APPRAISAL TECHNOLOGY REPORT

A SPECIAL REPORT FROM VALUATION REVIEW

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When the iPhone was released on June 29, 2007, few could have projected the stranglehold Apple’s pocket-sized device would have on our culture seven years later.

Like many pieces of technology, the iPhone (and the smartphones that followed) started out as a curiosity, transitioned to a fad and then became a must-have item for the majority of Americans.

Think about it, when was the last time you were out and didn’t see someone with a smartphone?

The Smartphone Revolution, and the tablets that it spawned, has had a profound impact on the appraisal world.

While appraisers have been using smartphones and tablets for several years, it appears that appraisal technology companies have hit their stride over the last 12 months in providing more comprehensive software that makes appraising in the field a real possibility from start to finish.

There are newer and more advanced software applications, or apps, that allow appraisers to accept orders while in the field, take property notes and pictures, sketch, access desktop files from remote locations, fill out forms, cross-check data and submit reports — all from outside the office.

The end result in utilizing these mobile tools can be increased efficiency and time saved. Who couldn’t use that?

And the best part is, implementing these mobile tools doesn’t have to be a daunting task.

In this year’s Appraisal Technology Report feature story, we talk with Jim Amorin, chair of the Appraisal Institute’s Strategic Planning Committee and developer of the institute’s webinar, “From Desktop to Smartphone: Technology for Real Estate Appraisers” about how appraisers can get up-and-running with today’s mobile tools.

We also check in with Mark Stockton from Valuation Research LLC to look at how mobile appraising has advanced in the past 30 years, and look to Jeff Bradford from Bradford Technologies Inc. about what the future holds for appraisal technology.

If there is one thing that this year’s edition of the Appraisal Technology Report shows, it’s that the appraisal profession can be separated into two eras: B.T.I. and A.T.I. — Before the iPhone and After the iPhone.

Which era are you living in?

Adam Redling
Valuation Review Editor

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TIPS ON IMPLEMENTING APPRAISAL TECHNOLOGY

The way in which Americans perform their jobs is shifting every day thanks to the evolution of technology.

Just as the desktop computer sparked a revolution in the ’80s and ’90s, its transportable offspring is doing the same this decade.

Smartphones and tablets are arming America’s workforce with new tools, apps and software options that help simplify and streamline everything we do, from wherever we want to do it.

But the problem with being flooded with new technological tools at our fingertips is having to sort through all that’s available in order to get to what is useful. The issue of adapting to modern technology is especially pertinent for the appraisal profession, which, as has been well-documented, has a workforce that skews older than most.

Understanding and embracing the newest tools available probably comes second nature to the 20-somethings entering the valuation space today, but what about the majority of appraisers who have been doing things a certain way since before today’s trainees were even born?

There are some simple steps all appraisers can take, no matter the depth of their tech acumen, to increase the efficiency, accuracy and speed of their appraisals. This is good news since, in the end, embracing technology isn’t about the novelty of change; it’s about adhering to best practices.

“I find that many appraisers are scared of change and want to do things the way they have always done them,” said Jim Amorin, chair of the Appraisal Institute’s Strategic Planning Committee and developer of the institute’s webinar, “From Desktop to Smartphone: Technology for Real Estate Appraisers.” “I think the thing that gets me the most is that [appraisers] are just afraid that: A) Technology is too expensive, or B) It’s kind of neat, but how do I really use it? And so I think the challenge for those trying to help appraisers is trying to show them how they can integrate technology, how simple it can be and how it can increase their productivity.”

The biggest roadblock for many appraisers is not knowing where to start. The increasing number of hardware devices and software options can keep appraisers on the fence stuck trying to filter the unnecessary products from the worthwhile ones. Amorin says that once appraisers identify an area of the valuation process that could be expedited or improved, they should reach out to their contemporaries to see what tools might be worth adopting.

“I rely a lot on word of mouth, so I talk to a lot of other appraisers and people in the real estate business if there is something especially tedious or something I find that there should be a better way [of doing],” Amorin said. “I’ll talk to my colleagues and say, ‘How are you doing this mapping? How are you finding this kind of information?’”

Networking with other appraisers shouldn’t just be limited to speaking with appraisers practicing in one’s own town, though. Using the Internet to communicate with various appraiser groups can be a worthwhile investment of time. Amorin advocates joining the professional network, LinkedIn, and reaching out to different professional associations of real estate appraisers to keep abreast of the useful products on the market.

Following industry publications and tech blogs can also be a good way for appraisers to get introduced to new products that could help them in their practices.

Each appraiser is different, but Amorin advocates adopting smartphones and tablets, laser measuring devices, digital cameras, GIS mapping software and cloud-based backup systems at a minimum to get started. There are also a multitude of function-specific programs and apps available from appraisal technology companies that allow appraisers to complete assignments from start to finish. The key for appraisers is to do their homework to see which platform works best for them.

Once an appraiser has an idea of what products they should incorporate into their proverbial toolbox, the next step is learning how to effectively use them.

“For anybody: Just get started. You will be amazed at how it can help you be much more efficient when you are using the right pieces of software and the right hardware,” Amorin said. “If you are struggling with [a piece of technology], it is probably not the right thing.
for you. That doesn’t mean that technology can’t help you, it just means that whatever program or hardware you are using is not the right one for you. This stuff should be easy, it should be seamless and it should almost be second nature.”

