

SDW Mortgage Industry Discussion Paper

Mitigating Appraisal Risk at the Onset Can Appraisal Directories Address the Industry Gaps?

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Introduction

In this time of general upheaval in the lending industry, everyone involved is looking for new ways to attract business. Volume has dropped and everyone understands that yesterday's way of doing business is not going to bring in today's clients. This has become a reality for real estate agent, lenders, mortgage brokers, and the vendor communities that serve them. Borrowers are not as readily available due to the credit crunch seriously depleting the pool of eligible customers. This has created a "trickle down" effect resulting in a sharp decline in volume and revenue.

The appraisal community, largely servicing the residential lending industry, has felt the brunt of this crisis as much as any of the vendors. Appraisers have relied in the past on traditional means of bringing in clients. Direct networking in their local markets, working to get added to as many lender fee panel and approved lists as possible, and bringing in work passed to them by appraisal management companies have been the appraisers' main source of clients. However, as the volume declines from all these sources, appraisers are having to find new ways to increase market share to make up for decreases in volume.

A possible solution for appraisers is the advent of Internet appraisal directories. Appraisal directories have been increasing exponentially over the past few years and could prove to be a valid option for appraisers. However the question is whether or not they actually provide the services that they promise to both the appraiser and the lender client who would be using the directory services.

The Internet Directory Model

The website directories have two parallel goals in their business model. The first is to supply the appraiser with an additional source of revenue by providing them visibility to new lender clients who are searching for an appraiser in a particular geographic area. In order to best attract the appraiser to join the directory database, the model must provide the appraiser with as much exposure as possible both in the website itself and through exposing the website to the lending community in general to attract appraisal orders to the site.

The ultimate success of these directories would be to supplement or entirely replace the lender fee panel or appraisal management company by making a sufficient number of appraisers easily accessible for appraisal orders. However, there is much more to those processes than the typical directory is set up to offer. Before most lenders are willing to accept an appraisal, they do some research to determine the level of experience and expertise of the appraiser. Many manage an extensive approval process that includes reviewing a sample of the appraisers work, looking at the courses taken, and other means of determining the level of quality that the appraiser is able to produce.

Most directories are not equipped to handle this kind of information and leave it to the appraiser and lender to sort out this issue either when the appraisal is ordered (at best), or when the ordering mortgage broker submits the loan package and finds that the appraiser has not gone through that particular lender's approval process.

There is no information on most directory websites that provides the client with any insight into the level of expertise that an appraiser listed in the directory is likely to have. With the priority of listing based on who signs up first, who is willing to pay more for priority placement on the list, or who ends up on top when the list is randomly shuffled, the client is provided no clue as to what they are getting when they order an appraisal.

The Database Dilemma

In order for the appraisal directory websites to be successful, they must have good geographical coverage in terms of available appraisers. Some of them do extensive marketing to increase the number of appraisers in the directory. Others seem to depend on word getting around to bring appraisers into the fold. Whatever the method, if these websites don't have the service coverage that the lender needs, it will not be successful. So solicitation to bring the appraisers to the directory is an essential first step in the process. This is also the primary source of revenue in the typical directory model.

The directories are in a difficult position, having to satisfy both the lender and appraiser. The lender clearly requires the ability to go to one source for complete access to appraisers. The appraiser, on the other hand, objects to a website that has too many choices for their area with no differentiation between appraisers. So the directories, initially working to satisfy the appraiser (in order to continue to attract appraiser sign ups), have come up with a variety of solutions that do not really address the complete issue.

One of the ways that directories try to solve both problems (lack of appraisers in the database and appraiser differentiation) is to offer listings on a first come first served basis. The appraiser listings shown on the website for any geographical area are placed on the basis of which appraiser signed up for a given area first. So an appraiser that is willing to sign up (and pay the fees for) several different geographical areas is going to be listed first in each of them, despite the fact that he may not be the best appraiser for that location. Some sites are even offering discounts for appraisers to sign up first, which encourages less geographically qualified appraisers to insert their name in more locations first, theoretically having a better chance to obtain work in those locations than the appraiser whose name is found farther below on the list. However, while the goal of this method is to attract appraisers to sign up for the directory, it does not necessarily provide the lender with the best appraisers in each area. It will become readily apparent to the client who uses the directory with any regularity that the same appraiser name shows up first under a variety of counties and can't possibly be an expert in all of them.

The ability of the appraiser to claim expertise in a multitude of locations may provide an appraiser with additional market exposure, but if the appraiser listings do not make the website credible and viable to the prospective client, then the appraiser is getting no exposure despite how many counties he professes to cover. This problem is readily evident when exploring most of these websites even peripherally. When using a few sample addresses on different sites, many of the appraisers that are listed in the search results are located far enough away that a user who is familiar with the sample address areas can easily tell that these are most likely not appraisers with the local area expertise for these properties.

