APPRAISAL TODAY

May 2017
Index

Fannie Fiction and Fact: comp selection, adjustments, market conditions, appraisal resubmissions, and lots more info, including AQM and Risk Scores.

Source: Fannie Mae Update, Collateral Policy and Technology Guidance for Appraisers webinar, March 29, 2017, sponsored by Valuation Management Group

Fannie has been making more presentations to appraisers, both in webinars and by speaking at conferences. We all hear "this is what Fannie says" from clients, but this may, or may not, be correct. I attended this webinar and took notes. Definitely worthwhile, if only for the Q&A section.

Fannie Mae presenters:

- Julie Jones - reviewer at Fannie, then moved to Policy and Strategies
- Jeremy Staudenmaier - 3 years at Fannie, previously fee appraiser

What is appraisal quality?
"Accurately describe the subject property and market conditions to then accurately analyze marketability and value."

Why is appraisal quality important?
"Correct and complete data is essential to establishing an accurate value.
- A misleading appraisal impedes the underwriter's ability to make a sound decision.
- Poor quality undermines the appraiser's credibility, casting doubt on his/her body of work.
- Current market conditions mask collateral risk.
- Analysis of historical data suggests correlation between overvaluation and risk of default."

How many appraisal messages are sent by CU?
Roughly 80% of appraisals populated less than three messages per appraisal last quarter (Quarter 4 2016).

% of	Number of Appraisal messages
28.9%	0
30.6%	1
20.0%	2
10.8%	3
5.3%	4
4.4%	5

What types of messages are sent?
The most messages are about Adjustments and Data Discrepancy. % of

Appraisals	Type of message
47.5%	Data Discrepancy (i.e., sq.ft. differences)
9.8%	Comp Selection
42.9%	Adjustments
1.3%	Reconciliation

AQM (Appraiser Quality Management) Overview

Objective of AQM

"The objective of Fannie Mae's Appraiser Quality Monitoring initiative is not to put appraisers on the AQM list, but to improve appraisal practice within the industry."

What actions have been taken?

Fannie Mae began communicating externally to appraisers in December 2013.

Since December of 2013 over 3,500 education and training letters have been sent directly to appraisers.

After a six month monitoring window approximately 93% of appraisers have improved their performance on the issue noted in the training letter they received.

Approximately 10% of appraisers contacted have responded via email or snail mail with comments, questions, or concerns.

Most of the responses to the training letters have been neutral or positive.

Example of AQM Impact - Property condition - self discrepancy frequency

Appraiser warning letters have dropped substantially since July 2014, as appraisers became aware of the issues.

Over time, between July 2014 and April 2016, the numbers of letters dropped from almost 14% to 4%. The number of appraisers with no letters sent has dropped from 6% to under 3%.

COMPARABLE SELECTION

FICTION

- Comparables must be within 6 months.
- Comparables must be within 1mile.
- Comparables must be within+/-10% of the subject's GLA.

FACTS FROM THE SELLING GUIDE

"Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales."

"Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible.

"There are no specific distances referenced in the Guide.

Comps should have "similar physical & legal characteristics when compared to the subject. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition".

How does CU™ analyze comp selection?

CU considers date of sale, location, and physical similarity of comparables. The significance of each factor-as well as the significance of each individual physical attribute- is model-derived and market-specific.

The appraiser's comps are ranked against other known sales in the area - not against arbitrary guidelines.

ADJUSTMENTS

FICTION

Line adjustments cannot exceed10%.
Net adjustments cannot exceed 15%.
Gross adjustments cannot exceed 25%.

FACTS FROM THE SELLING GUIDE

"The appraiser's adjustments must reflect the market's reaction to the difference in the properties." Failure to make market-based adjustments is noted as an unacceptable appraisal practice.

"The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment."

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties.

How does CU™ analyze adjustments?

CU performs regression analysis using millions of property transactions to produce statistically-derived and market-specific adjustments for time, physical attributes, and location.

Appraiser's adjustments that are significantly different than the model and their peers are flagged by CU and contribute to the overall CU Risk Score.

MARKET CONDITIONS

FICTION

Fannie Mae will not acquire properties in declining or over-supplied markets.

Fannie Mae requires explanation when the subject is higher than the predominant neighborhood value.

Fannie Mae will not accept positive time adjustments in appreciating markets.

FACTS FROM THE SELLING GUIDE

"Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas". There are no specific requirements for declining markets except to make time adjustments to comparable sales when appropriate.

"The appraiser must provide the predominant value as a single value or a range." No other requirements apply.

"Adjustments may be either positive or negative depending on the market changes over the time period analyzed."

How does CU™ analyze market conditions?

The CU risk score reflects property eligibility, the appraiser's opinion of value, and the methodology used to arrive at that opinion of value. Properties in markets with over-supply or declining property values are not more likely to receive high risk scores so long as the appraiser chooses appropriate comps and makes appropriate adjustments.

APPRAISAL RESUBMISSIONS

FICTION

Collateral Underwriter® assigns higher scores to appraisals with multiple submissions.

Fannie Mae targets appraisals with multiple submissions for post-acquisition review.

Fannie Mae places appraisers on the AQM list if their assignments have high re-submission rates.

FACTS

CU analyzes each appraisal submission independently. The number of submissions in no way affects the CU score.

Fannie Mae uses the last appraisal submission as the document of record and only uses CU findings from that submission as a factor in our discretionary QC selection.

Fannie Mae in no way discourages lenders or appraisers from making necessary corrections to appraisal reports and resubmitting to UCDP.

Fannie Mae encourages lenders and lender agents to submit to UCDP as early in the process as possible to retrieve CU results and incorporate them into their quality control processes.

RECOMMENDATIONS FOR APPRAISERS

Know that reliance on arbitrary guidelines may have unintended consequences

Appraisers, AMCs, and lenders have long-relied on many "rules-of-thumb" to determine quality. Compliance with these rules-of-thumb does not necessarily guarantee an accurate valuation or well-supported appraisal.

Take necessary steps to ensure accurate and consistent data for the subject and comparables

Double check sales prices and property attributes with MLSdata, public records, and other available resources. If you use comparable sales in multiple reports, be sure data is accurate and consistent with prior reports.

