



Why We're Heading Into a Golden Age for Appraisal Modernization

New approaches and technologies have kickstarted a valuation renaissance — here's a peek inside the inner workings of this growing movement.

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Background — rising to the moment

Over the last several years, the mortgage industry embarked on a massive digital evolution to improve the consumer experience. And what we have learned from watching other industries is that consumers ultimately decide what approach will be adopted.

Compare in your mind the total experience of getting a mortgage today versus 15 years ago. Overall, there is so much less friction, less paper, less time investment, less confusion, and less opportunity for fraud that it doesn't even seem like the same process. It's something entirely new — something better.

However, during most of that same window of time, the mortgage process's home appraisal component has remained mostly unchanged. The manufacturing process is largely the same, and the available pool of critical appraisal professionals hasn't kept pace with a growing market. Starting a few years ago, the cracks finally began to show — mushrooming turn-times, delayed closings, and escalating costs to the borrower.

Consider:



According to recently released data from Freddie Mac, about **50 percent more appraisals are being completed in 2020 than there were in 2012**, but the number of appraisers available to perform them has remained about the same.



The average cost of an appraisal is now **24 percent higher than in 2016**.



The average turn-time of an appraisal has grown **65 percent from 2018**.

However, an Appraisal Modernization revolution is already underway that promises to benefit consumers — and appraisers themselves — in exciting new ways. New manufacturing approaches and technologies have kickstarted a renaissance in appraisal modernization. We may be entering a golden era of innovation in appraisal — if we continue to prioritize the consumer experience.

Background — rising to the moment

Why this white paper? Why now?

At the end of December 2020, FHFA has distributed an RFI to request public comment on Appraisal Modernization, with responses due by February 26, 2021. The responses to that RFI may help influence what direction our industry takes next.

As a result, we're at a critical inflection point in this fledgling renaissance. Modernization will either take root and flourish or be temporarily stamped down — causing us to miss another critical window and punt back to the way things have always been.

The purpose of this white paper is to take a peek behind the scenes at what's been happening in Appraisal Modernization. It provides a true and clear picture of the new approaches and technologies that can change the real estate and mortgage industries for the better.



Having been an appraiser for almost 40 years, I clearly understand why some appraisers are initially reluctant to embrace hybrid appraisal assignments. A primary reason often cited is the 'trust factor.' Many appraisers, including myself, were trained as being 'the eyes and ears' of the lender.

However, mobile technology in the hands of a non-appraiser performing the onsite data collection can now provide high-resolution digital photos and even a digitized floor plan and square footage calculation. The appraisers can 'virtually' be at the property instead of physically, still produce high-quality valuations, and be far more efficient with their time.



John Brenan
Chief Appraiser, Clear Capital

What's been happening in appraisal modernization — a peek behind the scenes

The major limitation of the traditional appraisal process is the capacity constraints created by requiring the appraiser to perform all of the individual tasks associated with the report's development.

So why, with all of this innovation and potential, have we continued to require appraisers to perform every single step in an appraisal? Why have we required our most valuable, most trained, and most tenured valuation participants to maintain the most quotidian and repetitive tasks?

Appraisers schedule their own appointments, drive around for hours at a time to inspect comparable properties, take photos, trudge through prickly hedges to pull tape in the ripe humidity of a Texas summer, and then drive some more. We don't expect surgeons to prep their patients, administer anesthesia, and clean the operating room — we expect them to use their hours of training and knowledge more effectively.

In the same spirit, we should be on a mission to help appraisers use their elevated skillsets most effectively by removing mundane, repetitive, and time-consuming tasks from their plate. We want them to focus on the "surgery."

Thankfully, some significant changes are afoot that demonstrate the massive value that can be created by segmenting the appraisal process into two distinct swimlanes:

- 1) **Property data collection**
- 2) **Analyzing that data to determine property value**

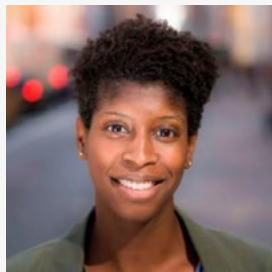
This concept — sometimes referred to as a "hybrid appraisal" — has been around for many years. This is where a separate party (typically not an appraiser) collects the property data, and the appraiser reviews it to arrive at an opinion of value.