Of course, not all products are created equal, and knowing when to shell out cash can be a tricky decision. Which is why starting with low-cost software can be a wise choice, Amorin said.

“I am a big fan of free or relatively inexpensive as opposed to using a pay service,” Amorin said. “I am always nervous about pay services just because I’m not really sure they give you that bang for your buck. It can turn people off when they have to spend a bunch of money to get something. I think that steers appraisers away from using technology.”

But as everyone finds out one time or another, sometimes you get what you pay for. Investing in certain products can pay off in time and effort saved down the line.

“If you find you need a particular capability that the software you are using doesn’t have, I might recommend you buy a canned product or piece of hardware to solve that problem,” Amorin said. “But getting started, I think free is better.”

Some appraisers are worried that by the time they find a piece of technology that works for them and they learn how to use it, an updated version or new product will hit the market to take its place.

Amorin said that unless a new product offers a big upgrade from an appraiser’s current technology, valuation professionals shouldn’t worry about “keeping up with the Joneses.”

“The notion of upgrading just because developers updated the software, unless it adds something critical to what you’re doing or answers a need that your existing program doesn’t fill, I’m a fan of sticking with what you know works,” Amorin said. “I’m hesitant to tell people to constantly upgrade. On the other hand, there are a lot of good upgrades over the years that add functionality that you need to pay attention to. And again, that is really just talking to other appraisers who are using the more recent versions and paying attention to the websites of the particular manufacturers.”

Making the choice to allocate time and money to pursue new technology isn’t always a smooth road: Computers crash, files get lost and software gets glitches along the way, but for those willing to try new tools in the field, the results can make a world of difference in an appraiser’s career.

“But if you adopt the right pieces, it can certainly help you be more efficient and allow you to produce higher quality reports in less time, which seems to be the real challenge today anyway,” Amorin said. “People seem to want more and more in the appraisal reports, they aren’t willing to pay a whole lot more and they want it quicker. Using technology to leverage your ability to do things quickly is where I find technology to be most useful.”

“I haven’t talked to a lot of appraisers over the last 10 years who have said that their fees have gone up dramatically, but the requirements on appraisers have certainly increased over that time,” Amorin concluded. “I think the only way to still produce a high quality report in a short period of time is to leverage technology to help you do that. So get on the bike, start riding and understand that you might fall off a few times, but get up, dust yourself off and just keep pushing forward.”

When people talk about the versatility that mobile technology can provide, what they are mostly talking about is the functionality that software applications, or apps, can deliver to the user.

Smartphones and tablets have some useful out-of-the-box tools, but for all intents and purposes, the real “game-changing” tools for appraisers are reduced to what these downloadable software apps can offer.

Just a couple short years ago, working with mobile devices in the field was a trend in its infancy, and applications designed for such products were new. Now, as software developers have worked to refine these tools, what these
apps offer is continuously expanding as technology becomes more sophisticated.

The result is a chance at increased efficiency for today’s valuation professionals.

The flexibility and functionality of these apps is the reason why appraising today is becoming less about working in an office and more about being able to bring the tools of the office on the road.

“Mobile is increasingly blurring that line, as traditional office-related activities can be performed anywhere,” said Tracy Boehrer, appraisal mobile product manager at a la mode, a developer of appraiser software. “This is possible by a growing number of mobile apps, fast and affordable devices and a proliferation of connectivity options.

“However, mobility is rarely about a single app. It’s about accessing data anywhere and using it immediately. A variety of tools that exist today can be used anywhere to increase productivity. When connectivity is as close as a smartphone or the nearest Starbucks, you get a diminishing need to return to the office. For example, in the past, if the subject property was different than expected it would require a trip back to the office to do comparable research. It’s already as simple as finding the nearest Wi-Fi hotspot or connecting to 4G, and doing the research in the field.”

Because of this increased connectivity, software developers like a la mode are expanding the capability of their products to enable appraisers to truly manage all phases of the appraisal process in the field. Applications now offer appraisers the freedom to do everything from accept orders to submit them while in the field.

“Availability of Internet access has made it quicker to acquire data while in the field, respond to clients and coworkers and move data from one app to another,” Boehrer said. “Apps like [a la mode’s] Mercury Mobile eliminate delays in the appraisal ordering process caused by appraisers in the field. TOTAL for Mobile increases the speed and quality at which final reports are completed. RE:Focus provides MLS searches and analytics on a mobile device. As these mobile technologies improve, the range of tasks that can be accomplished away from the office will increase. This will provide more flexibility for when and where work is performed.”

Enhancing one’s efficiency is more than just finding the one perfect app on the market that can solve all of an appraiser’s needs; it is about combining various tools to maximize the benefits of different products. Not all products are created equal, so mixing and matching tools that can streamline specific tasks relevant to the job at hand is critical.

“Mobility is also more than just using a particular appraisal vendor’s mobile app with a smartphone or tablet. It’s about getting work done anywhere, with a variety of tools that all work together to aid in collecting and managing information,” Boehrer said. “Apps like Dropbox are a great way to save MLS sheets as a PDF and have access to them instantly from a mobile device. Document scanner apps allow you to avoid making hard copies of deeds and contracts. Remote desktop apps allow you to access your office computer from your tablet. Responding to emails while out of the office improves client relations. These are simple steps to being more mobile and productive. It doesn’t have to be an ‘all or nothing’ thing.”

According to Boehrer, adopting mobile tools is a fundamental part of being able to combat the heightened expectations and restrictions placed on appraisers in 2014.