If this is apparent when doing a random test on the site, how can a perspective client trust that he will get an appraiser with local expertise in any location? It would appear that the methods that the directories are using to attract appraisers is directly opposed to what will make the website successful for the client. This raises the question as to whether or not those individuals who are providing the directory even understand what the lender client needs, what will ultimately make the website successful and provide the appraiser with the promised additional workflow.

Directory Website Marketing

Ultimately if the appraiser does not receive any additional orders after signing up for the directory, he will not consider it to be a worthwhile investment, which would be a correct analysis on his part. While some sites charge relatively low fees for appraiser sign up, there is a time and opportunity cost that must be realized as well. Some appraisers have spent relatively large sums of money to place their names high on the list or use banner advertising on the site to give their company additional exposure. But if the clients aren't using the site, no amount of additional on site advertising on the part of the appraiser is going to bring in work that just isn't there.

Some directory websites state that they provide marketing services to attract lender clients to order appraisals. There is little to no information provided regarding how this marketing process will occur. The competition for these directories is stiff. Besides the fact that there are a multitude of directory websites popping up, the real competition is the entrenched system of fee panels and appraisal management companies. The directory that will attract attention and bring in orders is the one that understand how the system works, has the marketing contacts to approach the lenders, and actually spends the time and effort to use all the marketing techniques and avenues to get the attention of the prospective client. The directories offer virtually no information with regard to marketing plan, target client base, or advertising campaign that will bring in the orders.

In addition, the websites offer little to provide the lender client with any product or service differentiation that would draw them to the site and give reason to change their workflow process to use a website directory. In order to change processes in any industry, the product or service must offer something highly beneficial. Getting a client to change proven processes is not an easy task.

Some of the directory websites offer little information about themselves providing very limited access, little information about the management of the company providing the directory services, or where they are located. Not only is there little information about how the websites are being marketed to prospective clients, it is difficult for either the appraiser or lender to identify who the company is at all and who to go to with the relevant questions. The anonymity of the Internet is not a positive in business situations.

AppraisalWorld – A Case Study

The successful appraisal directory website has to tackle the individual issues a bit differently, to satisfy both appraisers and lenders. With a different business model emerging to treat both groups as customers who expect to have their needs met, the road to success for both the appraisers and lenders is much more easily paved.

The AppraisalWorld directory is an example of a professional business model approach that works to encompass both the appraiser client and the lender client, providing services that address the need of both groups. This model provides new and unique benefits to both, supplying sufficient reasons to create a workflow change. The key is a shift in client (both appraiser and lender) expectations of what the directory should be providing and reflects a thorough understanding of the lending process. This will ultimately result in the ability to successfully bring appraisers into the directory registry and market the services within the lending community.

The goal of the AppraisalWorld directory is to create a membership “community” for appraisers that provides a hub of activities directly relevant to their business activities. This business model is far reaching when compared to the more typical directories available today and works to establish a relationship with the appraisal community at large.

Provided by Bradford Technologies, there is already a customer base that has access to the AppraisalWorld community, through ClickForms and the other products and services produced by Bradford. Recently introduced, this membership directory concept is now also being marketed to appraisers outside Bradford’s immediate customer base.

In addition, Bradford Technologies is also designing a specific marketing campaign for the lending community that will focus on the advantages of the unique concept and functionality that is provided to allow the lender to obtain the best qualified appraiser for the job. The AppraisalWorld community concept steps back to look at how business is done both for the lender and appraiser and electronically provides the means for that workflow to happen more quickly and efficiently. The grasp of industry needs and issues has enabled Bradford Technologies to provide solutions that span the lending process rather than just addressing one of the steps.

Attracting the Appraisal Community

By addressing not just increasing the volume of work to the appraiser, but also helping to provide better services through product discounts, availability of additional tools, and streamlining processes necessary to get the job done, the AW website becomes a full service organization for the appraiser. The appraiser does not just become a listing on the site, but obtains a membership that provides access to additional business advantages. In order to be a full service site, it is essential for a directory to understand the lending process from start to finish.

The appraisal management companies tend to focus on providing services to the lender client, as that is the AMC’s source of revenue. In the AMC model, the service provider is essentially the appraiser, with the AMC as his client. Customer service is focused in only one direction – from the appraiser to the AMC and then from the AMC to the lender. What draws the appraiser to this model is strictly the ability to obtain appraisal orders. There is little expectation of being provided services.