Don't let your MLS search obscure your view of the market.
Understand that an overly-restrictive search in MLS may fail to yield all relevant data points that are necessary to inform your market analysis, comp selection, and opinion of value.

Make market based adjustments for time, location, and property attributes
Remember that failure to make market-based adjustments is a violation of Fannie Mae policy. Adjustments should be based on statistical analysis and reflective of the market's reaction to differences in the properties.

Provide your clients with thoughtful commentary and responses

Avoid reliance on canned commentary and defensive responses to lenders' questions. Thoughtful commentary and exhibits can reduce further requests for correction and clarification.

Q AND As

Note: one of the presenters said she reads appraiser blogs and sees misinterpretation of Fannie guidelines.

Accessory Dwelling Units

This is a "tough one". Presenter Jeremy Staudenmaier said he sees this a lot. Fannie does lend on them, but wants 1 comp with an ADU. If the ADU is not allowed/illegal, contact the zoning department. See if there is a conditional/special use permit. Fannie may have policy changes on ADUs to make it easier for lenders and appraisers, but details are not available yet. Fannie looks for permitted use, done in "workman like" manner.

Client confusion over Risk Score vs. appraisal quality

Fannie has had extensive training with lenders but can only provide guidance to them. Higher risk scores require a more comprehensive appraisal review. Fannie buys loans with any risk score from 1 to 5.

Public records data discrepancy

Editor's comment: Always address this discrepancy in the appraisal. Don't be one of the unethical appraisers who makes their drawing match public records sq.ft. As we all know, public records is not always reliable. Also, 5 appraisers measuring the same house would not all have the same sq.ft. due to rounding, such as to the nearest ½ ft. vs. measuring to the nearest tenth of a foot.

GLA much larger than peers and public records could be a red flag.

Lender can look at permitted additions in the appraisal report.

Fannie pools all their data and must have a consensus of peers before firing a data discrepany message. There is a "high bar" before it is flagged as a data discrepancy.

How can appraisers get access to CU data?

Fannie has no plans to allow appraisers to get CU data. They want independent opinions, independent of other opinions. Why accept an appraisal on a complicated or rural property if their will be a higher risk score?

Risk level 5 does not mean a bad appraisal. Typically lenders in rural and other markets are used to high scores. CU is very forgiving in rural areas.

CU does have problems with such characteristics as large barns, equestrian properties, etc. and may be less predictive on the risk score. If you do these types of properties, just accept that extra work and/or questions will happen.

Get the underwriter to focus on what is important.

What if Q or C is changed in subsequent appraisals?

If the property is not changed, assume it is a typo. If appraised before, include discussion and photos of the renovations. There is limited information in CUs other data sources such as MLS.

Do lenders ask for revision requests to get lower risk scores?

60% of Day 1 Certainty submissions have a score of 2.5 or less. Sometimes scores go down or down. Resubmission rates are dropping, a slight decline since it started. Fannie expects more declines.

Where to get more information

Go to Fannie's Appraiser web site: www.fanniemae.com/singlefamily/appraisers . Sign up for Fannie's appraiser email updates. I always have any changes in my free weekly newsletter, very soon after they are available.

Notes from recent Appraisal Institute Fannie Mae Webinar (4/24/17).

Many of the slides from the earlier webinar, discussed in this article, were used. But, the webinar was more recent and Zach Dawson of Fannie was the presenter. He is more familiar with Fannie policies than the lower level presenters at the March seminar. I did not have time to write much about it before my deadline for this newsletter issue, but have included some of my notes below.

- Data discrepancies. Each comp is seen 6-7 times on average. They look at whether the same appraiser used the comp more than once. For example, the appraiser says the GLA is 2,000 sq.ft. and 6 other appraisers say 2,500. They look at GLA, Bedroom/bath counts, and C/Q. There is a lot of discrepancies on C/Q. They strongly recommend using absolute, not relative. More appraisers are doing this correctly now.
- Comp selection. When appraisers use limited criteria, such as dates of sale and sales price, they can make serious errors. For example, the appraiser put in this comp search criteria in the appraisal: sales up to 6 months old. An identical comp that was 7 months old is missed that sold for $10,000 less. Don't "over-engineer" your searches.
- Resubmissions have been declining, especially since last December when Day 1 Certainty (mostly related to automation of borrower data such as income, investments, etc.) started. And, recent Fannie policy changes stating that the appraiser does not have to resubmit the appraisal with minor changes also will decrease submissions. One AMC said 25% of the purchase appraisals had to go back to the appraiser for minor changes that did not affect value, such as change from $6,100 to $7,200 in closing costs. When CU first started, many underwriters were still using "rules of thumb" such as 6 months, etc. Fannie has been training

them.

Next month's newsletter will have lots more information from this more recent webinar. Topics such as C3 vs. C4, form redesign, adjustment support, shortage in specific states, appraisers getting CU data, and the future.

Fannie Mae allows Trainees - will it make a difference?

Alan F. Simmons, SRPA, CDEI

Editor's comments: For decades Fannie has allowed trainees to do appraisals. Definitely trainees were allowed prior to 2008 during the mortgage broker days. When I started my business in 1986, Fannie had stopped issuing Fannie numbers to approved appraisers and may have not allowed trainees previously.

FHA has never allowed appraisers not on the FHA Roster or Panel to do appraisals, even if there is a co-signer. They started allowing only certified appraisers after the mortgage crisis.

Why do so many lenders not allow trainees to sign on their own? One reason is that if a loan changes from conventional to FHA, a new appraisal may be required. This means more cost to the borrower. More important, it takes more time to close the loan, which lenders don't like.

Also, after the mortgage meltdown, many lenders did not want trainees used as they are more risky than licensed appraisers. Investors, who purchase the loans, may not buy them if a trainee does the appraisal.

Will this change under the current Trump administration? No one knows. But, there is no federal regulation requiring the use of licensed appraisers, except for FHA loans.

Fannie Mae made a clarification with their Selling Guide Announcement SEL-2017-01, dated January 31, 2017. It is entitled Property Inspection by Appraiser Trainee and says "We have clarified our existing policy that allows an unlicensed or uncertified appraiser, or an appraiser trainee to complete the property inspection. When the unlicensed or uncertified appraiser or appraiser trainee completes the property inspection, the supervisory appraiser is not required to also inspect the property."

