The Ultimate Guide to Modern Appraisal Operations

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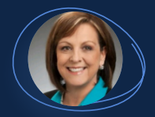

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Foreword

Thank you for opening The Ultimate Guide to Modern Appraisal Operations.

Our goal was to create the industry's first generally-accepted, defacto industry standard for operations in this critical department.

Readers of this guide will have a better understanding of the appraisal process as it exists today, the challenges industry stakeholders face in the current environment, and a path to more efficient, modern appraisal operations.

While our own appraisal management platform is the industry leader in modernizing this process for both lenders and professional fee appraisers, this guide was not written to promote any single platform or solution. Rather, we have set the stage and provided information any lender can use to create their own modern and efficient real estate valuation process.

While this guide is based on our experience in the industry and our own research, compiled both in-house and with STRATMOR Group early in 2022, we also have called upon subject matter experts from around the industry to ensure that this is the most up-to-date and complete information available anywhere.

By Brian Zitin & Will Denslow,
Co-Founders, Reggora

Introduction

Welcome to the Ultimate Guide to Modern Appraisal Operations. The guide was researched and written to provide a clear path from where the industry finds itself today — plagued by an appraisal process that slows down the origination process, increases costs for both the lender and the borrower, frustrates professional fee appraisers, and degrades the borrower experience — to a more efficient, modern appraisal process that meets the needs of all stakeholders.

This guide explores the requirements and ongoing operation of a best practices–based appraisal process. It has never been more important for the home finance industry to reach this ideal.

It doesn't matter if the lender is experiencing high volume or low, an optimized appraisal process is beneficial in any market cycle. That's true whether it helps better capture and process volume spikes or aids in the maximization of profit in times of more moderate revenue.

Just ask Kevin Peranio, Chief Lending Officer for PRMG[1]. As PRMG continued to grow in volume during the refi boom, their switch from managing their own panels to an appraisal management company (AMC) partnership model removed some communication breakdowns. But the leading wholesale lender was still in need of a transparent, rapid-speed communications system that could adapt to their needs. They realized that the time was right to pull the trigger.

"If you look at originators doing more volume, they've leveraged modern tech," Peranio said. "If I'm an appraiser and want to do more volume, I need to leverage modern tech. The bifurcated process is a tremendous opportunity for appraisers to do a ton of volume and being an early tech adopter with a company like Reggora, which allows appraisers to do just that, is going to put you at the forefront of serving more families and making more money."

But what if volumes aren't high?

The management team at one regional bank which adopted Reggora says it's still time to optimize the appraisal department. The bank was spending about $100,000 annually tasking a staff member with chasing down past-due appraiser invoices. It was taking up time from full-time employees (FTEs) in multiple departments, including operations, revenue, accounts payable, and others.[2]

This is a real problem for banks that are losing staff as volumes fall. Appraisal management technology provided the bank a solution with automated payment processing and automated order allocation functionality, which quickly empowered employees to spend more time focusing on their core jobs (rather than on redundant, manual tasks) even as the bank's overall efficiency improved.

"In our more metropolitan markets, with more available appraisers, we've seen a drop in turn times. It's roughly one day less for those markets compared to what the branches stated their turn times were in our previous solution," according to the bank's SVP of loan operations. "By having our process set up to default to collecting at the time of ordering, we have seen significant improvement on this front compared to our previous platform."

[1] Kevin Peranio, Reggora Case Study, "How PRMG is Driving Digital Transformation With Appraisal Technology"; reggora.com/case-studies/prmg
[2] Reggora Case Study, "How a Regional Bank Saved $225,000 Per Year and Eliminated Revenue Leakage in Its Appraisal Operation"; reggora.com/case-studies/regional-bank-in-the-southwest

Whether volumes are high or falling, it makes sense to optimize the mortgage lending appraisal process now. While we've worked with lenders intent on offering their loan officers and borrowers a better experience from the appraisal department in all kinds of markets, this work becomes increasingly important in markets like the one we're in now.

Having a high cost to originate when loan volume is very high is survivable, if not sustainable. But during lean times, lenders must cut operational costs. Profit per loan is simply too low today to continue to pay high costs for loan origination.

If we can judge by the flurry of appraisal-related activity at the government-sponsored enterprises (GSEs), lenders aren't the only ones concerned. In March 2022, Freddie Mac issued new guidelines[3] aimed at modernizing the appraisal processes, including the introduction of ACE+ PDR (property data report). Another tactic Fannie Mae and Freddie Mac are implementing is the permanent acceptance of desktop appraisals.

"We feel this is the right time...with regard to appraisal modernization," said Scott Reuter, Chief Appraisal Officer at Freddie Mac.[4] "We're helping to build out product offerings on the spectrum between waiver and full appraisal."

In a 2022 webinar featuring both GSEs, Reggora CEO Brian Zitin put it clearly:[5] "As everything else in the mortgage process continues to get better, in the last two years, appraisal turn times actually got worse. Appraisal continues to be a bottleneck around the ideal one-click mortgage ... By unlocking a new option that has the potential to have faster turn times, it's going to remove that bottleneck from the overall digital mortgage process. That's why for lenders who are looking to optimize speed to close, appraisal has to be on that checklist. Otherwise, you're never going to get there."

Optimizing the appraisal process matters now more than ever, but how can you most effectively and efficiently get that project done?

Having the right target to shoot at makes everything simpler and so this guide was designed to demonstrate what modern appraisal operations look like, how they are set up and why they work.

We hope this guide helps you reach that goal and build a more successful mortgage lending business.

[3]Freddie Mac Selling Bulletin, March, 2022; https://guide.freddiemac.com/app/guide/bulletin/2022-6
[4]Scott Reuter, Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac
[5]Brian Zitin, Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac

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Chapter 1

The Appraisal and Valuation Process

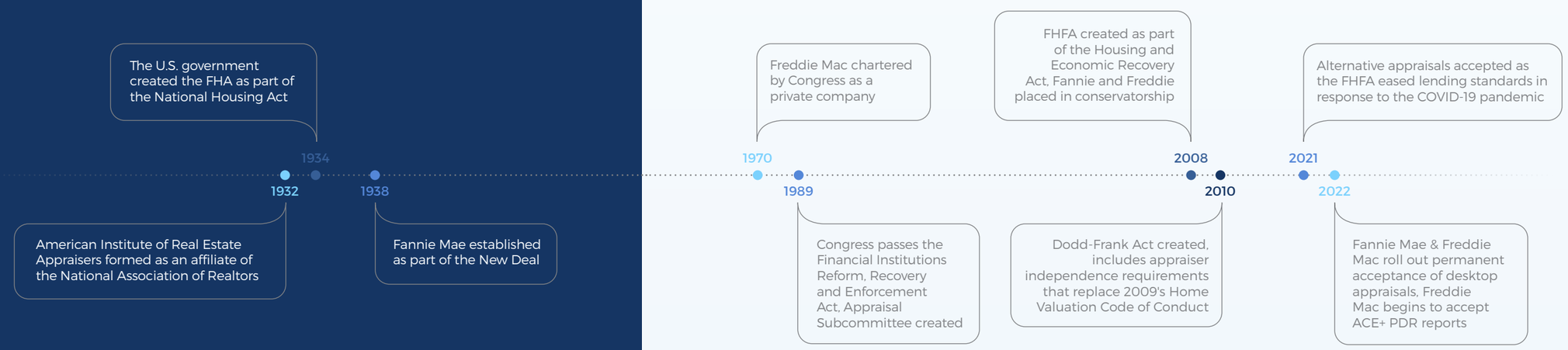
In this chapter, we outline some of the basics of the appraisal process. We cover who appraisers are, how they add value to the real estate industry, and outline how the process of creating an appraisal report impacts stakeholders in the home buying process.

The art and science of **real estate appraisal** is the result of a process practiced by trained and licensed **professional fee appraisers**. The goal of the appraisal report is to provide an **opinion of value** and provide other relevant data and analysis for the property to be used in the decision-making process by a mortgage lender. While professional appraisers also complete appraisal reports for other purposes, this guide will focus on the work they perform for mortgage lenders, mortgage servicers and investors.

While the home loan borrower is an important stakeholder in the mortgage transaction and will often interact with the appraiser during the valuation process, the direct beneficiaries of the appraisal process are the **lender** or **servicer** for whom the report is being prepared. This is true even when the appraiser's client passed the expense of the report back to the borrower.

The appraiser does not work for the homeowner. Neither does the appraiser work for the real estate agent or mortgage loan officer, both of whom are key influencers in the process. The appraiser's report is an **important risk mitigation tool** for the lender who advances the loan, the mortgage servicer who is servicing an existing loan and ultimately the investors that provide the necessary capital resources to support the mortgage finance system in place today.

The below timeline captures some of the monumental events over the past 90+ years that have helped to shape the appraisal requirements and processes to current day.



Appraisal Products & Appraisal Modernization

The long-term vision for valuation is a tech-driven process that drastically reduces turn times, lowers costs, and eliminates redundant manual processes — all without sacrificing quality in the appraisal report. This is where the GSEs, Fannie Mae and Freddie Mac, have rolled out a number of solutions meant to cover different scenarios and property types. Here are the components that make up the spectrum of appraisal modernization.[6]

Inspection-Based Appraisal Waivers – Similar to an appraisal waiver, this method does not require appraiser involvement, but does require a vetted third party to gather property data to compile a standardized report. For Fannie Mae this is known as a *Property Data Collection* and for Freddie Mac it's known as a *Property Data Report*. So long as the individual is not involved in the transaction, these inspections can be performed by real estate agents, insurance inspectors, appraisers, or appraiser trainees.

Appraisal Waivers
A fully-automated process without the need for any inspection, an appraisal waiver uses data and a modeling framework to confirm the validity of value. Waivers are best suited when there's ample market data on a homogeneous property.

Desktop Appraisals
Much like the previous two methods, the desktop appraisal is meant to keep the appraiser from visiting the property. Pre-existing data from various sources — such as property data gathered by a third party, MLS, tax records, historical data, or previous appraisals — is used by an appraiser to deliver an opinion of value. For a desktop appraisal, there must be a floor plan available.

Hybrid Appraisals
Similar to inspection-based waivers or desktop appraisals, the appraiser does not visit the property for a hybrid appraisal. The key difference is that there needs to be an inspection and an opinion of value from an appraiser, whereas inspection waivers only require a third-party inspection and desktops allow an appraiser to use their preferred data sources.

Traditional Appraisal
For complex properties without much existing data, an appraiser is required to complete a full inspection. While there are opportunities to enhance data collection with LiDar or similar products, traditional appraisals completely rely on the appraiser.

To determine which product is right for a given transaction, there are several risk factors taken into account such as property history, if the property has had a prior appraisal, property complexity, property uniqueness, and the borrower's credit risk. The less risk involved, the more of a role technology can play in creating the report. The more risk involved in the transaction, the more the report depends on an appraiser's involvement. The goal of appraisal modernization is to allow appraisers to focus on delivering a research-based opinion of value and free them from needing to be involved in low-risk transactions. We'll explore this topic more in-depth in chapter 7.

[6] Fannie Mae, "The Modern Valuation Spectrum"; fanniemae.com/sites/g/files/koqyhd191/files/2022-04/mod-valuation-spectrum.png

Defining Success

Success in the appraisal process exists on a number of levels. Each stakeholder may view it slightly differently.

The lender originating the mortgage loan views success as a quality appraisal report that justifies the loan amount, conducted in a timely and predictable manner. An inflated appraisal only satisfied part of this requirement and therefore cannot be considered a success.

The mortgage servicer may need to know the current value of a property in the portfolio if the borrower becomes delinquent on loan payments. If the borrower goes into default, the servicer must know if the property is valuable enough to cover the expenses and outstanding loan balance in the event of a foreclosure.

Either of these stakeholders may have an internal appraisal management department that defines success in different terms. Most appraisal department managers want an efficient process that gets orders out to appraisers which can be accepted promptly, provides for a good experience for their borrowers, and results in a quality appraisal product delivered in a timely manner.

Putting all of this into terms with which managers are more familiar, stakeholders would like to see:

- Appraisal orders in the system as soon as possible based on risk tolerance
- Orders accepted by the appraiser within hours of the request
- Borrowers contacted within a specified time of order acceptance
- Inspections scheduled within a specified time frame from order acceptance by the appraiser
- Finished appraisal product by the lender in accordance with an established service-level agreement (SLA)

Throughout the entire real estate appraisal process, the borrower's experience is of great concern to all stakeholders. This requires all appraiser partners to approach all customer interactions with professionalism and effectiveness. When the process moves along efficiently, it drives a better relationship between the borrower and the lender and maintains a good operational cadence within the organization.

A well-run appraisal process will have an impact on the lender's ability to attract new business from its referral partners. In the words of Jan Valencia,[7] Systems Administrator for Alpha Mortgage Corporation, who recently revamped their appraisal operations:

"The speed at which our appraisers can now make appointments, from a turn time standpoint, is reputational. Realtors talk amongst themselves in the office, and say, 'Wow! Alpha Mortgage ordered my appraisal this morning and it's accepted before lunch.' Those things just didn't happen when we used a manual process."

For the mortgage servicer, a good appraisal management process is an important loss mitigation tool that can help to reduce loss severity in the case of loan default.

Achieving success is easier if the stakeholder has access to a set of best practices in the form of specific process steps developed to make a team better at completing a certain function that goes far beyond simple tips for better execution.

The rest of this guide will provide information stakeholders can use to create and manage more effective appraisal management departments and workflows in service to the achievement of these goals.

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Jan Valencia, *Systems Manager, Alpha Mortgage (formerly)*

[7] Jan Valencia, Reggora Case Study, "How Alpha Mortgage Saved $70 per Loan File with Automation in Reggora"; reggora.com/case-studies/alpha-mortgage

Chapter 2

The Current State of Appraisal

In this chapter, we touch on the state of appraisals early in 2023 and outline the perspectives of three key participants: professional fee appraisers, mortgage lenders, and industry regulators.