In the AppraisalWorld model, the website is a full service provider to the appraiser. Memberships are set at different levels to accommodate appraiser needs with regard to both services and pricing. The products and services available are focused on appraiser issues. Bradford Technologies has been a provider of appraisal software services for an extended

period of time and is very familiar with the business requirements. In addition, the website continues to add other vendor services to their on line “store” to provide true membership services rather than just being a single vendor site. This allows the appraiser to purchase items at bulk pricing by taking advantage of the membership size. Appraisers are encouraged to inquire about additional products and services they would like to see added to the site.

The workflow improvement offerings available to the appraiser are reflective of the “two client” model that is the focus of AppraisalWorld. The functionality in “Lockers” gives the appraiser the ability to electronically store the information required by lending institutions, making the process of list approval substantially easier. The appraiser manages his own “locker” information that is designed to contain all the information that a lender will need to place him on an approved list. He has the ability to provide access to this information when needed, update, or add additional information about expertise, education, or whatever specifics for his area are relevant to a lender. This greatly improves the age old and time consuming process of copying and mailing approval packages that contain appraisal samples, licensing and insurance information while also providing the ability to include additional information that sets him apart with regard to experience and expertise.

Another key element differentiating the AppraisalWorld website is the mapping functionality that allows the appraiser to be displayed to the lender client in such a way that it illustrates his geographical areas of expertise in direct relationship to the subject property for the appraisal being ordered. Rather than some of the typical directory website listings that could allow an appraiser to lose orders to someone who is not even located in the subject area (or even in the same county for that matter), the map displays the appraisers located within close proximity to the subject and provides the lender with pertinent information including direct access to the appraiser for ordering. The on line “business card” that is supplied to the lender provides all pertinent initial appraiser information.

This display of appraiser proximity to the subject property, makes the appraiser choice a business decision that is relevant to each individual property being appraised and is not influenced by marketing banners or other paid advertising that individual appraisers may use to promote their business. Priority listings for the appraisers based on who signed up for a given county first regardless of the appraiser’s actual location, or shuffling the directory listings to give everyone a chance at being first on the list are no longer relevant. Local expertise is the driver in the AppraisalWorld directory listing and both the appraiser and the lender clients benefit from the system.

Due to the length of time Bradford Technologies has been in business within the appraisal/lending industry, their expertise that has allowed them to build a business solution rather than just a website also provides them with the knowledge needed to successfully market the AppraisalWorld directory to the lenders. Many of the directories make reference to marketing efforts to bring in the work, however, most of the marketing investment appears to focus around attracting appraisers, as this is their target source of revenue, both through appraisers listing and advertising on the site.

AppraisalWorld, on the other hand, actively markets to the lending community, working to bring in orders for their appraiser members. The website plans to actively communicate marketing efforts so that members are aware of what is being done to draw order activity to the site. Since the lender marketing is a behind- the-scenes activity as far as the appraiser members are concerned, it is important that efforts be communicated.

Servicing the Lender Client

In order to attract and keep appraiser members active with AppraisalWorld, the lending community must also be provided with attractive products and services so that the website becomes the directory of choice. Bradford Technologies has thought through this side of the model as well, creating a client interface that works well for ordering appraisals in an efficient way.

Much of the time and resources on the lender side is spent managing an appraisal fee panel, or managing the appraisal management company. Lenders have hesitantly relied on management companies to qualify and identify the best appraiser for the job, doing the research on the appraisers background and credentials and performing the initial quality control services. However, this has not always been a successful alternative to fee panel management. The AMC requires extensive staffing to fulfill all these requirements and the fee charged is reflective of that. Many Chief Appraisers complain that they do not receive the service and quality levels they are promised and that the appraisers used are often those who are willing to negotiate lower fees and provide the best margin to the AMC. An alternative to this process would appear to be of interest if designed with the customer in mind.

The AppraisalWorld mapping functionality can be used by both the lender and the appraisal management company to identify the best appraisers for the job based on proximity to the subject. This unique method not only serves well for the initial appraisal order, but also provides an excellent tool for identifying the review appraiser who will most likely have familiarity with the subject property and immediate and competing neighborhoods.

In the world of wholesale lending, where speed and accuracy of reviewing files compete for being the most important, the lender taking in the appraisal from a mortgage broker has substantial information at his fingertips through the AW technology. With the AppraisalWorld “Locker” functionality, the lender is able to immediately contact any appraiser for access to review credentials and any other information he may need to approve an appraiser. This speeds up the review process and allows the lender and mortgage broker more flexibility in what appraisers can be used with any given package. The lender is instantly able to verify the appraiser’s proximity to the area (or lack of proximity) as well as viewing what other appraisers and how many might have been available as well. If the lender chooses to add the appraiser to the fee panel, is not familiar with the appraisers work, or has not had appraiser information updated as necessary, it is available to the lender without having to request updated sample appraisals or other required information.