Let's start at the very beginning, which as Maria Von Trapp sang, "is a very good place to start."

At the bottom of all the Fannie Mae forms are two columns: the one on the left is entitled APPRAISER, and the one on the right is entitled

SUPERVISORY APPRAISER (ONLY IF REQUIRED).

Who is the appraiser?

The Fannie Mae Selling Guide says "Fannie Mae's appraisal report forms identify the appraiser as the individual who

• personally inspected the property being appraised,
• inspected the exterior of the comparables,
• performed the analysis, and
• prepared and signed the appraisal report as the appraiser." (Section B4-1.1-03, Appraiser Selection Criteria)

As we know, according to USPAP, an appraiser does not have to inspect the subject property at all; and in many cases does not. In ADVISORY OPINION 2 (AO-2), Inspection of Subject Property, it states "The extent of the inspection process is an aspect of the scope of work, and may vary based on assignment conditions and the intended use of the assignment results. While an inspection is not required, appraisal reports for real and personal property must contain a signed certification which clearly states whether the appraiser has or has not personally inspected the subject property."

An assignment condition with Fannie Mae does require a physical inspection (interior and exterior) of the subject property. Then the "Appraiser" must sign the form and complete the signature block information on the left sign of the appropriate Fannie Mae form.

The revised Fannie Mae Selling Guide now States:

"Appraiser Trainee: Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so).

If an unlicensed or uncertified individual provides significant professional assistance, he or she must sign the left side of the appraiser certification as the Appraiser if:

• he or she is working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
• the right side of the appraiser certification is signed by that supervisory appraiser, and
• it is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term 'Trainee' should be entered in the 'Other' field in the Appraiser Certification section." (Section B4-1.1-03, Appraiser Selection Criteria).

Please realize, however, that licensing requirements are set by each

individual state. Check with your state to identify requirements there.

For example, in Colorado their state Division of Real Estate says:

"When an unlicensed person signs on the left side of the form, it is important that the client and other intended users are not misled. Since Colorado does not have a credential for "trainees" the unlicensed person should include commentary in the appraisal report stating that they are unlicensed. The licensed or certified appraiser signing on the right side of the form should check one of the boxes to indicate whether or not they inspected the subject property. If they did not inspect the subject property, the licensed or certified appraiser must check the "Did not inspect subject property" box so as to not be misleading. Commentary should be included in the appraisal report which states:

• That the 'trainee' is unlicensed.
• The extent of the significant real property appraisal assistance provided by the unlicensed person. This is necessary for the Division to determine if the unlicensed person has obtained acceptable experience in the appraisal process.
• The name or names of the person(s) who performed the inspection of the subject property.
• That the licensed or certified appraiser believes that the unlicensed person who performed the inspection is competent to do so and has no reason to doubt that the work of this person is credible."

About the author

This article was provided by Alan F. Simmons, SRPA, CDEI and McKissock course author (www.mckissock.coom).

He lives and works in Colorado Springs and has taught in 45 states.

He has authored more than 30 classroom courses and over 50 distance education courses.

Last minute trainee update from the editor

At a recent Appraisal Institute Fannie Mae Webinar (4/24/17), Zach Dawson of Fannie Mae said they did not have much data on whether trainees had signed on appraisals.

They have a data point, but it was not standardized (specific data choices/requirements). Their very preliminary analysis shows no difference between trainee vs. licensed/certified appraiser.

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The Cutting Edge and User Friendly Way to Schedule Home Appraisals is Now Here… Are you ready?

by R. Wayne Pugh, MAI, CRE, FRICS, CCIM

EXOS for Appraisers

If you've ever wished you had more time to accomplish your goals and increase your productivity, you'll love the new EXOS application. It's designed to save real estate appraisers significant time scheduling appointments as well as recognizing and rewarding your performance.

ServiceLink is rolling out a new mobile and desktop application that will save you tons of time and increase your business. In fact, EXOS is already getting lots of interest which will only increase over the next several months.

Redefining how appraisers and clients work together.

Here's how easy it is. Appraisers who participate in the EXOS technology upload their availability, and EXOS displays to customers the dates and times that qualified appraisers are available - starting with the very next day. With one easy click, appointment confirmation and appraiser assignment occur simultaneously.

Appraisers can create custom regions within EXOS by defining the area you cover per zip code, allowing you to control when you are available in certain locations to maximize your potential for appraisals in the same area.

Once the customer chooses a convenient time, that's it…no phone tag or wasted time, just a quick and easy scheduling process.

EXOS provides the customer(s) with the appraiser's information such as make and model of car and photo of the appraiser, after the appointment date is selected and confirmed. This information allows the customer to verify the appraiser's identity .The EXOS application also helps the customer through the process by supplying important information regarding the appraisal process.

Everything you need...right at your fingertips.

A variety of property details and additional information are also supplied to the appraiser within the app.

To ensure EXOS app will be well received by industry professionals, the development team relied heavily on the advice of real estate appraisers and other professionals during the development and testing phases.

Designed to enhance and simplify your current business.

EXOS allows appraisers to set their own schedule, establish their own fees, and automate administrative tasks, at no cost or obligation to the appraiser.

Benefits to The Appraiser

Eliminate Phone Tag

EXOS gives appraisers the ability to control their own work schedule, and work more efficiently with virtually no interruptions.

Access to Property Information

EXOS provides access to property information to help with the research process.

Reduces Phone Tag with Clients

With the information in EXOS, the appraiser will spend less time answering inquiries from their client. This is further enhanced through the apps use of in-app chat, text, and email.

Get Paid Faster

EXOS accelerates payment and pro vides the ability to track previous payments.

Access your Performance Metrics

EXOS provides the appraiser access to the performance metrics to better manage their practice.

