

AppraisalTech 2001 – Appraisals on the Internet

Session – Leslie Hurburt Speech

I'm sure you've realized by now that I'm not Jim Sloate. Unfortunately Jim was unable to attend. Fortunately for me Ann O'Rourke invited me to participate in his place. I'd like to thank Ann for this opportunity to share my perspective with you.

Let me first fill you in on my background and why Ann felt I might be able to contribute to this forum.

Over the years, I have had the privilege of helping a lot of appraisers successfully adopt new technologies. I worked for Bank of America for fourteen years. Nine of those years were spent in the Residential Appraisal Systems Department. During my time with the bank, I trained and supported over 600 residential real estate appraisers in the use of technology. I had to learn three appraisal software packages, I'm sure you can all relate to how fun that can be, and I then I had to turn around and train appraisers in the proper use of the software.

In May of 2000, I teamed up with Karl Dattar at Dattar Systems. Our goal was to develop a real-time, web-based appraisal workflow management system that could be used to help both lenders and appraisers. This system has proven to be a unique offering in terms of features and total cost of ownership. Karl and I previously designed two similar management systems for use exclusively by Bank of America. Last October, we introduced AppraisalTrac, the third generation of our appraisal workflow system. Our first appraisal management system was e-mail based. Then we migrated to a client/server system. And now we have a completely web-centric solution. The AppraisalTrac application was originally designed for use by lenders. We now have two flavors of AppraisalTrac, one for use by lenders and one for appraisal shops, each of which we private-label and customize to our client's specifications.

Well, enough about me. Let's get the show on the road and talk about the subject we all came to discuss: Appraisals on the Internet.

Those of you who have traveled with children I'm sure are accustomed to the phrase "Are we there yet?"

Well, we must ask ourselves that same question. However, the question can only be answered by first determining, where have we come from and where are we headed.

Because technology is evolving, we must evolve also if we are to survive in this industry. That's why I've titled my presentation "Appraisal Darwinism".

But first, a little ancient history:

I'm sure most all of us remember the days of 3x5 index cards, the paper forms typed by clerical assistants or in the less Politically Correct days, Secretaries or Wives, the endless trips to the photo-mat, the double-sided tape, the little arrows pasted on photocopies of maps. That was a lot of hard work. The industry then evolved into the computer age with DOS programs, a great improvement over the typewriter. The next big step was the digital camera and the elimination of those little 12-exposure film rolls. Then came all the Windows software packages. With each new advance the appraiser had to become more technically savvy in order to compete and survive. Well, we've all been able to overcome obstacles in the past and I see nothing different for the future.

Way back in 1993, we all had very grandiose ideas about how we would improve the appraisal process from a workflow standpoint as well as from an appraisal delivery standpoint. We all envisioned a solution that would allow appraisers to do what they do best with the least amount of interference, and would also allow the loan officers to benefit from efficiencies in the delivery of appraisals. Eight years later, that remains a goal in this industry.

Anytime there is a new technology, that technology is met with resistance. Sometimes it's quiet resistance, other times we are dragged kicking and screaming like a 2-year-old throwing a tantrum. I don't know of anyone who has evolved in their use of technology who looks back and wishes that they could do things the way they were doing them 10 years ago. Evolution is a slow process but we are a stronger industry in the end because of it.

We are yet again on the brink of another evolution. This time, the Internet brings about change. *You know, that thing that Al Gore invented.* Appraisals are not only being ordered and delivered electronically via the Internet, but more importantly, workflow efficiencies are being realized by the use of Internet technology. The ordering and delivery of appraisals is just a piece of the larger puzzle. Workflow and process enhancements will soon streamline the entire loan origination process from the LOS to the Underwriters Desk to the closing of the loan. Our vision from 1993 is coming close to being a reality.

Where do appraisers fit in to the evolution?

