Technology and Value

POTENTIAL FANNIE MOVE TOWARD HYBRID APPRAISALS CONTINUES DEBATE ABOUT ALTERNATIVE VALUATION METHODS

- The ongoing debate about the use of alternative valuation products (AVPs)
- The report, which Fannie Mae officials have not commented on, claimed the GSE will be asking appraisers during this pilot to use a combination of local market data and a home inspection(not performed by the appraiser) report to determine a property’s value during mortgage underwriting and processing.
- The move is said to be geared toward saving time and money during the mortgage process.

It is clear to industry participants that the mortgage industry is currently struggling with appraisal delays due to a shortage of qualified appraisers in some market areas.

By utilizing hybrid products, the industry speeds up the appraisal process and results in an overall faster lending process. In states such as Oregon, Washington and Colorado, there is a severe shortage of appraisers; and as a result, they are known to have excessively high turn times. Leveraging these alternative products can help alleviate some of the bottlenecks that will continue to increase over time.

Given marketplace conditions and the shrinking pool of experienced appraisers, some beg the question of will machine replace man? The short answer is no. However, the entire valuation ecosystem is changing and lenders are continually in search of a remedy to keep costs low, maintain acceptable turn times, be compliant and ensure the accuracy of appraisals. Now more than ever, the third of the three Cs is crucial to manage, and the overall appraisal field will certainly get more interesting over the next couple of years. For now, lenders should leverage the appraisal technology solutions that make the most sense for their business, and always keep compliance at the top of the list.

In a bid to cut time and costs from the mortgage process, Fannie Mae is testing whether appraisers can accurately determine a home's value without actually visiting the property.
Instead, the government-sponsored enterprise is asking appraisers to combine local market data with property-specific details from a home inspection to create a "hybrid appraisal" report.

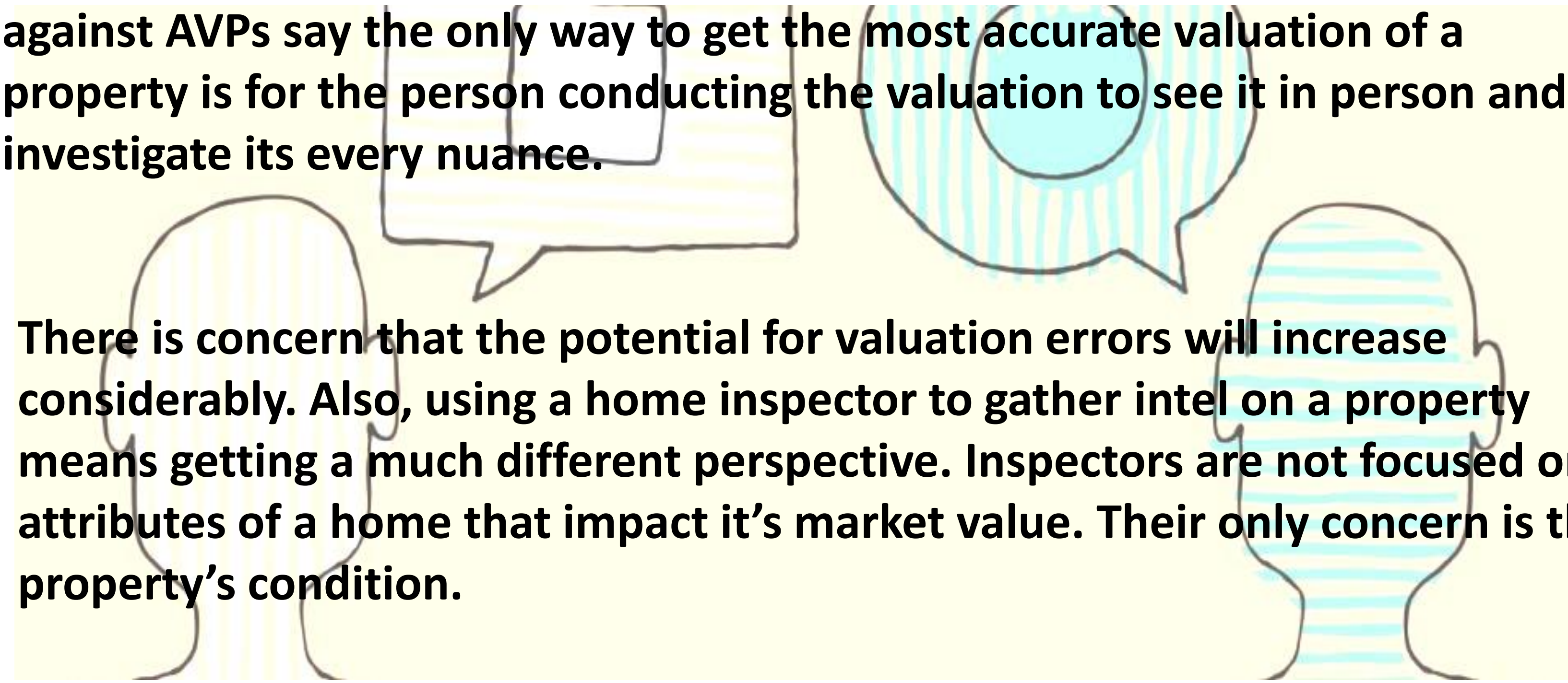
Hybrid appraisals tend to be faster for lenders and cheaper for borrowers than traditional, "full" appraisals, particularly in rural areas and hot markets where there are appraiser shortages, and they are being increasingly used for originations in the home equity marketing response to higher rates, costs and competition.

