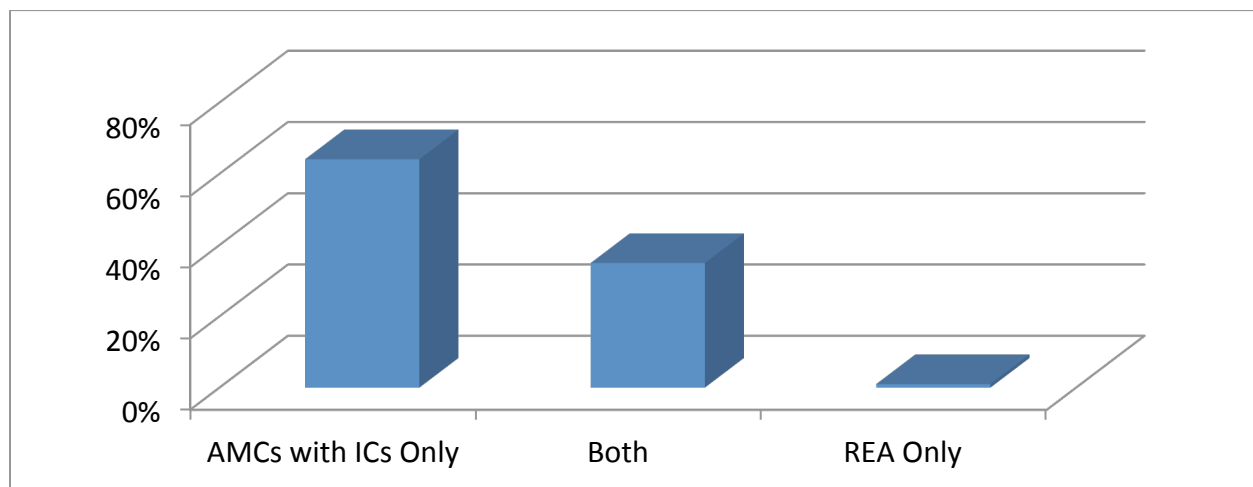
AMCs by Number of Panelists



AMCs vary widely in the size of their appraiser panels. The size of AMC appraiser panels range from below 20 to more than 30,000. However, 60% of AMCs have fewer than 3,000 appraisers on their panels.

LIA Claim Alert: About one-third of a lawsuits filed against AMCs in the last two years have involved some aspect of the AMC's management of an appraiser panel. Legal claims involve such issues as alleged improper determination of panel membership (*i.e.*, "blacklisting") or engaging appraisers who are not properly licensed for the assignment (data in the ASC registry has proven inaccurate on occasion; it is very important for AMCs to address responsibility for appraiser license issues prudently in their service agreements with lenders).

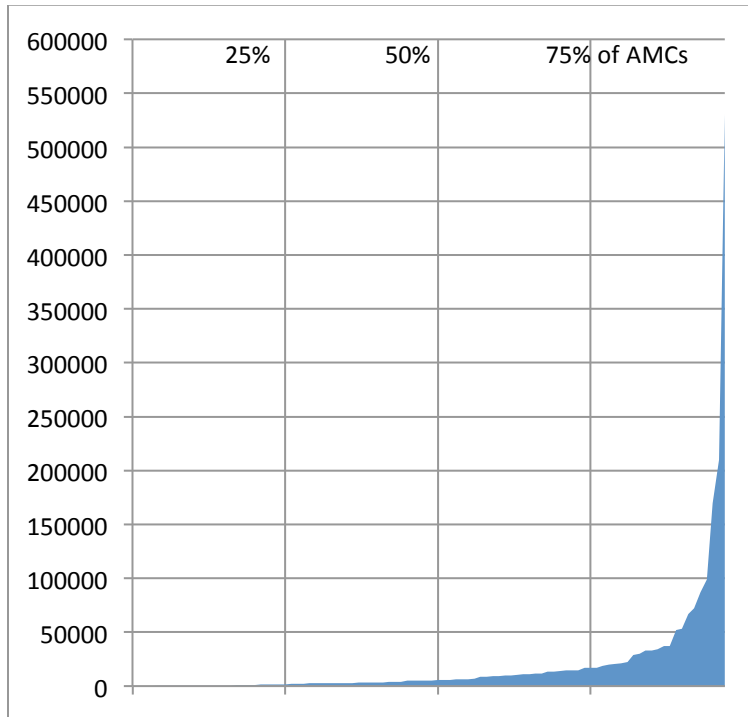
AMCs with ICs, Staff Appraisers, or Both?