The first step in creating and managing a more effective appraisal management department is to understand as much as possible about the environment the lender is operating in today, from the perspective of the collateral valuation department.

To define the current state of the appraisal industry, it is helpful to view the profession from three perspectives

1. That of professionals working within the industry
2. That of the customers professional fee appraisers serve
3. That of the mortgage industry regulator

The Professional Fee Appraiser

As of this writing (1Q 2023), professional fee appraisers find themselves working in an industry that bears little resemblance to the one they started their careers in. With the average age of today's working appraiser over 50,[8] most have been in the business for more than 30 years.

Over that period of time, appraisers have seen a great many new technological tools come into play in their business. Reports that were once completed with pen, tape measure, and clipboard are now completed on screens using sophisticated form-filling software and LiDAR-powered measurement devices.

Over the same period, appraisers have moved from the only source of truth regarding property data and values in a given geography into a world driven by big data and powerful analytics used to assist a lender with assessing not only the collateral being considered, but the results of the appraiser's submitted conclusions.

Could we be approaching a world in which professional fee appraisers are replaced by automated valuation models (AVMs) backed up by desktop appraisals or broker price opinions (BPOs)? This is the question that keeps many appraisers up at night.

Currently, the nation's largest secondary mortgage market investors are issuing appraisal waivers for certain properties that their computer models tell them have not likely changed in value since the last mortgage was made. In addition, desktop appraisals and other tools that fall short of the traditional full appraisal are becoming more acceptable to more investors.

In light of this, it seems reasonable that more appraisers are looking forward to exiting the profession, either through retirement or seeking alternative means to earn a living. It may also explain why fewer appraisers are taking on new trainees, which is reducing the overall number of professionals working in the field today.

It's estimated that the number of appraisal professionals will decrease annually by approximately 3%, according to a 2019 analysis by the Appraisal Institute.[9] Some mortgage industry professionals have described the ongoing appraiser shortage as a "national crisis," an especially hot topic when volume was through the roof during the refi boom in 2021.

[8]Zippia, "Real Estate Appraiser Demographics and Statistics In The US"; zippia.com/real-estate-appraiser-jobs/demographics/
[9]Appraisal Institute, "U.S. Valuation Profession Fact Sheet Q1 2019"; appraisalinstitute.org/file.aspx?DocumentId=2342

More recently, there are some 2022 indicators that show market conditions have accelerated the declining appraiser population as the number of appraisers submitting completed appraisal reports to Fannie Mae's Uniform Collateral Data Portal (UCDP), the largest data warehouse of appraisal activity, trends downward.

Regardless of market conditions, the steady decline of appraisers indicates that capacity will be an ongoing issue for the industry to tackle. However, it does not mean that lenders have no immediate recourse.

Remote appraisal technology and appraisal management software are important parts of the solution, both in the short term and for improving how appraisals are conducted in the future. Appraisal management software utilizes a variety of integrated capabilities to help lenders streamline operational workflows to improve turn times and reduce overhead costs.

The appraiser capacity concerns are not only a concern of lenders, but remains a serious problem that has been on the minds of appraisers. This is shown by a published report in 2017, when the National Association of REALTORS®[10] polled more than 2,000 appraisers and found a number of factors contributing to the shortage, including:

- Fewer than 20% are taking on new trainees
- Lenders often refuse appraisals that include trainee work
- Fees are too low
- Increased regulatory burdens

There has been a steady decline in the number of appraisers currently in the workforce and that number continues to decline. Much of the shortage is due to an aging population of appraisers facing retirement, the challenge of attracting new talent entering the appraisal profession, various economic factors, and government regulations and certification requirements.

[10]National Association of REALTORS®, "NAR Appraiser Trends Study, March 2017"; nar.realtor/sites/default/files/reports/2017/2017-03-appraiser-trends-survey-03-16-2017.pdf

There are several solutions by various agencies that are already in the process of being implemented in an effort to help with the shortage of appraisers. The Appraisal Qualifications Board, for instance, approved appraiser qualification educational attainment changes that were implemented on May 1, 2018,[11] to make the criteria for real property appraiser qualifications a more enterable career field while continuing to maintain high standards. While the 2018 change removed some of the burden for entry, efforts are underway to ensure the industry is not exposed to any additional risk.

As for the appraiser's day-to-day work, they are subject to pressure from homeowners, real estate agents and loan officers. They are pushed to return their reports ever more quickly by lenders struggling to offer a better borrower experience than their competitors. While the demand for speed and accuracy remains high, the appraiser ultimately remains accountable for the accuracy and completeness of the reports they submit.

After many discussions with professional appraisers, we found that most have a few goals that they are pursuing. They want to:

- Maintain a steady flow of work, so their business is sustainable and they can make a living
- Achieve process improvements so they can truly expedite their level of service
- Build and/or access better databases so homeowners can provide information they need
- Continue to shift their conclusions from an opinion of value to a value based on established facts, where their expertise is vital in finding and verifying such information

Ultimately, they don't want to be considered the source of their clients' problems instead of the valuable partners they know they are. But that will depend upon the current state of the business from their stakeholders' perspective.

> *"If you look at originators doing more volume, they've leveraged modern tech,"*
>
> **Kevin Peranio,**
> *Chief Lending Officer, PRMG*

[11] The Appraisal Foundation, "National Board Adopts Revised Criteria for Real Property Appraiser Qualifications": prnewswire.com/news-releases/national-board-adopts-revised-criteria-for-real-property-appraiser-qualifications-300592433.html labor.arkansas.gov/wp-content/uploads/RPAQC_May_2018.pdf

The Mortgage Lender

In today's mortgage market, nothing is more important to the lender than high borrower satisfaction scores. In any market, but particularly in a purchase money mortgage market, the lender's net promoter score (NPS) is a clear indicator of how well the lender's marketing efforts will be. It can be directly correlated to repeat and referral business.

The single biggest factor in achieving a high NPS is time to close, especially for purchase money mortgage loans. When lenders work on speeding up their processes, their work usually begins in the appraisal department.

It's the longest part of the process and can erase all of the gains the lender wins in any other part of the process. Our data from the first quarter of 2022 shows that the average turn time from accepted appraisal order to delivery of the appraisal report was 16 days. Further, in our survey of the industry, 36% of respondents said the report is late more than 20% of the time.

The result: 1 in 8 closings are delayed because of the appraisal. When closings are delayed, lenders lose business. When you consider that two-thirds of the lenders we spoke to were ordering more than 100 appraisals per month, this could result in a lot of lost business.

This, more than anything else, works to convince the lender that the appraiser is more of a problem than a partner. Unfortunately, our research indicates that the real problem exists in the lender's own appraisal department process much of the time.

Despite the fact that most lenders are making their way along their own unique paths to digital lending, they are still using a combination of disconnected or poorly integrated legacy technologies and manual effort to complete much of their work. This is particularly true in the appraisal department.

52%
Lenders spend more than half of their appraisal management time scheduling appraisals and following up

25%
1/4 of loans have appraisal revisions, delaying turn times 2.5 days

1-in-8
closings are delayed due to appraisal operational issues

7 days
Finding an appraiser and locking in an inspection date takes a week

The data revealed through our study with STRATMOR Group, a mortgage industry consultancy, showed that handling appraisal-related functions manually was taking lenders too much time. Respondents to our February 2022 survey told us that 52% of appraisal-related lender time is spent on scheduling and follow-up. That's not efficient.

Even worse, respondents to our survey said it takes an average of seven days to find an appraiser and get the appraiser's visit scheduled with the borrower. And that's for a routine appraisal. Complex properties or seeking appraisals for properties in markets with limited appraiser coverage can take even longer to place with the right appraiser.

We can learn a lot about the current state of the appraisal process from the lender's perspective by looking at their current priorities.

Lenders who responded to our survey told us that they have two top appraisal priorities:

- Achieving on-time report delivery (38%)
- Improving report quality (35%)

This is a challenge for them because 1 in 4 appraisals triggers a revision request and 1 in 5 is delivered late. When the department does request a revision, it takes at least four days to complete.

All of this is costing the lender too much money. Using benchmarks provided by the STRATMOR study combined with Reggora customer time-savings & headcount savings, average wages, and Freddie Mac's Cost to Originate Study averages, we found an optimized appraisal process reduced lenders' cost to originate by $258 per loan.

Because mortgage servicers are typically not under the same time constraints as the lender (although they may be when servicing certain government-insured loan products), they tend to be less concerned with the borrower experience, which is usually already damaged. At the time of the writing of this guide, delinquencies are still near historic lows, so they will be excluded from our analysis here.

The Industry Regulator

While local and state industry regulators are very concerned with the valuation of real estate in their jurisdictions, it's really the federal regulators who have been making the most significant changes in how the government views this process.

Part of this is due to the fact that the nation's two largest secondary mortgage market participants, Fannie Mae and Freddie Mac, are still in government conservatorship, which is blurring the lines between the needs of the industry's biggest investors and the federal government.

For a number of reasons, it seems clear that the government wants the appraisal process to be based on actual data and not just opinion where possible. They additionally seek a fast and easy process for consumers which is also an effective risk mitigation tool that promotes the safety and soundness of the overall housing industry.

Can all of these stakeholders be satisfied?

Visiting with a member of any of these groups will suggest that if it is possible, it's not as easy as we would wish, at least not with the technology in place in the lender's appraisal management department today.

It's time for an update.

Chapter 3

The Benefits of Modern Appraisal Operations

In this chapter, we highlight areas in which appraisal management technology enhances appraisal operations and the benefits for stakeholders across the mortgage industry.

Anytime we suggest that a stakeholder should invest in new tools to solve existing problems, it is important to outline the benefits of doing so. All investments should be made on the basis of value and with the expectation of a good return on investment (ROI).

In this chapter, we'll look at the ways an updated and modernized appraisal process can be made better for appraisers, lenders, regulators and home loan borrowers.

To solve the problems identified above for the lender's appraisal department, including speeding up the lender's loan origination process so the company can win more business, we must employ better automation.

No lender can continue to operate manually and hope to be efficient enough to close on time in today's environment. This has been an accepted conclusion in every other department in the lending enterprise and now it's time to actively implement this strategy in the appraisal department.

If we can meet the lender's needs, we will automatically meet the needs of the other stakeholders. The lender has based its operation on current client requirements, so a better process for the lender will naturally lead to more satisfied regulators. As the lender's process improves, the relationship between the lender and appraiser will improve, leading to more success for both.

Achieving a better process for the mortgage lender will be the focus of the remainder of this guide. It will require innovation, on the part of the lender, which is easier to accomplish with an appraisal management platform, which is a software system built specifically for use in the lender's appraisal department. It solves problems that lead to inefficiency by automating several functions that lenders handle manually, including:

- Appraiser panel management
- Appraisal order placement
- Payment processing
- Communication tracking
- Appraisal report review
- Vendor scorecards
- Full reporting

This naturally leads to a number of significant benefits for the lender. In fact, our research reveals that there is no other department in the lending enterprise that can benefit as much by optimizing as the appraisal department can.

We set out to identify and categorize those benefits. This is what we found.

Time Savings
According to a 2022 Fannie Mae study,[12] 38% of lenders said the biggest single benefit of appraisal modernization is shortening loan cycle times. Time in our industry is more than just money. It's borrower satisfaction and that's future business, both in repeat and referral business.

Better Revenue Management
With streamlined revenue collection, remittance capabilities, bidirectional integration with the loan origination system (LOS), and the ease of use that comes with a modern appraisal management platform, lenders can avoid the uncollected appraisal fees that come from transactions for applicants who ultimately choose another lender. More to come on revenue leakage in chapter 10.

Increased Management Visibility and Control
Larger institutions that operate large wholesale or branch networks often find that decentralizing the appraisal function can lead to problems. But pulling it all in-house isn't scalable with a manual process and can result in revenue leakage as well as higher operational costs. With the right software, central control can be restored and efficiencies gained.

Better Staff Management
Finally, giving appraisal desk staff newfound time to focus on higher-impact tasks and initiatives can be the biggest benefit in a purchase money market where customer service can win more deals.

These benefits can only be achieved through the use of a fully integrated appraisal management solution that can seamlessly connect directly into the lender's LOS, providing the data the lender needs to underwrite and process the loan digitally and automatically, eliminating the inefficiency of manual intervention.

[12]Fannie Mae, "Q1 2022 Mortgage Lender Sentiment Survey® Special Topics Report"; fanniemae.com/media/43501/display

Automation makes the difference! As it relates to the appraisal department, there are six areas in which automation has a specific and measurable impact on the lender's operation.

1. Appraisal Modernization (initiatives from the GSEs)
2. Appraisal Order Allocation
3. Appraisal Status Communications
4. Appraisal Payments
5. Appraisal Reviews
6. Appraisal Data and Reporting

Let's take a closer look at each of these opportunities.

1. Appraisal Modernization

Fannie Mae and Freddie Mac rolled out desktop appraisals as a solution for lenders' appraisal process. Creating a more efficient process is key to reducing costs and we're excited that the GSEs are embracing a technology-driven approach to appraisals. But new technology can lead to many questions, which we outlined in our webinar "Understanding Desktop Appraisals: Takeaways from Fannie Mae and Freddie Mac."[13]

In another webinar "6 Steps for Lenders to Reduce Costs and Increase Margins with Appraisal Automation",[14] former Citizens Bank SVP, Cliff Meggison, and Principal Consultant from STRATMOR Group, Jennifer Fortier, discussed the strategies successful lenders are using to reduce their cost per loan. Fittingly, the first piece of advice Meggison had for lenders is to partner with a vendor that is equipped to accommodate appraisal modernization.

Finding a nimble, innovative tech partner should be a comprehensive process. Meggison points out that lenders should have a plan to evaluate vendors, such as the industry best practices outlined in the "Appraisal Management Tech Buyer's Guide for Mortgage Lenders."[15] This is a crucial part of achieving ROI, as Meggison says "it is critical that lenders find the right partners" to avoid bringing in a vendor that promises great results, but ultimately drives up costs.

