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Solutions to the Shrinking Pool of Appraisers in the Mortgage Industry

2018

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In totality, the mortgage industry still faces many new challenges and uncertainties, as well as emerging opportunities. Everything from addressing new regulations to the actual enforcement of TRID with fines, looming deadlines to implementing the GSEs' new Uniform Collateral Dataset (UCD) in phases, HMDA changes, rate hikes, the digital mortgage craze and so much more – most of the mortgage supply chain has been affected in one way or another.

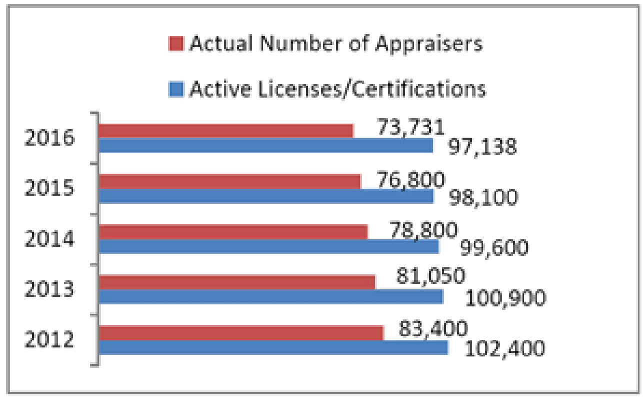
President Trump's appointment of Rep. Mick Mulvaney to lead the CFPB post director Richard Cordray's resignation along with the aid of House Financial Services Committee Chairman Rep. Jeb Hensarling, is creating even more uncertainty. Both congressman have been vocal critics of the CFPB's power to implement and enforce new rules, among other things. Further, the effects of Trump's vow to water down the 2010 Dodd-Frank financial regulatory framework remains to be seen. All of the unknowns and constantly changing rules, regulations and compliance adherence has forced the mortgage industry to respond to these changes in any way it can.

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. Since the mortgage crash, the valuation aspect of the third C has experienced a dwindling number of active appraisers. Fallout from the mortgage meltdown and regulatory pressures from the Dodd-Frank legislation have played a significant role in leaving the appraisal field in a tough position.

Appraiser Marketplace Contraction

Appraiser Population Trends



Data provided by the Appraisal Institute Research Department

Per the Appraisal Institute Research Department, as of December 31, 2016, the number of actual real estate appraisers in the U.S. stood at 73,731, a decrease of -4% from a year ago, which has been an ongoing trend year after year since the mortgage meltdown. In contrast, that number was at 83,400 in 2012. Once the updated numbers come out for 2017, another decline is likely.

Much of this is due to an aging population of appraisers facing retirement, a significant decrease in income, fewer new people entering the appraisal profession, various economic factors, government regulations, and greater use of data analysis technologies. Almost 50% of appraisers are now between the age of 51 and 65.

Compounding matters is that the training of new appraisers has become an issue, as experienced appraisers have exited the space and existing ones are not motivated to train those new to the game, largely due to a lack of compensation for their efforts.

In a survey released by the National Association of Realtors (NAR) in March of 2017, sharpened insight was gained into the current state of appraisers and trending. The purpose of NAR's study was to determine whether a shortage of appraisers exists, and to what extent, as well as to further explore the other issues facing the appraisal profession. More than 2,000 appraisers were polled. According to the survey results, there is definitely a significant issue with getting new appraiser trainees into the field and appraisers are currently leaving the profession with many more planning to leave. Notable is that the average tenure of an appraiser was approximately 22 years, but roughly 10% of respondents said they may leave the field within five years. Frustrations with regulatory burdens and insufficient compensation are the top two reasons cited for a desire to leave.

These issues can result in longer turn times, higher costs, missed rate locks that kill deals, and lower-quality appraisals since more appraisers will have to cross state lines in order to value properties where they may not have familiarity with local areas. Further, growing the pool of appraisers moving forward will be tough. Given market conditions, Millennials who are advancing in their careers and recent Gen Z college graduates are not enticed to enter the appraisal space in some capacity, let alone becoming individual appraisers.

