Breaking Down Valuation

With the increasing amount of technology and innovation surrounding the valuation industry, appraisers are faced with multiple factors that will ultimately lead to the restructuring of their business.

The valuation industry has reached a pendulum shift that is resulting in the end of an era. Traditionalism has been replaced with modern technology, and as appraisers guide themselves through industry changes, they are also struggling to find answers to their problems. As the industry becomes more digitized, the emergence of big data and hybrid appraisal products are helping businesses streamline their workflow while allowing room for partnerships and collaboration. Appraisers are also dealing with regulation and program implementation from GSEs, which are shaping the course of the industry. This valuation update will discuss pertinent issues from the perspective of various appraisers regarding the state of valuation, from technology to recruiting the next generation.

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The Evolution of the Industry

By George Paquette

The past several months have been challenging for all of us in the valuations industry, but at the same time, it has also presented an opportunity to alleviate some concerns that many of us have expressed. It has become evident that there are select areas across the county that have a limited supply of appraisers. With only a few appraisers located in these rural areas, those based in the more metropolitan cities were encouraged to accept assignments outside of their immediate range. The phenomenon quickly spread as we witnessed the continuation of low mortgage rates during historically busy seasons. This led areas like Portland, Denver, and Seattle to experience extended due dates and increased fees, which led to frustrations for all involved. While this issue continues, we have made some headway over the last several months.

While having great impact on lenders, it has had as much, if not a greater impact on the lender servicing market and investors valuing bulk portfolios. These clients are often working with tighter constraints and have less flexibility on due dates and pricing. Many times these valuations are being done to acquire a portfolio of properties, or to determine a list price for a property to be listed for sale. Traditional appraisal products proved to be difficult in these circumstances, but as is so often the case, when a door is closed, a window is opened.

Expediting Assignments

Recently, many lenders have responded to the shortage on their end by loosening their requirements for appraiser selection and allowing the use of apprentice appraisers with a trainee license to inspect a property. This has resulted in the completion of more assignments and has provided an opportunity to allow new appraisers to enter the profession while getting real world experience. In addition, the Appraisal Foundation has taken a forward thinking approach and is working to make the profession more appealing for potential appraisers.

The number of licensed trainees has fallen drastically since the last housing crisis and has seen little improvement, while the market as a whole has seen dramatic gains. Several factors have impacted the number of appraisers, including appraisal management companies and lenders hiring licensed and certified appraisers as part of their auditing, management, and staff appraisers. Meanwhile, many appraisers are either reducing their workloads or entering into retirement, and as a result we are seeing challenges that we have not seen in the past 25 years as an asset management and appraisal management company. Empowering these professionals with the flexibility and resources to earn a living that is in line with the requirements for licensing, while also training future appraisers is key to the sustainability of the appraisal profession.

The question facing the industry at this juncture is: What can an appraisal management company do during this complex time to help expedite the appraisal process? It is more important than ever to tailor appraisal assignment instructions to the needs of that specific assignment and to avoid reliance on overly general instructions. Complex requirements that may or may not apply to each order have the unintended consequence of drawing away the attention of the appraiser rather than allowing them to focus on what is needed for each particular assignment. For example, if the client for an appraisal only requires one listing or does not require listings at all, it is important to make sure that the assignment instructions reflect this so that the appraiser does not spend time trying to track down the agent and verify the listing details. Revising the initial request can kill productivity on all ends starting from the appraiser and AMCs, and ending with the review and underwriting team at the lender's office. Many times, these revision requests can be avoided by addressing them at the onset when the appraiser reviews the engagement letter. This would also help expedite the review process to reduce the number of unnecessary revisions and the need for multiple reviews on the same appraisal. When the initial submission has met all of the requirements, appraiser frustrations are kept to a minimum, resulting in a better working relationship for future assignments.