Whether it's desktop appraisals, hybrid appraisals, or a new form of valuation to come in the future, selecting a partner that is built to adopt new products from the GSEs and guide lenders along the way is key.

[13]Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac
[14]Reggora Webinar, "6 Steps for Lenders to Reduce Costs and Increase Margins with Appraisal Automation"; reggora.com/blog/6-areas-where-appraisal-automation-increases-lenders-margins
[15]Reggora Guide, "The Lender Appraisal Management Tech Buyer's Guide"; reggora.com/resource/appraisal-management-tech-buyers-guide-for-mortgage-lenders

2. Appraisal Order Allocation

Finding an appraiser and scheduling an appraisal simply takes too long. STRATMOR research showed that it takes an average of seven days from the time a lender realizes they need an appraisal to when the inspection date is locked in. This process can be automated based on a lender's requirements, ensuring that lenders are paired with the right appraiser at the right time.

Generally speaking, the right technology should automate and speed up many parts of the appraisal process, but getting an appraisal ordered is an especially costly slowdown for lenders. By removing unnecessary manual touchpoints from the order management process, lenders reduce the time spent actively managing orders by 33%, a $44 reduced cost per loan.

Of course, this is just one piece of the puzzle, but ordering is a significant choke point in the process for lenders. 52% of a lender's time spent managing orders is simply scheduling and following up with appraisers to communicate statuses. This is where order management software can take the burden off lenders, whether they manage a panel of appraisers or multiple AMCs, as Fortier points out during the webinar.[17]

3. Appraisal Status Communications

We've touched on how valuable sharing data can be and it's important to remember that the time spent seeking and sharing information is its own cost. As we pointed out earlier, 52% of a lender's time managing appraisal orders is spent scheduling the appraisal and following up on the order. The traditional way of accomplishing these activities: tons of emails and/or phone calls.

That's why eliminating the need to seek or share information should be emphasized to make communications proactive rather than reactive. Whether it's the borrower, REALTOR®, vendor, or internal updates for each appraisal order, all of this information should be easily accessible to all stakeholders.

"If you can give visibility to the status of the appraisal, you can avoid playing a game of telephone that's pretty common in the process," Fortier says. "It's going to eliminate that element of chasing orders, it will make realtors feel better about this scary part of the process, and it's going to make everyone's job easier and quicker. All of that contributes to cost, so if as a lender you haven't nailed that, focus on that."

As Meggison put it, good comms separate the good from the great, and bad comms can kill an operation via "the worst game of telephone imaginable."

4. Appraisal Payments

The final and perhaps the costliest portion of a lender's appraisal operation, is related to payments. Between appraisal fee escalations, fees that go unpaid due to borrower fallout, and everything related to invoicing or cutting checks for appraisals, this category adds up quickly.

Going back to Meggison's point on knowing your data, lenders who use proactive reporting coupled with smart automation are able to cut costs by nearly $100 per loan file. This can be done by a couple of tweaks to a lender's process, easily achievable with appraisal management technology.

"The trick is figuring out what the right fee for an appraisal should be up front," Fortier said. "We've heard nightmare stories from lenders in unique markets and how much research it takes to quote a reasonable fee. Lenders also have different processes in how they want to collect fees for appraisals, when they want to collect for appraisals, but for those that want that payment up front early in the process, building it into the process and triggering it in an easy way and getting the payment assessment correct are all challenging problems."

Lenders using modern appraisal management technology can collect payments at the time of ordering, using nationwide data as a fee engine to set the right prices, eliminating two of the causes for revenue leakage within appraisals.

5. Appraisal Reviews

The review process for appraisals jumps out as an area where lenders can significantly reduce their cost per loan. The cost starts with the high value provided by underwriters, driven by how long it takes to review appraisals and their understandably high salaries.

Since they play such a vital role in risk mitigation, underwriters should be hyper-focused on their role. Digital tools can help reduce the need for underwriters to perform basic checks and allow them to focus on ensuring delivery of high-quality reports.

"You should provide underwriters a tool that makes it easy for the reviewer to make a decision on whether the appraisal report is meeting your needs or not," says Fortier. "Looking at how you route reports and looking at who you use to review different types of appraisals is a great first step to getting some lift."

This is where an enhanced, automated review tool comes into play,[18] reducing the review process from 45 minutes per loan down to just eight. An 82% reduction in time spent on quality control reduces a lender's cost per loan by $81.

[16] Reggora Webinar, "6 Steps for Lenders to Reduce Costs and Increase Margins with Appraisal Automation"; reggora.com/blog/6-areas-where-appraisal-automation-increases-lenders-margins
[17] Jennifer Fortier, Reggora Webinar, "6 Steps for Lenders to Reduce Costs and Increase Margins with Appraisal Automation"; reggora.com/blog/6-areas-where-appraisal-automation-increases-lenders-margins

[18] Reggora Blog, "How Lenders Can Reduce Risk and Costs with Automated Appraisal Quality Control"; reggora.com/blog/how-lenders-can-reduce-risk-and-costs-with-automated-appraisal-quality-control

6. Appraisal Payments

Both Meggison and Fortier agree that lenders need to "know your data." Why? Because too often appraisals operate within a black box, meaning that loan officers, borrowers, processors, and vital stakeholders can be left out of the loop without a window into the status of each order.

The presence of actionable data means that lenders act when needed and avoid unforced errors. When STRATMOR completed its lender appraisal operations study it found that:

- 1 in 5 appraisals is delivered late
- 1 in 8 closings is delayed due to the appraisal
- 1 in 20 borrowers walk away due to the appraisal

It's amazing how proactively using data completely changes the experience for both the lender and the borrower. Outside of just increased visibility, Meggison reinforced that performance monitoring can lead to better outcomes for the lender.

"It's critical, one thing I would tell lenders is to know your data and know what it's saying before your vendor has to tell you or before someone has to come and ask you," Meggison says. "You should know what your open orders are, know your timeline, know what's overdue and what's coming due. When you know your own data and your own pain points, it can be a significant lift and view into what's going on."

Fortier doubles down on this point, saying that the difference between lenders who know their own data and those who are able to make it actionable compares to the difference between "watching the news and knowing a hurricane is coming versus knowing it's coming and building a plan around that news."

We've seen users utilize exception-based pipeline management to reduce as many as two days from their loan cycle time, a reduced cost of $43 per loan file.

In our experience, all of these benefits result when the lender employs an appraisal management platform. Their departments see better turn times, increased capacity, cost savings, increased transparency for all involved parties, a better loan officer experience and higher borrower satisfaction

But the benefits won't stop in the lender's appraisal department. They will naturally extend also to every appraisal partner the lender engages. These benefits include better capacity management and more profitable businesses.

As for regulators, their benefit comes from not having to focus their attention on lenders who are already effectively meeting the needs of their constituents and fully complying with their regulations and requirements.

Because each lender develops their business according to their own values and capabilities, the degree to which any stakeholder will enjoy these benefits cannot be easily quantified. Despite that, we used real-world examples to show how much lenders could save on each loan originated when they invest in a modern appraisal process. We'll provide that information in chapter 10.

> *"It's critical, one thing I would tell lenders is to know your data and know what it's saying before your vendor has to tell you or before someone has to come and ask you,"*

Cliff Meggison,
SVP, Head of Collateral Risk Management, Citizens Bank (formerly)

Chapter 4
Compliance

In this chapter, we touch on some of the compliance challenges faced in the appraisal process and outline the solutions provided by appraisal management platforms.

Compliance is critical to every firm operating in the financial services industry. Lenders must keep compliance in mind as the loan progresses through every step of the origination process and that their processes are effective at managing risks associated with reputational loss and financial loss.

Appraisal management is no exception. Ensuring that the appraiser selection process is compliant and operating within applicable regulations and policies is one of the core functions of this department.

While a complete review of all of the compliance requirements for real estate valuation is beyond the scope of this guide, we can say that no attempt to modernize the lender's appraisal operation can commence without first agreeing that full compliance must be one of the final results.

Performance in terms of compliance in any department of the lender's shop can depend upon whether the lender performs that work in-house or outsources it to a trusted third party. In any event, federal regulators have made it clear that compliance is the responsibility of the lender and cannot be transferred to an outsourced provider or process.

Lenders have a choice when administering appraisal: they can delegate to third parties, maintain their own program, or utilize a combination of the two. Every method comes with its own compliance challenges.

When a lender manages their own appraisal panel, it means that the company is taking responsibility for adhering to all compliance standards and requirements. One of the reasons lenders have outsourced this work to an AMC in the past is because these firms have the technology and internal expertise to match these requirements.

While there is risk that comes with managing their own appraiser panel, the lender is not relieved from overseeing the administration of appraisal activities, whether it is done internally with their own resources or delegated to a third party. Either way, compliance is the lender's concern and responsibility.

There are many reasons that lenders are willing to take on the additional risk of managing their own panels, as maintaining long-standing relationships that provide mutual benefits, increased efficiency, and increased control can benefit lenders and borrowers alike.

Fortunately, modern appraisal management software offers built-in features to help lenders maintain compliance, such as creating a buffer between originators and appraisal vendors and the ability to manage appraiser licenses. Without such technology, it could easily take a full team of compliance professionals to mitigate non-compliance risk. For these reasons, few lenders will attempt to manage this function manually.

The following are some of the compliance requirements that can be met through the use of robust modern appraisal management software.

- Ensuring employees of sales and loan production and other parties having an interest in the outcome of the loan decision are restricted from the appraisal process (which includes ordering appraisals and/or communicating with the appraiser)
- When originating or funding broker loans, having established controls in place to prevent the mortgage broker from selecting from a list an approved appraisal provider
- Managing the distribution of appraisal assignments in compliance with both regulatory and secondary market investors and agency policy requirements of Appraisal Independence (i.e. AIR)
- Providing a copy of the appraisal to the borrower(s) or obtaining a signed waiver at least three days prior to closing
- Ensuring that assigned appraisers have the active credentials and appropriate license level to complete appraisal assignments based on complexity and transaction amount
- All appraisals are successfully submitted to required data portals (i.e. EAD, UCDP) prior to loan delivery
- Management of secondary market investor and government agency appraiser eligibility criteria (i.e. AQM, appraiser rosters)
- Creating visibility of Risk Scoring system results to support lender customized workflows
- Support for the development of systems that track appraised value changes and lender/appraisal provider communications

Some of the system control features available in today's modern appraisal management platforms that achieve the above compliance requirements include:

- Customized mapping of appropriate appraisal process elements such as status changes and other critical messaging to a lender's loan operating system or other reporting system
- Automatic assignment allocation controls (i.e. percentage, customized weighting, round robin etc.)
- Automated appraiser eligibility validation (i.e. licensing, loan product or secondary market constraints)

It's important that the lender works with its technology partner to ensure that all RegTech functionality built into the system is turned on and fully configured, and all controls and settings are compliant with applicable regulatory and policy requirements.

When it comes to compliance, more than ever before in the history of our business, virtually everything the lender needs to know has been baked into modern appraisal management platforms, relieving the lender from worry and allowing more attention on creating stronger relationships with their appraisal partners.

Chapter 5

Designing Your Own Appraisal Workflow

In this chapter, we address the desire for custom processes, show how nimble technology can meet these requests, and show how lenders can combine best practices with tech to create an optimal workflow.

Every business owner wants and deserves the power to build out their company according to their own vision. Even in highly regulated industries, like home finance, lenders should have the power to build out their own workflows and implement their own strategies.

This has proven very difficult for lenders in the past, especially those working in the appraisal department. There have been many reasons for this, including changing regulatory requirements, pressures faced by the appraisal profession, and outdated technologies. Diagnosing these problems for any particular lender is not the goal of this guide.

Rather, we want to help lenders understand how to design their own appraisal workflows to meet business requirements, empower their internal staff and appraisal vendors to operate efficiently, and provide the best possible experience to all stakeholders.

Is this even possible?

Of course, it is! And it takes less time and effort than many lenders think (despite the length of this guide we've put together). Lenders can design configurable appraisal workflows to meet their most important business needs. It's a combination of modern technology and strategic business processes that makes this possible.

With a modern appraisal management platform, lenders can map out every step of the process, automate low-value tasks (or leverage set rules to route to a human), and trigger next steps in the process. This type of workflow management was not possible in the past and may be the top reason more lenders are working now to modernize their appraisal management departments.