AMCs may deliver appraisals performed by independent contractor appraisers (a "true" AMC model), employee staff appraisers ("REA" in the graph), or a combination of both. Of the 35% of AMCs using both independent contractor appraisers and employee staff appraisers, it is common for the number of IC appraisers to be much greater than the number of staff appraisers.

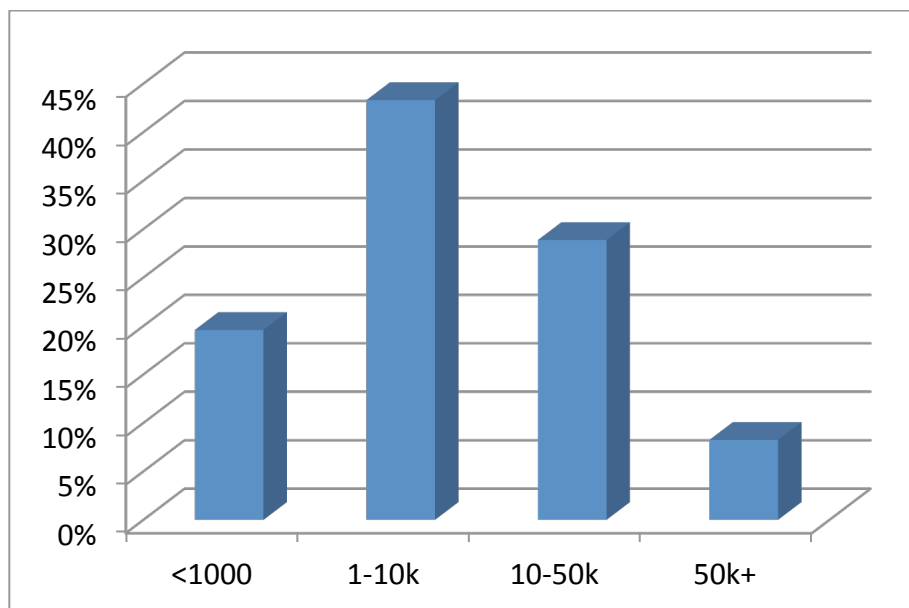
A very small number of AMCs operate an entirely staff-based business. These firms may not actually be viewed as "true" AMCs. Their reasons for registering or referring to themselves as AMCs are generally either to comply with certain states' AMC laws which require registration based strictly on the number of appraisers on a panel without regard to whether the appraisers are employee-staff or to appease a lender's desire to outsource appraisals to an AMC.

Number of Appraisals Managed in a Year



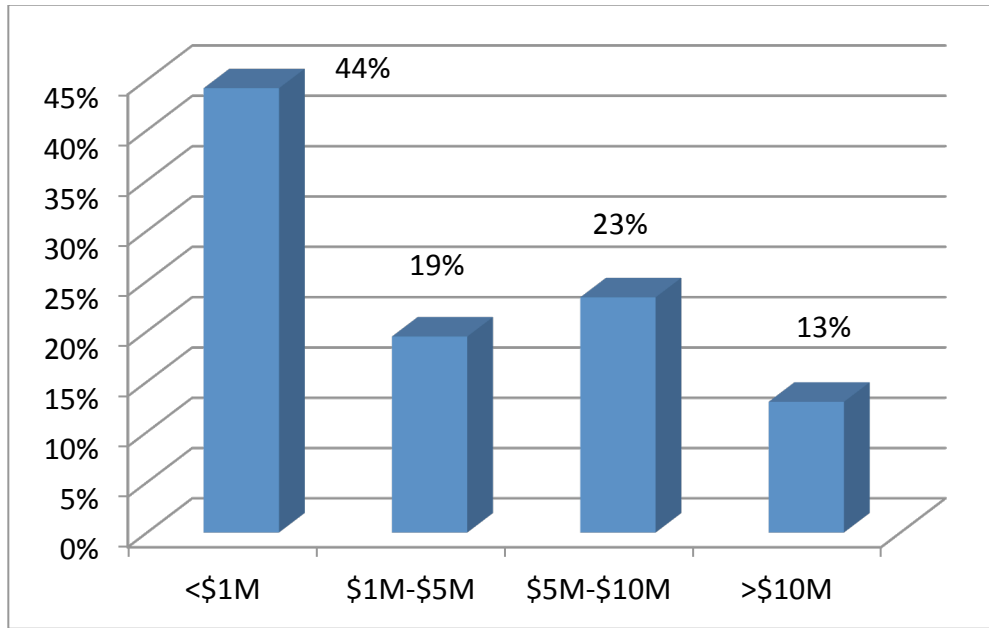
The number of appraisal services managed annually by AMCs ranges from only a few hundred to more than 500,000. 75% of AMCs manage fewer than 20,000 appraisals annually. 50% manage fewer than 5,000 appraisals in a year. (As mentioned in the beginning remarks, the pool of AMCs from which this data is collected does not include lender-owned AMCs.)