Appraisers need to be open and willing to invest some effort into preparing for the future. Appraisers also need to be able to “sell” their clients on receiving electronic documents whether that be PDF or some other format. I think appraisers are ready to do this. Many already have. A strange paradox exists in the industry however. Many appraisers are ready, willing and able to transmit PDF files to their clients, but often are met with resistance. Clients often complain about having to print the appraisal themselves, often citing the cost of color printers as an excuse. Many of these clients do not realize that color photos are not required. If a client insists on color but hesitates at the cost of a color printer, there are several programs available today for companies to obtain free color printers. Lenders like FREE. I’ve even known some appraisers who have supplied a color printer to a good client in order to gain efficiencies in the delivery of their services. They claim they’ve recouped the cost of the printer in a short time by eliminating the amount of overnight and hand-deliveries they are required to make.

Appraisers can sell the idea of electronic delivery by espousing the benefits to their clients – faster turntime, unlimited number of copies of the appraisal, and in some cases lower cost. That’s what gets the attention of lenders. Lenders like low cost, not as much as they like FREE, but low cost is good too. The appraiser of course benefits by being able to submit their invoice faster, which hopefully gets them paid quicker. Although I think it will take a lot more than technology to accomplish that feat. Appraisers also benefit by spending less time printing, packaging and delivering appraisal reports.

The actual delivery of the report is only a minor piece. Where the real benefits will be experienced is in real-time workflow management systems. A good real-time management system will allow both the appraiser and client to keep track of work and to improve communications. I want to distinguish between online systems and real-time online systems. Online systems have been around for many years and have automated many tasks on the front end of transactions. However, just like the Wizard of Oz, behind the curtains quite often there is a different story. It's sort of like the commercial for the online broker where orders come in via the web but get processed by a bunch of accountants behind the wall. Each one handing a piece of paper to the next guy until the transaction is complete. Real-time systems provide instant access to all authorized parties involved in a transaction. As soon as a client enters an order, it is available to the appraiser. As soon as the appraiser completes and uploads a report, it is available to the authorized client for review.

These real-time management systems can be linked into a client's LOS to eliminate redundant data entry on both the front and back end of the process. Appraisal software can also be populated with data from the order providing the appraiser a "template" to start working from. Of course the success of any system lies in its adoption. A system is only as good as the use it receives. Think back to the days when we had both BETA Max and VHS videotapes. You could have the best system in the world but if it is not adopted and used then it has no value.

How will appraisers be receiving and transmitting appraisal orders in the future? I'm afraid many of them will be doing it the same way they are currently doing it. It all depends upon how willing both the lending and appraisal industries are to adopt and embrace change. There are several solutions out there today that are designed to speed the order, management and delivery process. Large institutions of course move at a snail's pace at best. So for the time being, I think some of the areas where these new technologies might be seen first is at vendor and appraisal management companies. This segment of the industry seems to embrace new technologies more quickly. Of course, they have to as their very survival depends on the efficient delivery of their services. I believe appraisers working through these companies may be the first to experience the benefits of some of these technological advances. As for lenders, the appraisal is just a part of the overall lending process and they generally have larger

problems to solve first. However, if appraisers can help their clients see how they would benefit from receiving appraisals electronically, I think a lot of lenders would fall in line.

There are many barriers to adoption from the lenders perspective. In most mid to large size institutions, every decision related to technology gets turned into an IT project. When that happens, there are issues with resource allocation (time, money and people). And any project requiring a capital expenditure gets you even more red tape. Sometimes you have to travel so far up the ladder to get approval that the people on the ground start looking like little tiny ants.

When I speak to the lending community, they tell me they are ready for automation but that the appraiser is the problem. I really believe that is a misconception. Many lenders think the appraiser is not technologically ready to send PDF or EDI. I actually spoke to one bank officer on the east coast who told me the appraisers she used didn't even have computers. When I asked her how they completed their reports she said, she didn't know, they just e-mailed the typed reports to her. And they say the appraisers are lacking in PC literacy!!

Will clients ever give up their paper forms?

Oops, sorry, wrong slide...

