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New alternative valuations is called a hybrid appraisal - by Jared Preisler

May 11, 2018 - Appraisal & Consulting

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It seems like every year there are changes to appraisals to make them more efficient, at least if you don't count the 1004 MC. And the pace of changes to the industry is poised to grow even faster over the next few years. Most of these changes are in the form of alternative valuations, which aim to cut down on the time it takes to receive an appraisal and underwrite a new loan. One of these alternative valuations is called a hybrid appraisal.

Hybridization is the crossing or breeding of several products, processes, or systems to create something from heterogeneous sources: a hybrid.

According to Lima Ekram, analyst at Moody's, hybrid appraisals are used to "reduce operational costs, increase efficiencies and address the shrinking rates of U.S. property appraisers, mortgage participants are exploring the use of alternatives to traditional means of calculating property values and, in some cases, starting to use them more."

The proliferation of hybrid appraisals serves to speed up the appraisal process, by utilizing additional resources to create property valuations. Hybrid appraisals generally consist of three parts: a home inspector, a mathematical modeling tool, and a licensed appraiser. The difference between

traditional appraisals and hybrid appraisals is the use of a home inspector to visit the property and, as the name suggests, inspect the property. The home inspector then enters the information into a distribution software and it is forwarded to a licensed appraiser.

Home inspectors are sometimes confused with licensed appraisers, however, home inspectors are not licensed or trained to provide a valuation of a property. Professional home inspectors are responsible for examining the current condition of a home and determining the condition of a structure. A home appraiser determines the value of a property.

Appraisers must synthesize data from multiple sources in order to create a valid valuation of a property. According to the Dictionary of Real Estate Appraisal (4th Edition), there are two types of data and two sources of data.

The two types of data are General Data and Specific Data. General data is data that pertains to real estate values on a macro level, whereas specific data is data about a specific property, you can think of specific data as data that relates to a specific assignment.

The two sources of data are Primary Data and Secondary Data. Primary data is data collected by a first-party, you can think of primary data as the appraiser's first-hand knowledge of a property. Secondary data is data collected by someone else, that may be information collected for another purpose that can be used in a valuation.

Hybrid appraisals often make use of secondary data, which requires more attention to detail from the analyst to ensure data was collected properly and is applicable to the assignment. Ekram states that "the components used in arriving at a valuation [i.e. data] will vary, sometimes significantly." It is important to look at whether a non-traditional appraisal alternative is being used as the primary means of property valuation, or if it is used mainly as a means of quality control.

According to Peter Christensen, general counsel at LIA Administrators and Insurance Services, you can mitigate risk by reviewing the engagement letter, clearly indicating which part of the work is your work and which parts were completed by a third party, asking yourself what the report is being used for, ensuring the viability of your workfile and if you can defend and support your conclusions.

As alternative valuations continue to gain traction in the appraisal industry, appraisers must be aware of what is happening and how it affects them on a day-to-day basis. For more information about hybrid appraisals, visit www.datamasterusa.com/hybrid-appraisals.

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