



Fee Schedule Dilemma

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Appraisal fees have long been impacted by many factors. Some pricing factors might include: the complexity of the assignment, scarcity or abundance of appraisers in the market, education and expertise of the appraiser, changes in lending requirements requiring a greater or lesser level of property inspection (drive by) and appraisal form detail, availability and cost of data, distance to the appraisal assignment, advancements in technology, such as digital cameras which all but eliminated the need for 35mm photographs and electronic appraisals which reduced mailing expense, involvement of an appraisal management organization that places, tracks and delivers appraisal assignments nationally.

Lenders, when estimating loan fees for the borrower, must include appraisal expense. Originators do not have the time to call appraisers on every loan in order to get the exact appraisal fee, especially when the property appears to be typical for the area. The meaning of "good faith estimate" is lost on a borrower who later is told the appraisal fee is higher than expected. Loan originators need predictable appraisal fees to provide meaningful estimated loan costs to borrowers.

Appraisers, responding to lenders' requests for standard fees, provided fee schedules based on estimated value ranges. This is where problems arose. If an appraiser was appraising a home, for example at \$675,000, and the appraiser's fee schedule indicated that appraisals between \$700,000 and \$800,000 would have an additional \$100 fee, there could be a financial incentive for the value to be "pushed" higher in order to obtain a higher fee. Appraisal professionals would not be enticed by this fee, but clearly this was a dangerous situation. The lender, investor, and borrower were all at risk for inflated appraisals as a result of appraised value based fee schedules. The Uniform Standards of Professional Appraisal Practice (USPAP) has clarified that appraisal fees cannot be based on the appraised value.

In conclusion, the appraiser's fee schedule could be based on a lender-provided "owner's estimated value" or "pending sales price", but not on the appraiser's value conclusion. In the perfect scenario, appraisers would quote fees based on the complexity of the individual appraisal assignment. But, if today's "get it done quick" environment will not allow that amount of time, the lender and appraiser should agree to what the fee schedule represents and be willing to adjust when 'complex' assignments are encountered.



You are invited to contact Forsythe Appraisals' President, John Forsythe, SRA with any questions or comments at ForsytheInfo@ForsytheAppraisals.com

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