More recently, what's "new" is applying a hybrid appraisal model to origination loans rather than alternative use cases such as home equity and servicing. In this approach, the property data collector compiles an extremely robust set of data — so much so that the appraiser can complete an entire traditional 1004/70 as a desktop product as opposed to a more limited scope desktop.

What's been happening in appraisal modernization — a peek behind the scenes



Appraisal innovation through modern tools provides the opportunity to raise the bar for data accuracy and consistency in every neighborhood. We believe the hybrid appraisal model can ease capacity issues, empower appraisers, and provide a better customer experience start to finish.



Jillian White
Head of Collateral, **Better.com**

Many in our industry are likely well aware of appraisal modernization efforts that have been undertaken in recent years, but not everyone may be aware of how widespread and effective these approaches have already been.

To give you a general idea of progress, here are some statistics from Clear Capital's Modern Appraisal program, which leverages our nationwide network of non-appraiser property data collectors to perform data collection on behalf of the appraiser.

Appraisal modernization — already delivering at scale



120,000+

Completed Loans by Clear Capital



Nationwide Coverage



Faster

4.4 days faster, 7.8 days compared to
12.2 for a traditional refi appraisal



Less Expensive

Average Cost Savings of 26 percent
compared to a traditional appraisal



More Convenient to Borrower Schedules

2x the rate of weekend and evening inspections



Positive Lender Impact

One-third of the customer escalations
compared to a traditional appraisal

* "Traditional appraisal" refers to a 1004/70 URAR.

Appraiser acceptance of hybrid appraisals is strong, and getting stronger

Understandably, there has been some resistance to the hybrid model from a segment of the appraiser community. It's a new process that may take time for the industry to get used to, and it's important for all of us to listen and learn from our valued appraisers.

The great news is that there is a growing number of appraisers who not only participate in hybrid appraisals, but view them as their preferred source of work.

As these modernization programs have grown, the number of appraisers signed up to participate in them with Clear Capital has almost tripled from May 2019 to today.

The COVID-19 pandemic has even further-accelerated appraiser acceptance of the program, as completing the Desktop Appraisal is seen by many appraisers as a safer alternative to the traditional assignment. The speed at which appraisers accept hybrid appraisal orders has consistently improved every month since the pandemic began. A solid foundation is being laid for the industry with the growing number of appraisers who are comfortable completing hybrid assignments.

Appraiser testimonials



I have been able to change my practice to 100% desktop. Because I do more reports this way, my overall income has increased, my costs have gone down, I rarely have to interact with the borrower and I am not out in the heat, rain, snow or frigid temperatures.

Dennis Lynch

Sunrise Inspection Services, Olmsted Falls, OH



The 1004 hybrid is a great product. As an appraiser, I can focus on data analytics, value trends, and measuring market adjustments rather than scheduling inspections and travel. With less interaction with the borrower, I also feel that I can be more independent. The brokers providing the property data collection reports are well-trained and are providing quality photos and property descriptions.

Benjamin Onega

Onega Appraisals, North Port, FL



The 1004 hybrid is an awesome product. It has allowed for more work and less time driving. It allows the appraiser to do more research on the property and the market area. I hope that this is a product that will continue after this crisis.

Dana Snyder

Appraisals by Dana, LLC, Atlanta, GA

Appraiser testimonials



Such a great product. I love doing these assignments, and if I had the opportunity, I would do them exclusively. They save so much time over spending hours in the field and allows me to concentrate on the actual appraisal rather than scheduling, driving, and entering homes ... especially during these uncertain times.

Marc Zellin
Zellin Real Estate, Sugarloaf, PA



I now complete only desktop appraisals. Most are the 1004 hybrids. I really enjoy this form of appraisal and because of my experience and the information I receive from the third party, I feel all of my appraisals are as accurate as the standard 1004. I prefer this type of appraisal over all others.

Michael Mendenhall
Sterling Appraisal Group, Phoenix, AZ



The 1004 hybrid appraisal allows the appraiser to concentrate on the development of the appraisal report and conclusion without the distraction of dealing with scheduling and traveling to the subject property. I have been able to provide a complete appraisal report much more quickly, usually in less than half the time. As a result, the number of appraisal reports I am able to complete on a daily and weekly basis is significantly higher.