% of AMCs by Number of Annual Appraisals



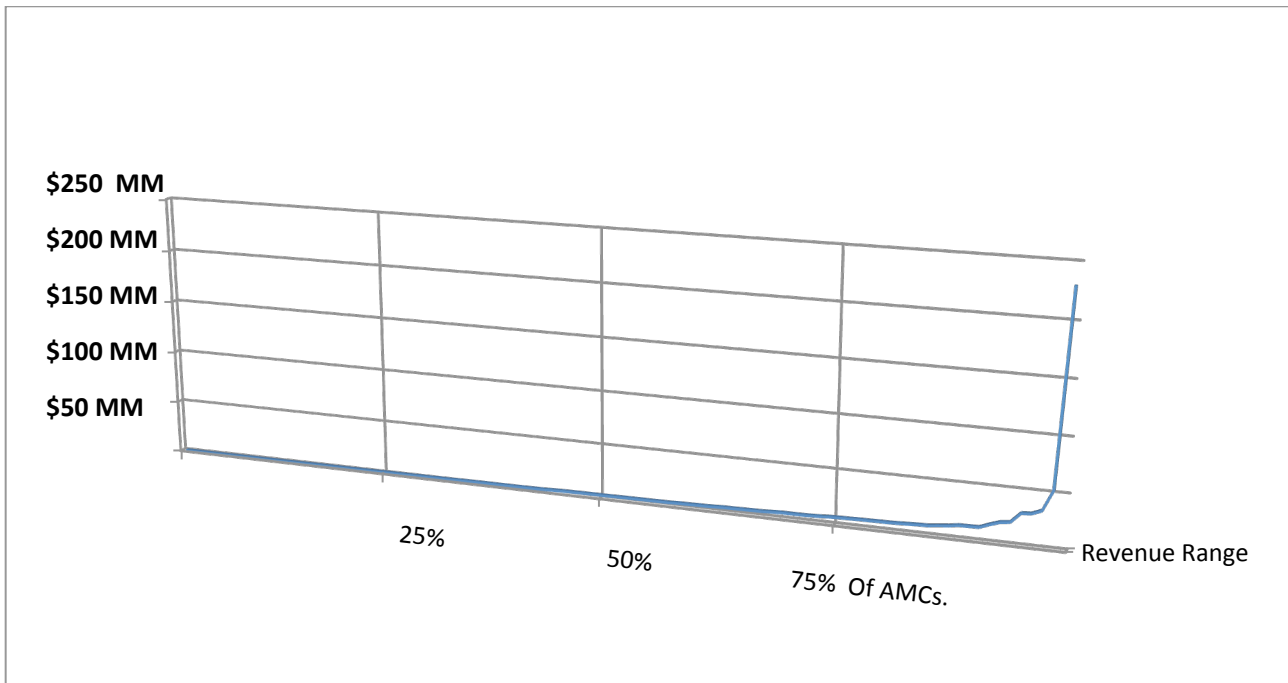
About 18% of AMCs manage fewer than 1,000 appraisals annually. One of the principal reasons for this is that many small AMCs are created and operated (at least, upon start-up) to provide services to a single small or regional lender.

AMC Annual Gross Revenue Range



As with appraisal volume, annual gross revenue – inclusive of fees paid to independent contractors – varies widely among AMCs. Only 13% report annual gross revenues higher than \$10 million.

86% of AMCs Have Annual Gross Revenue Less than \$10 Million



Only a small handful of non-lender owned AMCs have annual gross revenue exceeding \$50 million.

