Appraisal Modernization: A Point of View
by Incenter Appraisal Management

About Us

Incenter Appraisal Management, part of the Incenter family of mortgage and lending service providers, is a nationally licensed appraisal management company (AMC). Incenter is a Blackstone Portfolio Company. Our strong financial backing allows us to continuously advance our services in support of our mission to elevate the performance standards by which AMCs are measured. To achieve this mission, we are heavily investing in the modernization of the appraisal process by:

1) Creating an appraiser-centric environment and culture that attract, respect and reward the top tier professionals that fulfill the service promises we make to our lender clients.

2) Using technological advances to significantly modernize the appraisal process and bring it into the Mobile & Digital Age in an appraiser-centric manner, and with no compromise to USPAP standards.

3) Enhancing the consumer experience with tools and services that make getting an appraisal convenient and seamlessly easy within the mobile virtual environment.

Driving the Need for Modernization: Current Appraisal Industry Challenges

While much of the mortgage process has undergone significant modernization, much of the full appraisal process is still done the old-fashioned way. The AMC receives an order from the lender and assigns the appropriate appraiser in the property's locale. The appraiser then drives to the property, conducts an onsite appraisal, drives back to his or her office and prepares the valuation.

Today, the appraisal industry faces challenges that make it increasingly difficult for the in-person appraisal model to deliver against expected turn times and quality standards. Most notably, thousands of appraisers have aged out of the industry and are not being replaced by

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enough younger professionals coming in. Secondly, the COVID-19 pandemic made it impossible for appraisers to enter homes and conduct inspections in many areas.

- **Reduction in appraiser populations accelerating**: Some industry sources have put the current active appraiser population at 50,000-70,000 appraisers in 2020; confirming a significant, decade-long decline chronicled by the Appraisal Institute. The California BREA (Bureau of Real Estate Appraisers) also noted that in 2020, the number of appraisers active on their state board dipped below 10,000 active licenses, the lowest number on record.[1] According to these same sources, the average age of an appraiser is nearly 60 years old.[2]

- **The perfect storm hit in 2020 with the COVID-19 pandemic**: With so many appraisers in the risk category for COVID-19 and many states shutting down their economies and quarantining their populations, further pressure was put on the industry as appraisal professionals were unable to enter homes for inspections around the country.

- **Rising turn times and fees:** The immediate and most concerning effects of the two preceding factors have been an unprecedented rise in turn times and fees. Appraisals that used to average 5-7 business days in metro areas are now averaging several weeks; with prices hundreds of dollars over normal rack rate because demand is outpacing supply.

Simply put, there is no relief in sight unless and until the industry modernizes.

The Remote Appraisal's Time Has Come

Similar to remote notarizations on the title and settlement side of a transaction, the pandemic drove the need for the mortgage industry, its investors and regulators, to seriously consider embracing remote appraisals. The challenge, in our view, is to not throw the baby out with the bath water by relaxing the requirements of a traditional appraisal. So, while the remote appraisal's time has definitely come, it is incumbent on solution providers to develop platforms that maintain the integrity of the traditional appraisal. Otherwise, lender and investor risk controls may be sacrificed for the sake of convenience.

Equally important, appraisers won't adopt any solution they think may compromise the integrity of their valuations. To date, several key factors have prevented the national appraiser community from seriously considering mobile inspection solutions. They include a professional requirement to maintain airtight compliance with State/USPAP guidelines, distrust in the

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[1] Number of CA Appraisers Drop 50% & Renewal Fees Up 76% (appraisersblogs.com)
[2] file.aspx (appraisalinstitute.org)

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bifurcated appraisal process that attempts to substitute an appraiser inspection with a 3rd party, and fundamental trust issues with mobile inspections that have the borrower or real estate agent controlling the inspection or home image generation. These 3rd parties have an interest in the outcome of the transaction. As a result, appraisers are extremely skeptical of the "arms-length" nature of any type of inspection that puts a 3rd party in control of the camera and data-gathering. As one appraiser put it, "The only eyes this appraiser trusts are his own." These are the primary reasons why there has been such a low (single digit) adoption rate of the innumerable mobile inspection platforms introduced to enable 'safe distancing' appraisals during COVID-19. Additional reasons for the low adoption rate include:

- **There is no reliable method for appraisers to verify and sign off on the GLA (Gross Living Area) of the subject property**. This automatically makes virtual appraisals a non-starter for most appraisers, despite GSE-sponsored forbearances. The core issue is that appraisers need to provide an accurate and defensible GLA measurement and sketch for the interior spaces and exterior of the home. Even when there are high quality and usable photos generated for the Subject Property, there has been no reliable way to capture and verify accurate GLA measurements. Appraisers will simply not put their license and reputation at risk by signing off on an appraisal with a GLA created from images and data they can't verify or that was generated by a 3rd party.

- **"Virtual appraisal" or "mobile inspection" solutions take control of the camera from the appraiser and puts it in the hands of the homeowner.** This is a major flaw in remote appraisals for several reasons:

    - Appraisers are extremely reluctant to lose total control of the inspection process and imagery/data capture.
    - Images of homes generated by consumer/real estate agent photography may be selective, inadequate or inappropriate to use in a professionally produced appraisal report.
    - Often, they are difficult or impossible to metatag properly for location verification, exactness and accuracy.