When they do, they will be able to track:

- The actual time it takes to get an appraisal done
- The actual time it takes to review a completed appraisal report
- The fees paid to appraisers for loans that never end up closing
- The excess fees charged by appraisers after the borrower fee has been disclosed
- The actual time it takes to handle appraisal payments, billing and accounting
- The time it takes to manage appraisal orders for every loan without adding headcount

Performing a detailed analysis of these quantifiable processes is an essential part of designing an efficient appraisal workflow. Modern appraisal management platforms can store these process maps and guide the efforts of the appraisal department. To build an ideal workflow, lenders must first address several questions:

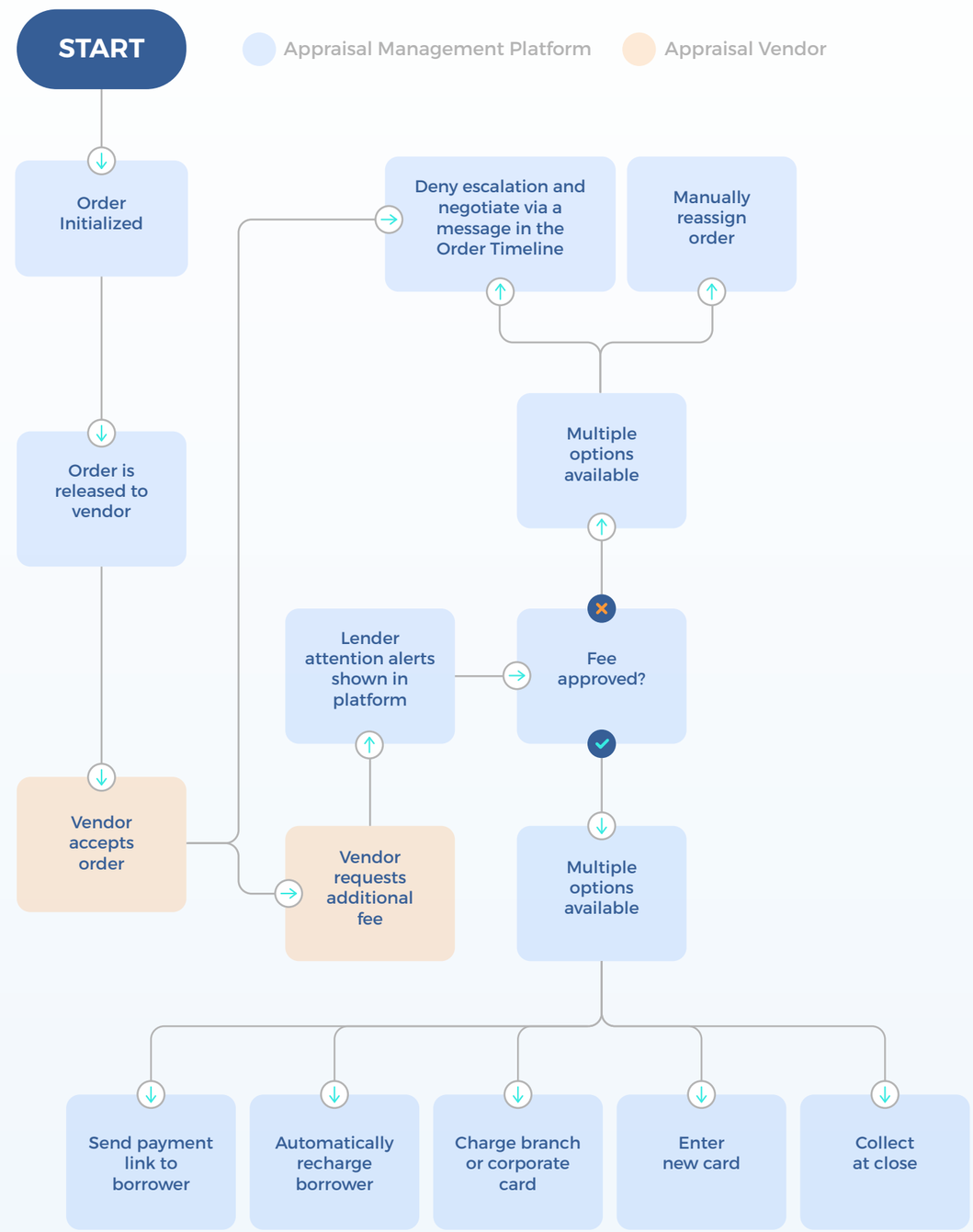
- What types of channels do you currently support?
- What percentage of total origination volume goes through each channel?
- In which states do you originate loans?
- Are there any subsidiaries, branches, JVs, or DBAs to account for?
- How do you manage your pipeline of appraisals today?
- What is your payment workflow?
- Do you use automated collateral underwriting tools?
- Do you prefer to roll out to all users, utilize a pilot group, or to implement by branch?

The workflow that results will be specific to the lender that develops it, though through our experience we've developed some best practices. The graphic on this page is just a sample that may work well for many lenders.

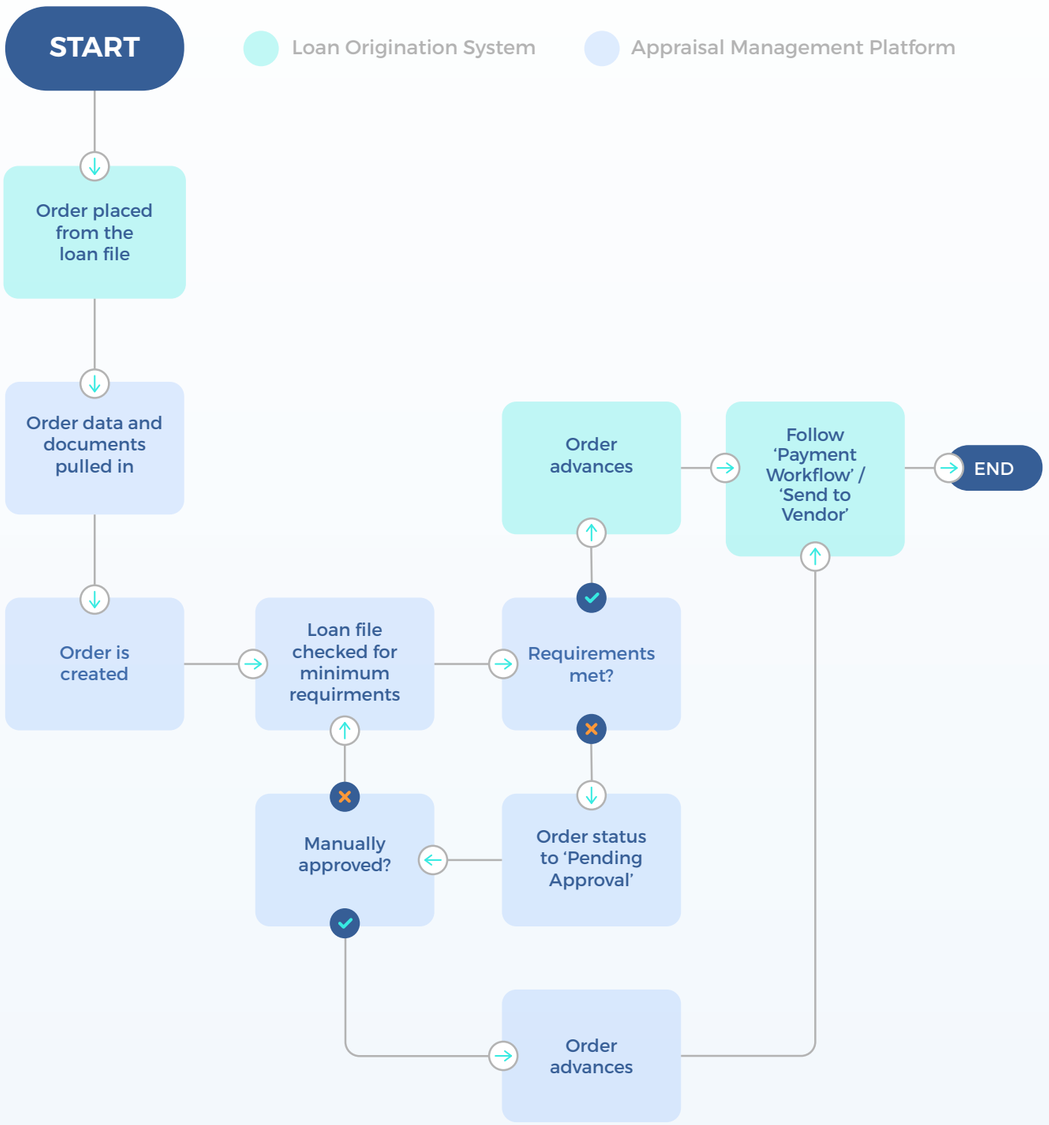
Of course, no two lenders will build the same workflow and the type of appraisal vendor will play a huge role in the results. Lenders that operate direct to panel and rely on an appraisal desk have much more control and can tap into some of the workflow automation that we outline in chapter 7. For lenders that work with AMCs, the impact of an appraisal management platform won't be as noticeable in some areas such as appraiser selection or process transparency, but the benefits in the review and payment process should still provide a noticeable lift.

The following are two examples of the types of workflows that lenders can design, and which a modern appraisal management platform should easily support. In a typical implementation of a new platform, the appraisal technology vendor should be able to provide multiple, configurable workflows for the various appraisal-related tasks, such as order assignment, payment collection, fee escalations, etc.

Sample Fee Escalation Workflow



Sample Workflow with LOS Integration



For most, dialing in their own perfect workflow will be an iterative process, made simpler by modern technology that can report the exact performance of the department over any time period.

A key part of this process will be identifying problems and eliminating them from updated workflows. A single problem in a well-run department will have a cascading effect on the enterprise.

As personnel are pulled off other tasks to deal with the problems in an outdated or inefficient workflow, other problems are created. This is often seen in appraisal departments when a loan officer asks for information on a deal that has somehow slipped through the cracks. Suddenly, it's a mad scramble to get the job accepted by an appraiser and a rush order on the report. The right workflow will eliminate this threat.

Assurance Financial[19] took a tech-driven approach and realized substantial improvements as a result. This lender selected its new appraisal management technology foremost for its ability to effortlessly eliminate the company's top appraisal-related pain points. By working within a system where all appraisal information and tasks are centralized, Assurance Financial has been able to break down silos and bring transparency to the appraisal process. Loan officers and borrowers have a view into each stage of the appraisal — from ordering and scheduling to submission — which has drastically improved communication and cut the need to send emails back and forth.

To fall back on the old claim that technology is designed to make the lender's process better, cheaper and faster regardless of the workflow employed is to cloud the issue. No technology can be effective unless it is used in a manner that meets the lender's goals. That's not possible with outdated technology because they don't make it easy enough for lenders to create their own workflows. Leaders combine updated technology with their own well-thought-out and carefully designed workflows to ensure success.

[19]Reggora Case Study, "How Assurance Financial Increased Borrower NPS and Shortened Turn Times by 7 Days"; reggora.com/case-studies/assurance-financial

Chapter 6

Setting Up Appraisal Vendors for Success

In this chapter, we lay out the areas in the appraisal process where a lender and appraisal vendor must align to ensure a smooth and successful workflow.

One of the reasons that the appraisal portion of the lending process is such a challenge is that lenders cannot perform this function on their own for the vast majority of loans they underwrite. They must depend upon an outside expert specially trained to evaluate the property and return an opinion of value.

The professional fee appraiser is uniquely qualified and specially trained to do the best job of validating the property data as an independent observer. The appraiser analyzes between 800 to 1200 data points that affect a property's value, including the type of land the property is built on, the components of building improvements, and the influence of factors outside of the property that impact the marketability and value of a property.

Appraisers also offer professional assessments based on first-hand observations in the local marketplace as an appraiser can visit thousands of properties over the course of a decade. These observations can include what components are present in the marketplace for newer construction, older construction, and everything in between, including what the marketplace requires when it comes to remodeling and for general property upkeep.

For mortgage lending transactions, each appraisal utilizes a standardized reporting form that is completed by the appraiser, regardless of whether the property is in Maine or California, allowing all stakeholders to reliably compare property valuations across geographies.

The opinion of value that is returned is the gold standard for real estate valuation. And yet, lenders are in desperate need for speed and often view the appraiser as a source of friction that is slowing down their process and reducing their borrower satisfaction.

In February 2022, STRATMOR surveyed a wide range of mortgage lenders[20] regarding their views/experiences with valuation and appraisal and found that the biggest time-waster is the order placement. Finding the right appraiser to do the job, sending the details, and getting confirmation that they will complete the report by the deadline simply takes too long — one week, in fact, according to the study.

[20]Reggora Webinar, "STRATMOR Study Results: Lender Appraisal Performance in 2022"; reggora.com/content/stratmor-study-results-lender-appraisal-performance

As a result, the relationship between the lender and the professional fee appraiser has been strained for many years, with each side attributing to the other the inefficiencies that cause pain for all parties involved.

Now, lenders have access to the modern solutions needed to fix their processes and communications and set up their appraisal partners for success.

This shouldn't be seen as a formality, but rather an investment in a vital business relationship.

"During the refi wave we were turning away as much business as we were taking in every day," says veteran appraiser, Rick Lipof, President of Lipof Real Estate Services, Inc.[21] "When things explode in the market your staff doesn't increase, the work doubles and you have to turn some away. I think about how good the client is, how consistent they are in the lean times, and how long we have worked together. Are they easy to work with? All of these variables come into play when I'm deciding the cadence of the work that I'm taking, especially when things are busy."

The Importance of Communication and Transparency

It can be argued that every problem the loan originator encounters is, at its core, a communication problem. Everyone agrees that effective communication and transparency is a requirement for success, especially in collateral valuation. This applies to all of the key stakeholders involved, but is critical when it comes to the lender's appraisal vendors.

When communicating with appraisers, it's important to set up efficient two-way communication. It starts with setting clear expectations around the amount of work each appraiser can expect to receive, as well as setting guidelines for the quality of service the lender expects. Do not assume that appraisers will understand your expectations and meet them.

Likewise, it should be easy for appraisers to communicate back to the lender's appraisal desk. If they have questions, need to report a fee change, or there's an unexpected delay, it's best for that information to go directly into a modern platform that can properly route the information while triggering the appropriate next steps.

Appraisal management automation can be used to provide effective notifications. For example, appraisers can be automatically notified of incoming orders, changing dates and payment information. Knowing that they have more work coming and prompt payments for reports delivered makes any professional want to deepen the relationship and do their best work.

Of course, good communication is important to all of the stakeholders in the process, including the loan officers, real estate agents, borrowers and the lender's internal processing staff. During the appraisal process, which is the function that takes the longest to complete, these other parties will want to be updated on how the deal is progressing.

Automated notifications makes it easy to keep everyone apprised of the status, but setting appraisers up to succeed starts earlier in the process.

[21] Rick Lipof, "The Shred Show: The Appraiser Masterclass":m.facebook.com/JoshPittsLive/videos/the-shred-show-live-the-appraiser-masterclass/246054407252017/

A Workflow to Empower Appraiser Partners

It won't do a lender any good if all they have to communicate is delays, problems, and other friction. That's why setting up appraisal vendors for success starts at the very beginning, when the order is placed.

Order Placement

A streamlined appraisal process starts with the efficient allocation of new orders out to appraisers. Getting the job accepted by a qualified appraiser and into production quickly is critical. Success here sends a clear message to referral partners that the lender cares about their business.