“Appraisers often spend more than half their day away from the office,” Boehrer said. “Whether appraisal fees are dropping or the dollar per hour has decreased because of increased demands, real gains in productivity only happen through an improved and more flexible workflow that reduces travel time to and from the office, along with improvements while in the office.

“Whether simplifying existing processes, eliminating duplication of work, or reducing hard costs like gas and paper, mobile technology presents opportunities for how and where work gets done that isn’t otherwise possible. Those opportunities mean huge efficiency boosts to the overall report writing process.”

Just as written letters are being replaced by email and trips to the overcrowded shopping mall are being forgone in favor of buying from online retailers, antiquated appraisal tools are being replaced by function-specific apps. And as more and more appraisers are finding, using the latest mobile apps isn’t just a different way of completing appraisal assignments, it’s a better way.

“Mobility is about immediacy. It’s more than just collecting the data to be used later, it’s about applying and accessing new information right now,” Boehrer said. “Why write things down only to have to enter it into the computer later? Why make yourself drive back to the office to research comparable data? Why wait to access information to respond to a simple question from your client? Mobility gives you the freedom to do your job immediately from wherever you happen to be.”
AVMS: HOP ON BOARD THE TRAIN, OR GET LEFT BEHIND?

Since the development of the first commercially marketed automated valuation model (AVM) in 1981, appraisers, investment professionals and lending institutions have been using these powerful, technology-driven reports to calculate a property’s value at a specific point in time by analyzing values of comparable properties.

By the dawn of this millennium, AVM technology was used primarily by institutional investors to determine risk when purchasing collateralized mortgage loans. Today, AVMs are often deployed by mortgage lenders to determine a property’s worth. They are particularly useful in assessing the value of a property and are an important tool in the belts of many successful appraisal professionals who use them to streamline their business and save time, money and resources.

Three decades into the AVM era, rapid advancements in computational models and data quality have fueled the expansion of AVM capabilities, and coupled with improved testing capabilities, AVM results continue to become more reliable for certain valuation needs. Yet, according to Bill King, senior vice president of valuation solutions for Platinum Data Solutions in Aliso Viejo, Calif., widespread skepticism about the technology and how it may impact the human element of the appraisal industry still persist.

AVM technology has always been the subject of much criticism and industry debate; many in the industry allege that AVMs fail to take into account a property’s condition or current market value. Above all, many have argued that no AVM technology will ever be able to replace a physical inspection of a property.

Despite the utility of AVMs in helping appraisers and lenders come to value conclusions on property, many appraisers who have been slow to adopt technology fear it may render their services obsolete, King said.

King is responsible for overseeing product development and expansion for Platinum’s line of valuation technologies and services, including a suite of AVM products that focus on risk mitigation and workflow efficiency solutions for the mortgage industry. Having worked in the housing and appraisal industries for as long as AVMs have been around, King — whose resume includes work as a senior executive, forensic expert, appraiser and real estate agent — is now a nationally recognized instructor of real estate and appraisal courses and seminars, as well as a speaker and author on issues of importance to the industry.

In King’s mind, AVMs operate in the same manner as engine and fuel, with the engine representing computing power and the algorithms run by a computer, and the fuel representing the data that is put into the computer.

“A great engine with poor fuel will not perform well, nor will a poor engine with the best fuel,” King said.

That’s why today’s successful appraisal professionals view AVMs as a tool in their arsenal, not a replacement for them, King said. And those who view AVMs as the enemy and have not yet brought the technology into their practices may get left behind, as there is an increasing demand by lenders for appraisers to provide services that reconcile multiple valuations on a property into a final value. AVMs are often included in these services, King noted.

“Appraisers don’t want to be replaced by AVMs, and some feel they should resist all AVM efforts in order to protect their job,” King said. “I am always amused by appraisers I meet at conferences who blast the use of automated technologies in valuation, but who bought their plane ticket on Orbitz, checked in on their cell phone, rode a driverless tram to the gate and checked into the hotel at a kiosk in the lobby. In the simplest of terms, those who see themselves only as appraisers will probably get run over by the technology. Those who see themselves as valuation professionals will benefit from the technology.”

Traditional AVM technology — putting an address into a computer and getting a valuation number as the output — can be a useful data point for an appraiser. It offers one potential indication of value for a given property. Knowing that reviewers and underwriters may use that output as one of several benchmarks against which to measure the appraisal can enable appraisers to be prepared for the inevitable questions when the two numbers disagree, King said.

“They can also acknowledge the AVM in the appraisal and offer a brief explanation for why their result is different; sometimes the best defense is a good offense,” he said. Many of today’s AVMs provide a list of transactions that were used by the model to develop the final output. This list
of transactions can supplement the appraiser’s research
and serve as a cross-reference to the sales data the
appraiser gathers from other sources, King said.

As this report was written, loans for federally related
financing still required the services of a licensed or
certified appraiser. But change is inevitable, and AVM
technologies “are happening today faster than ever
before,” King said.

“The natural evolution of technology in valuation analysis
has changed, and will continue to change how real estate
valuations are conducted,” he said. “There have been and
will continue to be circumstances where automated and so-
called alternative valuation services will replace traditional
appraisals. There will also be new opportunities created by
the emergence of new technologies.”

