

# A New Era In Valuations

Alternative valuations have become a hot topic in the appraisal community with fast-growing demand among lenders and investors alike.

BY JIM SMITH

**T**his may come as a shock to some of you, but according to the Appraisal Institute, the number of active real estate appraisers has been dropping at an annual rate of 3 percent per year for the past five years. Reportedly, this is due to retirements and fewer people choosing appraising as a career.



At the same time, alternative valuations have become a hot topic in the appraisal community with fast-growing demand among lenders and investors alike. Sometimes referred to as AVPs, alternative valuation products blend new technologies with human expertise to deliver faster, more affordable property valuations than traditional appraisers. They have become increasingly popular choices for lenders, servicers and investors. Just last year Fannie Mae and Freddie Mac decided to expand their accepted uses for alternative valuation products to include certain purchase loans.



While many have welcomed these changes, not everyone has. The rising popularity of these products has led to fear among those who believe technology is replacing the traditional appraiser's role. So, are alternative valuation products a rejection of the appraisal norms? Do they belong outside the current system of appraisals? Could they actually cause harm to an industry that has come so far from the depths of the 2008 economic crisis?

Personally, I don't think

so. In fact, most alternative valuation products perform as well as traditional appraisals and actually meet the definition of an appraisal. More importantly, alternative valuation products are a great potential source of new business for appraisers—and they couldn't come at a better time.

#### **A New Type of Appraisal**

One of the biggest misconceptions with alternative valuation products is that they do not include the expertise of a licensed appraiser, which creates an element of risk in the secondary market. The truth is that many alternative valuation solutions were built

however, any of these products can be completed with either the help of a local appraiser or one who lives hundreds of miles away.

For example, when a valuation order is placed, the inspection can be performed by someone other than the appraiser, who is able to gather all the property and market data to form a valuation. The licensed appraiser's role is to then review all the data, including the list of comparable sales that were used and any notes about the property's condition, and determine whether the value is valid. In most cases, these types of alternative valuation products

The process of becoming familiar with the market can be accomplished in several ways.

One is through a **careful analysis of the property and market data.**

specifically to provide a more affordable option to full appraisals while keeping licensed appraisers in control of the valuation decision. And because alternative valuation products have many different uses, they actually increase opportunities for appraisers.

Alternative valuation products are being used on everything from conforming loans to non-QM loans, correspondent lending, warehouse lending and home equity lending. With the technology available today,

actually count as appraisals, as long as they are completed by a licensed appraiser and disclosed to the borrower.

Traditionally, alternative valuation products have been used in the home equity space, since home equity loan valuations need to be supported by a licensed appraiser and delivered much more quickly and at less cost than a full appraisal. But the use of alternative valuation products is quickly spreading to other types of loan origination as well as on warehouse loans and non-

Qualified Mortgage loans.

Servicing has also adopted an appetite for these valuations. While the servicing requirements of some investors still require a traditional appraisal, more and more investors are accepting alternative valuation products, as long as a licensed appraiser is involved. For example, a growing number of investors are using alternative valuation products for conforming loans in which a high credit quality and low LTV ratios are required. Alternative valuation products are also useful for pre-close valuations in cases where a correspondent lender



requires the original appraisal be performed by a licensed appraiser. In these cases, alternative valuations can help lenders that want to save they extra time and cost it would take to get a traditional appraisal.

#### **Limitations and Safeguards of Alternative Valuation Products**

Even though alternative valuation products typically perform as well as traditional appraisals, safeguards must be in place before an appraiser can effectively evaluate a property valuation

long-distance. For example, USPAP states that in cases where an appraiser is preparing a report on a property located in an unfamiliar market, the appraiser must spend enough time to understand the nuances of that market, including local supply and demand and any other relevant factors about the type of property and its location.

The process of becoming familiar with the market can be accomplished in several ways. One is through a careful analysis of the property and market data and any supplemental information that may have an impact on a

properties that have similar attributes and where there is plenty of recent sales data are relatively easy to evaluate. By contrast, alternative valuation products shouldn't be used when there is limited or little available information available. Without good data, it's difficult if not impossible for an appraiser who is not familiar with an area to make an accurate conclusion of value.

Alternative valuation products are also not allowed by all investors or asset classes, which is why it's imperative to understand investor requirements and whether there are any limitations on the type of

**Alternative valuation products are being used on everything** from conforming loans to non-QM loans, correspondent lending, warehouse lending and home equity lending.

property's value. Another is to use an appraiser who is licensed in multiple states and has previous knowledge of the market because they spent time living there.

Of course, there are plenty of instances in which an alternative valuation product is not the best option. Generally speaking, alternative valuation products are best used when the valuation provider has an abundance of data about the subject property and the local market. For example, neighborhoods with

valuation that an investor will accept. Knowing the current condition of a property is critical, as well. For this reason, an alternative valuation product that does not include a current inspection of the property should not be used for non-performing lending, because they will not uncover any recent changes to the property. However, many alternative valuation products do in fact have options to include both an exterior and interior inspection.

## New Opportunities

The biggest challenge facing the appraisal industry is not the increase of technology and automation in the appraisal process, but whether or not we'll have enough appraisers to serve the housing market. The 3 percent annual decline in active appraisers that I mentioned earlier has caused concern throughout the industry.



Critics of alternative valuation products claim the increase in use of alternative valuation products will only speed up the decline in appraiser numbers. Some believe technology will replace appraisers altogether. Because most alternative valuation products rely on the expertise of a licensed appraiser, however, the more frequently alternative valuation products are used, the more business opportunities there will be for appraisers. Another benefit is that most alternative valuation products do not require a licensed appraiser to personally inspect a property, which takes up a good chunk of an appraiser's business expenses.

Alternative valuation

products are also creating new career opportunities for appraisers by giving them more ways to leverage their skills. By playing a role in the alternative valuation products process, an appraiser is no longer just a valuation expert for local home purchases, but also an expert for asset management, investment properties, compliance issues, valuation due diligence and a host of other assignments that can be

their appraiser teams that are far superior than what the average appraiser has access to, which adds value to the appraiser's services.

The bottom line is that alternative valuation products are no more or less risky than other types of valuations—if they are done correctly. They do not represent a rejection of trusted appraisal standards and practices that have guided the industry for years. However, it is up to the users

Generally speaking, alternative valuation products are **best used when the valuation provider has an abundance of data** about the subject property

completed with alternative valuation products.

Besides providing high-quality, supportable values and saving time and money, alternative valuation products can also make appraisers better at what they do. Many valuation providers that offer alternative valuation products (though not all of them) are investing in new valuation tools and data analytics for

of alternative valuation products and other valuation products to understand what they are getting and choose their valuation providers wisely.

After all, we can automate and simplify processes, but only if we are maintaining or improving overall quality. Let's all hope this remains the goal, and endeavor to make it so. ❖

### ABOUT THE AUTHOR

Jim Smith is the president of Property Solutions, part of the Computershare group of companies and a provider of REO asset management, valuation and title services for the mortgage industry. He can be reached at [jim.smith@computershare.com](mailto:jim.smith@computershare.com).

