The Evolution of Appraising and the New Valuation Specialist

These days computer-aided appraising is quite literally transforming the appraisal industry.

By Jeff Bradford

Fifty years ago engineers were solving their structural problems with the help of slide rulers. For those who don't remember, a slide rule looks a lot like a ruler, but it's really a mechanical analog computer. It was used primarily for multiplication, division, and functions such as roots, logarithms and trigonometry. Every engineer had one. Since all problems were solved manually, the slide rule was an essential tool for solving complex problems. That is, until handheld calculators were invented in the early 1970s.

Over the next years 20 years, mainframe computers and then mini-computers (or mini-mainframes) exploded on the scene, fostering the proliferation of specialized engineering software that could solve these difficult and previously unsolvable problems not only quicker but also with greater accuracy. The slide rule and handheld calculators became museum pieces and with advances in analysis software and computing power, the era of "computer-aided engineering" was born.

Engineers embraced the progress. They were finally empowered with analytical power, the likes of which they'd previously only dreamed. Interestingly, rather than rendering engineers obsolete, the technologies of this new era began to spawn specialists in the profession. Engineers started specializing in the new disciplines like computer-aided structural analysis or computer-aided vibration analysis. This new breed of engineer could, for the first time, model structures and bridges while they were still in the design stage. They could simulate the harshest seismic activity ensuring the structures were designed (and built) to withstand the strongest earthquake. Empowered with computer-aided analysis software, these engineers were able to predict how a structure would behave under load before it was actually built. It was groundbreaking. Armed with their computers and software, these engineering specialists soon became indispensable in their profession. The benefits to society were enormous, particularly in the construction, automotive and manufacturing industries.

Today, computers play a major role in virtually every industry we can think of, whether it is computer-aided design for architects, computer-aided manufacturing or even forecasting the weather. All of these industries depend on computers to do what computers do best – crunch data very, very fast. In fact, computers are so prevalent in our everyday life that they are no longer "aides." They have become necessities.

Despite their ubiquity, there are still some industries where computers have only touched the surface. Generally speaking, these are industries that require extensive experience, where the work is considered an "art." One of these industries is the residential appraisal industry. Appraising has long been considered an art form because it requires a person experienced in the "art of appraising" to meticulously inspect every property before rendering his or her "opinion of value." This is similar to the fine art appraiser who renders his or her opinion on the value of a Van Gogh painting. It's also something we would never entrust to a computer.

This is why appraising has remained an "art form." We didn't trust computers to value our homes. So today, it continues to be the cumbersome, paper-intensive process it was twenty years ago, where data is searched manually, spreadsheets are employed sparingly and reports are manually produced using form filling software. This process is by its very nature error prone. And with today's pressure to complete an assignment quickly, the credibility of

