

DMBA Appraisal Update – November 2019!!

Special request questions for DMBA Members? If any of you have questions during the month, please feel free to email me or call and I will be glad to personally respond. If the topic is of enough interest, I will be glad to expand it and include it for the next monthly update. Thanks,

Mark Bond mark@markbondco.com 972-733-1007

Mark's Market Thoughts:

Wow, Dallas was lucky in that no one was killed in the Tornado that ravaged the Preston Hollow area and our suburban markets in October. Someone asked, will this impact real estate values? No, if your house was not damaged. If it was damaged, that is what insurance is for. The area will recover and sadly the trees will take time to replace or reshape. Prayers to everyone impacted.

The market continues to be active although now at a more moderate pace. The refinance activity has been busy and has indirectly allowed more potential "buyers/sellers" to remain in place. Our market was so strong and for long that folks are finally realizing various pockets and price levels have softened. Entry level housing remains hot and Mega Mansions not.

Core logic reports September 2018 vs 2019 Dallas prices up 2.74%. That is relatively weak compared to Fort Worth at 3.3%, Austin at 4.85%. However, we never get wound up over monthly figures, the year end numbers are key and will soon be on the books!

As you have heard discussion, "Bifurcated Appraisals" are still in the plans for Fannie Mae. Below is a discussion to start to understand the process and why. However, many issues remain unresolved. I.E. Your certified appraisers must perform reports to the USPAP, Uniform Standards of Appraisal Practice. Some say the Bifurcated reports may fall outside the standards. Additionally, who will complete the property field inspection? Fannie has considered parties such as the Realtors, property inspectors or maybe even an appraiser. The "funny fact" is that Fannie Mae "will not" share their data with appraisers. They have the vast information of previous appraisals and comparables over many years. Personally, Mark believes that good appraisers with good Fannie Mae data could also achieve positive results without weakening of the established and proven methods. In any case, we will continue hear discussion about the move to this method; but a lot still has to happen first.

Bifurcated Appraising

by Isaac Peck, Editor

Leaders within the appraisal community have long prepared appraisers that "change is coming," and that the role of the professional appraiser is going to evolve in the coming years. Today, that change is here.

Fannie Mae has been extensively testing a new bifurcated valuation approach that breaks the appraisal process in two: data collection and then an analysis, if required.

Fannie has spent the first half of 2019 detailing its plans to roll out the 1004P, a new desktop appraisal that will be based on a Property Data Collection report that is prepared by a third-party inspector; this is part one. Fannie has indicated that it is currently testing appraisers, appraiser trainees, insurance inspectors, real estate agents, property preservation service professionals, and smart home service professionals as potential Property Data Collectors to determine "which labor force can best collect data," including a "robust and accurate set of data elements, photos, and floor plan."

The more impactful revelation is that Fannie aims to replace the appraisal requirement completely

where it can. In these scenarios, a property data collector, not necessarily a licensed appraiser, will inspect a home and report back on the condition of the property. Then, based on that property inspection report, a desktop appraisal may be ordered or the appraisal requirement might be waived altogether.

Fannie is calling its solution *Value Verify*, with the goal to separate the property data collection (PDC) from the appraisal process. Under Fannie Mae's proposed plan, after a property data collector submits a report on the property's characteristics and condition, Fannie Mae will decide if it wants to (A) accept the loan without any appraisal whatsoever, (B) require a desktop (hybrid) appraisal that uses the property inspection from the property data collector, or (C) seek out more information and perhaps order a full appraisal.

Figure 1 is a slide presented by Lyle Radke, Director of Collateral Policy at Fannie Mae, at the ACTS Conference in April, hosted by the National Association of Appraisers and Appraiser eLearning. It contrasts the conventional appraisal process, i.e. what is happening now, with the Value Verify model being proposed by Fannie.

