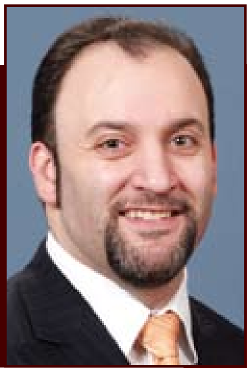

Process Improvement - By Tony Garritano

A Lot Has Changed

Many aspects of mortgage lending have changed recently, none more than appraisals. But have those changes improved the space?

First there was HVCC. Then Dodd Frank and the new Interagency Guidelines. And now there's the UAD and UCDP delivery. Is the appraisal industry any better for the changes? I don't claim to be an appraisal expert, so I talked to leading appraisal experts and asked them to speak candidly when answering questions such as:

What are the causes of the appraisal industry's difficulties?

Are the industry's problems inherent to subjective evaluations or is there something that can be done to gain more objectivity in determining value?

Whose responsibility is it to increase accuracy and reliability in valuations, and what — if anything — can lenders, technologists, appraisers and AMCs do to help elevate the quality in property valuations?

First, I talked to Jeff Bradford, the founder and CEO of Bradford Technologies, creator of appraisal industry software and parent company of AppraisalWorld, a community of appraisers approved to provide the collateral valuation report (CVR), a residential valuation product using regression analysis, about the net-net impact of these changes. I wanted to know if he thought the mortgage industry is better or worse off.

He said, "In general the industry is better off because it's headed in the right direction. But in the short term, HVCC for instance, had a devastating effect on the appraisal profession. Fees were dramatically reduced; long term, trusted relationships were severed and replaced with AMCs (appraisal management companies); and many qualified appraisers left the profession for better paying jobs. The introduction of UAD (uniform appraisal dataset), on the other hand, sets the course for the industry to start focusing on the valuation data and reliability of the valuation. It starts the movement toward data analysis and statistically supported valuations and away from three comparables and a reconciled "opinion" of value, which is major step forward for the industry."

The introduction of UAD, on the other hand, **sets the course** for the industry to start focusing on the valuation data.

Following this exchange I asked Jeff: What are the causes of the appraisal industry's difficulties? He answered, "One could write a book here, but in short, it's the narrow range of appraisal forms and the mass production and standardization of information on those forms, which has basically served to stymie innovation within the industry.

"The GSEs dictate the forms and appraisers have to do the best they can to fit their valuation into the prescribed reporting format. Because an entire industry has been built around the filling, transmitting and reviewing of the forms, it's now almost impossible to deviate—which of course means that it's almost impossible to innovate—outside of the form's framework, even when that would mean producing better, more reliable appraisals."

The people in the trenches when it comes to the new rules are the appraisal management companies. They have to make sure their appraisers are compliant. So, I talked to Jennifer Creech, CEO and president of AMC InHouse, about this issue. I asked her: How is the industry doing in terms of compliance?

She noted, "The first three or four months were tough on appraisers. They didn't understand what to do so it delayed the delivery of the file. Appraisers could create a PDF but they had problems creating the XML. With any new technology there are bugs that have to be worked through. We mandated xml earlier than most and are fully integrated to the portal, so I think we'll be better off. Things will speed up as appraisers get more familiar and we'll also be able to pull more data from the transaction that will enable us to isolate good and bad appraisers."

Greg Reynolds, Managing Director of A-1 Closing Services, an appraisal management company in Dallas, Texas, took a historic approach to the change in the appraisal space. When I asked what caused the mess in the appraisal space to begin with he said, "Let's take a look at the two most prominent housing fiascos in the past 30 years. They have each resulted in sweeping appraiser regulation. After the S&L debacle of the late '80s, the agencies developed FIRREA, which had a significant impact on appraisers – in fact, FIRREA and Title XI were responsible for state appraiser licensing laws. And now, in the wake of the greatest housing crash since the Depression, the agencies, the GSEs, and our national legislature have yet again instituted regulation aimed at "correcting" appraisal deficiencies. In both of these cases, appraisal fraud was only a minor component of the calamity. In fact, in the most recent crash, it could be argued that appraisals bore less responsibility than the rampant appetite for RMBS. In the frenetic heyday of our most recent mortgage fiasco, particularly between 2005 and 2007, the quality of the loans underlying these securities mattered little. As long as loans were pooled and had the rating agencies' stamp of approval, they were sold as fast as they could be bundled. This naturally drove demand for housing to unprecedented levels, which in turn drove home prices up. This kind of demand, spawned in large part by unqualified borrowers being allowed access to funds they shouldn't have, is unsustainable. A significant downturn was inevitable."

On a positive note, all of this change has opened the door for true innovation. Jennifer Miller, President of valuation technology provider a la mode's Mortgage Solutions Division, put things into perspective by saying, "We think technology has been integral in making these shifts possible because the bulk of the changes required the use of technology. Mercury Network is fortunate in that our development staff has tremendous experience in appraisal workflow. That development and industry experience, and our presence on the desktop of over half the nation's appraisers, was critical in being able to deliver the compliance tools our clients need. For example, we are able to raise the awareness that Native XML was hugely important and that a PDF scraping solution wouldn't work. We feel our efforts were successful, and it gave us the opportunity to showcase our reliable, experienced, and innovative technology. So while I think that the effect of the changes are yet to be determined, the role of technology was critical to even implement the changes, and it allowed for us to grow."

Let's face it, the industry has endured many changes over **the last few years.** Any time you have change there is a period where people have to adapt.

In the end, we have to ask ourselves what all this change has meant to the lender. Afterall, they are originating the loans and they're stuck with the buybacks. So get answers to these questions I turned to Betty Graham, SVP of Operations at mortgage lender Fairway Independent Mortgage Corporation. I asked her what she thought of all the changes in the appraisal space.

She responded, "HVCC, I believe was a positive. It allows the appraisers to complete an appraisal without coercion and stress to come up with a value. In terms of UMDP, I'm not sure where that's going to lead us.

"The biggest question is the intent of Fannie and Freddie. We're just waiting to see what they do with all this XML data. But let's face it, the industry has endured many changes over the last few years. Any time you have change there is a period where people have to adapt. We're in an environment where we have to embrace technology. With all these changes technology is what will help us continue to grow and remain compliant."

I agree with Betty, lenders have to automate. And in the end, maybe the new automation will be for the better and improve the whole lending process, we'll just have to wait and see. ❖

Tony Garritano is Chairman and Founder of PROGRESS in Lending. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker. He can be reached via e-mail at tony@progressinlending.com.