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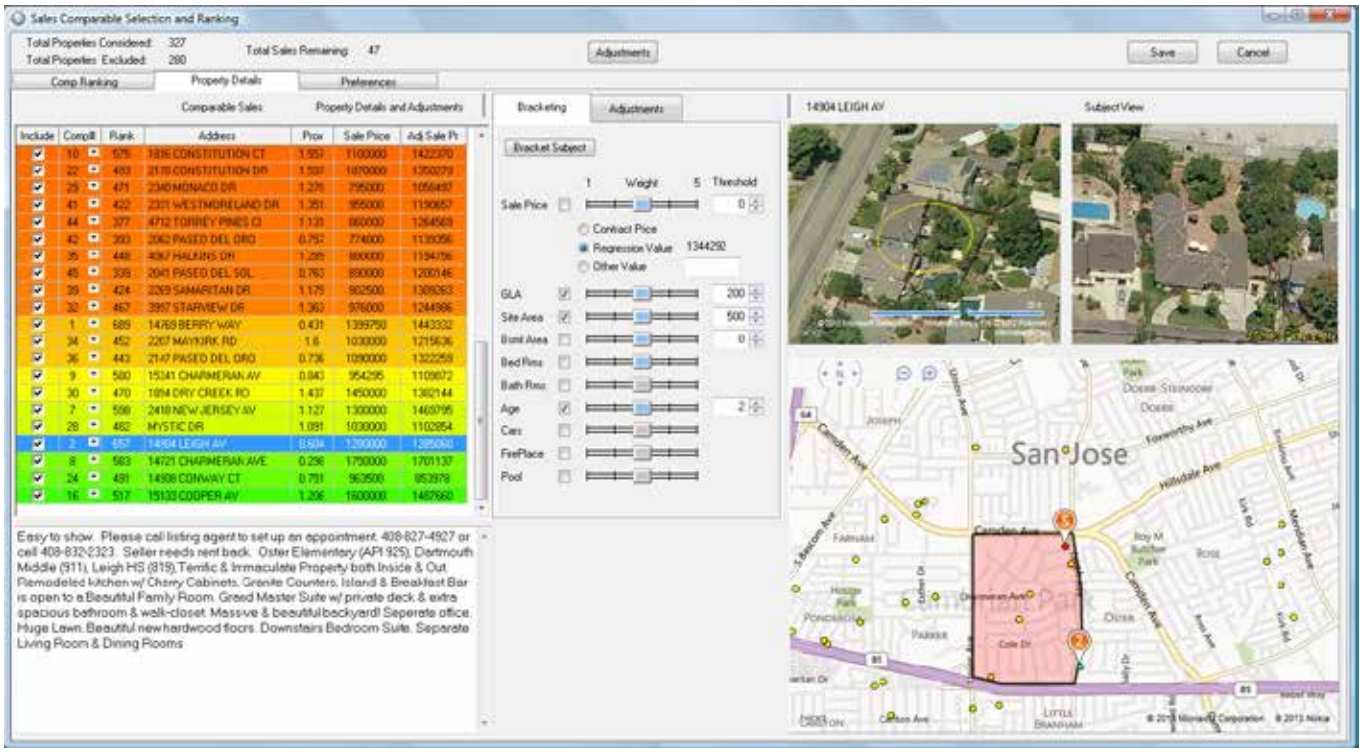

Computer-aided appraising adds science to the selection of sales comparables.

the entire report can come into question when the appraiser's value conclusion is based on a limited and possibly incomplete set of data.

We're living in an age of instant access to data. We have, at our disposal, some of the most powerful computers and analysis tools ever built. Can the mortgage industry continue to accept residential appraising as an art form and endure the limitations that come with it? The simple answer is no.

To the mortgage industry's credit, it has tried to substitute AVMs (automated valuation models) for appraisers. It has tried to substitute BPO (broker price opinion) valuations for appraisers. It has tried combinations of AVMs and BPOs, all with limited success, and all lacking consistent reliability and credibility.

Ours is a world where property valuation estimates are provided instantly by an untold number of Internet companies for free, yet an appraisal for origination can still take weeks. What's more, using an appraisal for default servicing is not even considered. The strangest part of this equation is that there's a solution right underneath our noses. There's no reason appraisals should take as long as they currently do, nor is there reason for opinions of value to be devoid of scientific analysis. The advances in market analysis have come too far to be ignored any longer.

The mortgage industry needs to encourage, or better yet, demand that appraisers move from the "art of appraising" to the "science of appraising" to meet its valuation needs. Appraisers must move into the realm of science and analytics, where statistics and the "most probable value" will guide their value conclusions. Only then will appraisals become more credible, more reliable and more transparent. Only then will they start to meet the needs of the entire mortgage industry.

Adding science to the art of appraising is the first step. The power and speed of computers must also be leveraged to dramatically reduce the time it takes to produce a valuation. The manual searches for comparables must be replaced by the instant access to hundreds of properties and entire markets instantly analyzed for their dominant characteristics and influences on value. Market trends must be calculated and charted and factored into the valuation equation. Specialized valuation tools for every type of market must be available and expertly employed. And lastly, the era of appraisers manually filling out an appraisal form must come to an end.

