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Leveraging AVM Technology: From Form-Filling to “Collateral Valuation”

By: Darius Bozorgi & Jeff Bradford

What business are you in? It's a question that ice manufacturers should have asked themselves as the refrigeration business advanced with the invention of the refrigerator and they began to lose business. Or railroad tycoons pondered as the transportation business evolved from the rails to the skies. It's a question that every forward-looking appraiser ought to be asking themselves right now. Here's why:

Appraisers often complain about being pigeonholed into form-filling roles, but new technologies are providing valuation professionals with an opportunity to expand their expertise and their practice. Most appraisers would describe themselves as being in the “appraisal” business: data gathering, verification and analysis, property inspections and condition reports, photographs and other research-oriented functions. Your practice probably includes some or all of these functions. But to define the function of an appraisal business as only generating appraisals is far too limiting. You are not in the “appraisal” business, you are in the collateral valuation business. New technologies, aimed at the core roots of valuation analysis—data gathering, filtering and analysis, can be of tremendous assistance in moving you from a form-filler role to the role of local valuation expert.

The primary strength of an AVM (automated valuation model) is its ability to rapidly analyze large amounts of data. This process is repeated continuously, with new data being added daily and new technologies being incorporated frequently.

In other words, AVMs are getting faster, better (smarter) and more efficient every day. Understanding this new technology, which was designed specifically to aid in the work of collateral valuation, is the first step in benefiting from it.

Workflow efficiency has grown exponentially in the last 20 years in the appraisal business (time and cost reduction). But there has been little change in the actual work of collateral valuation. In the 1980s, appraisers supported adjustments using the “paired-sales” technique. Today appraisers still support adjustments using the “paired-sales” technique. The process has remained unchanged because technology was not readily available to address the issue. Now it is. As AVM technology evolves and changes, appraisers should be asking how their practice and their clients can be better served by these new analysis and valuation techniques. The following sections provide examples of how to take advantage of this emerging technology today!

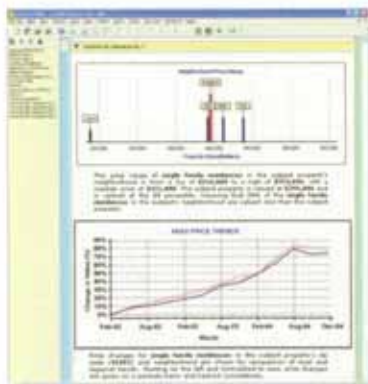
High Speed Property Analysis

AVMs were introduced more than a decade ago. Since that time computer hardware and property data sources have improved dramatically and they will continue to do so. Technology savvy appraisers have already benefited from their introduction. They use AVMs as a starting point in the valuation process. Here's how (see graphic 1).

- Pull an AVM and use the data provided to pre-fill the appraiser form.



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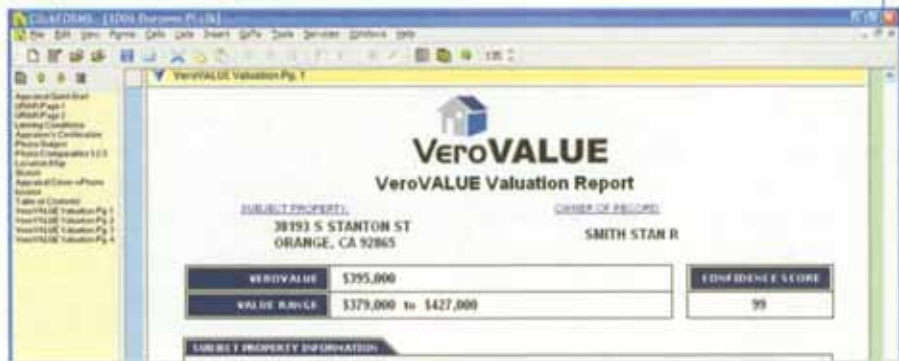


Graphic 1

- Apply some or all of the recent property sales (usually at least six per property) according to proper valuation procedures.
- Assess the price trends for the neighborhood and zip code to obtain an immediate understanding of what home prices have done over the last three years.
- Check the AVM value provided to further support the appraised value.