Reggora conducted a case study focused on a regional bank serving the Southwestern states.[22] Their story provides a clear example of the importance of efficient order allocation. The lender wanted to reduce cycle times but did not want to add people to its appraisal department. After implementing order management technology, the bank was able to reduce FTEs in the department, but still was able to manage order allocation so effectively that it reduced its cycle time.

"Automated order allocation has also led to a notable efficiency gain," the bank's Senior Vice President of Loan Operations explained in a Reggora case study. "In our more metropolitan markets, with more available appraisers, we've seen a drop in turn times. It's roughly one day less for those markets compared to what the branches stated their turn times were in our previous solution."

For compliance, it's important that the appraisal department is aware of the individual appraiser's credentials including licensing and agency approvals, as well as certifying that their documentation is on file and up to date. Once the department is certain that the panel is staffed with qualified appraisers, the next task is to allocate orders.

Order allocation is one of the areas where technology can play a pivotal role in creating efficiency and shortening turn times for lenders. While lenders might have a natural inclination to want to control the selection process and ensure the proper matching of appraisers, the latest rules-based technology presents faster and more accurate ways of accomplishing this. The best platforms will allow lenders to combine the best of both worlds — leveraging automation upfront for speed, while also giving full visibility and control to manually make adjustments if needed.

[22] Reggora Case Study, "How a Regional Bank Saved $225,000 Per Year and Eliminated Revenue Leakage in Its Appraisal Operation"; reggora.com/case-studies/regional-bank-in-the-southwest

Regardless of whether you manage the allocation process manually or by leveraging technology, there are several factors that should be considered when searching for the best appraiser for each job. When prioritizing a list of appraisers for a specific order, you (or your tech's conditional logic or your algorithm) will want to consider:

Expertise – Does the appraiser have relevant, recent experience working on properties that fall in a similar location and price band? How about the product type?

Location – Is the property conveniently located for the appraiser? Will the appraiser be heading in that direction for other jobs in their pipeline?

Bandwidth – What else is in the appraiser's pipeline, and do they have sufficient bandwidth to complete the order within the preferred time frame?

Appraiser Score – How has this appraiser performed in the past? (Learn more about this topic in the "vendor scoring" section below)

Another tool that has proven very effective in getting orders out and quickly accepted by appraisers is a mobile app. When the department's appraisal management platform can send orders out to the appraiser's phone, it is easier for them to accept them while they are away from the office.

Payment Processing

One of the principal steps in the real estate appraisal process is ensuring the appraiser is paid efficiently. For many lenders, this is an overly complex manual process that takes human staff to complete, adding time and expense to the process, while opening the lender up to the risk that their relationship and reputation with the appraiser could be damaged by slow payment.

Modern appraisal management software can automate this process, tracking the fee amount and sharing data with the loan origination system (LOS) and point of sales system (POS) to ensure accurate disclosure to borrowers. The software can tell if the fee a vendor requests exceeds the amount disclosed to the borrower to temporarily stop the deal and alert the department. Perhaps most conveniently, the system can collect fees directly from the borrower, without human interaction.

Business rules built into the system will allow the department to hold orders for payment and then allocate them to appraisers or, as in the case with some VA lenders, to allocate the orders immediately knowing that the lender will advance payment to the appraiser if required.

Loan officers typically find the payment process tedious, not wishing to go back to their loan applications with the request for appraisal report fees. This degrades the important relationship between the lender and the appraiser and exacerbates all other problems.

Modern automation must be employed to help avoid this.

Reggora's case study about one private mortgage lending company demonstrated significant results.[23] After deploying an advanced appraisal management platform, the lender saw a 50% reduction in the time it takes to manage an appraisal order and billing and a decrease in its cost per loan of $192. The regional bank mentioned earlier[24] also shaved 20% off the time it takes to manage an appraisal order and invoicing and saved $100,000 in FTE overhead.

This can also streamline the process for the accounting department, making it possible for the team there to know if the borrower has paid up front, if the lender has advanced funds, or if the fee was paid out of an application deposit.

It's also in every lender's best interest to pay their appraisers in a timely and automated manner, if nothing else, to strengthen the partnership.

Happy and compensated appraisers will be more motivated to stay loyal to that lender while delivering work quickly and efficiently.

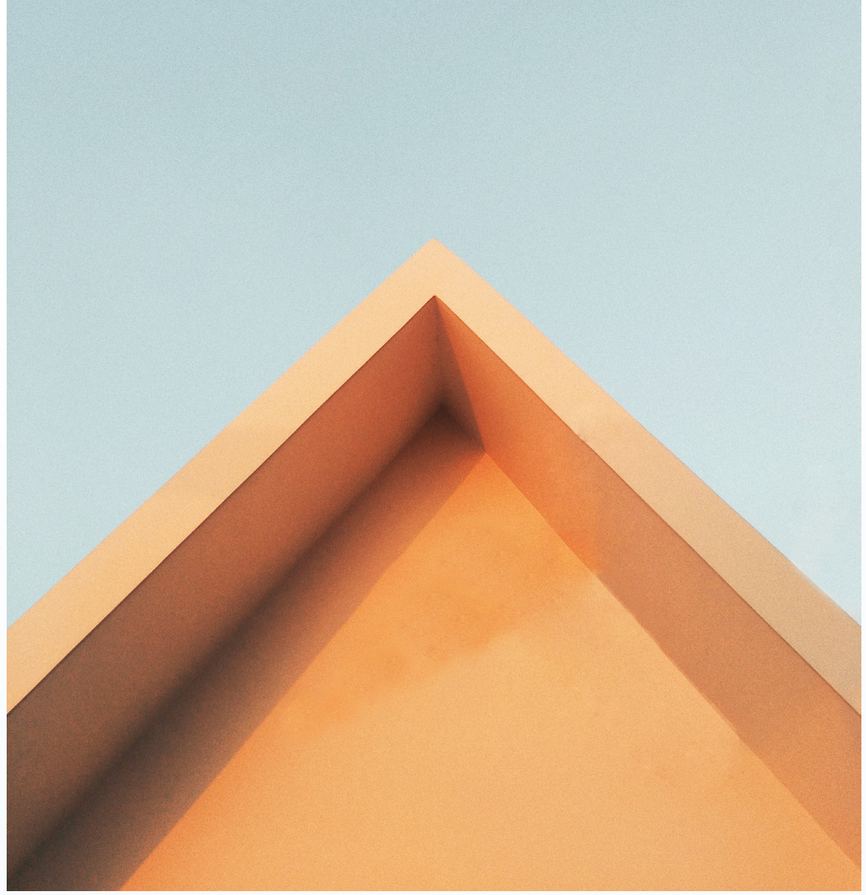
Job Tracking

Appraisal managers must have their fingers on the pulse of the operation at all times. This can be quite challenging during periods of high loan volume, and so powerful appraisal management technology is a requirement.

With the right software, appraisal managers will know:

- Number of orders in the pipeline
- Number of orders inspected
- Number of orders that require attention
- Date and time the order was placed
- Close dates on all outstanding orders
- Any changes that have occurred and subsequent contact with vendors
- Orders that are past due or due soon
- Orders that haven't had the inspection scheduled quickly enough
- Orders with counter-offers from appraisers
- Orders with outstanding communication from the vendor

[23] Reggora Case Study, "How A Private Mortgage Company Saved $192 Per Loan By Solving Appraisal Workflow Issues"; reggora.com/case-studies/privately-held-mortgage-company
[24] Reggora Case Study, "How a Regional Bank Saved $225,000 Per Year and Eliminated Revenue Leakage in Its Appraisal Operation"; reggora.com/case-studies/regional-bank-in-the-southwest



With this information, appraisal managers will be in a very good position to deal effectively with any issues that arise, ensuring that service levels and expected turn times are maintained, reducing overall stress on the team.

While appraisers are independent, and compliance with state and federal laws requires that they remain so, modern technology can help give lenders visibility into the status and potential delays. For example, a loan officer could receive an automated notification informing of a potential delay, which would allow them to either troubleshoot or reset expectations with the borrower.

An informed loan officer is an empowered one. As Lynette Hale-Lee, founder of LHL Consulting and Education, stated in a 2022 webinar, "Navigating workflows that could reduce origination costs but hurt the borrower experience comes down to your ability to manage expectations with your customer. The really good loan originators know how to do that."[25]

[25]Lynette Hale-Lee, Reggora Webinar, "How To Recruit and Retain Loan Officers by Fixing the Appraisal Process"; reggora.com/blog/how-lenders-can-recruit-and-retain-los-by-fixing-their-appraisals

Good pipeline visibility will also reveal potential problems before they become serious. For instance, if appraisers consistently fail to hit expected service levels, it could point to a capacity issue, requiring the manager to shift work temporarily to other appraisers. Acting quickly will preserve borrower satisfaction and keep loan officers sourcing new business instead of worrying about missed closing dates.

Does better pipeline visibility make a difference? Just ask Scott Alexander, Director of Operations at Assurance Financial, who commented on the success they had with introducing increased pipeline visibility and automations:[26]

> *"Previously, we didn't feel as though we could get good metrics in Encompass for our appraisals. Now we can break down the stages by branches and by counties or parishes and look at appraisers in certain areas to determine if we're getting the best service level in that area. We can hold our partners accountable for their customer service."*
>
> **Scott Alexander,** *Director of Operations, Assurance Financial*

Efficient Appraisal Review

The valuation process is not complete until the lender has accepted the appraiser's report, which cannot happen as long as the appraisal department finds any problem with the report that has been submitted. Appraisers, like everyone else in the industry, are busy and mistakes can happen.

Much of this is automated in modern technology systems, but most will require at least a precursory inspection by an appraisal department professional.

The sooner the reports are reviewed and, if necessary, sent back to the appraiser, the sooner they can be corrected and the order finalized so the loan can be properly underwritten.

[26]Scott Alexander, Reggora Webinar, "Assurance Financial's Winning Borrower Experience"; reggora.com/blog/assurance-financial-appraisal-innovation-built-winning-customer-experience

Vendor Scoring

Regardless of how the appraiser performs, lenders must have a way to measure the appraiser's performance against their established performance standard. Vendor scorecards have been in use in our industry for quite some time, but it's even better to have a scoring mechanism built into the appraisal department's technology platform.

Over time, these scores will give lenders useful information that can help create a more efficient appraisal process. If the data shows that certain appraisal vendors can complete certain products at a higher level of service or produce higher quality results, they can be given priority with allocation decisions.

On the other hand, if an appraiser is consistently underperforming some action may be required if the vendor is to remain in service to the lender. Vendor scoring makes the lender's expectations explicit, making it easier for the appraisal vendor to hit these targets.

But measuring performance will always come down to data, which is why modern appraisal software is so powerful in this area. The more metrics the department can measure through the accurate collection of data, the more complete the view of their fee panel performance will be.

The department manager should know:

- Number of jobs assigned versus accepted
- Number of reports returned on time versus late
- Average time to accept a job
- Average time to contact the borrower
- Average days until inspection
- Average time to return a report
- Number of required corrections or revisions
- Any other metrics the lender finds useful

Tracking performance isn't just a way to ensure that vendors are living up to agreed upon SLAs. It's also an opportunity to periodically reward best performers, as well as indicating where appraisers are in need of more support, better technology, or additional training.

Vendor performance is increasingly important as a lender generates new business in a purchase money market.

Better Reporting

It's not just performance that lenders should be tracking in this department. A full reporting suite is essential and is built into modern appraisal management platforms.

The benefit of enhanced reporting works to the benefit of both the lender and the appraisal vendor. Assurance Financial Chief Digital Officer Katherine Campbell stresses that reporting can help hold both sides accountable.[27]

"We want appraisers to be good partners and we want to be good partners, too. It is a critical part of this process," says Campbell. "To be able to give them feedback and to let them know their average turn time versus the average turn time in their area, the performance is this, the average fees are this, they can get a scope of reality because that's the sort of data they haven't had, either, that we can deliver to them."

Katherine Campbell,

Chief Digital Officer, Assurance Financial

[27] Reggora Webinar, "Assurance Financial's Winning Borrower Experience"; reggora.com/blog/assurance-financial-appraisal-innovation-built-winning-customer-experience

Chapter 7

Problem-Solving with Appraisal Modernization, Automation, & AI

In this chapter, we highlight the ways automation helps lenders efficiently manage their appraisal workflow and how appraisal modernization is pushing the industry forward.

The long-term vision for valuation is a process that relies on a combination of technology, data, and human intervention to drastically reduce turn times, lower costs, and eliminate redundant manual processes — all without sacrificing appraisal quality. The secret ingredient to uniting these components successfully? You guessed it … Artificial Intelligence (AI) and automation.

To successfully implement a modern appraisal process, lenders will need better technology and new workflows. To demonstrate why this is necessary, all we need to do is consider the appraisal department of the recent past and one of its most persistent problems.

Why the Appraisal Process Takes so Long

In our work with STRATMOR, we took a very rigorous approach designed to give a 360-degree view of everything going on in the lender's appraisal department. What we found was that most of what was happening there was happening manually. Respondents to our February 2022 survey told us that 52% of appraisal-related lender time is spent on scheduling and follow-up.

Even worse, as noted previously, lenders responding to our survey told us it takes an average of seven days to find an appraiser and get the appraiser's visit scheduled with the borrower. And that's for a routine appraisal. Complex assignments take longer to place with the right appraiser.

Every lender knows that manual processes are inefficient. It's why they invest in technology. That hasn't happened as often in the appraisal department of many lender shops. As a result, the appraisal staff is left tracking everything by hand.

Our research reveals that this department's top two priorities are achieving on-time report delivery (38%) and improving report quality (35%). This is a challenge for them because 1 in 4 appraisals triggers a revision request and 1 in 5 is delivered late. When the department does request a revision, it takes at least four days to complete.