According to the Appraisal Institute Research Department, only 9% of appraisers are between the ages of 26 to 35, and just 1% are younger than 25.

Appraisal Requirements

Under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), appraisals for federally related transactions are required to be performed by individuals who meet certain state-certification or licensing requirements. FIRREA requires lenders to use an appraiser on any federal transaction above $250,000, which in many areas is getting more and more difficult to do. As a result, there isn't any getting away from using an actual appraiser for transactions above $250,000, at least for the time being. The mortgage industry needs to take action now to prevent the problem from worsening. Solutions of varying degrees are currently available to help mitigate the situation, which are outlined below.

Public Solutions

There are several solutions that have been or are in the process of being made available by various agencies in an effort to help with the shortage of appraisers.

Temporary Practice Permits and Temporary Waivers

In response to growing concerns made by federal bank regulatory agencies (comprised of the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency) jointly issued Interagency Advisory Notice on the Availability of Appraisers on May 31, 2017. This notice provided two existing options that may address appraiser shortages, particularly in rural areas: 1) Temporary Practice Permits 2) Temporary Waivers.

These two solutions leverage Section 1122 and Section 1119 of Title XI, respectively, of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Essentially, both of these Title XI Sections provide relief when there is a shortage of area appraisers and/or delays. This empowers appraisers to operate and perform appraisals out of the geographic area in which they are licensed.

But all that this does is empower appraisers to perform appraisals in states that they are not licensed for a specified period of time.

The problem with this is while it broadens the geographic area that appraisers can do business in, it is: 1) An interim solution 2) Appraisers are now operating in areas that they likely do not have area expertise in, thus potentially compromising appraisal quality. 3) The application process to obtain such waivers or permits places the burden of proof on the requesting entity, which requires time and resources to build the case for. This can add up as the problem worsens across different states.

Changing the Appraiser Qualification Criteria

For nearly three years, the Appraiser Qualifications Board (AQB) has been evaluating making changes to the real property appraiser standards in order to qualify becoming an appraiser. In a press release published by the AQB in February of this year, those requirements have been revised, which will be implemented on May 1, 2018. The primary goal of the revisions is to make the criteria for real property appraiser qualifications a more enterable career field. Current information on this topic can be found on the Appraisal Foundation's website: www.appraisalfoundation.org.

GSE Valuation Technology Solutions

Both GSEs have developed technology offerings that yield benefits relating to mitigating the need for a full appraisal in some circumstances.

Fannie Mae's Day 1 Certainty Program

Namely, this program is an attractive option that safeguards lenders from potential buybacks or kickbacks if its Collateral Underwriter® (CU™) system produces a score of 2.5 or lower, thus providing freedom from reps and warrants. But moreover, no appraisal is needed for low LTVs on certain loans.

Freddie Mac's Automated Collateral Evaluation (ACE) Program

Among other advantages, this program waives the need for an appraisal depending on the results that ACE produces, which is based on the use of big data and analytics for appraisal automation. On September 1, 2017, the program was expanded to include purchase transactions for certain Loan Product Advisor® mortgages.

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Proprietary Valuation Technology Solutions

There are a number of different technology solutions that vendors offer to help with valuations. Based on need, some solutions work better than others and at different points in the valuation process. Each can be extremely helpful in avoiding a full appraisal, until such time that it is absolutely necessary. Technology can help lenders with valuations in this new era of appraiser shortage. There are alternatives to full appraisals, but how do they work and how effective are they? Below are options to consider.

AVMs and Data Analytics Products

Automated Valuation Models (AVM) are leveraged by lenders as a tool to determine what a property “might” be worth in order for them to lend against the valuation. AVMs are increasingly being utilized to pre-qualify the borrower as a means to ascertain if the value of the home is reasonable before proceeding with the underwriting process and paying for an actual appraisal. This can dramatically reduce the number of manual reviews, resulting in huge time and cost savings.

Collateral Review Solutions

Collateral reviews are used by lenders to help arrive at the potential valuation risk of a BPO or appraisal report. Using thousands of data points, they automatically analyze an appraisal in real-time for completeness, compliance, consistency with GSE guidelines, best practices and more. This is particularly helpful as appraisers stretch themselves, making it more difficult to maintain quality due to heavy workloads and travel outside their core and competent area of coverage. Automated collateral reviews minimize risk and help ensure the collateral is accurately valued.