The industry is likely to see enhanced analytic capabilities
and improved data quality in the near term — which may
indeed replace some appraisal services at some point —
but even with those advancements, “the best AVMs are still
an artificial form of intelligence,” King noted.

“Appraisers are sought for their expertise and judgment; the
judgment of the trained professional cannot be replicated
by a computer. Appraisers who embrace automated

MOBILE APPRAISING:
THEN AND NOW

By Mark Stockton

In 1984, my company opened an appraisal office in Denver
to experiment with the concept of mobile appraising. We
equipped a vehicle with “state of the art” hardware — a
Compaq “portable” computer (weighing 28 pounds!) set
on a pedestal between the front bucket seats, loaded with
our proprietary property valuation software and a database
pulled from the local MLS. The purpose of this exercise
was to determine whether or not an appraiser could provide
first-class appraisal services without being tied to an office.

Technology did have its limitations in 1984. There was
a degree of coordination required in order to complete
an appraisal report, whether in the office or in a mobile
environment, that we don’t have to contend with today.
Cameras used film, and film had to be processed. Reports
were provided as hard copy documents that had to be
printed, collated and hand delivered or mailed. Procedures

had to be put in place to accommodate these steps in
appraisal development if our experiment was to have a
chance of succeeding.

Accordingly, film was dropped off and picked up at the
1-Hour Photo shop and delivered to the office each
afternoon by the appraiser, along with a floppy disk that
contained the day’s work. An assistant would generate and
deliver the final reports the next day.

We promised rapid turnaround for reports that were
developed using sophisticated analytics and supported by
complete documentation. The reception was overwhelming.
We were asked by national lenders to expand the concept
country-wide, but being primarily developers of analytical
tools for appraisers, we made the decision to encourage
others rather than expand our own appraisal operation.

Here’s what we found out during the nearly two years of
our experiment:
By entering all property information right into the form as we inspected each home, we avoided the type of errors that occur when you realize after-the-fact that you have overlooked something. Even today with the benefit of photos and what we believe to be good notes, it’s easy to confuse the features of one home with those of another. We became very proficient at entering property attributes into report form templates on the computer as we performed our inspections. We eliminated duplication of effort and were more certain our property descriptions were accurate.

By pulling up all potential comps while we were visiting the subject property, we felt we made better choices about which properties should be included in each analysis and which should be eliminated. Since we had analytical tools loaded on the computer right beside us, we could pre-select individual comps from the pool of those deemed to be most appropriate based on factual comparisons. We would then drive by each to make our final determination. If we found errors in the property descriptions of the comps, we could correct them onsite and revisit our analytics to determine whether or not the changes had impacted comparability.

In short, we turned out a product we believed to be superior to that of our competitors, and we did it more quickly. Business increased and profitability improved.

While we could do most of our work onsite, filling in forms and selecting comps, we determined there were still good reasons to maintain an office. Perhaps the most significant reason was the interaction with other appraisers. We found we needed to be able to ask advice of one another — there were times when someone in the office had run into a situation similar to the one with which we were grappling, and it was beneficial to ask how they had handled the problem.

Today that might not be as important. Appraisal forums provide access to a much larger contingent of experience than can be found in any single appraisal office. However, social media is a poor substitute for social interaction, and that might be more to the point. Interaction with peers in a satisfying office environment can improve one’s proficiency and can also contribute to one’s good health and happiness.

We also discovered in those pre-Internet days that there were occasions when some of our research simply had to be done from the office. Although we had a Motorola bag phone in our vehicle (does anyone remember those?), using the phone was expensive and more cumbersome than using the office phone. Today, smartphones have replaced unwieldy means of communication, and they provide access to numerous other services as well.

At the conclusion of our experiment, we decided the benefits of mobile appraising were real and agreed the concept had merit. We determined mobile appraising from a satellite office, which allowed for the sharing of some resources and the interaction of fellow appraisers, would be practical at the point in time when technology helped us to overcome the few inconvenient limitations. Perhaps that time has finally arrived.

Thirty years have passed since we proved to our own satisfaction that appraisals can often be fully developed in the field with greater accuracy and efficiency than can be achieved by an individual appraiser sitting in an office. I have been surprised that this approach to appraising has received so little attention in the years that have ensued. We have certainly encouraged it, and current technology certainly supports it. Notebook computers and tablets provide direct access to forms programs and data sources, and digital cameras eliminate the need for photo processing. Since reports are now delivered digitally, neither printers nor delivery services are required any longer. There isn’t one task an appraiser can’t perform as well (or better) in the field than in the office. Regardless, a relatively small number of appraisers take full advantage of all of these technical advancements to increase efficiency and profitability by spending fewer hours in the office — perhaps as few as 5 percent of all appraisers consider themselves to be “mobile appraisers.”

With the development and maturity of more applications designed to support mobile appraising, and as more young, tech-savvy men and women become professional appraisers, I imagine we will see dramatic changes in the way appraising is performed. Perhaps then the concept we proved viable decades ago will become the norm.

*Mark Stockton, managing partner, Valuation Research LLC.*
As I go to conferences and meetings across the country, I am hearing the same thing over and over about how this industry is entering a perilous situation: The appraiser population is aging and there are not any new appraisers to take their place. At the Association of Appraiser Regulatory Officials’ ARRO Spring 2014 Conference held earlier this year, there were discussions about how there are now some rural counties that currently have no appraiser coverage because the former appraiser retired and there was no one to replace them.