Personalized Calendar

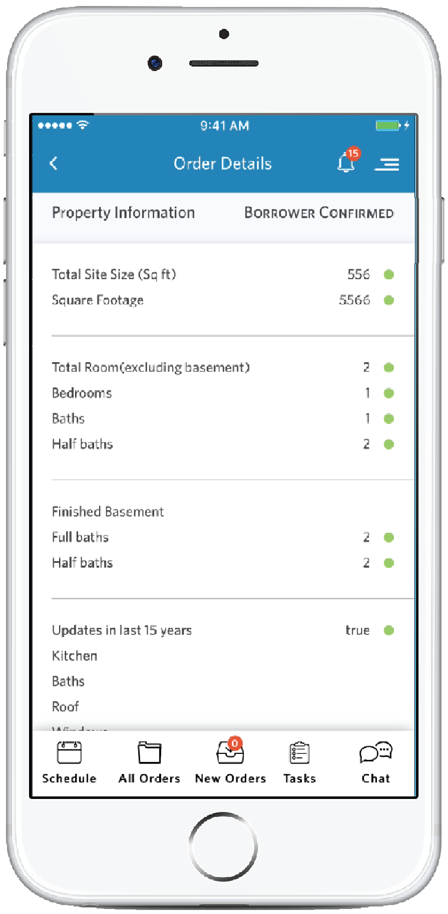
Mobile scheduling capabilities offer appraisers the utmost convenience to set their own schedule, receive order details and see instant updates. This calendar syncs with all leading calendar platforms.

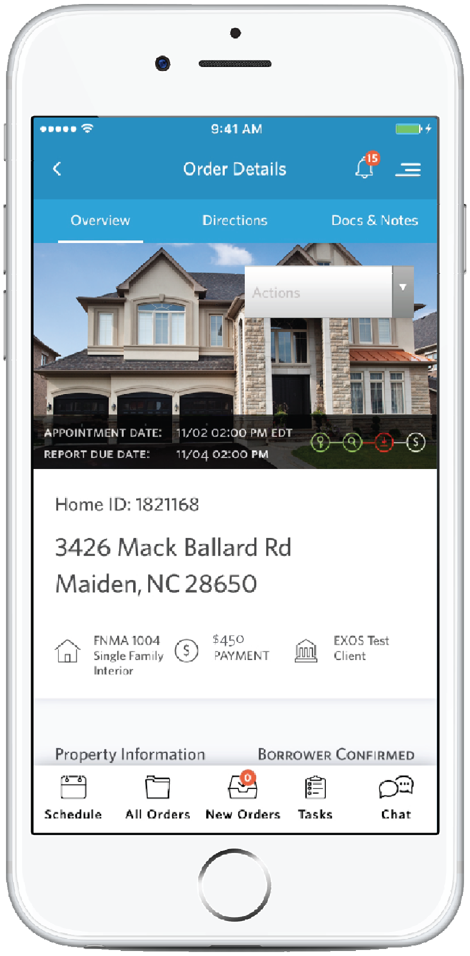
Real-time Notifications

EXOS offers communication tools that provide alerts, reminders and notifications to keep track of appointments and deadlines.

Professional Profiles

With the EXOS Scheduling app, customers can view appraiser information after the appointment date is selected and confirmed., streamlining communication and offering peace of mind.

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Directions
Docs & Notes
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REPORT DUE DATE: 11/04 02:00 PM
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Maiden, NC 28650
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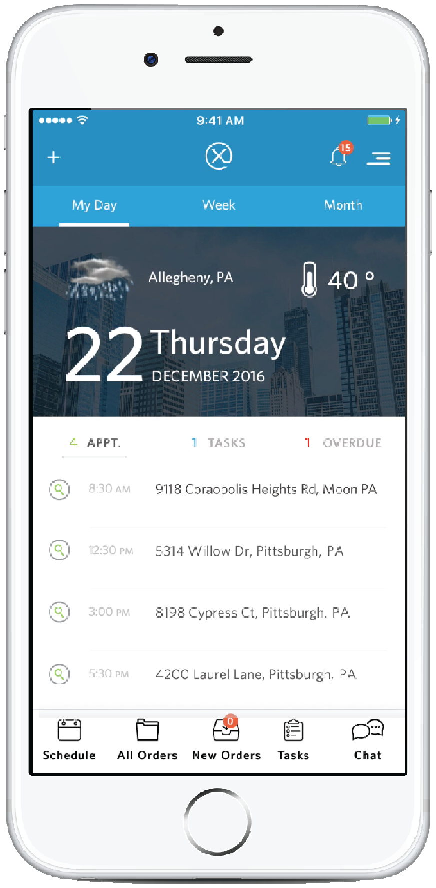


EXOS Recognizes Performance, HUGE!

EXOS provides lenders with access to an expanded virtual community of appraisers, each technologically vetted with systemic rules, to help ensure the right appraisers are available when needed - every time. EXOS will drive more assignments to the most qualified appraisers.

Should an appraiser use EXOS to schedule all their appointments, EXOS will use the location of your event to find other assignments adjacent to your event location based on logistical configurations for your market as well as your availability.

Choosing an appraiser based on competency and geographically aggregating assignments are two HUGE steps in the right direction for real estate appraisers. others

ServiceLink debuted EXOS to a handful of markets in 2016, and it will launch across the country in more markets this year. Check it out at www.exostechnology.com/.

About the author

R. Wayne Pugh is a past international president of the Appraisal Institute, former Chair of the Louisiana Appraisal Board, and the current CEO of R. Wayne Pugh and Co., a real estate valuation and advisory firm he founded in 1975 in Baton Rouge, Louisiana.

Mr. Pugh also heads Software for Real Estate Professionals Inc., and is a principal member of Real Estate Counseling Group of America (www.recga.com), a national organization of analysts and academicians founded by the late William N. Kinnard, Ph.D.

Appraisal Today! No Appraisal Tomorrow?

by Barry Bates

Editor's notes: I have known Barry Bates for 30 years and he has always been very amusing and outspoken. Barry wrote for Appraisal Today a few years ago, but used a pseudonym as he was employed. As a 45-year appraiser, he has been a chief appraiser at various large lenders, and an investigator with an appraisal state regulator, etc. Now, he is retired and can write what he wants!!

Barry is now a regular contributor to Appraisal Today. He had some very interesting footnotes, but inserting them as "(Author Side Note)" worked out better for newsletter formatting.

This article focuses on AVMs. Future articles will focus on other controversial appraisal topics.