Formulate Scoring System

AMCs that are using a detailed scoring method to assign orders are also key to ensuring that the appraiser that is being selected has a good track record and has proven to be a reliable partner based on prior transactions. Without an adequate scoring system, it is inevitable that providers will experience quality or service issues where they might otherwise have been easily avoided. It is also important to inform the borrower of the appraisal process and ensure that they know what is required. An appraisal can either be a seamless part of the process or create a nightmare for consumers if things go array. Remaining compliant and reducing the number of final inspection reports needed can also save the borrower time and money at a time when both are often in short supply. Providing borrowers with a "Do's and Don'ts" list is often an excellent tool to reduce time and cost during the appraisal process and a great way to set the expectations ahead of time.

Challenges are a part of every industry, but as long as we view them as opportunities, the industry will be able to move forward and make changes that will ultimately benefit the consumer. With improving technology to assist appraisers and auditors, we are seeing increasingly accurate products delivered to the consumer. Like all technology, there will be some users that adapt and improve, and unfortunately there will be some that will refuse and struggle to keep up with an ever changing market. Creating an influx of new, young appraisers, and getting current appraisers up to speed will create a viable path forward for the appraisal industry and ensure that both mortgage servicers and consumers continue to receive a product that meets their needs.

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How Can AMCs Ensure Compliance?

By Vladimir Bien-Aime

We know that our industry is always going to be heavily regulated across the board. The appraisal side of the mortgage business will certainly be a part of government regulations. Organizations will be affected by compliance adherence at both federal and state levels, and the CFPB can audit any lending entity at any point in time. However, to what degree of compliance we'll be facing as an industry moving forward remains to be seen. President-elect Trump vows to unwind Dodd-Frank and weaken the CFPB, but that's just rhetoric. Organizations must be prepared to operate in a continuing regulatory-intensive lending landscape.

Complexities of the Process

There will always be a lot of complex intricacies to overcome, especially when it comes to compliance. It's challenging to effectively manage the appraisers, receive appraisal orders, assign orders to appraisers, track progress and status, handle accounting functions, deliver the appraisal, perform automated appraisal reviews, and compliantly selling the appraisal to the Uniform Collateral Data Portal or Electronic Appraisal Delivery Portal.

Outsourcing the Process

A majority of lenders rely on an appraisal management company (AMC) to outsource most of the aforementioned functions, and most lenders use several AMCs due to geographical expertise and access to quality area appraisers. Most established AMCs do a good job of handling the appraisal process for lending entities, but you can't expect them to ensure 100 percent of compliance with all appraisal regulations, which change from time to time. Lenders cannot assume that any outsourced entity will ensure compliance. The lender is ultimately responsible for complying with appraisal laws and regulations. The buck stops with the lender, and if out of compliance, they will be facing potentially stiff fines and penalties.

Integrations with Valuation Management Platforms and LOSs

Mostly all AMCs use some form of technology to help manage the appraisal process to make it easier for lenders to do business with them. Each AMC may use a different technology system that automates basic functions for both them and their clients (lenders and vendors alike). The lender's staff could potentially have to learn each AMC's technology for managing many different processes, such as ordering, receive status updates, workflows, and reporting.

However, it doesn't have to be this way. By using an enterprise-class valuation management platform, lenders can leverage their system of record internally, and the AMCs that they do business with can also integrate with and leverage the same system's functionality. This makes it easy for multiple AMCs the lender uses to easily synchronize data, communications, and reporting. What's more, the integrated reporting aspect between lender and multiple AMCs allows for the centralization of all reporting on the lender's entire pipeline via a single, simplified reporting interface.

Equally important is that good integrations should always exist between the software vendor's valuation management platform, the lender's loan origination system (LOS), and the AMC. This level of integration allows lenders to efficiently and compliantly complete appraisals directly from their LOS. If the AMC is harnessing the lender's valuation management platform, then an integration with lender's LOS makes it easy to efficiently and compliantly process appraisals. The lender should never have to leave their LOS, and the integration should be seamless and bi-directional in order to completely streamline data exchange and facilitate ease of communication between the two platforms.