A few years ago, when the Home Valuation Code of Conduct (HVCC) was implemented, it was called the “perfect storm” for the industry. Appraisers lost trusted business relationships built over years and were replaced by appraisal management companies (AMCs) that took half their fees and regulations that added more scrutiny to their already heavy workload. Getting “customary and reasonable” fees is still an issue for some appraisers.

The scrutiny on appraisers continues to grow as appraisal review has become the new growth industry. There are now highly sophisticated services being offered to lenders for the sole purpose of reviewing and scoring an appraiser’s work. Additionally, Fannie Mae is not only analyzing appraiser’s data and checking for consistency, but comparing appraisers’ condition and quality ratings for a certain property to those of other appraisers. It’s no wonder there is so much anxiety and concern about their business.

The Uniform Residential Appraisal Report (URAR), the foundation on which all residential lending collateral is valued, may actually be the underlying reason for most of the issues facing appraisers today. That probably sounds blasphemous. How can that be? The Form 1004 is used by everyone; every appraiser knows how to produce an appraisal using the 1004; powerful form fillers have been developed to help appraisers fill out a 1004; huge companies have been created just to transmit it; the 1004 data points have been standardized by Uniform Appraisal Dataset (UAD); and its transmission has been standardized by the Uniform Collateral Data Portal (UCDP). Essentially, the URAR is the standard by which all residential property values are reported. How can it possibly be a problem for the residential appraiser?

In short, the problem is innovation, or better stated, the lack of innovation. The 1004 has become so standardized over the years that there can be no deviations from its reporting format. If other supporting addendums are added, they cause automatic reviewers to misfire, or they cause the transmission services to break with their convoluted conversion and PDF scrapping routines. In today’s world of big volume lending where systems process, review and score appraisals automatically, there can be no deviations from the standard or the entire system breaks down.

This kind of environment causes a condition known as myopia. Myopia is essentially a narrow mindedness to the point of intolerance of all other things. Henry Ford is famous for developing the moving assembly line to mass produce his black Model T. His innovation reduced the time it took to build the Model T from 12.5 hours to 1.5 hours — a very remarkable feat. But what most people don’t know is that his myopia on mass production nearly killed the company. The original Model T had been available in a variety of colors and, interestingly, not black. Painting the cars in different colors caused a bottleneck on the assembly line due to the different drying times. So Ford standardized on a quick drying black paint, hence, the famous black Model T. The 200 other automobile makers at the time had no such constraints and started offering cars in a variety of colors and features and slowly ate into Ford’s market share. Ford refused to change. It was not until 1926 that he was finally forced to offer other colors and other features or risk losing the American market to competitors such as GM. Today, automakers combine standardization with innovation by limiting the standardization to a model year.

Standardization of the 1004 appraisal has had the same affect on the residential appraisal profession. We can probably call it “1004 Myopia.” Millions of dollars have been spent on building an industrial infrastructure to train, produce, manage, deliver and review a 1004 appraisal. Books and courses are dedicated to teaching appraisers how to produce a 1004. Big volume lending could not have happened without the ability to mass produce 1004 appraisals. The unintended consequence of this highly efficient 1004 standardization is that it’s now difficult for residential appraisers to provide valuations other than a 1004.

So, like Ford’s competitors who saw an opportunity to
The appraisal industry needs to embrace these innovations and overhaul the entire valuation process — starting with how appraisers are educated, trained and certified and ending with how valuations are performed and delivered. For instance, instead of thinking of tablets as inspection tools, they should be considered as real-time, field-based analysis tools that can replace the realtors and BPO market with appraisers and more credible valuations.

Appraisers have the opportunity to participate in the entire valuation space. They just need to free themselves from the restraints of 1004 Myopia with its highly standardized assembly line and explore other concepts in property valuation. A good example of this is the new ACE product by Valuation Link that combines a third-party property inspection and statistical market analysis with local appraiser expertise to produce a superior desktop valuation that allows appraisers to compete in the home equity line of credit (HELOC) valuation market that is normally serviced by BPOs.

The next generation of appraisers is going to consist of people who don’t consider Big Data an innovation, but simply the normal way to deal with data. Big Data Analytics will not be an innovation to them. If the residential appraising profession is going to attract new members to replace its aging population, its focus on the 1004 has to change. Appraisers have to break free from the shackles for the 1004 assembly line. The innovations of today have to become the valuation processes of tomorrow.

Jeff Bradford, chief executive officer, Bradford Technologies Inc. Bradford was recognized as the Valuation Visionary for 2014 for his contributions in bringing innovative valuation concepts to the residential appraisal profession.

“The next generation of appraisers is going to consist of people who don’t consider Big Data an innovation, but simply the normal way to deal with data.”

Jeff Bradford, chief executive officer, Bradford Technologies Inc.
TAKING THE TEMPERATURE OF TODAY’S MARKET

We asked some industry leaders what the current role of desktop appraisal products, appraisal review products and automated valuation model (AVM) testing plays in the appraisal world today. Here is what three industry leaders had to say about their respective areas of expertise:

SCOTT RICHARDSON ON DESKTOP APPRAISAL PRODUCTS

As home prices return to pre-2008 levels and refinance demand decreases, more homes are in a positive equity position with trillions of dollars in untapped equity nationally. According to the Federal Reserve, homeowner equity reached more than $10 trillion, as of fourth quarter 2013 for the first time since 2007. This creates the perfect environment for an increase in home equity loans and home equity lines of credit (HELOC).