As I look back on my checkered appraisal career, and try to reenter the real estate media arena as an observer, there's one issue that I think residential appraisers should think very hard about: market appraisal volume. There's a very good chance that it may drop 60% or more over the next 10 years.

I don't think that "resi" appraisers necessarily need to immediately go out and get FAA drone pilot licenses, get certificates in Web coding, or have part of their brains removed so they can learn to sell, but the time to "repurpose" your daily work is NOW.

There's not only an 800-pound gorilla of an automated valuation model (AVM) breathing down your neck, but the greed that fired the 2008 housing meltdown has permeated more areas of the economy, not fewer.

The first time I lost patience with The Big AVM Question was when I was speaking at a mortgage conference. My memory is getting a little fuzzy. Well, actually, at 71, my memory's still okay; I just don't have any recall. Anyway, personal records indicate that it was in 1997; or 2005; close enough, but probably 1997, when I was leaving the frying pan (The Money Store, Chief Appraiser) and heading for Disneyland (First American, Western Regional VP, Data and AVM Sales) before returning to the fire for more purification (Ameriquest Mortgage, Chief Appraiser), then to the cauldron of residential mortgage-backed securities (Morgan Stanley, Property Valuation Manager, RMBS, just in time for Armageddon).

The False Start of the AVM Revolution

I remember being pretty excited, like a true geek, about what I believed to be the eventual takeover of residential valuation by AVMs; I just saw it as a way for appraisers to do more of the work they liked (full appraisals for full fee) rather than the stuff they didn't (reinspections, BPOs, desktops). By the very late 90s, I had spent a couple of years as a regional sales VP for First American (average job length over a 45-year career: 26 months), which was already selling an indexing AVM (HPI) and hedonic AVM (ValuePoint) to lenders, with the argument that they'd be great for loan origination as IAG "evaluations" or for high-credit home equity products.

The market didn't buy the idea at the time; it just wanted better and cheaper portfolio analysis tools for culling large pools of conventional mortgages. They also didn't want to retool their underwriting processes to fit AVMs into the picture, and the blind spots in coverage were very unwieldy.

At the conference, I just told the crowd what we used AVMs for at The Money Store (collateral review for new originations and early payment defaults) and that AVMs could indeed affect the livelihood of the residential appraiser in the trenches, once adoption was complete and the technology matured.

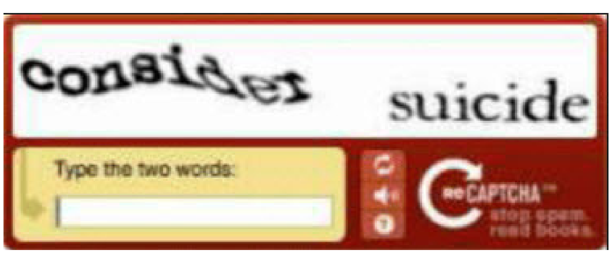
(Author Side Note: I've always been a sympathizer with the resi appraiser from my own street experience (1972-1987). My first mentor, Al Forristal, Chief Appraiser for Homestead Savings in San Francisco, gave me the guiding advice for the rest of my career; I was fresh out of the Army with a fluency in Russian, and Berkeley with an English degree ("do you want fries with that?): "Just remember, Barry," he intoned, "it's all bullsh*t.") While not entirely accurate, the counsel has stood me in good stead in terms of keeping my ego under control and not taking work too seriously as I moved up in corporate management and started dealing with commercial property as a certified general.

I always enjoyed the legwork in residential, and my resi war stories are still the best in my disjointed anthology.

(Author Side Note: especially that house in Terra Linda, Marin County, where Mom, wrangling 5 rug rats aged 2-4 while doing the vacuuming, appeared at the door to greet me entirely in the buff. I just did my inspection and left, which would not be advisable today.)

Back to that conference, which was really held more like in 1996, in Chicago. Or Katmandu. In my AVM breakout session, there were a few fellow appraisers in the room, generally those, like me, who had gone over to the Dark Side, i.e., left private practice for corporate life, in order to be able to buy little Zed a new pair of shoes in a tight mortgage market.

We were daddies and mommies who had gotten tired of explaining to little Zed that he couldn't have a new pair of shoes this month - because his appraiser parent was an honest practitioner. Even honest appraisers were busy, because 90% of residential appraisals in those days were generated by home mortgage originations in refinance or purchase, destined for Fannie and Freddie, although the pressure on "independent appraisers" from buyers' agents, sellers' agents, loan brokers and loan officers to inflate value conclusions was gloriously brutal.



(Author Side Note: Thank God that Dodd-Frank fixed all that, right, Comrades? No? Well, don't worry; when the new Administration finishes unleashing the Dodd-Frank investor restrictions, that will fix everything. Maybe there'll even be legislation to remove the requirement that FDIC banks use federally regulated AMCs. Then we can go back to getting orders from…mortgage brokers. Yeah, that'll be good!)

While I was setting up my cutting-edge PowerPoint, just after introductions, I remembered a worried young lady who asked the room at large, "Won't these valuation models put appraisers out of business?"

Because the crowd was thick with MLS execs, mortgage bosstitutes and real estate sales hacks, there was audible chuckling at the pleasant notion of getting rid of those pesky appraisers.

But another older, yet still starry-eyed and brave appraiser raised her hand to address the first one's remarks. "That will never happen, because lenders who are truly concerned about collateral risk will always need the eyes and ears of the appraiser on the ground." In one form or another, I had already heard that opinion hundreds of times. And it was only 1997. Or 2005. I could never understand the source of the impression that lenders loved and trusted appraisers; it had not been my experience.

And I remember thinking, in my heart of darkness, "Yes, Ms. Appraiser, your eyes and ears will still be "on the ground"; except the cat will be playing with your eyeballs and your ears will have been consumed with gusto by your lender client, with some fava beans and a nice Chianti."

As a card-carrying coward, I threw the question back at the crowd: what do YOU think? In general, nobody took the position that AVMs would wipe out shoe-leather appraisals, although some allowed deeper AVM market penetration.

(Author Side Note: Sorry, but I have to regale the reader with the fact that the scene of a cat playing on the kitchen floor with human eyeballs is from a controversial 1965 novel by Jerzy Kosinski entitled "The Painted Bird", about the horrific experiences of a young boy loose in Eastern Europe during WW2. Be sure to read it with the lights on [what?]. The author has been somewhat discredited since publication by allegations of plagiarism, but that doesn't diminish the depth and impact of his scary novel. If you like it, read "Being There" as well.