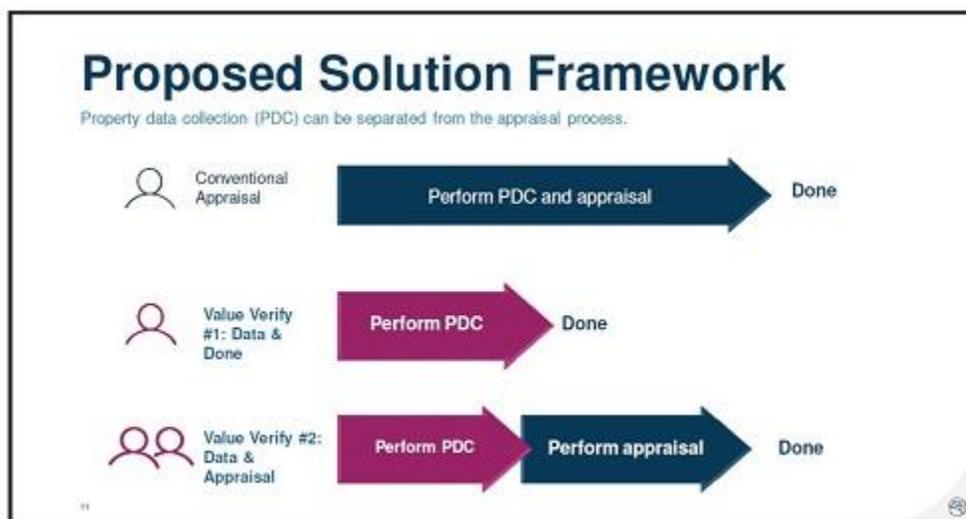


Figure 1

While Fannie is currently testing a myriad of professions, in its June 2019 Appraiser Newsletter, it writes that "Appraisers are a natural fit for property data collectors. Let's be clear: in our testing, appraisers are the primary providers of property data collection services, and we anticipate that will continue." For those appraisers who are interested in getting work as a property data collector, Fannie writes that its process "requires new technologies (e.g., mobile apps, QC platforms, API connections) so appraisers need to have a technology partner. Several industry service providers have built the technology and are participating in the test. The best way to get involved is to affiliate with these companies. They are actively recruiting appraisers to provide property data collection services."

We sat down with Radke to learn more about what Fannie is thinking, and what's coming next.

WRE: What role does Fannie Mae see for licensed real estate appraisers, now and in the future?

Fannie Mae: Historically appraisers spend much of their time collecting data rather than developing a

value opinion. With the enormous amount of data readily available today through the Internet and other sources, we anticipate the appraiser's role will evolve into more of a market analyst and less of a data detective.

WRE: Fannie Mae has recently launched initiatives, such as Appraisal Waivers, Property Data Collection, and Hybrid Appraisals that make it appear there is a drive to minimize or eliminate the role of appraisers. Yet Fannie Mae has also recently launched initiatives (such as work with the National Urban League) to recruit individuals into the appraisal profession. How do you hope to recruit new appraisers while trying to minimize their role? Why would anyone want to be an appraiser when their role and income are obviously under such pressure? Is minimizing a step toward replacing?

Fannie Mae: In our June 2019 Appraiser Update newsletter, we discuss the role of a property data collector and how appraisers can fit into that role, given that they already perform property data collection as part of the traditional appraisal process. Appraisers already collect property data as part of the appraisal process, and many already have this skillset. Our intent is to raise the bar on the quality of collected data. Appraisers will be asked to collect data using more consistent standards than in the past. New technologies will help appraisers do this quickly and efficiently with fewer errors. We see tremendous opportunities in the future for appraisers who are quantitative, tech savvy, and nimble.

WRE: Fannie has said in the past there are around 40,000 appraisers sending appraisals through the CU/UAD system. Is that number about right?

Fannie Mae: When we look at data submitted through the Uniform Collateral Data Portal (UCDP), we see that the number of active appraisers fluctuates with demand. The biggest drivers of demand are seasonality, interest rates, and economic conditions. At peak volumes, we've seen about 45,000 active residential appraisers in UCDP while the trough is in the upper 30,000s. That range has remained stable over eight years since we launched UCDP. While we have not seen any large, persistent decline in the number of active appraisers during that time, we do see some flexible capacity. For example, some appraisers may specialize in other property types or other assignment types but, when demand is high, they pick up some residential work.

WRE: Do you foresee Fannie Mae (or the market) needing more than the current number of appraisers as the aging appraisers retire? Fewer? Why encourage new entrants?

Fannie Mae: The Appraisal Institute lists the median age of today's appraisers at 60 years old, so we should expect substantial retirements in coming years. With fewer people entering the profession, we have to figure out how to attract a wider range of people to the field. With partnerships with other organizations, such as the National Urban League and the Appraisal Institute, we hope to raise awareness of career opportunities in the industry. We anticipate the nature of the residential appraisal will evolve to adopt emerging technologies and advanced analytics. New entrants will be expected to come up to speed with new technology and analytics.

WRE: What percent of all mortgages currently qualify for Appraisal Waivers, and how do you see that percent increasing or changing in the years ahead?

Fannie Mae: The appraisal waiver offering has not changed substantially in the past few years, but

we are taking a very careful, deliberate approach in examining how technology can enhance the appraisal process, and we will closely examine any opportunities to responsibly achieve more efficient collateral risk management.

WRE: There has been a lot of discussion around the 1004P, Property Data Collectors, and hybrid appraisals. What is the objective of these initiatives? Who does it benefit?

Fannie Mae: Industry adoption of new technologies and processes can improve the quality of appraisals while providing substantial consumer benefits.

About the Author

Isaac Peck is the Editor of Working RE magazine and the Vice President of Marketing and Operations at OREP.org, a leading provider of E&O insurance for appraisers, inspectors and other real estate professionals in 50 states. He received his master's degree in accounting at San Diego State University. He can be contacted at isaac@orep.org or (888) 347-5273.