



CLASS VALUATION

MODERNIZING THE APPRAISAL WORKFLOW

A WHITEPAPER



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The topic of modernizing the real estate appraisal workflow has attracted a fair amount of controversy, which is strange given the many benefits every other function in the home financing transaction has enjoyed. The pathway to digital lending is literally littered with positive impacts, for lenders, service providers, regulators and, of course, borrowers.

SO, WHY NOT THE REAL ESTATE APPRAISAL?

The appraisal industry has not advanced at the same rate as the rest of the mortgage market. The current practices provide us with insufficient data or property characteristic insights that are delivered in an inconsistent and non-standardized fashion.

A review of published reports from the field and news covered in the industry's trade press reveal a mistaken assumption, namely that modernizing the real estate appraisal process will render professional real estate appraisers unnecessary. This is simply not true.

Our long experience in this industry, providing collateral valuation via a number of current methods, has convinced us that the real estate appraisal cannot be delivered without the input of a professional appraiser.

Despite any statements to the contrary, professional appraisers aren't going away. But they could use a helping hand staying relevant by keeping pace with the digitization of the mortgage process. In this paper, we'll discuss why the appraisal process must be modernized, the benefits all parties will enjoy when this has been accomplished and a new method that will take the industry in this direction.



THE PRESSING NEED TO MODERNIZE THE APPRAISAL PROCESS

The industry's largest secondary market investors have been working for years now to modernize the way lenders submit information for loans the GSEs plan to purchase, culminating with the recently implemented Uniform Residential Loan Application — something that Fannie Mae says will improve both the lender and borrower experience.

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But what about the professional real estate appraiser's experience? As the Appraisal Institute points out on its website:

“The regulatory structure for real estate appraisal has essentially been untouched since the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”). In the intervening years, the marketplace has changed and technological advancements have been made. Therefore, the Appraisal Institute believes that it is appropriate and timely for Congress to review how well the current relationship of federal versus state responsibilities is serving appraisers, consumers and other market participants.”

It wasn't Congress that responded, but in late December of last year (2020), the Federal Housing Finance Agency (FHFA) issued a Request for Input (RFI) on appraisal-related policies, practices, and processes. According to the FHFA:

“Modernizing the appraisal process has the potential to create a more streamlined and accurate collateral valuation process. But if modernization is not properly adopted, it could have negative, unintended consequences,” said Director Mark Calabria. “Today's RFI will improve FHFA's understanding of how the enterprises can improve the appraisal process while at the same time ensuring they don't take on unintended or inappropriate levels of risk. The comments we receive will inform how we will modernize appraisals to improve both loan quality and the origination process.”



We don't often hear the government speaking about mitigating unintended consequences, but in this case the FHFA's comments are well taken. There are plenty of reasons that failing to modernize now will be detrimental, particularly to appraisers. Consider:

- Mortgage loan volumes have been historically high for more than a year now, with appraisers getting no break from the flow of work.
- As a result, turn times are getting longer, but lenders struggling with intense competition are pushing harder to get reports quickly.
- Appraisers are not getting any younger and recruiting new professionals into the industry is still difficult for a variety of reasons.

Meanwhile, the GSEs continue to push for more collateral data even after ratcheting back the appraisal waivers that kept the industry running during the COVID crisis.

But it's not just investors who are pushing for appraisal modernization. Lenders are also interested in anything that will improve the borrower's experience, speed up the process and reduce costs. Anything that accomplishes these ends will reduce the lender's overall risk and has the potential to increase profitability.

With so many parties intent on modernizing the appraisal process, it stands to reason that any one of them that pushes back on this mandate will eventually be cut out of the process. Banks have already learned that failure to meet the changing needs of their customers will open the doors to nimble Fintech firms who are eager to meet these consumer demands and take the business.

Likewise, it is important that appraisers embrace the modernization process. But what should that process look like in order to maintain the wisdom of the professional real estate appraiser at the center of the collateral valuation function?



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FINDING A BETTER PATH TO APPRAISAL MODERNIZATION

Change management is a difficult proposition under the best of circumstances, but it is far easier if all parties emerge from the process in a better position than when they entered it. What does this suggest for appraisal modernization?

We find four key elements that must be present for any solution to be considered a possibility: it must satisfy the regulators and investors; it must satisfy the lenders and the borrowers they serve; it must satisfy the professional appraisers in the field; and it must take full advantage of the capabilities present and emerging technologies offer.