If all systems are tightly integrated, duplicate data entry is eliminated, thus reducing errors, cutting costs and dramatically speeding up the appraisal process, all while remaining in full compliance with state and federal regulations. A detailed report is

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> — **Vladimir Bien-Aime,** CEO and Co-founder, Global DMS

provided by the valuation management software vendor containing an audit tracking functionality that gives lenders visibility and control over the entire appraisal process for all AMCs.

Differing Technologies

It is important to note that in order to achieve seamless integrations to help keep lenders compliant, the AMC needs to leverage a centralized valuation management platform, not an appraisal ordering system. Valuation management platforms are comprehensive in nature and do much more than an appraisal ordering system. A valuation management platform is customizable to the lender's specific processes that drives the entire workflow, enabling the automation of many different complex events, actions, and statuses based on specific appraisal order timelines, and it also keeps appraisal guidelines up-to-date. Further, an appraisal ordering system cannot integrate tightly with the LOS and automate the entire valuation process from start to finish. It only addresses appraisal ordering and assignment, which is but a small part of the overall solution, and it definitely isn't compliance-focused.

We're seeing rates inch up and profits starting to erode, which will be an ongoing trend. That said, in order to be as efficient as possible and stay compliant, AMCs need to have in place an enterprise-level valuation management platform that integrates seamlessly with the industry's leading LOSs, which when using multiple AMCs, this becomes very important. If you're a lender, make sure that the AMC you do business with has the necessary technology in place to allow bi-directional exchanges of data with your LOS. It will prevent a myriad of issues and heightened compliance risks.

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Critical Valuation Decisions Lenders Must Make in 2017

By William Fall

"I've never failed," the famous inventor Thomas Edison once said, adding, "I just found 1,000 ways that won't work." I'm sure many mortgage professionals can sympathize with this statement, there are, literally, more than a thousand ways something can go wrong in the mortgage process. Valuations in particular have been the source of many a misadventure.

But in a brightening market, such as we have today, there is no room for error. The specter of higher interest rates and a strengthening economy promises to bring much-needed new money to the housing market, and come spring, every lender will be set to pounce.

How Do We Stop Wasting Time?

More and more often, lenders are interpreting appraisal requirements from their investors too strictly, which leads to additional delays when appraisers are asked to revisit subject properties. Another challenge is meeting the tight appraisal requirements for FHA loans, which place the appraiser in the position of a home inspector and place even greater pressure on appraisal turn times. And then there is the issue of high collateral review scores, which I'll get to shortly.

These challenges are nothing new—they are common realities in the appraisal business for the past several years. Yet they will become magnified as the purchase market builds up steam. Left unchecked, lenders will wind up with a longer and longer appraisal process, inevitably resulting in delayed transactions and lost deals. Or worse, lenders may make the decision to pick the quickest, easiest valuation at the risk of getting it wrong—and getting in huge trouble. The lack of a sound approach to securing purchase appraisals could particularly be damaging to the growing number of independent mortgage bankers and online lenders whose calling card has been an efficient, consumer-focused approach.

So how does one get timely appraisals in such an environment? The answer begins with standards. Once an appraisal order is made, the lender absolutely must be kept informed of the process from beginning to end through strict communication protocols that are built into each step. For example, immediately after submitting an order, the listing agent on the subject property should be contacted to schedule the inspection in addition to the home's occupant, if necessary. Every order should also include a review of the purchase contract to ensure it is complete and for the appraiser to verify the property data from public resources. The appointment itself should be scheduled within two business days—and if it's not, a system needs to be in place to learn the reason why and to communicate this to the lender. Someone needs to ensure the property is vacant for the appraisal and that the lockbox information gets to the appraiser. Finally, every appraisal should undergo an accelerated quality control review.

A purchase appraisal process that relies on strong communication, and establishes rules about what needs to happen and when, can help ensure lenders that they are getting a high quality valuation delivered to them as expediently as possible.