While this home equity lending boom is a positive trend for lenders, traditional appraisal products will not be able to support the increase in HELOC demand. Traditional, full appraisals are time consuming and can cost upwards of $500, so lenders must streamline the appraisal process for these smaller loans without exhausting resources, all while maintaining compliance. Additionally, most HELOC lenders pay for the cost of the appraisal to remain competitive, so mitigating appraisal costs is crucial.

The key to surviving this increased HELOC demand is by leveraging alternative valuation solutions that fall between the capabilities of a traditional appraisal and an AVM, such as a desktop appraisal. Desktop appraisals offer faster, more cost-effective alternatives to traditional appraisal products. The cost of a desktop appraisal is roughly one-third the cost of traditional appraisals and can be completed in half the time. To remain competitive, lenders should seek to leverage hybrid desktop appraisals that provide them access to the knowledge and expertise of a certified appraiser, which is necessary to remain compliant in today’s complex lending environment. Hybrid desktop appraisals can help lenders cost-effectively maintain compliance and shorten the appraisal timeline.

Lenders should consider a hybrid desktop appraisal that also includes a property condition report so they are provided with an assessment of the property and its surrounding market. While this report would not be as in-depth as a report conducted by an onsite appraisal, lenders still have the necessary information needed to determine the property’s value at a smaller price point.

Furthermore, as interest in the secondary market grows, investors are demanding a higher level of due diligence to hedge against the threat of repurchase risk. Investors want to make sure they are receiving an accurate, quality appraisal, and a hybrid desktop appraisal is an efficient way to ensure the quality of their investment.

The lending environment will likely continue to change throughout 2014 as interest rates rise and downpayment requirements increase, increasing demand for HELOC lending as homeowners consolidate their debt or make improvements to their home or in lieu of purchasing a new home. With a sophisticated desktop appraisal solution in place, lenders can more efficiently capitalize on the $10 trillion of untapped home equity in the market.

Scott Richardson, senior vice president of valuation services, ISGN

TOM O’GRADY ON APPRAISAL REVIEW PRODUCTS

The heightened regulatory and risk environment has increased the need for defendable and actionable risk-review products with the objectivity of integrated market data, analytics and the expertise of a USPAP-compliant appraiser.

For investors purchasing loans through conduits or in securitizations, it’s especially critical to validate the market value determined by the origination appraisal and understand the potential risk and compliance issues related to that appraisal.

Determining all of this while protecting against regulatory/financial risk and satisfying internal and external credit risk expectations requires reviews of appraisals that can conclude risk and compliance within an appraisal. In addition, these review products can evaluate the value and comparable selection by the appraiser, recommend further due diligence based on the client’s policies and tolerances and provide an objective risk score to drive workflows.

Scott Richardson, senior vice president of valuation services, ISGN
There are a number of appraisal reviews and products. Some reviews are completed by appraisers that comply with USPAP and could supply a value. Some appraisal analysis may not be USPAP-compliant but can still be useful in identifying possible appraisal deficiencies and determining if a more in-depth USPAP review is warranted, while others can simply provide a more administrative checklist of the appraisal. Various degrees of analytics are also used to complete due diligence on appraisals, particularly now that all origination appraisals to be sold to the government sponsored enterprises (GSEs) are required to conform to the Uniform Appraisal Dataset (UAD), which defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. Overall, it’s important to understand how the review will be used, what the scope of the review is and then to fully communicate the purpose to produce the best product for all involved.

With increased availability and coverage of data, along with improved analytics and technology, we can only see appraisal review products getting more robust and impactful in the future.

Tom O’Grady, chief executive officer, Pro Teck Valuation Services.

LEE KENNEDY ON AVM TESTING

AVM testing plays a critical role in the mortgage industry for compliant use of AVMs, or evaluations that use AVMs as a component. As an integral part of any regulated institution’s collateral valuation and risk management programs, the independent testing and validation of AVMs is a crucial element to utilize AVMs in a safe and sound manner.

In the current environment there is a heightened focus on risk oversight. Specifically, Federal Financial Institutions Examination Council (FFIEC) guidance over the past several years — most notably through Office of the Comptroller of the Currency (OCC) bulletins 2010-42, 2011-12 and 2013-29 — has increasingly called for more rigorous testing before the deployment of AVMs by lenders.

Most notably, OCC 2010-42 states, “An institution should establish standards and procedures for independent and ongoing monitoring and model validation, including the testing of multiple AVMs, to ensure that results are credible. An institution should be able to demonstrate that the depth and extent of its validation processes are consistent with the materiality of the risk and the complexity of the transaction. Validation can be performed internally or with the assistance of a third party, as long as the validation is conducted by qualified individuals that are independent of the model development or sales functions. An institution should not rely solely on validation representations provided by an AVM vendor.”

In addition to this existing guidance, the Dodd-Frank Act now mandates developing quality control standards surrounding the use of AVMs. Specifically, Section 1125 of the Dodd-Frank Act states:

In general, automated valuation models shall adhere to quality control standards designed to:

- ensure a high level of confidence in the estimates produced by automated valuation models;
- protect against the manipulation of data;
- seek to avoid conflicts of interest;
- require random sample testing and reviews; and
- account for any other such factor that the agencies listed in subsection (b) determine to be appropriate.

These standards will likely be introduced within 2014 and will most likely follow the framework established within the existing regulatory guidance.