Lenders know this is a serious problem and they know what it will take to fix it. A Fannie Mae study released in the first quarter of 2022[28] showed that 94% of lenders surveyed indicated "appraisal modernization is valuable, and 61% think it's very valuable."

[28] Fannie Mae, "Q1 2022 Mortgage Lender Sentiment Survey® Special Topics Report"; fanniemae.com/media/43501/display

Lenders see appraisal modernization as valuable because they understand how impactful the appraisal can be on the borrower's experience. In a purchase market any issue that can influence net promoter score (NPS) is a top priority. Mike Seminari, STRATMOR Group's Director of Customer Experience, highlights the amount of risk lenders face if the appraisal process holds up the rest of the deal.[29]

"In the appraisal and the end of the process, there are so many things that can go wrong," Seminari says. "We see a lot of lack of visibility toward the end of the process where people just don't know what's going on and that really can be a deal-killer and hurts NPS."

Why The GSEs Pushed For Appraisal Modernization

The GSEs recognize that appraisers will benefit from a modernized appraisal process. As Fannie Mae's senior director of collateral valuation, Lyle Radke, stated, it may be a more efficient and cost-effective process for lenders, but for appraisers this means an increased capacity without significant — if any — investment on their part.

"We have to find ways to make appraisers more efficient or dedicated to pressing problems," Radke mentioned in a 2022 Reggora webinar.[30] "[Appraisal modernization is] an efficiency play. If an appraiser is out of the field, they can spend more time doing market analysis and valuation."

With a push to increase the amount of available information through property data collection and floor plans for desktop appraisals, we can see a future where there's enough property data for appraisers to take remote work on a consistent basis. This will put time back into their "bread and butter" of delivering an opinion of value, thus increasing volume and income for the appraiser.

Above all, embracing technology would enable industry stakeholders to witness the value that technology can provide in modernizing the appraisal process. If this is accomplished, then the industry can start to explore other benefits of technology that will usher in the future of valuation.

[29] Mike Seminari, Reggora Webinar "Lender Workshop: How to Stop Losing Money on Appraisal Fees"; reggora.com/resource/how-lenders-can-stop-losing-thousands-on-appraisal-fees
[30] Lyle Radke, Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac

Employing Better AI and More Automation

Over the past few years, we've seen an explosion in tools that make use of artificial intelligence (AI). For many reasons, AI has seen slower adoption in the mortgage lending industry. The appraisal department, on the other hand, is the perfect place to deploy these tools.

Because the industry's largest investors have specified both the specific forms and the data set required for collateral valuation, AI can be programmed to recognize this information, index it appropriately, and digest the important data from the reports delivered by the appraiser.

This means that all of the manual functions that appraisal staff inside the lender's shop have been saddled with in the past can be reviewed from the perspective of much smarter technology than we've ever had before.

When the job falls back out of automation, much of the work is already done. How much can AI do? More every single day, and lenders who invest in modern appraisal operations employ the latest of these technologies to improve their department's performance.

But that's just the beginning of what's possible with these new tools. The extent to which the lender can automate its workflow depends upon the tech stack it employs as part of its strategic approach to the department and its work.

The Power of AI to Aid in Appraisal Modernization

In order to better understand how AI and automation can apply within appraisal and automation, it's important to understand key changes happening within the industry.

The approach to appraisal and valuation is shifting to a risk-based model, which leverages different valuation and risk-measurement methods depending on the type of property in question and the risk of the transaction. For example, a standard ranch-style dwelling in a large subdivision in Texas that is up for sale may rely on the recent sales of 20 other similar ranch-style properties around it to help determine its valuation. Standardized properties such as this, when data is abundant and variations are low-to-moderate, would not warrant the same level of underwriting scrutiny compared to a unique, complex property in a rural location such as coastal Maine. This system will allow stakeholders to select a different valuation product type — full appraisal, desktop appraisal, automated valuation model, or others — depending on the complexity of a transaction and property and the data constraints within their respective markets.

The industry has coined this shift "appraisal modernization," and we're already seeing this approach becoming a reality, with the introduction of desktop appraisals as a permanent fixture accepted by Fannie Mae and Freddie Mac in March of 2022.[31] In addition, Freddie Mac announced that they would replace their current appraisal waiver program — automated collateral evaluation (ACE) — with ACE+ PDR (property data report) for certain types of mortgages.[32] This change will allow sellers and borrowers to continue to benefit from originating loans without an appraisal while continuing to mitigate risks specific to the physical collateral.

This process is practical from both an efficiency and cost perspective. As Radke points out, one reason traditional appraisals cost both time and money is the need to send appraisers to a property. Both GSEs believe alternate valuation methods can lower costs because "it's an efficiency play; if an appraiser is out of the field, they can spend more time doing market analysis and valuation."[33]

It is useful to break this down a little further to demonstrate what a partially automated process would look like in practice.

Once a property needs an appraisal, an automated system will gather public data on the property to determine its complexity and what kind of valuation method is best suited for the property. In this hypothetical, let's assume that the property needs some hybrid model of both human input and automation.

In such a situation, a third-party inspector (like an appraisal trainee, a real estate agent, a gig economy–style worker, or even a homeowner) could use a mobile application to take specific pictures of the property and input a handful of verifiable variables. This data will then go to an appraiser at a desktop who can complete the valuation process and produce an appraisal report. This final value is then compared against an automated algorithm that would take into consideration value indexing and/or recently sold properties to ensure there is no significant deviation in value.

[31] Lyle Radke, Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac
[32] Freddie Mac, "Bulletin 2022-6: Automated Collateral Evaluation (ACE) Eligibility"; my.sf.freddiemac.com/updates/guide/bulletin-2022-6
[33] Lyle Radke, Reggora Webinar, "Understanding Desktop Appraisals: Takeaways from Fannie Mae and Freddie Mac"; reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac

This system — even one that requires human interaction — can shorten the valuation process by several days. With STRATMOR data showing that it takes on average 16 days to complete an appraisal, the aim of a two-day appraisal without any sacrifice in quality should be the north star for the industry. In this ideal scenario, properties will still receive the requisite level of underwriting scrutiny based on the appropriate risk while balancing speed, convenience, and accessibility across the industry.

Freddie Mac has taken a leap forward with the announcement of ACE+ PDR, showing its commitment to appraisal innovation. *"This change will allow Sellers and Borrowers to continue to benefit from originating loans without an appraisal while mitigating risks and ensuring we purchase Mortgages secured by properties in acceptable condition."*[34]

Likewise, Fannie Mae aims to take the industry into the future, listing digital transformation in the mortgage process as the top benefit in its documentation outlining the implementation of desktop appraisals. "Leveraging the wealth of big data, the power of advanced analytics, and the speed of technology, appraisers can perform desktop appraisals without physically inspecting the property."[35]

These advances are promising, but the industry can't rely on a "build it and they will come" mentality, either. The mortgage industry — lenders in particular — need to enable the end-user and create buy-in for advances in real estate valuation. Desktop appraisals, for example, rely on the use of photos and floor plans rather than the sketches that are acceptable for traditional appraisals. There are a number of solutions for each of these requirements, which range from the usage of tech such as LiDAR and the information provided to the appraiser by real estate agents to support desktop appraisals.

While this long-term thinking is prudent, the industry needs to be fully confident in these automated systems and mobile apps before they are accepted as standard. In reality, many automated solutions have been available to lenders for decades. However, the lack of standardization and efficiency in the existing process has made lenders wary of rapid innovation or high-risk options. As a result, the future of valuation will be a process that requires experimentation, analysis of real estate transaction data, and a stamp of approval from not only direct stakeholders but secondary market investors.

We can begin to experiment with these new forms of valuation at scale only after we first solve the existing pain points in the appraisal process. It's only once stakeholders feel comfortable that the existing process can be streamlined that they will consider investing in more advanced, automated processes at scale.

[34] Freddie Mac, "Bulletin 2022-6: Automated Collateral Evaluation (ACE) Eligibility"; my.sf.freddiemac.com/updates/guide/bulletin-2022-6
[35] Fannie Mae, "About Desktop Appraisals"; singlefamily.fanniemae.com/media/30361/display

Chapter 8

The Modern Mortgage Tech Stack

In this chapter, we dig deep into the best practices and considerations for lenders evaluating an appraisal management platform.

We've made it clear throughout this guide that a modern appraisal operations strategy has to be built on a modern tech stack. So the question is, how should lenders go about finding and evaluating the right tech for them?

Fortunately, a number of excellent platforms exist today that don't require much time or effort to implement into an appraisal workflow.

Choosing an All-in-One Platform

Some lenders will go to market in search of a number of tools matched to the functions they have mapped into their unique processes. A better approach, however, will be to find a streamlined, all-in-one platform that meets all of the lender's appraisal needs.

Amanda Hill, Director of Implementations and Professional Services at Reggora, points out that the ideal state for the market is not only achievable but should be a top priority because "borrowers at all stages of homeownership are looking for user-friendly, online experiences with full visibility into the process. Modern technology is key for lenders who want to stay competitive in this regard."

If all appraisal stakeholders used a single appraisal system to order, monitor, and review their appraisals, a large portion of the fragmentation within the industry would be removed, taking laborious manual tasks with it and giving borrowers the experience they crave.

The Importance of Integrations

What use is an appraisal management platform if it does not communicate bidirectionally with your LOS to keep loan files updated in real time? Or if it cannot plug into a payment processing platform? Modernizing your tech stack is much less valuable if you end up keeping your systems in silos. Integrations are necessary to connect all these technologies and allow them to work together seamlessly.

Look for an appraisal management vendor that has both ready-to-use integrations, which allow lenders to immediately connect their existing tech stack to the new platform, and an open application programming interface (API). The latter should be non-negotiable.

Vendors will not have out-of-the-box integrations for each software system you use now or might onboard in the future. Having access to an open API allows developers to code their own integration so lenders can connect any outliers in their tech stack to the appraisal management platform. This ensures that none of your software is confined to a siloed environment, and that your business will be future-ready to quickly take advantage of new technologies.

The Power in Choosing the Right Tech Stack

Consider that today's appraisal industry operates in similar fashion to the way the taxicab industry operated a decade ago. In order to call a cab (at least, in the suburbs), one was forced to look up local cab companies and call them, one by one, until one agreed to pick you up at a predetermined time for an uncertain price. The customer had no ability to monitor when the cab would actually arrive and no contact information to the driver directly.

Today, travelers can choose from a ridesharing platform to instantly order a ride for a predetermined price and track the progress of the driver throughout. When the ride is completed, one can offer specific feedback that translates into accountability measurements for the service provider, and payment is completed automatically.

The appraisal is in the midst of a similar revolution with appraisal management solutions. When lenders, AMCs, and appraisers all operate on the same data-driven platform, then appraisal orders can be instantly matched with AMCs or appraisers ready to accept the order.

If this sounds like science fiction, it shouldn't, as this type of system exists now to help align all parts of the appraisal process.

As Ken Dicks, Director of Appraisal Compliance and Initiatives at Reggora and a working appraiser for 35 years, points out, "the alignment of lender and appraiser expectations could be achieved earlier by processes that support improved problem identification and communication, streamlining some of the most manual and time-consuming aspects of the process."

There are also additional benefits to a streamlined appraisal workflow. In a more standardized, tech-empowered appraisal system, issues like payment processing, quality control, status updates, and more will all be accessible and integrated into a single interface. These optimizations may seem simple initially, but in aggregate, they create a more efficient process that benefits all parties involved.

"Borrowers at all stages of homeownership are looking for user-friendly, online experiences with full visibility into the process. Modern technology is key for lenders who want to stay competitive in this regard."

Amanda Hill,
Director of Implementations & Professional Services, Reggora

Appraisal Management Platforms are not AMCs

In this guide, we've been talking about modern appraisal management software, also referred to as an appraisal management platform. This is not the same as choosing a new AMC.

Some have confused the two, but they are not the same. Appraisal management technology is typically cloud-based software designed to help lenders streamline each aspect of their appraisal operations. It may offer direct integrations with AMCs — among other technologies, like a POS and LOS — so that the systems can share data and automate processes, thus eliminating the need for lenders to jump between different vendor platforms. Key information is centralized in the appraisal management platform to facilitate effective oversight of and control over the appraisal ordering process.

What Reggora Does	What The AMC Does
• Integrates with a lender's LOS	• Fullfills the appraisal
• Automates borrower payments to AMCs	• Manages turn times
• Consolidates all of the lender's AMC interactions into a centralized pipeline	• Coordinates with property contacts and handles scheduling
• Makes it easy for lenders to chat with and get notifications from their vendors	• Manages revisions and follow-ups

Evaluating and Selecting Technology

Because the home finance industry is so important to our overall economy with trillions of dollars flowing through this business every year, there are many vendors who are competing for a share of the loan originator's technology budget.

Choosing the right partner requires the buyer to adopt a process that starts with setting objectives.

Goal setting is a multistep process — and not one to be taken lightly. Without clear and specific goals, you won't be able to work backward to identify which tech solutions are right for your business, nor will you later be able to determine whether you ultimately got the ROI you needed from your tech implementations.

The first step is to define your long-term objectives. Keep them high-level, but make sure they include some measurable specifics. The lender's goals may be to improve turn times by a certain amount, improve its NPS by a certain amount, reduce costs, improve reporting, streamline payments to vendors or some combination of these. The lender may have other goals.

In any case, beginning a vendor search before the goals have been set will increase the time it takes as well as the risk of choosing the wrong vendor.

Once goals are set, the lender can begin to scope out the new system's requirements. This should be done before the lender attends software demos. System requirements will specify the components the lender expects to integrate into any new platform. It will also outline the technical capabilities that will enable the lender to reach its high-level objectives.