- **Virtual appraisal solutions require too much tech knowhow.** Many consumers are resistant to downloading App Store applications and when they do download them, struggle to use them. Likewise, appraisers and consumers (remember many are middle-aged or older) also struggle with apps that require even a modicum of tech savviness. This significantly hinders adoption and therefore the usefulness of these solutions.

Despite these hurdles, the mobile appraisal solution is clearly the future. First, it can dramatically increase appraisers' productivity rates since they would no longer have to spend so much time traveling to and from properties. Raising individual productivity will help to offset

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the overall challenge of too many appraisers aging out of the industry without enough coming in to replace them. Mobile solutions that easily integrate verifiable data and information into current valuation report solutions will also reduce turn times while ensuring the QA process is not compromised. The ability of an appraiser to perform mobile inspections also opens a valuable opportunity for appraisers of the present to teach assistants and train new appraisers of the future in a scalable way, with lender and regulator oversight and documentation of the quality of the inspection. It will also enable those with multi-state licenses to credibly perform inspections in multiple geographies.

Modernization Best Practices for Appraisal Solutions

So, what should the FHFA and the GSEs be looking for in a modernized appraisal process to mitigate the concerns outlined above and enable a successful rollout and adoption of remote appraisals?

1) **Demand Accuracy: Endorse Solutions That Provide Accurate Exterior AND Interior GLA, Sketches, and Image Location Metatags.** No solution should be approved for widespread use by the industry unless it can generate accurate GLA, accurate interior/exterior sketches, accurate data, geo-located property address confirmation, and meta-tagged images/video. Investors and lenders shouldn't accept anything less and, frankly, professional appraisers won't.

2) **Endorse Solutions That Give Appraisers Complete Control Throughout the Inspection Process.** Appraisers will not put their professional reputations on the line by using bad or questionable consumer or real estate agent generated content. Any remote appraisal platform that doesn't allow the appraiser to direct everything the camera sees and records will not be adopted by any self-respecting professional.

   Solutions that are approved in modernization initiatives must win the trust of appraisers by keeping them at the center of the process, vs. trying to isolate them from it. This is what Incenter means by the term "appraiser-centric", and it is critically important to the short-term adoption and success of these solutions.

3) **The Technology Must be Push Button Simple.** While companies could certainly create a consumer-driven app that generates accurate images, preliminary indications from recently introduced pilots show these are too difficult for both appraisers and consumers to download and learn and are therefore not usable. Nearly all of the solutions currently tested by the GSEs do not have an accurate way to generate GLA and measurement data for the exterior and interior of the home with near-immediate results.

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Multiple clicks to effectuate an action, non-intuitive interfaces, and clunky patches that work around browser-specific issues will simply frustrate consumer and appraiser users that have zero tolerance for technology issues. Successful adoption of a remote appraisal platform requires the homeowner to do nothing more than click on a text link and stand there. For the appraiser, it must require no additional technology skills than sending a text and taking a photo or video with a phone.

What will a successful remote appraisal experience look like?

To meet the ease-of-use requirement necessary for adoption by homeowners and appraisers without relaxing key data or verification requirements necessary for appraiser acceptance, the optimal solution will support these qualifications:

a. No "mobile app" for the consumer necessary – it will launch an entire mobile experience via the browser of the most commonly used smartphones – via text message.
b. Appraiser sets up a mobile appointment with the consumer, which is performed virtually with appraiser in full control using the tools they already have.
c. The appraiser is able to "import" their entire mobile inspection data session into their existing appraiser software. This enables quick completion of a report with minimal manual workload.
d. The inspection will use geo-spatial data to exactly pinpoint the consumer's smartphone and overlay it with property mapping and metatags to provide assurance to all viewing the appraisal report that the images are from the subject property.
e. Appraiser is in complete control of the inspection, sees what the consumer sees in real-time and is the one determining the image capture. This negates the risk of the consumer or another 3rd party hiding anything from the appraiser.
f. After inspection is complete, the solution automatically generates sketches, video and photos, and a highly accurate interior and exterior GLA, — all of which the appraiser can download into their appraisal valuation software within minutes.
g. All data and video recorded during the appraisal is archived in the Cloud for replay and verification. Lenders and the GSEs can have access to this critical data as well for evaluation issues and are able to see the entire inspection of the home as it was on the Effective Date of the appraisal.

Incenter is developing this solution for release in 2021. It will address all of the concerns around usability and data integrity presented in this perspective and bring the long-awaited mobile inspection capability to life as an appraiser-centric solution. Ours will be platform agnostic and allow appraisers to use any software product they currently rely on to ingest the images, data, and video and complete a full appraisal with no compromise.

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More importantly, Incenter's solution will make the appraiser feel as if she or he were right there at the home, in full control while performing a USPAP compliant appraisal, without any 3rd party assistance. The industry should accept nothing less.

Thank you for allowing Incenter Appraisal Management to provide our perspective on the modernization of appraisals. As an industry leader working with six out of the top 10 U.S. mortgage lenders as well as hundreds of others, we look forward to continuing our engagement on this all-important question and working together to support a solution that meets the approval of all parties. This includes providing the FHFA and the GSEs with the necessary lender relationships to live-test and validate our solution on real loans within our customer base.

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