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1

MEETING THE NEEDS OF REGULATORS AND INVESTORS

Compliance is a top priority for anyone working in the financial services industry. Meeting regulators' needs and requirements is an absolute necessity for any solution to be acceptable.

Federal regulators are very concerned with ensuring the safety and soundness of the industry and the protection of consumers, so any solution must contribute to these goals.

Investors are very concerned with getting all of the information required to correctly underwrite the finance transaction. In addition, since the real estate is the collateral for the deal, it is the investor's only path to loss mitigation and thus a complete collateral file is a requirement of any potential solution.

Because federal regulators and the GSEs are so interested in collateral data, it remains a top priority for them. Any solution must make it easy for the lender to provide this information to these parties. That means the data must be digital, complete, accurate and easy to transfer in a manner that recipients expect to receive it.

2

MEETING THE NEEDS OF LENDERS AND BORROWERS

The cost is not the top concern for the lender, although, it is something that should be considered, especially in an increasingly competitive market. A much larger concern to the lender is speed of delivery and accuracy. The faster the process goes, the better for both the lender and the borrower. However when we work to expedite the process, we cannot do so at the expense of accuracy.

Any real solution must be capable of providing accurate information to the lender to reduce both compliance and underwriting risks. Anything less – only focusing on reducing cost and shortening the loan origination process – is unacceptable.

The solution must be capable of providing accurate and repeatable results. Because modernization will undoubtedly deliver some additional automation, it's very important that mistakes or errors aren't delivered automatically. In other words, the solution has to work, every time.



3

MEETING THE NEEDS OF PROFESSIONAL REAL ESTATE APPRAISERS

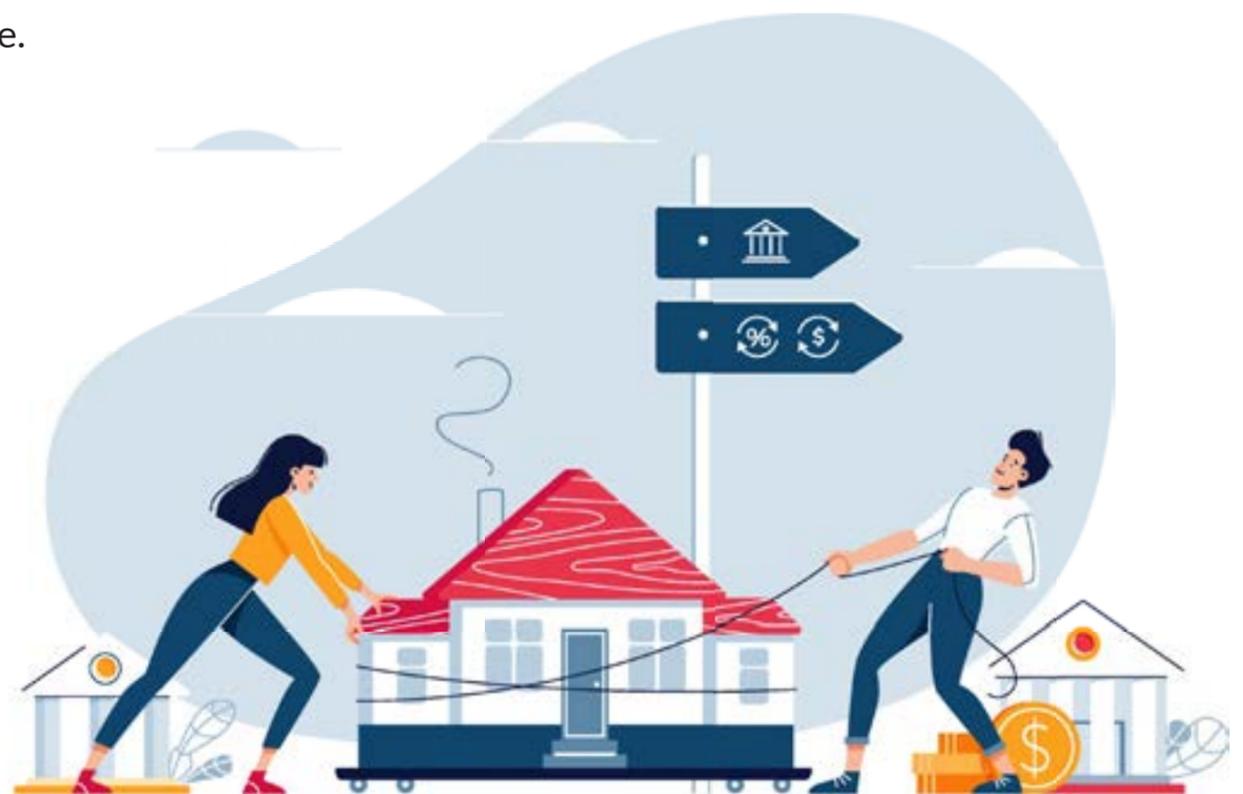
It's traditional to list the needs of regulators first because the cost of non-compliance is so high in our industry. However, the needs of the regulators result in greater pressure on the appraiser community to increase production while compressing cycle-times and improving quality. As such, we would argue that any discussion about modernizing the appraisal industry should center on the needs of the professional appraisers to meet these demands. These include:

- The need to recruit and train new appraisers
- Access to easy-to-use technology that yields acceptable ROI
- The need to increase profitability
- The need to provide reliable, repeatable results

Of critical importance will be satisfying the appraiser's need for greater independence, especially as they approach retirement age. We're not speaking here of independence from influence in the opinion of value, which is also important, but rather the tools that will make it possible to reduce time in the field for those experienced professionals who are finding that work more difficult. This will allow the industry to retain experienced appraisers at the same time new technologies serve to attract younger, new entrants into the field.

Any solution that delivers on these basic needs passes this test. Anything that cannot, should not be considered a true solution to appraisal modernization.

We realize that this makes many proposed solutions, especially those that pretend to offer accurate opinions of value without the participation of a trained, human appraiser, unacceptable.



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MAKING THE MOST OF WHAT TECHNOLOGY OFFERS

Most of the solutions that remain will fail this final test by not taking full advantage of the technology available to the industry today. This can no longer be forgiven now that innovation in our industry has finally become acceptable and technological change has increased to the point that we can now keep pace with other industries.

When it comes to technology for collateral valuation, our industry is very fortunate as we have a wealth of new tools to use and systems to capture and process the data they acquire. Given what is currently possible, we would suggest that no solution be considered acceptable if it doesn't offer all of the following:

- A synergistic process that extends appraiser capacity
- High quality, 2D and 3D imagery of the property with geotagging
- Virtual inspection by interior and exterior 3D tour
- A standardized and duplicatable methodology
- Comprehensive and intelligent reporting tools
- Integrated tagging of assets, features and other observations to automate reporting
- Year, make, and model of major appliances and mechanicals
- Spatial context of any contributing factors, positive or negative
- Highly detailed floor plans to demonstrate functional utility
- Precise measurements of structures
- Complete visual record of the collateral

Appraisers deserve a comprehensive, repeatable, reliable, solution that meets all of these criteria. Fortunately, there is an offering on the market today that passes all of these tests and is not only a suitable tool for appraisal modernization, but an important step in that direction.



A SOLUTION THE INDUSTRY NEEDS NOW

Property Fingerprint from Class Valuation is a solution for appraisal modernization that passes all of the tests described in this white paper and which offers a number of advantages to all stakeholders in the collateral valuation and risk management process.

Using a simple capture device and an iPhone app, a user can easily and quickly capture the entire fingerprint of the property with accuracy that is beyond anything else available on the market today.

The primary benefits to the appraiser are capacity, as the technology allows them to do more in less time and even task assistants, trainees or others to capture the data they need to complete their appraisals; flexibility, as the appraiser can work from anywhere, even an RV in transit or a foreign country; and independence, as the appraiser is finally back in control of their appraisal business and can work it as they see fit, even if they are incapable of visiting the property in person.

Finally, when used properly, the precision, accuracy, and transparency provide a liability shield that protects the appraiser professionally.

In addition, all of the advantages and requirements mentioned in this paper for regulators, investors, lenders and borrowers are met with this product. Further, it offers a clear, fair lending advantage as it can reduce contact between the professional appraiser and the homeowner or buyer, which limits the possibility of implicit or explicit bias impacting the value.



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How to learn more today

Property Fingerprint is available today and in use now by professional appraisers in the field. It is meeting their expectations and increasing both their success and their job satisfaction. It can do the same for your business.

To see exactly how this new product will make a difference in your appraisal business, visit us online at www.classvaluation.com/digital-appraisals and schedule your demo today.



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