How Can We Ensure Quality?

From a regulatory perspective, the mortgage industry is in very interesting times. We have more rules and requirements than ever before, and no one is quite sure what recent changes in Washington will bring. For now, at least, it's business as usual—which means lenders must do what they can to ensure a compliant valuation process. It bears repeating that the CFPB has increased its attention on third-party valuation providers, even though appraisals are the lender's ultimate responsibility. Despite greater attention from regulators—in addition to the obvious risks—we continue to hear of reports being submitted from appraisers with no E&O insurance as well as reports in which the appraiser had no prior experience in the particular market where a subject property was located.

Here again, standards are a useful tool. It's a no-brainer that, for every appraisal, the appraiser's qualifications must be checked to ensure he or she is not only properly licensed, certified and insured, but that the appraiser knows the local market. For every appraisal, lenders also deserve to know whether the decision of value was made without bias or any influence from an outside party. Every report should come with some type of certification that the report and the data within it have not been misrepresented, and that the appraiser's requirements were verified at the beginning of the order and then again just prior to report delivery.

Compliance and quality must go further than this, however. Over the past two years, the industry been adjusting to new collateral review tools introduced by Fannie Mae and the Federal Housing Administration. For the most part, the anxiety lenders have about these added processes has quelled somewhat. Yet when an appraisal scores high for risk on Fannie Mae's Collateral Underwriter or on the FHA's AUD, most lenders don't know what to do, and most appraisal management companies and appraisers do not have the resources to get to the bottom of the matter.

A high score generally means there is some unexplained issue with the appraiser's determination of value. Often these questions can be explained or corrected by an expert appraiser—unless an easy answer isn't available, in which case delays can happen.

Who Do I Trust?

When lenders are ultimately responsible for the actions of third parties, deciding who those third parties are is obviously critical.

Once again, what are your standards for an appraisal partner? Common sense dictates that a valuations company should be able to tell you whether the assigned appraiser knows the local market before the appraiser visits the property. The company should leverage technology to validate the assigned appraiser's licensing status and market knowledge. It should provide resources for understanding and addressing high collateral review scores. Every single report should be reviewed by a licensed appraiser. And the company should proactively communicate with lenders so that lenders can properly set the borrower's expectations—and if there's a problem with an appraisal, the lender knows immediately.

It's impossible to understate the importance of making these decisions correctly. As the housing floodgates begin to open up, every lender under the sun will be hitting the gas pedal hard—if they haven't already. Yet how far they get will depend largely on the decisions they make. In short, Thomas Edison may have needed to make 1,000 mistakes before he succeeded, but that doesn't mean you have to.

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The Effect of Hybrid Technology

By Jeff Jonas

The aging (and shrinking) appraiser population is a well-known challenge facing today's valuation industry. What's stopping new appraisal talent from entering the profession? Is it the median salary, the pressure to perform, or is it an unintended consequence of Dodd-Frank, which has created disincentives for existing appraisers to take on appraisal trainees?

Whatever the reason, this paucity of available appraisers has put the valuation industry in a position of having to tolerate higher fees for field appraisals while encountering impractical turn-times.

Appraisers have made monumental strides in creating alternative or hybrid appraisal products. These products compensate for the lack of field appraisers by converting a percentage of appraisals that would typically be handled through drive-by appraisal or field review to products that can be generated with commensurate valuation results and confidence at a higher volume. This causes turnaround times to be drastically reduced and fees will be maintained at a moderate level. It is imperative that innovation in the appraisal space continues so professionals can satisfy the ever-increasing demand for quality valuation work.

Introduction of Third Party Appraisal Products

In lieu of a traditional field appraisal, for which field appraisers are requesting fees of $300 or more, an appraiser who is licensed or certified in the state where the asset under review is located can use proprietary tools to evaluate the quality and accuracy of third party traditional appraisal products such as 1004s or 2055s. This review can be completed in days whereas a traditional field review may have a turn time of up to two weeks.