Cathy Benefiel
Clario Appraisals, Dallas, TX

Non-appraisers (and homeowners) in property data collection

Asking a non-appraiser to collect such robust property data has understandably made some cautious about the program. However, as the quotes shown earlier from satisfied appraisers indicate, it can be done very effectively with the appropriate technology and training.

So you may ask, can high-quality property data be captured by a novice who has no training? The emergence of COVID-19 created a natural experiment in 2020 to test that question.

In early April 2020, the GSEs issued guidance to allow for appraisal flexibilities during COVID-19 to reduce the incidence of in-person appraisal inspections. The guidance authorizes lenders to use alternatives to full appraisals in certain circumstances, including allowing the appraiser to perform only an exterior “drive-by” inspection — **and to rely upon interior property data and photos provided by the home occupant.**

To ensure lending could continue in the face of COVID-related inspection holdups, companies like Clear Capital released exciting new mobile, homeowner property data collection tools. An entirely new industry sprung up almost overnight, with at least 20 different homeowner property data collection apps hitting the market in 2020.

Many of these tools — including our OwnerInsight application — provide consumer-friendly user experiences and robust feature sets. They include fraud-mitigation tools like geofencing to validate capture location, guided in-app collection prompts, and photo steps to ensure consistent, high-quality data.

At the height of the pandemic in June 2020, more than 40 percent of appraisal orders serviced by Clear Capital were converted to COVID flexibilities that could use data collected by a home occupant.

The chain of events that occurred in 2020 allows one to envision a future in which homeowners have the option to collect their property data upfront during the loan process when completing their loan application, enabling an appraiser to quickly turnaround a desktop appraisal using the data. Given the success these loans have and the quality of the data collected by certain apps, this doesn't have to sound like an outlandish idea, as it may have in the recent past.

A major limitation to the homeowner data collection model is the lack of validation of the gross living area (GLA). However, emerging new technologies are coming that will address GLA.

Automated sketches and digital GLA: emerging technologies that will accelerate appraisal modernization

Perhaps the greatest hindrance to the growth of non-appraiser property data collection in the hybrid appraisal program is the consistent production of an accurate and reliable floor sketch and GLA. It may sound like a trivial thing, but it's massively important.

Besides locational influences, a home's size is perhaps the single biggest contributor to its value, so accurately capturing dimensions is essential to getting an accurate appraisal. Unfortunately, securing accurate GLA can be challenging, even in the traditional appraisal process.

Consider the limitations of the current, traditional sketching process:

Learning to measure and sketch a home with accuracy takes considerable time and effort. Take it from us — we've successfully certified more than 800 data collectors nationwide in how to do it! We're extremely proud of the high-quality work they do in measuring, but it's taken a multi-year, "all hands on deck" effort to hit this scale and coverage.





Traditional measuring and sketching can't be a part of homeowner data collection. When completing COVID-approved appraisal alternatives using homeowner-provided data, there is no way to validate the property's actual size. Homeowners can't be relied on to provide accurate GLA. This opens up the process to risk.

Appraisers don't have consistent measurement principles in traditional appraisal work. Some appraisers measure to the nearest foot, some to the nearest half-foot, some to the nearest inch. There are inconsistencies in how appraisers treat stairwells, basements, and more. For such a critical data point, significant variances currently exist in how square footage is collected.

If we think about the limitations of the traditional sketch and GLA process defined above, we can flip those limitations on their head to imagine a modernized sketch and GLA process.

Automated sketches and digital GLA: emerging technologies that will accelerate appraisal modernization

Modernized Sketch and GLA

	Traditional	Modern
 Accuracy	Inconsistent principles	Standardized principles
 Fidelity	Minimal visual detail on the sketch	In-depth visual detail on the sketch
 Scalability	Significant learning curve	Anyone with a smartphone can do it
 Integrity	Interested Parties can't be trusted	Data can be safely collected by anyone

New technologies are quickly emerging that are making our “modern” vision a reality — effective immediately.

Almost everyone’s smartphone can now be counted on to produce an automated and accurate floor plan sketch and GLA, with little prior training required. And the incorporation of LiDAR technology in newer phones ensures continued growth and accuracy in the future.