The ability and extent to which institutions can utilize these tools in a compliant manner will be determined by the quality of an institution’s AVM program, including the crucial element of model testing and validation by qualified individuals in-house or that of an independent third party.

Lee Kennedy, managing director, AVMetrics LLC

“An institution should establish standards and procedures for independent and ongoing monitoring and model validation, including the testing of multiple AVMs, to ensure that results are credible.”

Office of the Comptroller of the Currency - Bulletin 2010-42
GLOBAL DMS Q&A ON WEB FORMS

Vladimir Bien-Aime, president and chief executive officer of Global DMS, talked with Valuation Review about the role Web forms play in the appraisal space today.

Q. What are some new capabilities we are seeing with Web forms?

A. As technology has evolved over the past five years, Web forms have become more robust, closing the gap on their desktop counterparts. Web forms today support everything from rules validation, common responses, mapping and sketching and integrations. Offline mode is one of the most exciting features to come out in the last several years, allowing users to complete forms when they’re not connected to the Internet and sync up when they are. Another new capability is the ability to import rich data dynamically into Web forms. This feature not only reduces data entry issues, but also improves the accuracy of the appraisal report. The days of retyping comps into the grid or manually completing the 1004MC are history. Some companies have taken this technology further and developed hybrid products that combine automated valuation technology (AVMs) and the appraiser’s expertise. These types of products are becoming increasingly popular since they can be done from the desktop, cost less and can be completed a lot faster.

Q. Specifically, what kinds of forms are most popular in the Web format? Why do you think that is?

A. There are several forms that have seemed to make the leap from the desktop to the Internet. This Web-based approach to delivering these products has grown to become extremely popular with Broker Price Opinions (BPOs), desktop forms, review forms and alternative products like Appraisal Price Opinions (APOs). The first generation form technology didn’t allow saving, so appraisers had to complete all their work in one sitting. These forms are short, typically two pages or less, not including photos, maps, and other addendums. In addition, short forms are easy to develop and convert into Web formats. Short forms are also easy to fill out online. These specific forms also don’t have a real industry standard, which means that they would not be included in the typical appraisal forms package library, making a Web form a very cost-effective alternative.

Q. How can utilizing Web forms help appraisers?

A. Appraisers are constantly on the go. They are in the field doing research, conducting inspections and writing the report. In the past, mobile technologies haven’t really evolved to make the efficient use of mobile appraising a reality. However, with the proliferation of broadband Internet and the speed and adoption of tablets, Web forms have emerged as a serious option for a complete replacement of their desktop counterparts. Use of mobile solutions offers appraisers tremendous efficiencies by not having to go back to their office to write up appraisal reports. The appraiser will no longer need to rely on their desktop. The days of clients calling and requesting quick updates to the previously submitted report while appraisers are in the field will no longer be an issue because they can truly appraise from the field.

Q. How can utilizing Web forms help AMCs?

A. AMCs can leverage Web forms to help appraisers be more efficient, grow their businesses and offer their lender clientele the products they need to suit their risk mitigation strategies and budget. AMCs using Web forms can integrate their solutions to create a complete platform for both managing orders and fulfillment. The appraiser can now receive the order via email and can immediately begin working on the report. Some AMCs even provide data so the reports are already populated to jump-start the process and cut turnaround times. Several innovative AMCs have even developed propriety valuation reports for their lenders for various products like home equity line of credit (HELOCs). These new offerings drive down costs, tighten relationships with clients and increase revenue.

Q. How are these forms helping lenders?

A. Lenders that use Web form technology, or require their AMCs to, have seen significant improvement in quality, a decline in risk and enjoy huge efficiencies in their collateral review process. Unlike many automated review products, Web forms with data entry validation and submission rules address issues upfront on the appraiser side. However, mistakes can be caught earlier in the process before they reach the lender, and progress can be monitored in real time. Some lenders digitize their paper review checklist into a Web form and have data from the appraisal report flow into the checklist to expedite the review process. This type of automation in the review process has seen reduction of effort as much as 50 percent. Furthermore, all the rich data captured via the Web forms fulfillment process can help lenders follow trends in their lending footprint to help mitigate risk.
Q. How do you think Web forms will evolve in the near future?

A. As technology improves, the line between desktop and Web-based forms will blur, resulting in a very rich user experience. We are already seeing these types of monumental leaps with products like Microsoft Office 365 and Intuit QuickBooks online. Incorporating new technologies like HTML 5 now make it possible to drag and drop a photo onto your desktop. You can then move it to a Web-based photo page without any software installed on your computer. This technology is cross-browser compatible, which means you can work with Internet Explorer, Chrome, Safari, on a Mac platform or on other browsers, and you won’t skip a beat.

CLEAR CAPITAL Q&A ON SUBMITTING REPORTS THROUGH THE UCDP

David DeMello, executive vice president and chief appraiser of Clear Capital, talked with Valuation Review about submitting appraisal reports through the Uniform Collateral Data Portal (UCDP).

Q. What do appraisers need to be most mindful of when submitting appraisals through the UCDP?

A. Preparedness occurs long before appraisers submit a report to UCDP. The most successful appraisers recognize that their clients have a tremendous amount of data to consider alongside their appraisal report and anticipate the questions that may arise down the road.

Data selection, accuracy and analysis must always be top concerns for appraisers. Data inconsistencies are often discovered between multiple sources of data (e.g. MLS, tax and assessor records, etc.), and citing which data source is relied on is as critical as ever for appraisers.