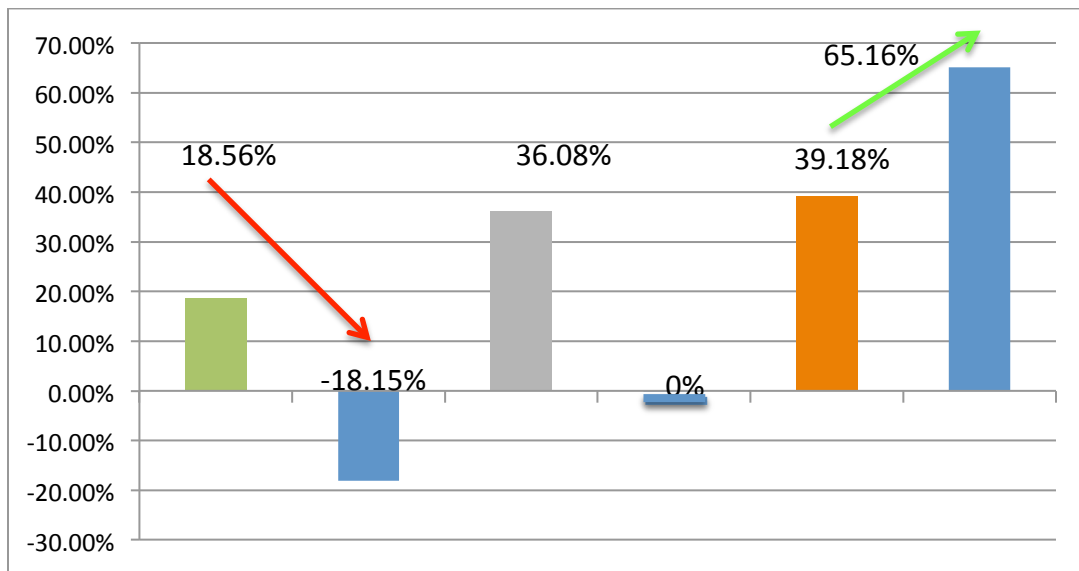
Revenue Trends: Are AMCs Projecting More or Less Revenue?



The question answered is this graph is: do AMCs project that they will have more or less gross revenue in the next 12 months than in the previous 12 months? We broke the answers down by the current annual gross revenue level of the AMCs. Thus, overall for AMCs in each revenue band:

- AMCs with < \$1 MM current annual revenue are projecting a decrease in the next 12 months.
- AMCs with \$1-20 MM current annual revenue are projecting an increase.
- AMCs with \$20-50 MM current annual revenue are projecting a decrease.
- AMCs with \$50+MM current annual revenue are projecting an increase.

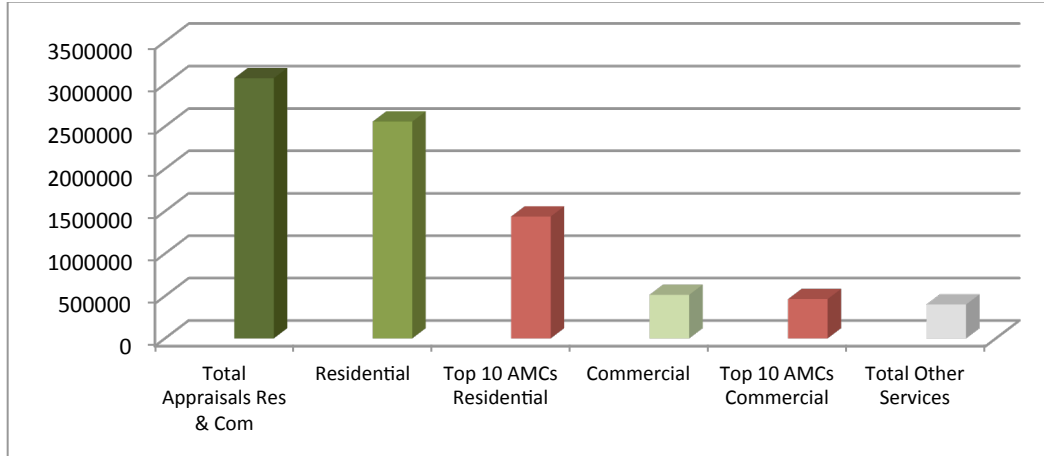
Revenue Trends: Projected Changes in AMC Revenue



This graph answers two questions: (1) what percentage of AMCs are projecting that their revenue will increase, decrease or be flat? (2) for each of these groups, what is the median of their projected change?