PS: You'll remember the fava beans, of course, with Hannibal Lecter, in "Silence of the Lambs", proving he wasn't taking his antipsychotic meds when he decided to eat the liver of a census taker who had happened by. Such a meal would have killed anyone dutifully taking their amirone.

Spotty Coverage and "Inflexible" Conclusions Contributed to Slow AVM Adoption

A potential threat to the livelihood of appraisers by AVMs had been perceived by the more paranoid appraisers as early as 1987, when the GSEs and assorted mortgage vultures began to consider using the Case-Shiller-Weiss Home Price Index as a way to crosscheck origination values, or actually as a foundation for making second mortgages, or at least for advancing additional funds.

I was always one of the ones who assumed lenders would love to be rid of us; hey, even paranoids have enemies. But because the values weren't much more than average or median sale prices, adjusted for inflation, the value conclusions weren't of much use for anything else.

Over the ten years following, AVMs were aggressively marketed but, despite the development of rudimentary but impressive hedonic models, were used only in portfolio analytics and tabletop negotiation of pool disposition and acquisition (my gig by 2004), partly because geographic coverage was still limited.

The general belief was that an AVM would never be developed that could challenge an appraiser's local knowledge and experience. What artificial intelligence can do today has startled almost everybody; in Singapore, nobody thinks twice about hailing a driverless taxi.

Yet during that same period, a few courageous - or stupid - lenders tried using them anyway to calculate LTV in the origination of new conventional, non-agency loans. There was no ensuing disaster, but the lenders discovered a deal-killer hiding among the algorithms.

If the AVM value came in too low to make the loan request work (which was occasionally true even when the contract price was reasonable), there was no way to bribe, threaten, coerce or dispatch reams of false data to "encourage" the robot appraiser to increase the estimate.

I do recall one incident, however, when I was in the employ of an AVM manufacturer, when one of our biggest clients complained that our AVM values of collateral in a portfolio of 6,500 loans were "too low". Our IT team simply burned up a Saturday tweaking the numbers northward, then collected and destroyed all the old spreadsheets we had sent out.

At this juncture, I had only sold 49% of my tattered soul to Satan, so I was able to remain clean and pristine on the AVM tweak; it wasn't until I set up the very first appraisal operation at The Money Store as Chief Appraiser that I was induced by a huge salary (Author Side Note: dude, I'm talkin' like almost $90K per year!) to dispose of the remaining 51%.

By that time, though, the word had got around: AVMs should not be used in a market where carbon-based life forms like appraisers, could easily be cajoled into drinking hallucinogenic Kool-Aid.

I felt SO smug in preserving my ethical purity and foolish naïveté that it never occurred to me that my appraisal department had been given access only to a carefully selected 5% of the loan volume for review.

Later, a servicing manager clued me in to that assertion when I left TMS in 1997 (during the sale of TMS to First Union Bank), that the TMS servicing operation in Tulsa had suddenly turned up with $1.5B of bad loans on its hands, to First Union's apparent dismay. Later speculation suggested that some portion of those loans had been mixed in with soiled product from First Union's prior acquisitions, like Dominion, First American, First Fidelity, Center and Signet Banks. First Union's later merger with Wachovia was acquired by Wells Fargo.

(Author Side Note: Some opinionated folk have suggested that Wells' subsequent ethics problems are partly a function of morally challenged policymakers from the other banks, who replaced old-guard, stagecoach-wrangling Wells executives.

Sorry for another digression, but it's interesting stuff! While writing this article, I sent a draft off to a couple of former colleagues in the RMBS due diligence business for suggestions and edits.

One of them, a brilliant manager of whole loan acquisitions for one of California's most aggressive subprime lenders, had a thoughtful epilog for the amazement we shared in 2007, when the demand for "mortgage backs" was so strong that sellers/originators were telling buyers/securitizers that unless the Wall Street outfits rejected no more than 5% of loans during purchase negotiations, the entire pool would be sold to somebody else. Do I detect a faint aroma of extortion? The epilog:

"And, I would tell them [appraisers] to head for the hills [i.e., get out of the trade] NOW. Appraisers are human beings and thus can be hated and where possible, "eliminated" by lending/sales folks. Keep in mind that the financial community is run by sales folks, period. That's who gets to the top anymore.

The days of the conservative banker [are,] for the most part, gone in the US. The admonition by the NY Supreme Court several years back [probably the 2010 Delaware action of eBay v. Newmark] that the company's primary duty is to produce immediate return on investment to the shareholder wiped out any need/ability for long term planning by corporate officers.

Just get the friggin' 10Q looking good and cash that quarterly bonus check. That means: trample anybody/thing that gets in the way. Start with the appraisers [since they have forever been a production obstacle]."

So, it wasn't the first time I had been dead wrong about an assumption or prediction I had made. (Author Side Note: I mean, I had already been married twice.)

AVMs, I realized then, far from threatening the jobs of appraisers, were going to take a back seat in the valuation bus even as a useful tool in second mortgage origination, servicing and securitization tool. The industry seemed suddenly to have acknowledged the brilliance, wisdom and experience of the certified residential appraiser.

AVMs seemed somehow stigmatized by their source in mass appraisal technology, which had been used for many years by tax assessors to slap values on, and increase tax bills related to, single family dwellings in their jurisdictions. At the time, I didn't get that there could be a more fundamental reason for no or slow AVM adoption.

Years trotted by. Just when I thought AVMs had found their lowly place in life, Freddie came out with its HVE model; many of us appraisers wondered why Freddie couldn't just buy its AVMs from the market like everybody else; wouldn't it look biased if it used only its proprietary tool? Instead, Fred seemed to set it up as a profit center inside a quasi-government organization, and as a tool to assist direct endorsement underwriters.

It's Déjà Vu All Over Again

Fast forward. Last year, as I was getting ready (for health reasons) to quit what I thought was my final W-2 job (as a Senior Property Appraiser/Investigator for the California Bureau of Real Estate Appraisers), I stumbled on an interesting UK white paper.