Additionally, sufficiently addressing disparities in data is a growing concern. Appraisers will bode well to ensure they are aware of such inconsistencies, rely on the most accurate source and explain with diligence.

In general, appraisers will benefit from respecting the difference between “reporting” and “analyzing.” USPAP requires appraisers to analyze the three-year subject sale history (one-year for comps). Simple reporting is insufficient, especially when historical sales or list prices, trended forward, do not align with the current value conclusion. Sufficient analysis here is critical.

Q. Are there any recent changes in the UCDP that are worth noting?

A. On May 6, Freddie Mac announced the government sponsored enterprises (GSEs) will only accept MISMO XML file formats in the UCDP, which becomes effective July 13. They will no longer accept appraisals in PDF, ACI XML and AIReady formats. Additionally, PDF extraction services will be retired on July 13.

In the same announcement, Freddie communicated that the GSEs will continue to convert several of the current UAD compliance warning edits to fatal UAD edits in the UCDP starting July 13. These include the following fields: subject and comparable address, subject contract date and comparable date of sale/time.

Keeping abreast of announcements related to UCDP submission will help set appraisers up for success, although specific questions should always be directed to the GSEs.

Q. How is today’s technology helping ensure appraiser compliance in submitting appraisals to the GSEs?

A. Appraisal technology, like Clear Capital’s retail version of ClearQC, helps ensure compliance of federal and state regulations as well as any organization’s specific rules and requirements. The ability to analyze data within the appraisal report is more powerful and efficient than ever. Ensuring appraiser information (e.g. license levels, expiration dates, etc.) is consistent between the Appraisal Subcommittee’s records and the report on hand becomes instantaneous, as does consideration of required disclosures and analysis (such as comp, subject sale and listing histories). By automating these checks, potential errors and omissions are highlighted with the most powerful database available, providing appraisers with the opportunity for consideration and correction prior to final submission.
Q. How is today’s technology helping lenders?

A. Technology provides a standardized set of quality and risk data across a lender’s AMC and appraiser clientele which satisfy third-party oversight requirements. Without a standardized way to understand performance, lenders have only a subjective understanding of AMC and appraisal quality, which is typically generated by numerous people who may have different perspectives or views on quality.

Technology does some things really well, and standardization is one of them. The goal of appraisal compliance systems is to shine a light on the best appraisers and AMCs as well as highlight potential areas of risk AMCs and appraisers may need to mitigate. This not only helps lenders with third-party oversight, but also helps appraisers who want to align their quality requirements with lenders. The ability lenders have today to mitigate risk is unmatched. “Trust but verify” may have been a hallmark of loan quality review historically. Now, exhaustive data paired with robust analytics and a deeper knowledge of appraiser behavior has enabled operational efficiencies and quality assurances never previously enjoyed. Faster, better operations mean safer, happier borrowers. That’s good for lenders, appraisers and consumers.

Q. Is there anything else pertaining to appraisal submission to the GSEs that should be noted?

A. Transparency in the way of constructive feedback that is built into an appraiser’s initial report submission builds consensus across the industry. Employing such technology should not be viewed punitively. By establishing rules and ensuring the efficacy of these rules with diligent oversight and updates, users of appraisal technology are aligning processes and standards across the industry.

Ultimately, we (lenders, AMCs and appraisers) all serve the same client — the borrower. The partnership created when lenders, AMCs and appraisers all “buy in” to the same process means increased valuation quality and reduced collateral risk, which serve the borrower well. We are proud to work alongside all of our customers, including Freddie Mac, on this effort and ensure appraisers, lenders, AMCs and borrowers alike are represented ethically, professionally and with common goals in mind.

**MOBILE APPRAISING COULD GET EASIER DUE TO SMARTPHONE TREND**

Appraisers are increasingly relying on their mobile devices to aid them in completing appraisal assignments in the field. Thanks to new smartphone applications that help expedite the valuation process all the way from accepting an assignment to delivering a report, mobile devices are becoming an all-in-one tool appraisers depend on. However, one of the setbacks that industry professionals encounter when using their mobile devices can be the inconvenience of trying to use the small screens that many smartphones on the market have.

According to new data from market research firm Canalys, smartphone manufacturers are starting to cater to the eye-strained masses by making their products’ screens larger, and the public has responded accordingly.

The number of smartphones shipped worldwide with screens five inches or more jumped a whopping 369 percent from the first quarter of 2013 to the first quarter of this year. The larger smartphones accounted for 34 percent of all smartphones shipped.

“The trend is unmistakably toward larger-screen handsets at the high end of the market,” said Jessica Kwee, an analyst at Canalys.

Samsung currently dominates the market for these larger devices. The phone manufacturer held a 44 percent share of devices sold with displays five inches or larger, and a 53 percent share of phones sold with a display five-and-a-half inches or more.

Smartphones with a display five inches or more account for 47 percent of all high-end products on the market (classified as phones with an unlocked retail price of $500 or more). Apple has a stranglehold on the remaining 53 percent of the market, as the iPhone accounts for 87 percent of phones sold with smaller screens.

However, the move towards larger phones is anticipated to be reflected in Apple’s product design in the near future.

“Consumers now expect high-end devices to have large displays, and Apple’s absence in this market will clearly not last long. … Apple plainly needs a larger-screen smartphone to remain competitive, and it will look to address this in the coming months,” Kwee said.