- 18% of AMCs are projecting decreased revenue and the median of their projected decrease is -18%.
- 36% of AMCs are projecting flat revenue.
- 39% of AMCs are projecting increased revenue and the median of their projected increase is +65%.
- 7% are unable to offer a projection.

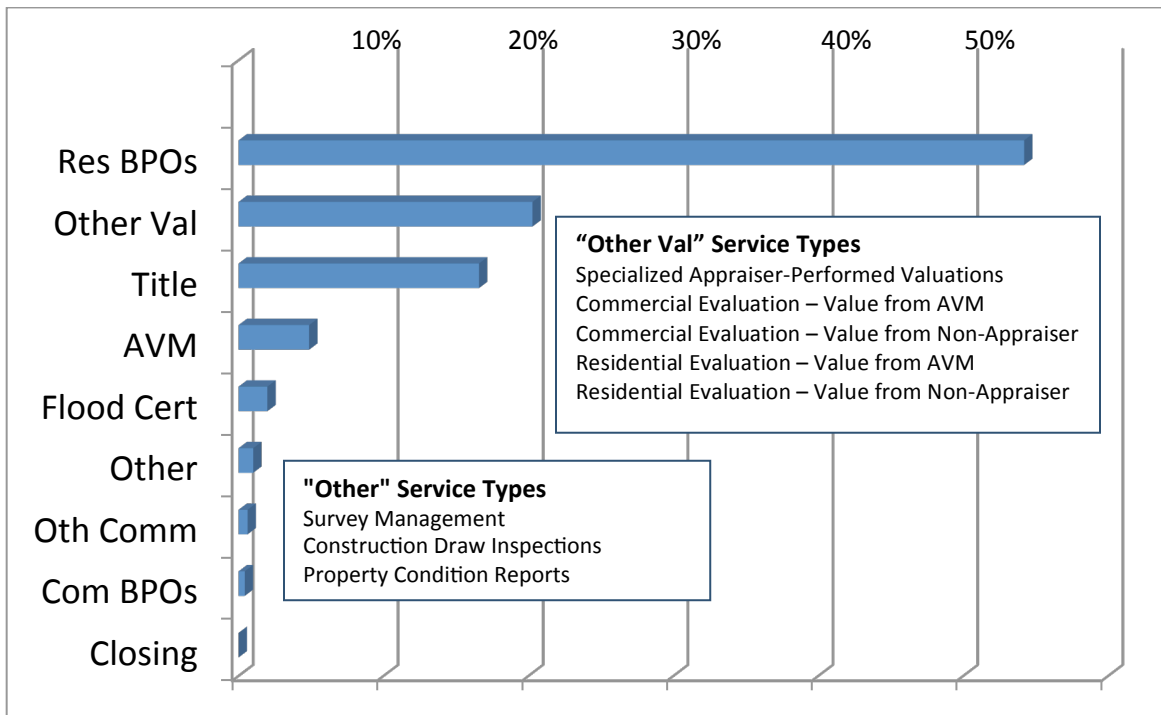
AMC Services Beyond Residential Appraisals



This graph is based on a smaller pool of AMCs than the other graphs in our report. Collectively, the AMCs in this pool managed approximately 3 million appraisals. Of those 3 million appraisals, about 9% or about 270,000 were commercial appraisals (either full appraisals or reviews). And, the number of other managed services was about the same. However, we are seeing AMCs increasingly expand into both commercial appraisals and services beyond appraisals.

