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## Where have all the easy ones gone? - by Bill King of Bradford Technologies

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Bill King  
Bradford Technologies Inc.

Ever since AVMs first appeared on the valuation landscape some 30 years ago, appraisers have lamented that computer-generated values would replace them. Yet for the last 30 years, appraisal volumes have largely risen and the worry that AVMs would take appraisal work away from appraisers seemed misplaced – until now.

Mortgage investors Fannie Mae and Freddie Mac have been experimenting with various appraisal

alternatives for the last several years. For the most part, loans delivered to the GSE's without an appraisal constituted only a very small portion of total transaction volume. However, with the onset of the COVID-19 coronavirus pandemic, things shifted.

By now, most appraisers are aware of the appraisal waiver program Fannie Mae and Freddie Mac have made available to their lender partners. This program allows certain loans to be sold to the GSE's without any appraisal at all. Internally, Fannie and Freddie use AVM values to facilitate the waiver decision. Data published by the American Enterprise Institute from August 2020 on waivers shows that about 43% of loans delivered to Freddie Mac in August qualified for the appraisal waiver, and about 38% of loans delivered to Fannie Mae were also delivered under the waiver program, that is to say no appraisal was ordered

Upon closer examination, we find that the majority of properties qualifying for an appraisal waiver tend to be a combination of a low risk transaction, meaning, a relatively low loan to value ratio on a no-cash-out refinance, and a homogeneous, conforming property.

A big factor is that the property securing the loan was able to be valued using an AVM with enough confidence to support the transaction. This means the subject was a non-complex property. Properties for which there are "model match" comparable sales generally don't require extraordinary appraisal experience for a competent and credible valuation. And, they are tailor-made for an AVM.

So, for the first time, the appraiser's concern about losing work to AVMs is starting to become a reality. One of the consequences of this is that the assignments appraisers are receiving tend to be for more complex properties. With so many of the "cookie-cutters" being successfully valued by an algorithm, the work that is left to go to appraisers is getting more and more complicated all the time.

This has the potential to create additional challenges for appraisers whose credential is Licensed Appraiser as opposed to Certified Residential Appraiser or Certified General Appraiser. Appraisers who hold the license level qualification are limited in the work they can accept. The Appraiser Qualifications Board published criteria indicates that "The licensed residential real property appraiser classification applies to the appraisal of non-complex 1 to 4 family residential units having a transaction value less than \$1 million, and complex 1 to 4 residential units having a transaction value of less than \$250,000."

With property values rising rapidly in many areas of the country, fewer and fewer properties are below these thresholds. This can have a very limiting effect on licensed appraisers.

Additionally, in order to stay within the boundaries of one's license, an appraiser must be able to correctly identify noncomplex and complex assignments before accepting the assignment so as not to agree to perform an appraisal for something outside the range of their qualification. But there is no definition of complex either in the appraiser qualifications criteria or in USPAP itself.

Although there is no single agreed definition for a complex appraisal assignment, some common definitions include reference to "the form of ownership, the property characteristics or the market

conditions being atypical.” When the question was posed to a lender, they responded with examples such as difficulty finding comps, more difficult to measure and inspect, properties with waterfront and properties with multiple accessory buildings.

In practical terms, any assignment for which an appraiser lacks competency will be complex for that appraiser, but the measure of expected competency will be made against the larger peer group of appraisers.

Regardless of license level, as appraisers are confronted with more and more complex assignments, expanding our competence and skills will be more important than ever. Abraham Lincoln once said “If I only had an hour to chop down a tree, I would spend the first 45 minutes sharpening my axe.” Tackling complex appraisals will be a lot easier with good, sharp tools.

Tools such as Redstone by Bradford Technologies enable appraisers to quickly develop market supported adjustments and analytically support comparable sale selection which will be especially useful when dealing with complex properties. Supporting adjustments with sound analytic methods and techniques along with concise, transparent evidence in reporting is going to become the minimum standard. The time to sharpen your tools and improve your competence with them has arrived.

Bill King is chief valuation officer for Bradford Technologies, San Jose, CA.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540