Collaboration of Services

There are also solutions that combine the services of a licensed real estate agent or broker in the market where the asset is located with those of licensed or certified appraisers. The broker/agent conducts an inspection of the property and provides that information to the appraiser who determines a value. These can be completed with a standard turn-time of three to five days. A comparable drive-by appraisal or 2055 in some markets is taking as long as three weeks.

Use of ARBOs

Using appraiser reconciled broker price opinions (ARBPOs), which combine full traditional broker price opinions (BPOs) completed by a broker with a reconciliation of the BPO value by appraisers licensed or certified in the same state as the asset using proprietary technology, will increase turnaround times. Turn-times on ARBPOs are generally five-seven days in comparison to the aforementioned turn-times for 2055s of up to three weeks or 1004s, which can take even longer.

Finding a Voice

Even with the development of these new products, significant challenges still remain in the valuation industry. In November, the Financial Services Committee held a hearing regarding modernizing appraisals, where representatives from the appraisal industry addressed the needs of their constituents. However, there is a growing need for an industry voice to advocate on behalf of the hybrid products that can be completed in higher volume with fewer appraisers. For instance, the $250,000 de minimis appraisal threshold, which exempts real estate loans made by federally insured financial institutions from statutory appraisal requirements, has been in place since 1994 and severely limits the volume of loan transactions that can use hybrid valuation products in their underwriting process. Increasing this outdated threshold to $400,000 or $500,000 would immediately create more demand for hybrid products and decrease the economic pressure on traditional field appraisals that has created issues with timeliness.

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Welcoming the Next Generation

By Mike Floyd

As the presence of industry professionals diminishes and the demand for appraisals grows, one of our greatest opportunities lies in giving current trainees more independence and responsibility, while making the profession more accessible–and attractive–to new appraisers.

After the Great Recession, the idea that trainee appraisers should not be permitted to complete the appraisal inspection process without the presence of a supervising appraiser spread throughout the industry. This perception led to many active appraisers making the decision to refrain from employing trainees because it wasn't a smart business move. Why supervise a trainee when you could complete orders on your own for full profit in less time and avoid subsequently splitting the fee and taking on significant liability for the resulting report?

However, recent discussion around trainee guidelines from a GSE and state licensing outlook shows that in most states, trainee appraisers can complete inspections on their own once they've reached an appropriate level of competency. This makes the partnership much more beneficial for both the supervisor and the trainee, as they can simultaneously complete assignments.

Working Together, Saving Time

In our heavily regulated industry, supervisory appraisers are more likely to allow a trainee to complete the physical inspection of the subject property and comparable sales while the supervising appraiser compiles and analyzes market data and finalizes the value conclusions. It takes less time to train someone to measure and photograph a property while communicating with transaction borrowers and real estate agents than it is to train them to analyze comparable sales and marketing conditions.

This approach can be beneficial for both parties, as the trainee still receives credit toward qualification hours, and the supervisor can increase capacity and volume levels while maintaining turn times and ensuring quality and compliance. This process also allows for a greater percentage of appraisal assignments to be completed by the most knowledgeable and conscientious appraisers because it reduces the amount of time that highly trained market analysts spend behind the wheel of a car or performing data entry.

If this model is embraced by the lending community, it could reduce turn times and actually improving quality in critical markets–all while helping young appraisers get the experience they need to meet certification requirements in a more palatable timeframe.

Educating Future Recruits

Another factor that could help increase the ranks of future appraisers is including education as a recognized form of training instead of relying on the apprenticeship model. Rather than requiring trainees to obtain thousands of hours of field experience, the combination of practicum courses, as is currently being considered by the Appraisal Qualification Board and a reduced amount of field hours, would offer a more appealing and expeditious alternative for those looking to join the industry.