% of Other Services Managed by AMCs

Services other than Residential & Commercial Appraisal products

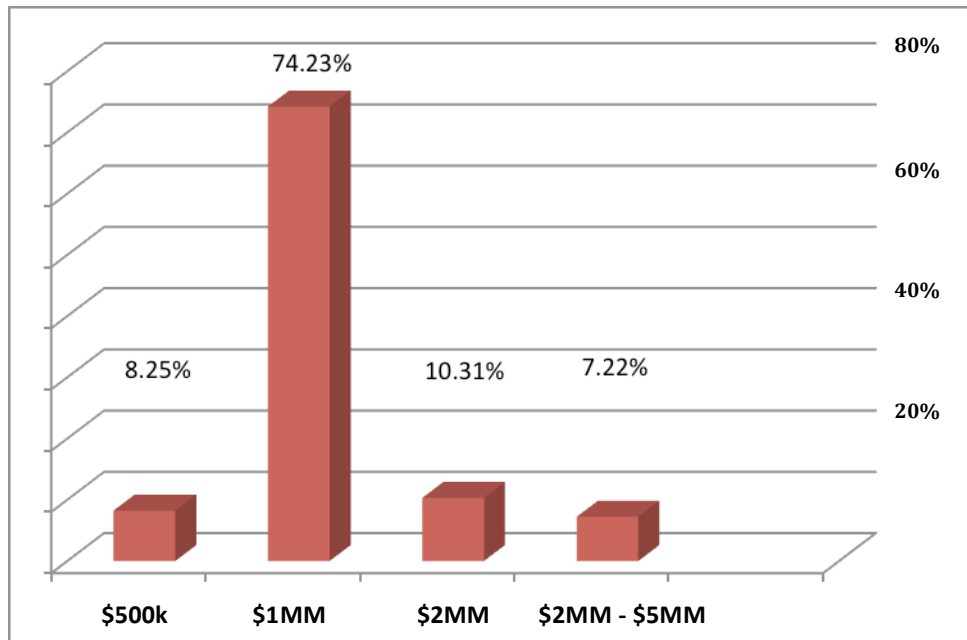


This graph shows the distribution of other services performed by AMCs. More than 50% of the non-appraisal services provided by AMCs are BPOs.

LIA Claim Alert: We see many AMCs that manage non-appraisal services (*i.e.*, services not performed by an appraiser) such as BPOs, evaluations, property condition reports and AVMs who do not have coverage under their professional liability insurance policies for these additional types of services because the policies marketed to them do not contain proper definitions of the covered services.

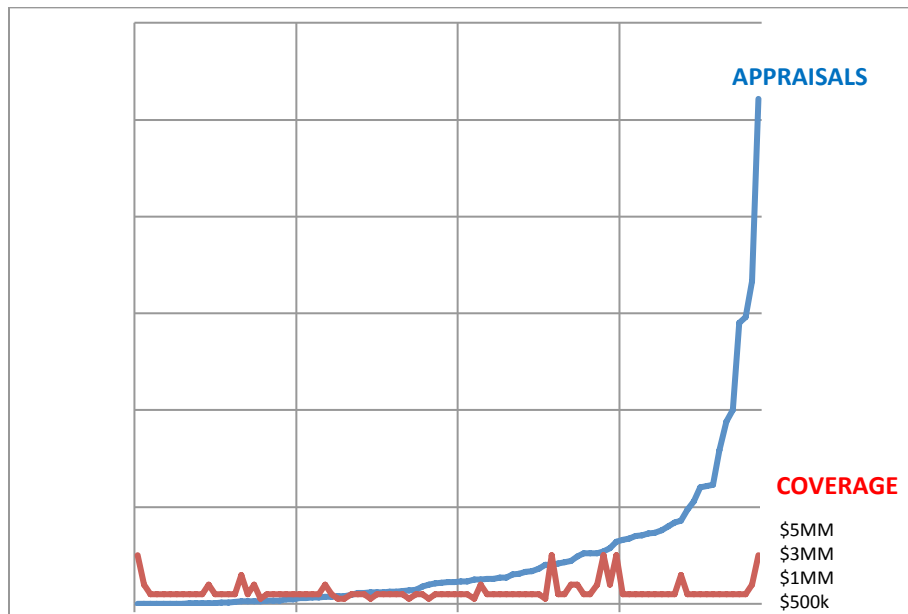
AMC E&O Aggregate Limits of Coverage

% of AMCs with specific coverage limits



The most common aggregate limit carried by AMCs on their professional liability insurance is currently \$1 million. As a result of the recent guidance from the OCC and increased attention on AMC legal risks, however, we are seeing lenders move to requiring AMCs to carry higher limits. Several large lenders now require that AMCs carry at least \$5 million both per claim and aggregate. A few require \$10 million.

AMC E&O Coverage Limits Compared to Appraisal Volume



Even large AMCs currently carry very low limits on their E&O insurance policies. A few of these companies, however, do maintain umbrella/excess coverage on top primary E&O policies. Some large AMCs – not in this dataset – are completely uninsured.