In addition to referencing the appraisers that are included in the directory, the lender or AMC can add their complete fee panel to the AppraisalWorld directory. If the appraiser chooses to participate, the lender or AMC no longer has to manage the appraiser credential information, as it becomes the responsibility of the appraiser to keep that information up to date. The lender/AMC can then use the AppraisalWorld functionality to choose their appraisers and track the workflow process.

This ability to hire the right appraiser for the job and document that reasoning will become increasingly beneficial as the current issues within the lending/AMC community regarding choosing appraisers who will “bring in value” comes to the forefront. It becomes readily apparent through the use of AW when geographically inappropriate appraisers are chosen to perform the work while many others are available much closer to the subject area. The lender who intends to document his file with information about the decisions of appraiser ordering choice will find the mapping search for appraisers particularly helpful. This is also important during the review process as choosing and documenting the appraisers used both in the initial appraisal and review process is valuable.

Many Chief Appraisers state that they have an interest in how well the appraisers are treated in an AMC relationship, as they feel that a strong relationship with the appraiser will result in better quality reports and more responsive attention to service. The AppraisalWorld “two client” model of treating both the lender and the appraiser as a customer will reflect in the quality of the appraisers who are members of the directory and related services. The lender now has the best of both worlds, not having to manage a fee panel, but still having direct access to the appraiser to establish a healthy business relationship, obtaining good service in a timely manner.

Conclusions

The lending industry is in the midst of continuing turmoil related to the subprime industry crisis and more specifically to the issue of appraiser independence. The problems continue to surface and become more widespread.

The AMC’s claim to be the solution to separate appraisers from the valuation pressures, but are found to be vulnerable as well, as settlement service corporate entities find it difficult to turn away from the promise of big dollar accounts and multi-product deal negotiations with the large lending institutions.

The battle cry of the industry appears to be to “go back to basics” but returning to the old ways of doing business is not the solution either. It would appear that the solution lies with technology pairing with less complicated business solutions that do not get diluted by details in the larger business deals. This is not to say that, in earlier days, appraisers were not pressured by originators. But the fast pace of upward movement of real estate market values has pushed the industry to a competitive level that has lost track of the real risk factors concerning collateral lending.

This frantic pace and drop in the market has resulted in lowered volume of work throughout the industry. While this is an expensive lesson, it may give the various players the opportunity to step back and look at the way business is being done. Technology has made it easier to supply services to the lenders and, in general, has made the lending process faster and easier for the consumer. When used correctly, it can provide the individual appraisers with access to national

services that fall outside the local client base. Previously this has only been possible through the AMC relationships that were available to appraisers, however these relationships are rumored to leave much to be desired as they currently stand.

As a hybrid alternative to the AMC model, the appraisal directory websites have emerged and, when designed in a professional manner, can be of good use to both the lenders and appraisal management companies that some of them seek to replace. Most of the directories that are currently available do not provide the big picture business model that is needed to successfully service both the appraiser and lender/AMC clients.

The AppraisalWorld community membership concept brings appraisers together for the benefit of the larger group and provides a broader focus within the industry. It is better able to address industry issues and concerns. Focused products and services allow the appraiser to adopt new techniques to make his business better resulting in the ability to handle more volume and continue to produce a quality report. This ability addresses one of the problems that the industry struggles with today – how do the lenders obtain appraisal services that allow them to be competitive with turn times but not reduce the risk?

The lenders have struggled with this question, frequently having to forgo one over the other. Apparently, in the recent past, lenders have chosen to go the route of staying competitive, at the cost of quality, relying on the upward movement of real estate values to cover their risk. Lenders still need the same valuation services to complete a loan that they have in the past. However, they need to obtain their services in a way that best mitigates risk as there is no longer a reliable bail out method for the valuations they receive. This means that lenders must find a “smart” way of doing business with the appraisers and know more about whom they are doing business with when they order an appraisal. Blind trust in outsourcing the process apparently isn’t the complete solution. Passing on the responsibility to an outside resource doesn’t get the results that are intended.

The appraisal directories, when supplying a complete flow of information to the lender that allows him to make a risk averse decision every step of the way, can only serve to improve the process. However, directories need to provide the level of sophistication that handles more than just providing an appraiser name that has come to the top of the list in some sort of convoluted way having nothing to do with being the best choice for a particular job. The best choice for the job can benefit both the appraiser and the lender/AMC client and, father down the line, the industry in general. It has become obvious through current legal and industry news, that properly choosing the appraiser is an important task that must be taken seriously. Technology that provides as much information as possible around the choice of an appraiser in a seamless environment would seem to be a natural fit to address some of today’s most important industry issues.