I had been looking for something to prove that the appraiser I was investigating had wrongly asserted that taxi and truck driving jobs would increase over the long haul, along with population, because of an acute global driver shortage.

(Author Side Note: At this writing, as noted, despite one minor accident, driverless taxis careen the streets of Singapore, with driverless car group nuTonomy having partnered with Asia's Uber equivalent. The Los Angeles Times, on September 23, 2016, posited the view that Robots could replace 1.7 million American truckers in the next decade. The number seems conservative when 11.5M Americans make their living by driving [according to one of my alternative facts.] The article noted that truck driving is "one of the last remaining careers that offer middle-class pay to those without a college degree.")

The paper was entitled "**THE FUTURE OF EMPLOYMENT: HOW SUSCEPTIBLE ARE JOBS TO COMPUTERISATION**?" and was written by two junior Oxford professors who examined 702 occupations, applying a novel methodology to determine the probability that a given job would be computerized within the next 10 years (2013-2023).

The jobs are listed in rank order beginning in an appendix on page 57 (to read or download the entire study, just Google "computerisation of jobs"). On page 68, one may find job #541 (an obviously high ranking) listed as "Appraisers and Assessors of Real Estate". The estimate is that the probability of job computerization of appraisal work, mostly represented by residential valuation, is 90%.

(Author Side Note: I haven't researched the validity of the methodology used in this study; suffice it to say, however, that a lot of the jobs listed in the probability range over 90% do, indeed, appear to be doomed: locomotive engineers, live answering service personnel, nuclear power reactor operators and postal service clerks are not long for this world. Either there will be no demand for their services or computers are already doing a better job.)

Artificial intelligence may surpass appraisers in terms of collateral risk evaluation.

Again, I haven't yet done the research to verify my facts (my Administration says you don't have to do that anymore), but there are some developments that seem to indicate that mortgage risk policy is ready to accept that AVMs may be more reliable in the long haul than appraisers-or that they're just cheaper and more efficient.

(Author Side Note: If an AI AVM is smart enough to identify that the risk of default related to collateral in any given mortgage scenario is less than, say, 5%, we're done with the debate. What's the point of an appraisal? To identify externalities? Already handled by AVM analysis of neighboring land uses. To properly evaluate physical depreciation? Satellite imagery, using infra-red, can pinpoint the age of the roof. To properly estimate and add the value of the subject's panoramic view? The topo underlying the satellite image, and the image itself, can precisely estimate elevation, direction, blockage and quality of view from each floor level.)

Up-front data capture. The GSEs now capture, through UAD pipes like Fannie's Uniform Collateral Data Portal (UCDP), all of the appraisal data upon delivery of the data by the appraiser, not just after the report has hit the underwriter's desk or only if the loan is approved or closes.

Obviously, this supplies not only extremely voluminous, rich, descriptive data of all of the physical attributes of the house, but data from the 1004MC on market conditions, currently typical mortgage specs, and valuable MLS data to update attributes of the comparable sales and listings already in the database.

This enables the creation of a hedonic AVM with the robustness of the Stay-Puft Marshmallow Man. (Sidethought: If the loan doesn't close, is confidential information being collected by the GSE without permission of the homeowner? Could a class-action attorney email me her opinion on that?)

New loan products with no appraisal requirement. Federal regulations have long required that a full appraisal accompany any loan submitted to the GSEs for acquisition where origination was for refinance or purchase. That was as close as appraisers have ever come to a "full-employment act".

It is now quietly being eroded by the GSEs, which have created several (mostly jumbo) loan products and a few policies where an appraisal is waived or not considered necessary.

For example, there's Fannie's Property Inspection Waiver (PIW), which sneakily waives the appraisal, not just the inspection in cases where a prior appraisal exists and LTVs are fairly low (refi's only).

The FHA and VA are now issuing waivers on some refinances in order to improve refi rates. HARP program refinances have been approved using AVMs since 2011. The VA's rate-reduction refi's under the IRRRL program no longer require appraisals as long as the original appraisal supports the requested loan amount.

Of course, Freddie's waivers are pretty much the same as Fannie's; Freddie's Single-Family Seller/Servicer Guide (03/02/16) notes that loans approved using its Loan Prospector AUS will return a "Minimum Assessment Feedback" that specifies the type of valuation required. Note that the title of the document avoids the use of the word "appraisal" because many of the assessments are appraisal waivers, but it also serves to obscure the fact that the "Feedback" eliminates appraisals.

But the death knell is sounded by the surreptitious disembowelment of the regulations mandating appraisal. So far as I can determine, FDIC reg 323.3, which used to require an appraisal on all purchases or refi's, was modified in 2 015 to include an exception for Fannie and Freddie (323.3.10) for any transaction "in which the appraisal conforms to the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation appraisal standards applicable to that category of real estate." It's back to the Wild West, folks; head 'em out, move 'em up, rawhide!

Normally, I hate to put out a problem without offering ideas for a solution; but the automation of residential property valuation is a kind of city hall which can't be fought.

My intuition tells me that it will be accompanied by a sharp rise in mortgage fraud because there will be no impartial observer to report a serious property defect, or suspicious behavior on the part of transaction participants, unless every transaction requires a bonded inspector.

This time, it's unlikely that the AI AVM estimate will be chronically "low"; the algorithms are proprietary, so there will be no one looking into the engine compartment unless new regulations require it.

The only way for residential appraisers to stall or avoid extinction will be to use the only weapon left to their disposal: the withholding of services by strike or boycott. In the long run, this tactic has not been uniformly successful, but it would at least be a way to bring this sea change in property valuation to the attention of the general public.

The valuation of your home for refinance or sale will be wholly controlled by the holders of capital; and the intent of the federal regulation requiring an appraisal has been undermined by subsequent modifications plus the gradual implementation of new loan programs that require no human touch.

Years ago, I remember cheering on the formation of the American Guild of Appraisers, which styled itself as a union and affiliated itself with the AFL-CIO. I went back to the website today to see whether there was any fire in the belly. The organization still claims to be a union, but adopts a "non-traditional" mantle on the About page:

"The AGA is a non-traditional union. This means that we do not engage in collective bargaining, do not strike and do not enforce a closed shop. The AGA does not negotiate contracts, does not have shop stewards, or does it have any oversight regarding its member's work products." Does the phrase "non-traditional union" sound a little to you like "alternative fact"?