Desktop Appraisal Applications

A desktop appraisal is a method of valuing a property with readily available information. With a full appraisal, the appraiser goes to the home and thoroughly evaluates the condition of the property. The allure of desktop appraisals are reduced time frames and costs. Many desktops can be done in 24 to 48 hours while a full appraisals can take weeks. Of note is that a desktop appraisal does not consist of an actual physical inspection of the property. It is done using publicly available information via software whereby the appraiser does not have to leave their desk, hence the use of the word "desktop."

BPO Ordering and Management

A broker price opinion (BPO) uses a real estate agent to perform a cursory drive-by opinion of properties in order to assist in determining the potential price of a home. It is frequently used in default servicing where BPOs are ordered, managed and fulfilled, which can be expedited using technology. However, by no means can this replace an appraisal, but it still helps cut down on costs and turnaround when full appraisals are not needed or required.

Hybrid Home Valuations: an Evolving Industry Standard

Hybrid home valuations are appraisals that combine features to offer robust products that do a solid job of appraising a property without incurring the cost of a complete appraisal. These alternative valuation products come in many different flavors, and one common type is an AVM coupled with an inspection.

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. This model has resulted in partnerships with appraisal management companies (AMCs) and enterprise valuation management software providers whereby they collaborate to provide technology solutions that bring hybrid products to life and into the hands of appraisers working in the field. A hybrid approach enables technology providers to collaborate with both lenders and AMCs to develop comprehensive web-based forms that are concise, digital, accessible and auditable. These integrated forms can efficiently merge data from multiple sources like MLS, AVM and property condition inspector data, providing an easy auto form-fill system for reconciling and digital sign-off by the appraiser. These types of products can typically be completed between two and five days.

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.

These hybrid-based products will likely grow in popularity and be enhanced in the future as they are provided in days, not weeks, have low risk and costs, and are very accurate when used in major metros with homogeneous housing profiles.

Lenders now have an alternative option to expedite the collateral valuation process that can help reduce their frustrations in certain areas for certain loan products. As an example, home equity lenders typically leverage AVM reports for HELOC products, but also include a property condition report (PCR), which is a physical inspection of the property conducted by virtually any designated professional they assign. A lot of lenders opt to use AVMs in conjunction with a property inspection report so they can avoid a full appraisal.

Enterprise Valuation Management Platforms

Valuation management platforms are comprehensive in nature and can be customized to automate a lender's entire valuation process, seamlessly tying in all of the aforementioned solutions from a centralized application via tight integrations. They accompany a workflow engine and sophisticated business rules that streamlines the valuation process from start to finish. These platforms also integrate with the lender's loan origination system (LOS) to ensure data integrity, maximize productivity, reduce costs and maintain compliance at all times.

Looking Ahead

With enhanced data now available, it is much easier to arrive at a collateral decision that is low in risk. At Global DMS, we expect to see a greater use of automated valuation models (AVMs) in conjunction with other collateral evaluation tools for the advancement of property valuations.

All this goes back to the importance of the second C – collateral. As a lender, what deal am I getting into? What is this asset really valued at? How accurate is it?

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.

About Global DMS

Founded in 1999 and headquartered in Lansdale, Pennsylvania, Global DMS is a leading provider of commercial and residential real estate valuation solutions catering to lenders, servicers, AMCs, appraisers and other real estate entities. The company's solution set is cost effectively delivered on a software-as-a-service (SaaS) transactional basis that ensures compliance adherence, reduces costs, increases efficiencies and expedites the entire real estate appraisal process. The company's solutions include its EVO-Commercial™ System, eTrac® Valuation Management Platform, eTrac Web Forms, Global Kinex®, AVMs, the MISMO® Appraisal Review System (MARS®), ATOM (Appraisal Tracking on Mobile), and AMCmatch.com.

For more information, visit the company's web site
www.globaldms.com or call (877) 866-2747.