Here is a sample list to illustrate this point:

- Open API platform
- Integrate with LOS
- Integrate with POS
- Payment collection & processing
- Automate order allocation to the appraisal vendors (Based upon defined roles)
- Configurable workflows (Ability to manage appraisal vendors and workflows at branch or regional level)
- Ability to manage different types of user profiles/user access
- Efficiently manage fee escalations
- Configurable pipeline views to track orders and flag orders that require attention
- Automatic delivery for UCDP/EAD
- Electronic delivery of the appraisal to the borrower
- Easily manage revision requests on the appraisal

Each lender will have their own list of requirements, that should be fully scoped out before going to market for a new solution. However, lenders who have not purchased appraisal management software recently might not know what's possible with today's modern appraisal management platforms. An introductory conversation with a developer who currently offers such a platform is a great place to start learning!

Finding and Evaluating Technology Partners

The discovery process for appraisal management technology is similar to that of any other Software as a Service (SaaS) solution. You'll find two things no matter what type of tech you're hunting. One is a range of vendor options, from specialized, siloed software focused on a particular feature to comprehensive, integrated platforms. The other is a vendor landscape that includes unproven technologies with misleading marketing alongside respected, award-winning solutions.

Approach your search with a clear understanding of your organization's needs, based on the goals you've outlined. This will guide you toward the type of solution — siloed or comprehensive — and the exact features it must have to help you reach your high-level objectives.

Next, collect vendor recommendations from colleagues in other organizations and discover others by reading trusted industry publications. Narrow your search to five or fewer before you begin contacting vendors. The vendors in your final list should be reputable and known for continuous improvement, innovation and quality customer service. Their tech solution should be scalable, have open integration capabilities and, most importantly, offer all the features your organization needs to achieve your goals.

Ask all the questions that their website doesn't answer. Use this checklist to get started.

- ✓ Do you have an open API?
- ✓ Which platforms does your technology integrate with?
- ✓ What are your appraiser and AMC vendor adoption levels?
- ✓ In what ways are you investing in R&D over the next 5 years?
- ✓ What's on your product roadmap for the next year?
- ✓ Have you passed compliance tests at large institutions (SOC2)?
- ✓ Can you describe your onboarding process and the level(s) of support you provide?
- ✓ What kind of post-implementation customer and technical support can I expect?
- ✓ Can you share case studies that illustrate how you improved turn times for lenders?
- ✓ Can you share references similar to my organization who I can talk to about your platform?
- ✓ What investors or financial backing does your company have?

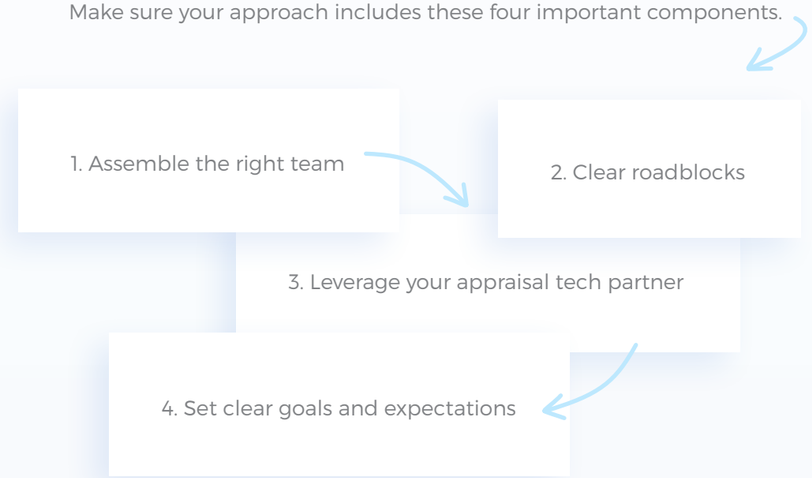
Chapter 9

How to Simplify Your Implementation

In this chapter, we outline the approach successful lenders have taken to achieve a seamless implementation of appraisal management technology. The best practices include four steps: designating team members for the implementation, clearing roadblocks, leveraging your tech partner, and goal-setting.

The first step toward a successful implementation is drafting a strategy. Just like the goals you've already defined, this will serve to guide you through the process and keep your team on track. Build in some flexibility, knowing that the details are likely to change as you get closer to selecting a vendor and signing the contract — as key players could shift and the vendor's level of involvement might be different than you originally anticipated. However, it's important to start putting some thoughts on paper, so it's easier to finalize the strategy when the time comes.

Make sure your approach includes these four important components.



These all equate to our overarching advice here — have a well-mapped out change management plan.

Jonathan Gifford, VP of Operations, Inspire Home Loans, uses the following process:[36] "The first step in onboarding any new technology is to use our test environment to work with the new vendor. We start by identifying a handful of [subject-matter experts] to work in the test environment to identify any bugs or conflicts the new technology may have on the rest of our processes. Once we feel confident in the testing of the technology, we move the vendor to our production site and train all personas that will be using the new technology. Once we have the vendor in production and the team sufficiently trained, we target a small group of loans (by branch, or loan officer, loan program, etc.) to use as a pilot program. We stay in the pilot program until we are comfortable that the technology is working as expected and then continue rolling out to other branches until we have gone company-wide."

"The first step in onboarding any new technology is to use our test environment to work with the new vendor. We start by identifying a handful of SME's (Subject Matter Experts) to work in the test environment to identify any bugs or conflicts the new technology may have on the rest of our processes. Once we feel confident in the testing of the technology, we move the vendor to our production site and train all personas that will be using the new technology. Once we have the vendor in production and the team sufficiently trained we target a small group of loans (by branch, or Loan Officer, Loan Program, etc.) to use as a pilot program. We stay in the pilot program until we are comfortable that the technology is working as expected and then continue rolling out to other branches until we have gone company-wide.

Jonathan Gifford, VP of Operations, Inspire Home Loans

Assemble the right team

There are a few key roles for any tech implementation: developers, project managers, operations specialists, testers, and trainers. You will need to decide how many people will be assigned to each role, based on the scale of implementation and the size of your organization. After identifying who will fill these roles, discuss expectations with them far in advance of the actual onboarding. They will need time to wrap up other projects so they don't have conflicting priorities as well as create their own implementation plan based on their particular role.

Executive Sponsor: Determine who will build and champion your vision for how these operational changes will be integrated into your organization and ensure that any change management processes are supported to ensure adoption.

Developers: You will need one or more people who can write code for an open API, integrate your existing tech stack with the new software and troubleshoot throughout the testing phase and beyond.

Project Managers: These people will manage those who are involved with the implementation, ensure everything stays on schedule, and serve as the main point of contact for all stakeholders.

Operations Specialists: These are the people who will take the wheel after the developers make all the necessary connections and/or an administrator(s) to manage the software on an ongoing basis. That means assigning roles and permissions, creating conditional workflows and automation sequences, defining business intelligence rules, scheduling reports, organizing content, setting up dashboards, and more.

Trainers: To ensure effective adoption and satisfaction with the solution, designate staff who will write manuals, develop quick-help resources, create standard operating procedures (SOPs), and conduct training sessions across your organization.

Clear roadblocks

Some of the most formidable barriers to a smooth implementation and high usage will be alleviated or removed by the approach we've outlined. Even so, it's possible to overlook or downplay the importance of seemingly small pieces. When you see them in context, it's easier to understand how they can hinder progress. Review these common roadblocks to ensure you don't fall victim to them.

1: Difficulty finding time for a full implementation
Solution: Assemble your dream team of developers, project managers, operations specialists, testers, and trainers at least one full quarter in advance of implementation. Include their new responsibilities as an outsized part of their goals for the next quarter so that they can prioritize their other tasks accordingly. Plan to allow them dedicated time as required for all to participate when needed to prevent delays.

2: Adoption pushback
Solution: Change is hard for many people. That is why achieving early buy-in across the organization is critical. Belief in the technology and excitement for the changes that it will bring will leave your people eager to log on each day. Be sure that buy-in comes not only at the very top levels, but particularly on the frontlines as well.

3: Inadequate training support and resources
Solution: No matter how "user-friendly" the new tech seems, not everyone will catch on quickly. Offer a variety of resources—and make them easy to access — to help every type of learner at your organization: group training, individual sessions, hands-on training, comprehensive manuals, quick-help guides, and video tutorials.

4: Not capturing valuable feedback
Solution: In the testing environment, you will use a feedback loop to learn what's going well, what needs to be worked on, and general suggestions from the testers. Apply the same framework to gather feedback from those who are now using the software each day. It's important to encourage participation by being transparent about how you are using feedback to improve the experience. Manage expectations and distinguish clearly between bugs and "nice-to-have" requests.

Leverage your appraisal tech partner

Your vendor partner should offer a dedicated engineer and customer success point person to guide you through the implementation period and assist when you run into obstacles. In addition to technical support, leverage your partner for tips that will help your team get the most out of the new software — like ideas for efficiency gains, adoption and usage, feedback collection, and more. Lean on their advice regarding best practices and industry experiences to refine your process and effective use of the software.

Set clear goals and expectations

Earlier, we advised that you write out your long-term objectives and then break them down into smaller goals. Let these guide you during and after implementation. Review key performance indicators (KPIs) on a regular basis to ensure you are getting the ROI you expect from your appraisal tech.

Additionally, communicate these goals and expectations to your implementation team and management personnel. Identify those who will be responsible for particular KPIs moving forward. Giving others ownership over top-level results will ensure you have support throughout your organization and lead to a higher likelihood of long-term success.

Aligning Your Internal Team and Stakeholders

We cannot stress this enough: getting buy-in from those who will be most affected is very important

It's easy to assume that your employees will see a tech upgrade as a benefit, but that is not always the case. Some may be concerned that the new workflow automations and efficiency gains could cost them their job, not realizing that it actually provides an opportunity for them to take on higher-level responsibilities.

Have a proactive discussion with your people about the benefits of the new system, the timeline for implementation, and how you anticipate it affecting roles and responsibilities.

Additionally, you'll want to discuss the transition with those outside of your organization who will be affected — like appraisers and AMCs — as well as creating a roll-out plan for borrowers.

Like your internal employees, it's important that your external partners feel comfortable using the new technology. Plan to hold a training session with your vendors and implement a feedback loop to ensure you're aware of any hurdles or technical difficulties during the ramp-up period.

Chapter 10

Measuring Your ROI

In this chapter, we lay out the bottom-line benefits of appraisal management software and show how each solution can reduce a lender's cost per loan.

Directional change is important, but measuring your actual ROI will show what you've gained in relation to the cost of the investment, whether it's savings in money, time, or both.

There are two core areas lenders should focus on to measure ROI: appraiser performance and operational performance. Start by calculating how much each appraisal is costing you today and then review the numbers regularly post-implementation. You may choose to measure ROI monthly, quarterly, every six months, or annually — the cadence will likely change the further you are past the implementation period and whether there are specific goals for which you continue to optimize.

Review these lists of metrics to understand what can be measured in each focus area:

Operational Performance

- Current monthly appraisal order volume
- Number of FTEs in the department
- Amount of a processor's time spent on finding an appraiser to complete the order
- Amount of a processor's time spent on reallocating the order to a more eligible appraiser
- The main categories of exceptions/issues that processors must deal with
- Number of FTEs relative to order volume
- Percentage of time your operations team is spending on:
  - Scheduling
  - Following up
  - Correcting or editing

Appraiser Performance

- Average appraisal turn time
- Average appraisal cost
- Revision rate (what percent of appraisals require revisions?)
- What percent of appraisals are delivered on time?
- Turn time breakdown:
  - Average days to accept *(how long on average, does it take you to find an appraiser?)*
  - Average days to schedule
  - Average days to first submission
  - Average days to last submission
- Average days to complete inspection

Many lenders can do a little legwork to determine their current business costs in regards to the above. A trustworthy technology vendor can help you review these costs and point to specific savings you would gain by making simple changes to workflows and systems.

Our Own Analysis of Potential Savings

Tying a numerical value for any new technology investment can be a challenge. All too often, the promises made by the developer's tech team don't line up well with the actual results the client experiences after the software has been implemented. Or, a technology has been selected by a lender that doesn't align well with that lender's business model or existing tech stack. Sometimes, a poor implementation process or lack of buy-in or leadership can also derail the potential returns on a technology purchase, especially when margins are tight, turning potential into a sunk cost.

However the performance of a new technology is gauged, it's important that the standards and metrics be closely aligned with the business need the new solution is brought in to solve. Consistency, as well, is critical. (For more on this, see our 2022-published "Lender Appraisal Management Tech Buyer's Guide.[37]")

The same methodology holds true when it comes to modern appraisal technology. The return is heavily dependent upon the business need as established in the first place. While the traditional formula for ROI is fairly simple, determining the baseline, metrics and overall goals can be anything but — especially when it comes to new technology.

In our white paper on the ROI of appraisal innovation,[38] instead of guessing what formulaic benefits a lender could achieve from updating the software and workflows in their appraisal department and then trying to arrive at an expected ROI, we chose to look at actual problems that prompted lenders to innovate.

[37]Reggora Guide, "The Lender Appraisal Management Tech Buyer's Guide"; reggora.com/resource/appraisal-management-tech-buyers-guide-for-mortgage-lenders
[38]Reggora White Paper, "The High ROI of Appraisal Innovation"; reggora.com/resource/white-paper-the-high-roi-of-appraisal-innovation

We presented data from both STRATMOR Group's 2022 Lender Appraisal Performance Study[39] and Freddie Mac's Cost to Originate Study[40] as the benchmark costs for a typical lender's appraisal process. We then examined actual case studies[41] to establish the resulting benefits to prove how an advanced appraisal management platform can reduce the average cost per loan by up to $258.

But to achieve this, a number of problems must be overcome, including:

- Slow appraisal turn times
- Revenue leakage from appraisal fees
- Cumbersome accounting activities
- Manual appraisal management

We believe this is a bold approach and one that few technology developers will adopt because it forces them to point to actual user experience to support their claims.

Therefore, it's important to quantify the cost of the problems impacting the department in order to reveal the actual return. Here are the quantifiable problems we explored in detail:

- The actual time it takes to get an appraisal done.
- The actual time it takes to review a completed appraisal report.
- The fees paid to appraisers for loans that never end up closing.
- The excess fees charged by appraisers after the borrower fee has been disclosed.
- The actual time it takes to handle appraisal payments, billing and accounting.
- The time it takes to manage appraisal orders for every loan without adding headcount.