Computer-Aided Appraising software, similar to that adopted by engineers thirty years ago, must be adopted by appraisers. Bradford Technologies, a provider of this field of software, introduced appraisers and the mortgage industry to computer-aided appraising three years ago with the introduction of the revolutionary Collateral Valuation Report (CVR), which incorporated regression analysis to support the value conclusion. Many leaders in appraising circles are calling it a "game changer."

Today computer-aided appraising software, like that developed by Bradford Technologies, is much more sophisticated. It can now import and analyze hundreds of sales and listings from MLS systems across the country enabling appraisers nationwide to quickly determine market trends and characteristics. Specific modules have

been developed to process the data quickly at every step. Modules such as property geo-coding, similarity ranking, market characterization, and market trending perform their analyses and display their results in seconds. And even though there is much automation, each step is guided by the appraiser's expert knowledge of the local market, resulting in a mathematically supported value conclusion that also accounts for the unique characteristics of the subject property and influences of local market. In short, it is a superior appraisal.

Many lenders may wonder if appraisers –who are used to doing appraisals manually – will embrace this type of software, this analytical way of producing a valuation. They may wonder if the origination and servicing sectors of the mortgage industry will accept "computer-aided" appraisals that are not provided in the antiquated URAR format.

The answer to the first question is a resounding yes. As proof, Bradford Technologies created an online community for appraisers interested in advancing the appraisal profession through analytics. The community located at www.AppraisalWorld.com is now home to over 23,000 appraisers who have registered their interest and desire to utilize computer-aided appraising tools. Many have taken a two-day training workshop to hone their statistical and regression skills.

The answer to the second question is more telling. So far the origination and servicing sectors have not embraced valuation solutions such as the CVR. They continue to rely on a combination of BPOs and AVMs for their valuations in hopes of a cheap, credible valuation or on traditional 1004 appraisals, even with all their issues. In fact, the industry continues to spend millions of dollars building an infrastructure around the outdated URAR appraisal form. Millions more are spent every year reviewing reports, simply to ensure the appraiser filled the form out correctly – those are millions that should be spent helping appraisers produce a better valuation, faster and more economically.

If history is any guide to the future, we will see very sophisticated computer-aided appraising software come into the market. The appraisal profession, similar to the engineering profession will bifurcate into specialists and generalists. There will most likely be property inspection specialists who partner with valuation specialists. The specialists in residential appraising will come to own their market as will the property inspectors. These specialists, empowered with computer-aided appraising software will be able to provide the automated valuations needed for portfolio analysis. They will team up with their inspection specialist counterparts to provide the periodic valuations for servicing, the cost effective valuations needed for HELOCs and the more thorough valuations needed for originations. It will be groundbreaking. These valuation specialists will become indispensible to the mortgage industry. The benefits to society will be enormous allowing consumers to purchase or refinance homes quicker than ever imagined.

Sophisticated computer-aided appraising software coupled with instant access to repositories of "big data" that includes up to date inspection data will completely transform the appraisal industry from one that relies on the "art of appraising" to one that embraces and excels at the "science of valuation."

We've got the tools. Now all we need is for the industry to step up and raise the bar. This revolution in valuation must start with the users of these valuations. Lenders and servicers must start to accept and demand this new level of excellence from the appraisal profession. Only then will the appraiser experienced in the "art of appraising" evolve into that urgently needed specialist who can provide valuations for the entire mortgage industry. ❖

Can the mortgage industry **continue to accept** residential appraising as an art form and endure **the limitations** that come with it? **The simple answer is no.**

About The Author

Jeff Bradford is the CEO of Bradford Technologies. His company has been developing software for appraisers for over 26 years. Previous to Bradford Technologies, Mr. Bradford was extensively involved in designing and developing computer-aided analysis systems for engineers. He has worked at companies such as Apple Computer, FMC Central Engineering Labs and Structural Dynamics Research Corporation. He holds master's degrees in engineering, computer science and business and is a recognized expert in the software and appraisal industry. Today, Mr. Bradford is focused on empowering appraisers with computer-aided appraising technology.