Such programs would break barriers that prospects face when trying to enter the profession and would offer a more streamlined path to success. For those concerned that a reduction in experience hours will degrade competency levels, this is the path that other trade professions have taken in moving toward an education-based training model, subsequently seeing resurgence in their ranks.

Program Implementation

The last concern of potential appraisers is the lack of income security and consistency. The solution? Staff appraiser programs. Working with an appraisal management company (AMC) as a staff appraiser offers benefits appraisers typically wouldn't receive as a contractor, such as salaried pay, paid time off, health benefits, and 401(k) matching. Some programs even offer reimbursement for mileage, licensing expenses, or continuing education. This is the best of both worlds for new appraisers because it allows flexibility to learn and work in their own market, while offering enough stability to pay off debt and start saving for the future.

Some AMCs are implementing training programs to further their staff appraisers' skill set in an effort to prepare them for the ever-changing needs of the appraisal industry. Programs like these, in addition to an education-based training model, show that options are slowly but surely becoming available for new professionals who want to make their living in the appraisal industry.

The next few years will be instrumental in stabilizing the appraiser profession and ensuring success in the valuations industry. We should look to notable organizations that have established succession plans as a must have for business success and take a similar approach for our industry.

As the current appraiser community retires, the industry should take significant steps to welcome new appraisers into the fold through effective training programs and courses. With the right tools, a new generation of appraisers will step up and provide highly credible, unbiased assessments for lenders and their borrowers. All they need is for someone to open the door.

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A Glimpse Into the Future

By James Contino and William Temple

We've spent some time over the past few weeks researching papers and articles that predict what the future of the appraisal business holds for the average residential appraiser. One of the most interesting findings was titled Reengineering the Appraisal Process Redux and was written by Joan Trice in 2011. As we read the paper, we reminisced on challenges the industry experienced five years ago and compared them to obstacles the appraisal industry is faced with.

Industry Rewind

The average age of an active appraiser in the industry five years ago was 54, but the average age today is 58. There was concern that the industry requirements were too strict; it was necessary for appraisers to have four-year college degree, 2,500 hours of experience, and a two-year apprenticeship.

Small appraisal volumes for new loans was one of the biggest issues in 2011, and the economy was beginning to see new life in originations. Fast forward to 2016, the industry has noticed spot areas throughout the country, specifically in Oregon and Colorado. This has lead Fannie Mae and Freddie Mac to explore alternative valuation models and loosen some of the underwriting requirements for new loans.

GSE Interference

Fannie Mae's new program "Day One Certainty", which was launched in December, will remove some of the restrictions on processing a new refinance loan. If the collateral and the borrower qualify, the program will offer a Property Inspection Waiver (PIW). An appraisal is required and the lender is offered relief from specific representations and warranties concerning the value, condition and marketability of the property. This will also reduce origination costs for the homeowner and lender and will also expedite the lending process.

There's no question that the valuation industry is ready for an overhaul. The appraisal process has not changed over the past three to four decades. In previous years, an appraiser would inspect a property, gather pertinent data and information, and type a report. Now, an appraiser visits the property, returns to his or her office, and sits in front of a computer while filling out a form report. While the appraisal process has evolved with technology, the volume and quality of data has taken a substantially different trajectory. Appraisers deal with an immense amount of information and data that they're unaware of or unable to access. For example, the current single family appraisal form dates back 11 years ago to 2005 with modest adjustments, like the addition of a market conditions page and standardization of reporting data.

Recognizing Trends

Moving forward, stakeholders are seeking alternatives that minimize personal bias and maximize the objectivity from different data heavy tools. They are also married to trend analysis that could potentially even have a predictability feature to better serve the consumer, lender, and investor. A benefit would be a major savings in the time element that current appraisals consume so much of in the mortgage process.

As the mortgage market continues to evolve, due to the demands of consumers and stakeholders for faster more accurate valuations, the appraisal and lending communities will have to continue to innovate and improve on appraisal products that can be delivered in a shorter time frame with greater valuation accuracy. **M**

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