

orders have prevented many appraisers from performing interior home inspections. And, the pressures on the mortgage process threatened to halt transactions across the country.

In response, the government sponsored enterprises (GSEs) released modified appraisal guidelines allowing exterior-only or desktop appraisals through June 30, 2020. These temporary appraisal flexibilities—while necessary—inherently heighten the collateral risk for lenders because the appraiser must make a judgment without first-hand authentication of the property

Fannie Mae acknowledged this in Lender Letter LL-2020-04, “recognizing that the appraiser may have to rely on information from an interested third party to the transaction.”

A key to mitigating this increased risk can be found in solutions that already exist. For years, innovators in the industry have harnessed data and technology to build tools and alternative valuation products that lenders have used for HELOCs, appraisal reviews and a variety of other cases.

Several companies have obtained access to Multiple Listing Service (MLS) data from one or more MLSs and have used that data to develop a range of modern valuation products and approaches that are now finding more acceptance as the industry seeks alternatives to the traditional appraisal.

In a hybrid appraisal, the full appraisal report is completed by a licensed or certified appraiser, but an inspection is done by another party, such as a real estate agent or property inspector.

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praisal quality control or to provide a secondary value to lenders. Best of all, technology and automation make this product a quick and affordable valuation option.

Automated Valuation Models (AVMs) also use real estate data and technology to generate an estimated property value. AVMs apply sophisticated statistical modeling to a database of historical property values and sales information. The best AVMs provide a confidence score that show the estimated accuracy of the value.

AVMs have a wide range of use cases, from pre-qualifying borrowers to bulk portfolio valuation analysis. Again, technology and automation make AVMs fast and low-cost.

A more robust approach is the hybrid appraisal, also sometimes called a bifurcated appraisal or evaluation, which is a combination of a traditional appraisal and a desktop appraisal. The full appraisal report is completed by a licensed or certified appraiser, but an inspection is done by another party, such as a real estate agent or property inspector.

Thanks to the recent appraisal threshold increase by the National Credit Union Administration (NCUA) Board, hybrid appraisals can be used in place of a full traditional appraisal for residential real estate transactions below \$400,000.

act with current real estate data, giving them a remote view of the condition of the property and surrounding comparables.

These platforms give the user access to photos, maps and other data simultaneously, leveraging thousands of data points to identify patterns that can be measured and translated. These interactive resources provide access to valuable real property data which could be used to help appraisers perform exterior and/or desktop appraisals in the age of COVID-19.

These platforms are being used in a variety of contexts and could be used for ap-

USING A WATERFALL SEQUENCE

Each of these valuation approaches has a place in a modern credit union's valuation strategy that is customized to suit their organization's unique risk tolerances. By applying them in a waterfall sequence, sometimes called a cascade, credit unions can assess collateral risk—even on properties that are difficult to access—through the most appropriate and cost-efficient solution.

For example, if a property is inaccessible because of COVID-19 lockdown orders, an appraiser could request photos from the Realtor or homeowner and use an interactive valuation platform with access to aggregated MLS data to verify that the photos provided match current photos of the property. The lender could then pull an AVM to verify the quality of the data.

If there's a more than 10% variance between the desktop appraisal and AVM result, the waterfall logic may require a hybrid appraisal as a secondary valuation. Through this sequence, the lender has satisfaction in the accuracy of the property value, all without a full appraisal.

The NCUA's decision to raise the appraisal threshold not only provides long-term regulatory relief to credit unions, it signals a shift in the industry toward more modern risk-based solutions.

As we grapple with the challenges of COVID-19, data and technology can help us mitigate risk in the appraisal process, and provide a path forward that is more tailored to the unique risk tolerances of credit unions. ▲

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