While several companies are making significant advances in this space, we’ll focus on a Finland-based startup called CubiCasa that has a new product perfectly positioned to unlock the future of appraisal modernization in this white paper.

How does CubiCasa work?

It's a simple two-step process:

- ① Perform a five to ten-minute walkthrough using your smartphone to “scan” the home, following the helpful guided prompts in the CubiCasa toolset.
- ② A few hours later, receive back a detailed, high-fidelity and accurately measured floor plan sketch, including calculating the gross living area.



CubiCasa uses advanced image-recognition technology and a robust QA process to convert your smartphone scan into the high-fidelity sketch and measurements you see here, which meet appraisal standards and requirements.

Perhaps best of all, CubiCasa's stunning new mobile scanning technology is available to seamlessly integrate into any mobile app experience through a software development kit (SDK). This means that any company in the mortgage industry could embed this technology easily into their existing products, exploding the possibilities for what the creativity of our market can bring to bear with it.

What automated sketch and digital GLA technologies will unlock

As mentioned earlier, perhaps the single most challenging part of scaling out appraisal modernization efforts is developing accurate sketches and GLA.

Technologies like CubiCasa have eliminated that barrier. They can unlock our industry's ability to capture elite-quality property data for the appraisal process at a scale and low cost that open up massive pathways to growth in modernization.

With this kind of technology:

The number of individuals who can be quickly trained to complete high-quality property data explodes exponentially.

Property data collected by an interested party — such as a homeowner — can be trusted to include accurate, objectively-validated GLA. The technology calculates those critical data elements, so the homeowner's influence on the data is eliminated.

Suppose appraisers began using this technology to enhance their current sketching process. In that case, all appraisals could receive the kind of detailed, high-fidelity sketches with standardized GLA principles that would lead to a higher quality of appraisal and a massively improved experience for collateral underwriters. A higher-quality sketch could also benefit appraisers by reducing revision requests.

These opportunities are no longer far off, future hypotheticals. The technology is available now. Clear Capital is moving quickly to integrate CubiCasa's technology into our products and processes. Still, we encourage other companies in our vertical to explore similar technologies or work directly with CubiCasa as well.

The more we all migrate towards modernization, the better chance of success we all collectively have.

Conclusion

We've covered a lot of ground in this white paper. We've shown how appraisal modernization has already started in earnest, that it's demonstrating substantial benefits in turn-time reduction and improvements to customer experience, and that appraisers are beginning to welcome it — in some cases, far preferring it to the traditional process.

There is plenty of very positive momentum, and we indeed seem to be on the verge of a golden age in appraisal modernization.

However, it's not a slam dunk that this revolution will happen. Change is hard for any industry. It's often easier to stick with the status quo. There is a possibility that resistance to change or potential declines in mortgage volume in 2021 could lead the industry to take its foot off the gas of modernization.

The emerging conversation happening in our industry about potential bias and subjectivity in appraisals accelerates the importance of modernization. Creating distance between the valuation and on the onsite data collection, as well as technological standardization, will help drive a better customer experience.

As an industry, we need to push to make modernization a reality. We'll need to be vocal with regulators at the federal and state levels to ensure they understand the massive benefits that modernization creates and to understand the focus on risk mitigation and quality of appraisal as our overarching goals.

Additionally, partnering closely with appraiser groups to bring the change to fruition in a thoughtful and collaborative way will be essential. We've seen great growth in appraiser adoption of hybrid appraisals and modernized techniques, but we still have work to do in partnership with appraisers to make these programs even stronger than they already are.

Modernization is not intended to replace appraisers or marginalize them in any way. To the contrary: an effective Modernization program will emphasize the importance of the analysis and expertise appraisers bring to the table. It will never replace appraisers, only elevate their roles.

We're very much looking forward to the journey.

About Clear Capital

Our story began in the mountain town of Truckee, California nearly 20 years ago, when we pioneered delightfully simple, web-based valuation technology solutions for an industry relying on paper.

Today, we're grateful to call the nation's largest banks and financial institutions our customers. We've grown to more than 700 team members who share and embody our unwavering commitment to building a better way.

As we continue our journey to modernize valuation, we'll hold on to our promise from day one: to go wherever it leads and do whatever it takes to serve our customers with remarkable technology and uncompromising service.

To learn more, call 530-550-2525 or visit ClearCapital.com.

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