By analyzing all of these factors, any lender will be able to easily calculate the ROI of any appraisal innovation they care to undertake.

[39]Reggora Webinar, "STRATMOR Study Results: Lender Appraisal Performance in 2022"; reggora.com/content/stratmor-study-results-lender-appraisal-performance
[40]Freddie Mac, "Cost to Originate Study: How Digital Offerings Impact Loan Production Costs"; sf.freddiemac.com/content/_assets/resources/pdf/report/cost-to-originate.pdf
[41]Reggora Case Studies, Reggora Website; reggora.com/case-studies

Problem:
It takes too long to get an appraisal done.

Loan Cycle Time Cost Before Reggora
(on $285K average loan)

Cost of Funds: **$21.375**
Average Cycle Time: **40 days**
Loan Cycle Time Cost: **$855**

Loan Cycle Time Cost With Reggora
(on $285K average loan)

Cost of Funds: **$21.375**
Average Cycle Time: **38 days**
Loan Cycle Time Cost: **$812**

Reduced Cost per Loan $43

Our research found that an appraisal order management solution reduces a lender's cycle time by an average of two days. Freddie Mac's 2022 Cost to Originate Survey[42] shows that the cost of funds for each day a loan was in process (hedging costs & carrying funds costs) corresponded to 0.075 basis points. Assuming an average loan amount of $285,000, one day of a lender's cycle time costs the average lender about $21, and Freddie Mac's 2019 pre-pandemic closing cycle time research[43] showed an average cycle time of 40 days.

Assurance Financial[44] shaved off time on each order by automating most of the low-value tasks they used to complete manually. This led to a seven-day reduction in turn times, and borrowers greatly appreciate the faster, streamlined experience. Quicker turn times, for example, equate to approximately $150 of value per loan by shortening loan cycle times.

[42]Freddie Mac, "Cost to Originate Study: How Digital Offerings Impact Loan Production Costs"; sf.freddiemac.com/content/_assets/resources/pdf/report/cost-to-originate.pdf
[43]FreddieMac, "Mortgage Closing Cycle Time Benchmark Study," December 2020; sf.freddiemac.com/content/_assets/resources/pdf/fact-sheet/mortgage-cycle-time-benchmark-study.pdf
[44]Reggora Case Study, "How Assurance Financial Increased Borrower NPS and Shortened Turn Times by 7 Days"; reggora.com/case-studies/assurance-financial

Problem:
It takes too long to review an appraisal.

Appraisal QC Cost Before Reggora

Average QC Time: **0.75 hours**
Labor Cost: **$132**
Appraisal QC Cost: **$99**

Appraisal QC Cost With Reggora

Average QC Time: **0.14 hours**
Labor Cost: **$132**
Appraisal QC Cost: **$18**

Reduced Cost per Loan $81

Automated appraisal quality control solution reduces a lender's review time by 82%. On average, across Reggora's customer base, quality control took 45 minutes per appraisal prior to using our review solution. Freddie Mac's 2022 Cost to Originate Survey[45] shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with processing and underwriting, assuming 75% of each hour is productive, an hour of quality control costs the average lender $132.

[45]Freddie Mac, "Cost to Originate Study: How Digital Offerings Impact Loan Production Costs"; sf.freddiemac.com/content/_assets/resources/pdf/report/cost-to-originate.pdf

Problem:
Lost revenue as the result of uncollected appraisal fees.

Scenario 1
Lender Loses the Entire Fee of $629

Total Cost:
10,000 x 0.04 x $629 = $251,600

Cost Per Loan: $25.16

Scenario 2
Lender Loses the Entire Fee and Covers Fee Escalation, Totaling $810

Total Cost:
10,000 x 0.04 x $810 = $324,000

Cost Per Loan: $32.40

Loan fallout contributes to higher costs when appraisal fees cannot be collected from borrowers who walk away from a transaction or cannot complete it. The result is significant uncaptured revenue. Modern technology can change that. While results will vary by lender and are a function of the total loan volume, the loan fallout and the percentage of unpaid fees, the savings can be substantial.

So let's look at two scenarios for an average lender. According to STRATMOR Group's 2022 appraisal research,[46] the average cost of an appraisal in February 2022 was $629. The losses compound when fee escalations without a Change of Circumstance occur. If the borrower chooses another lender and neglects to pay for the appraisal, the lender is forced to also absorb the additional escalation cost, which was, on average, $181 per loan for lenders nationwide.

Losing $629 or $810 on transactions that don't close adds up quickly. Across Reggora's customer base of more than 120 lenders, this typically occurs on 4% of a lender's transactions. As an example, here is how much that costs a lender originating 10,000 loans per year:

100% of losses eliminated

[46]STRATMOR Study Results: Lender Appraisal Performance in 2022. (2023); reggora.com/content/stratmor-study-results-lender-appraisal-performance

Problem:
Revenue loss resulting from appraisers raising their fees.

When lenders disclose fees to the borrower and then later find that the appraiser has escalated the fee, the lender can redisclose the new amount to the borrower, but only if the fee escalation qualifies for a Change of Circumstance. Unfortunately, STRATMOR research found that 26% of loans included a fee escalation that didn't qualify. They also found the average fee escalation was $181. If you apply these industry averages to a lender whose volume is 10,000 loans per year, the result is $470,600 in losses, or $47 per loan file.

One way to address this challenge is the use of effective and flexible technology to proactively increase fee schedules in the markets where this happens. Reggora customers saw a reduction in revenue leakage from fee escalations without a Change of Circumstance by 65%. With 26% of appraisals impacted, that trims the impacted files down to 9.10% of total volume.

Revenue Leakage Before Reggora

Frequency of Escalation: **26%**
Cost of Escalation: **$181**
Cost Per Loan: **$47**

Revenue Leakage With Reggora

Frequency of Escalation: **9.10%**
Cost of Escalation: **$181**
Cost Per Loan: **$16**

Reduced Cost per Loan $31

Appraisal management technology uses nationwide appraisal data to provide reports that show local rates of fee escalations and the amount of each incident, giving the lender the flexibility to update fee schedules regularly and reduce this risk. This is exactly how PRMG[47] is using Reggora technology to make weekly adjustments to their fee schedules.

[47]Kevin Peranio, Reggora Case Study, "How PRMG is Driving Digital Transformation With Appraisal Technology"; reggora.com/case-studies/prmg

Problem:
It takes too long to handle appraisal payments, billing and accounting.

Appraisal Billing Cost Before Reggora

Average Billing Time: **1.0 hours**
Labor Cost: **$69**
Appraisal Billing Cost: **$69**

Appraisal Billing Cost With Reggora

Average Billing Time: **0.5 hours**
Labor Cost: **$69**
Appraisal Billing Cost: **$35**

Reduced Cost per Loan $35

Lenders are finding that they can easily cut the time it takes to manage invoicing, payment collection, accounting, and vendor payment in half with appraisal management software. This reduces costs and the number of FTEs required to perform these slow, expensive manual tasks. By redistributing this function, lenders are able to reposition those FTEs for more productive, sales-related tasks. Let's take a look at what that looks like in numbers.

An appraisal payment processing solution reduces a lender's review time by 50%. On average, across Reggora's customer base, employees spent 1 hour on billing activities per order prior to using our payment processing solution. Our research shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with billing, assuming 75% of each hour is productive, an hour of appraisal billing costs the average lender $69.

A great example of how much time automation saves a lender is Alpha Mortgage,[48] which eliminated 15 hours of work per week from its accounting team by automating payment collection activities.

[48] Jan Valencia, Reggora Case Study, "How Alpha Mortgage Saved $70 per Loan File with Automation in Reggora"; reggora.com/case-studies/alpha-mortgage

Problem:
It takes too long to manage appraisal orders.

An appraisal order management platform reduces a lender's time managing appraisals by 33%. On average, across Reggora's customer base, it took 1 hour to manage one appraisal order prior to using our platform. Freddie Mac's 2022 Cost to Originate Survey[49] shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with processing and underwriting, assuming 75% of each hour is productive, an hour of appraisal billing costs the average lender $132.

Appraisal Management Time Cost Before Reggora

Average Management Time: **1 hour**
Labor Cost: **$132**
Appraisal Management Cost: **$132**

Appraisal Management Time Cost With Reggora

Average Management Time: **0.67 hours**
Labor Cost: **$132**
Appraisal Management Cost: **$88**

Reduced Cost per Loan $44

When Alpha Mortgage[50] embraced new appraisal automation solutions from Reggora, the lender was able to reduce the number of FTEs on the appraisal desk by 75%, reducing the cost per loan by $70. At PRMG,[51] a similar move saved 1,000 FTE hours per month, or the equivalent of about 6 FTEs.

[49] Freddie Mac, "Cost to Originate Study: How Digital Offerings Impact Loan Production Costs"; sf.freddiemac.com/content/_assets/resources/pdf/report/cost-to-originate.pdf
[50] Reggora Case Study, "How Alpha Mortgage Saved $70 per Loan File with Automation in Reggora"; reggora.com/case-studies/alpha-mortgage
[51] Reggora Case Study, "How PRMG is Driving Digital Transformation With Appraisal Technology"; reggora.com/case-studies/prmg

The results speak for themselves:

$34 **Appraisal billing** • *$34 savings per file*, resources spent managing invoicing, payment collection, and financial tasks related to collecting appraisal payments & paying appraisal vendors.

$43 **Cycle time** • *$43 savings per file*, a faster mortgage cycle time and reduced carrying and hedging funds costs.

$56 **Appraisal fees** • *$56 savings per file*, reduced revenue leakage due to appraisal fees not collected by the borrower (i.e. deal is lost or a fee escalation without a change of circumstance).

$44 **Appraisal order management** • *$44 savings per file*, resources spent managing the appraisal order (ordering, communication, receiving & follow-up).

$81 **Quality control** • *$81 savings per file*, resources spent QCing each appraisal.

That's a **$258** reduction in cost per loan. But that's not all our data revealed. Lenders also earned an additional **$28** per loan from a **5%** increase in referral business.

Total ROI: $286 per loan file.

Every institution is different and calculating your exact ROI will be an exercise specific to your overall situation. That said, we would very much like the opportunity to sit down with you and explore where appraisal technology can reduce your cost to originate, based on a wealth of data from our research with STRATMOR Group and the results of your peers.

The obvious answer is to just get new technology to better manage this department. Unfortunately, as we've pointed out, it's not that simple.

Be Sure to Measure Your Own ROI

Now, it's time to reevaluate your own appraisal department. Which of the problems outlined in this chapter are costing your institution time, money, and borrower satisfaction? Can you quantify your costs? These are questions you can't afford not to know the answer to. If you can, then you should have an idea of how similar improvements could benefit your business.

Chapter 11

What's Next for Appraisal?

In this chapter, we leave you with a view of where the appraisal industry is headed and reinforce the importance of a modern appraisal operation.

An optimized appraisal workflow will benefit not only the individual parties involved but also the real estate industry as a whole. Once appraisal logistics are improved and the infrastructure to support appraisal innovation allows technology to play a larger role in the appraisal process, the industry will benefit from more tech-savvy forms of valuation. The change will not be immediate but incremental and deliberate, and much of it can be facilitated by optimizing the existing valuation infrastructure.

Once the existing logistics of appraisals have been streamlined, new tech-oriented forms of valuation will become increasingly viable. The desktop appraisal is a great example. Third-party non-appraisers, like homeowners or real estate agents, can now leverage verifiable technology such as 3D imaging tools to provide standardized property data to licensed appraisers, who in turn can issue appraisal reports without leaving their desks.

Naturally, however, the industry must ask itself how it wants to set a standard for what success looks like when it comes to alternative forms of real estate valuation. How will it ensure that newer processes are not actually assuming more risk from these non-traditional forms of valuation? To account for this, the industry will need to analyze for any corollaries between valuation types and loss results. Once this standard is set, we can begin to develop a deeper understanding of risk thresholds.

All industry stakeholders — from secondary markets to title insurance companies — will benefit from a more innovative valuation model. Reggora CEO and Co-Founder, Brian Zitin, has made the point time and time again that the appraisal process remains “the long pole in the tent of mortgage” that can make or break the entire loan process.

"As everything else in the mortgage process continues to get better, in 2020 and 2021, appraisal turn times actually got worse," Zitin said in Reggora's 2022 webinar on desktop appraisals.[52] "Appraisal continues to be a bottleneck around the ideal one-click mortgage. By unlocking new options that have the potential for faster turn times, it's going to remove that bottleneck from the overall digital mortgage process. That's why for lenders who are looking to optimize speed to close, appraisal has to be on that checklist. Otherwise, you're never going to get there."

Brian Zitin, *CEO & Co-Founder, Reggora*

Finally, it is important not to forget about the value that a modern valuation industry provides consumers. Ultimately, the consumer experience and satisfaction drive many real estate transactions. As a result, if the industry invests the time and resources in improving the experience to a more tech-focused, streamlined system while relying on the expertise of local professionals to assess risk, it will benefit consumers and, ultimately, the bottom line.

[52] Brian Zitin, Reggora Webinar, "Understanding Desktop Appraisals with Fannie Mae & Freddie Mac"; .reggora.com/blog/understanding-desktop-appraisals-fannie-mae-freddie-mac

About Reggora

Reggora is driving appraisal innovation with our modern, two-sided platform for mortgage lenders and appraisal vendors. With Reggora, mortgage lenders across the country are processing more appraisals than ever before while delivering an enhanced borrower experience. Lenders benefit from faster appraisals and fewer manual tasks thanks to capabilities such as advanced payment processing, algorithmic appraisal ordering, automated appraisal quality control, status updates, and more. In addition, an open API along with robust LOS and POS integrations help align lenders' tech stacks to deliver unprecedented operational efficiency.

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