The pro for the lenders is everything is faster and easier. Really what you are doing there is taking the appraiser out of the drive-time and appointment equation, and allowing them to focus on the analysis and conclusion. An appraiser can do more appraisals per day sitting at his desk.

The disadvantages are obviously it's a different pair of eyeballs out there and boots on the ground writing the report. The guy writing the report can't really know what the other guy saw out there. You don't have a real, true licensed appraiser noticing all those nuances.

As part of the mortgage underwriting process, the value of the collateral securing the mortgage is assessed. Traditionally, an independent property appraisal, based on the appraiser’s research and analysis of the property, has provided an estimated independent opinion of the market value of the property. In recent years, advances in technology and data availability have spurred innovation around appraisals. For example, an automated valuation model (AVM) estimates property value through computerized modeling of a variety of data, as compared to an appraisal report where the estimated value is based on an appraiser’s observation and market analysis.

While mortgage processors likely appreciate the efficiency of AVPs, mortgage underwriters may have a different take. Those who caution against AVPs say the only way to get the most accurate valuation of a property is for the person conducting the valuation to see it in person and investigate its every nuance.



There is concern that the potential for valuation errors will increase considerably. Also, using a home inspector to gather intel on a property means getting a much different perspective. Inspectors are not focused on attributes of a home that impact it's market value. Their only concern is the property's condition.

Where Have all the Good People Gone

- The appraisal side of the mortgage business has been impacted by numerous rules and regulations that changed the way residential appraisals are handled. There are challenges that the appraisal space is struggling to cope with and find solutions for. Namely and most pressing, the pool of appraisers has been shrinking since the Home Valuation Code of Conduct (HVCC) was implemented in 2009 and subsequent stringent rules over the years have had a lasting effect on appraisers and their appetite to remain in the mortgage industry. The problem is growing and some are even terming this worsening issue an impending “appraisal shortage crisis.” Appraisals have traditionally been a less concerning component of the basic foundation for assessing the risk associated with mortgage lending - the 3 Cs of underwriting: credit, capacity and collateral

Currently, the average age of an appraiser is around 60, according to the Appraisal Institute's research. Meanwhile, only 10% of appraisers are under age 35. For that reason, the number of registered, licensed appraisers is expected to continue to drop for the next five to 10 years.

Recent research from the Appraisal Institute shows that the number of active real estate appraisers in the U.S. dropped 4% between December 2015 and December 2016. What's more, the number of appraisers has been declining at an annual rate of about 3% for the previous five years.
What's causing this decrease? As veteran appraisers retire, they are simply not being replenished with new recruits.

The OCC, Board, and FDIC (collectively, the agencies) are inviting comment on a proposed rule to amend the agencies' regulations requiring appraisals for certain real estate-related transactions. The proposed rule would increase the threshold level at or below which appraisals would not be required for residential real estate-related transactions from $250,000 to $400,000. Consistent with the requirement for other transactions that fall below applicable thresholds, regulated institutions would be required to obtain an evaluation of the real property collateral that is consistent with safe and sound banking practices

- Previously, a licensed residential appraiser needed 30 hours of college-level education

- As of May 1, 2018, no college education will be required.

- A certified residential appraiser previously needed a bachelor's degree or higher.

- Now, however, the board is providing appraisers with six possible options of which the most simple is an associate's degree in one of the board's required fields.

Experience		
	Pre April 30, 2018	**Effective May 1, 2018**
Licensed Residential	2,000 hours in no fewer than twelve (12) months	1,000 hours in no fewer than six (6) months
Certified Residential	2,500 hours in no fewer than twenty-four (24) months	1,500 hours in no fewer than twelve (12) months
Certified General	3,000 hours in no fewer than thirty (30) months, of which one thousand five hundred (1,500) hours must be in non-residential appraisal work	3,000 hours in no fewer than eighteen (18) months, of which one thousand five hundred (1,500) hours must be in non-residential appraisal work

2013-2017 National Uniform Licensing and Certification Examination Pass Rates										
	2013		2014		2015		2016		2017	
	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate	# Passed	Pass Rate
LR	317	**43%**	447	**53%**	169	**53%**	175	**62%**	260	**67%**
	137		236		89		108		173	
CR	796	**69%**	1531	**67%**	411	**64%**	402	**66%**	465	**73%**
	552		1033		262		267		338	
CG	407	**54%**	652	**64%**	393	**66%**	407	**71%**	447	**71%**
	220		415		259		287		319	
TOTAL	1520	**60%**	2630	**64%**	973	**63%**	984	**67%**	1172	**71%**
	909		1684		610		662		830	

- Data applies to first time test-takers only
- Because there is no Trainee Appraiser examination, many states require Trainees to take the Licensed Residential exam

It’s yet another sign that mortgage lending is transitioning away from traditional onsite appraisals. While some in the industry say alternative valuations are necessary to deal with the growing number of mortgage originations, others warn that the industry may be sacrificing quality for speed and cost savings.

Proponents of hybrid appraisals and other AVPs point to the dearth of qualified professionals due to the aging of the profession and the lack of newcomers entering the field. If more appraisals can be done without the appraiser traveling to and from a property and spending an hour or more in it, the industry can better meet demand without worrying about recruiting more professionals.

Any Questions, now is the time