Why start from scratch when this technology is immediate and available? How many additional properties could be appraised each day, week, or year,

Graphic 2



VeroVALUE AVM technology integrated into Bradford's ClickFORMS v2.4.6

using this technology? What is the return on investment with the proper application of this technology? What is the added value and greater insight this additional and independent report provides to the lender? What does it mean for the professionals who are using these tools today? It means faster turn times, additional support and verification of value and with that, the ability to distinguish themselves as the elite valuation service providers and experts in their area.

Appraiser Assisted AVMs

Just as 2055s and 704s were added to the appraisers' menu of services, the time has come for one more: appraiser-assisted AVMs or, as some refer to this hybrid, appraiser-enabled AVMs. This service combines the speed and cost savings of an AVM with the valuation expertise of a local real estate professional.

The appraiser-assisted AVM presents the appraiser with a completed

AVM valuation report and several options: (1) the appraiser can indicate that the information set forth in the AVM appears realistic and reliable, informing his client accordingly, (2) for complex assignments, the appraiser may need to inform his client that a desktop analysis/review is required and add additional data or support (the appraiser would submit this information directly into the assisted AVM form itself), or (3) for some assignments, the appraiser may need to inform his client that a higher level of service is required (e.g. 2055, 1004). The finished form is electronically signed and then printed or e-mailed. This value-added product is fully USPAP compliant and provides the lender with the ability to save time and money, when appropriate, while relying on the local valuation expert to make this determination.

Support for Adjustments

In the hands of a skilled appraiser, paired-sales analysis works perfectly in the extraction and support of adjustments used in the Sales Comparison Approach. The creation of AVM technology does not change this reality. What AVMs bring to the table is speed, consistency, and verifiable support. The next time you consider using market change adjustments in the Sales Comparison section of your appraisal report, consider what the AVM has to offer.

One of the services available from AVM vendors is called an *index*. The index captures and tracks changes in market conditions over time (see graphic

Roots of Change

For some time now, mortgage origination has been moving toward a real-time environment within accepted risk parameters. Consumers seek faster turn-around times on underwriting decisions. Lenders want to keep customers off the street and away from their competitors. Issuers and investors continue to seek the means to enhance risk management procedures for faster, more cost-effective securitization while maintaining expected performance. AVMs did not cause these changes in the mortgage business; they were created in response to them. Appraisers are only now recognizing these changes and embracing the tools that can help them respond. **WRE**

3). You can easily see the changes in value (y-axis) over time (x-axis).

When you compare the above steps to the process of extracting adjustments using paired-sales, the time saving benefits are obvious. Slightly less obvious is the benefit of being able to support your adjustments without fear of contradiction. The AVM uses all of the relevant market data to generate the index—not just a few sets of paired-sales.

Time Adjustments

There are other major benefits of AVM technology that only experienced and seasoned appraisers will appreciate. Over the past many years, there has been a reluctance to use market change adjustments because of the additional time required to provide substantiating support. To mitigate this situation, many appraisers have substantially reduced or omitted the use of market change adjustments and have instead “moved” the adjustment elsewhere in the Sales Comparison grid. While this work-around provides a solution to handling reviewers, the side effect is the elimination of a powerful tool (the time adjustment). This is no longer necessary. An AVM index provides excellent support

for market change adjustments because it uses all of the available data as opposed to a select few sets of sales, returning valuation decisions back to the appraiser.

Conclusion

There are numerous reasons for including an AVM valuation within a traditional appraisal report. The AVM valuation may be considered a “new” valuation method, a separate unbiased opinion or just additional support for the appraised value. Obviously, the differences between the AVM valuation estimate and the expert opinion of the appraiser can and should be addressed in the reconciliation section. Future readers of the appraisal report will welcome the additional support of value.

As technology advances, there will certainly be more tools for appraisers, including more robust adjustment indicators, automatic integration within forms software, more services to provide and even tools to assist in forecasting market stability and performing risk analysis. AVM technology will provide the high-level tools and analysis to help appraisers do what they do best: provide expert opinions on issues of collateral valuation from a local and qualified real estate professional. **WRE**



Graphic 3

Orange County, CA: Reading from the left, the data has been normalized to zero with price changes tracked cumulatively.

For more on the integration of AVM technology into appraiser software, please see page 17. For more on how appraisers are using AVM technology, see these premium content stories online: “Can AVMs Work for You?” and “AVMs and Appraisers: Doing the Bump?” (www.workingre.com, click “find articles”.)