Well, then, I might ask, what good is your "union"? A pointed question, but probably unfair; during my 45-year career, none of the organizations created to defend the residential appraiser has done so. The Appraisal Institute has been able to support its membership only because of its bank-owned MAIs, who have always considered the residential appraiser to be their redheaded stepchild. Now they tell us that unlike brain surgeons and firemen, MAIs don't need a national policy or state regulation. They can police themselves. Great job so far, guys, according to the AI's own enforcement stats.

About the author

Barry Bates was born near Portland, Oregon, but grew up in San Francisco. He entered the appraisal profession in 1972, after four years in the US Army (as a Russian linguist stationed in West Berlin, Germany), and another four at the University of California, Berkeley, where he majored in English Literature and minored in Slavic Languages and Criminology.

Between 1972 and 1986, he served as a staff residential appraiser for Homestead Savings (San Francisco) and Eureka Federal Savings (San Francisco). After a stint as a branch manager and construction project manager for Eureka's service corporation and FPI Real Estate Group in Sacramento (700 residential units), Bates remained in Sacramento as Chief Appraiser for Commerce Security Bank, followed by a position as Regional Vice President and

Chief Appraiser for Wells Fargo Real Estate Investment Group, where he also set up the Bank's first appraisal department capable of electronic appraisal transfer.

Around 1995, he also founded The Money Store's appraisal division,, after which he accepted a position as regional vice president in charge of data and AVM sales for First American Real Estate Solutions (later absorbed by CoreLogic) in Santa Ana.

From that point, Bates worked for Countrywide Securities and Hansen Quality Loan Services, analyzing portfolios for mortgage-backed securitization.

By 2004, he was Property Valuation Manager for Morgan Stanley Mortgage Capital in Boca Raton, Florida, where he established technology and policy for collateral due diligence in the acquisition of whole loan portfolios from a number of Morgan Stanley's regular correspondent lenders.

In 2006, Bates founded InsideValuation, a provider of commercial broker price opinions and IAG evaluations. InsideValuation was sold in 2016 to Lighthouse Real Estate Solutions.

At 71, Barry has had wide-ranging experience and a technological perspective in a fast-paced career ithat serves as a testament to the fact that he has never been able to hold down a steady job.

He now lives in Pittsburgh, Pennsylvania with his wife, Kathleen and their two dogs, where he writes for real estate publications and, in his own words, tries to get into more trouble (in 2008, he filed whistleblower suits against MERS (on behalf of county recorders) in 12 states, all of which failed miserably.

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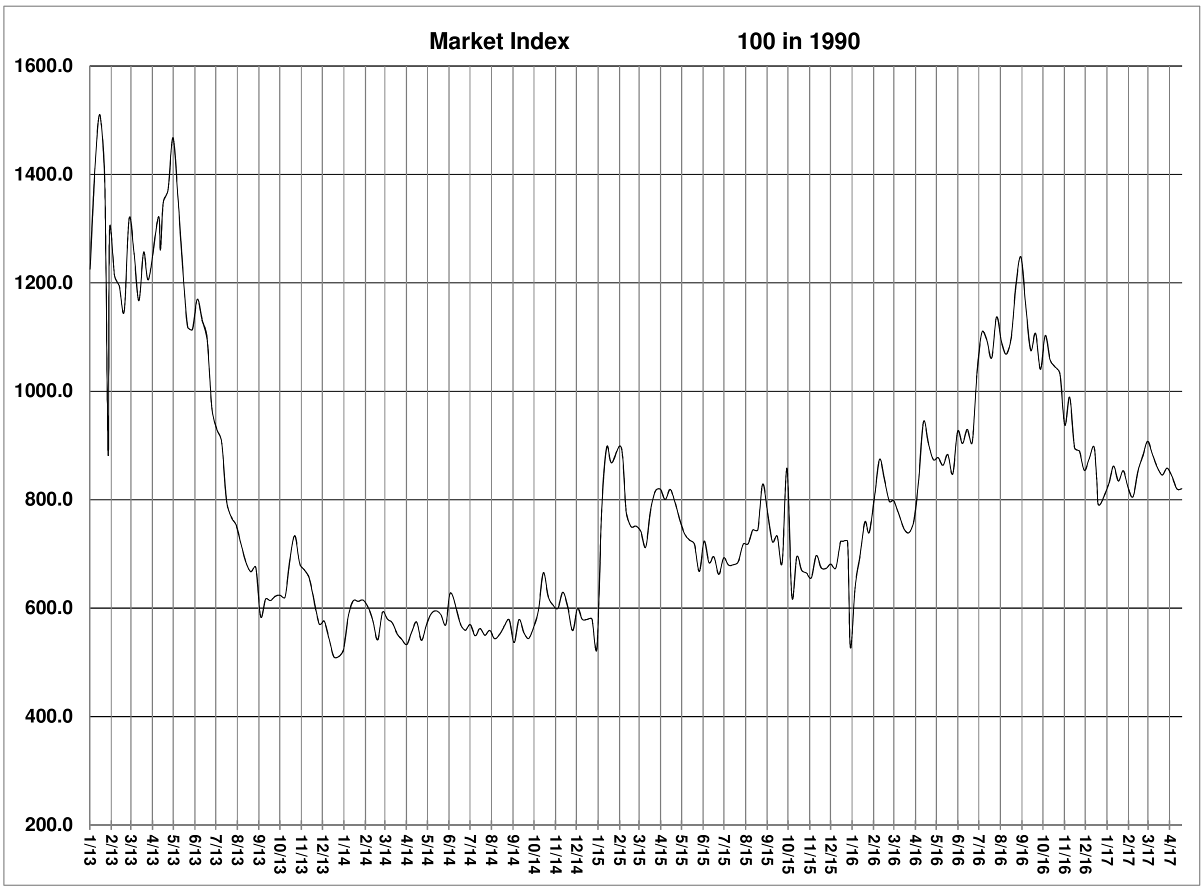
MBA Loan Volume Application Index 1/13 to 1/17

Volume peaked in August 2016 and has been declining with an uptick recently



The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

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