Well, lets consider e-mail for a moment. E-mail is this wonderful electronic format that we are all using to keep in touch with one another both in the business world and in our personal lives. When e-mail first caught on, many corporations expected their paper consumption to drop considerably as there would be less typed memos floating between departments. In fact, the opposite took place. Paper consumption jumped – it seems that everyone wanted to print out his or her important e-mails. So, when we look at the question of whether or not your clients will ever give up their paper forms, my answer is “maybe”, someday, but probably not while we are all still in the industry. Lenders still like hard copy for the loan portfolios. Until lenders start using optical storage for the entire loan documentation process, the need for hard-copy will continue to exist. What we should be asking is, “who will be printing that hard-copy – the appraiser or the client?” I think it is time for the client to assume that role.

What's the difference between E-Mail and Web Browser Delivery

E-mail is good for communication and for sending small files as attachments, but it was never meant as a data transfer protocol. E-mail is an unsecured transmission method for your appraisal reports. Delivery is not in real time. Often e-mail can be delayed several hours up to several days. Sometimes it's not delivered at all. There is no guarantee on the delivery and there is really no reliable way to tell exactly when it will be delivered to the client and if it is delivered if the appraisal file is still attached and intact. Sometimes, files attached to e-mail become corrupted and are useless. Recipients often lose the e-mail or attachment through accidental deletion or misplacement. That's when they call the appraiser up and ask for another copy. AND OF COURSE IT'S ALWAYS A RUSH.

The size of appraisal files can also be prohibitive when it comes to using e-mail. Many ISP's restrict the size of e-mail attachments and many corporate firewalls on the lender side filter out e-mail attachments exceeding a certain file size. Another problem with e-mailed PDF's and reports is the amount of storage space they take up on the client's e-mail server or their PC. System administrators at a client may periodically instruct e-mail users to clean out their stored mail when the servers are in danger of filling up or to delete files from their local PC when disk space becomes an issue. This means your client may have to delete files that you have submitted to them via e-mail. If they ever need another copy, guess what, they have to contact you.

Systems that allow real-time confirmation, file compression and error checking resolve these issues. When an appraiser uploads a file via their browser into a management system, they know for sure whether or not the delivery was successful. Clients can access the files as many times as necessary without risk of accidentally deleting the file and without bothering the appraiser to send additional copies. Of course not all browser uploads store the file in a management or archival system. Many simply e-mail the uploaded file to the client. Again, we're back to the same old issues with e-mail: the man behind the curtain analogy.

In 1998 we worked on an e-mail based system for Bank of America staff appraisers. The system worked well but had all the flaws of e-mail delivery. Looking back, it was technically ahead of its time. Three years later that method of delivery seems very

antiquated to us, however much of the industry is treating this delivery method like it was a new technology.

What about the data?

This is a really sticky issue these days it seems. On the one hand, lenders would like to access certain data elements from the appraisal report and invoice in order to reduce redundant data entry. As it stands now, lenders generally have to re-key certain elements from the report, such as the appraised value, date of appraisal and appraiser's invoice information, into their LOS and management reporting systems. This is a valid concern and a good use of data mining as data integrity is at stake. Another efficient use of extractable data is for quality control purposes – for automating certain appraisal review functions, and for portfolio and market trend analysis. This is where a standard data format will come in handy. Cross selling products and services is also another valuable use for the data. On the other hand, many appraisers fear that clients will mine the data in order to populate AVM programs. In my opinion, this is a far less likely scenario. Lenders can already get at the data by sending the files to overseas shops where data-entry people read the reports and enter data into databases, which are sent back to the lender.

Where do software programs fit in?

Due to demands in the lending community appraisal software vendors have not had the luxury of being able to wait for industry standards to be approved. Therefore many of them throughout the years have attempted to develop a working standard among themselves. I remember when the Café format was all the rage. It was supposed to be the stopgap while the industry was waiting for the X-12 committee to come to an agreement on a standard EDI format. Then there was the Lighthouse format and the Pinnacle Project. Now the industry is waiting for an XML standard from the MISMO¹ committee. This is both a boon and a hindrance to the industry. On the one hand, it has allowed the early technology adopters some advantage in their respective markets. Early adapters have come close to realizing their automation goals. On the other hand, when industry standards do emerge, the early adapters of the “stop gap” solutions are reluctant to change to the new standard. This almost guarantees that the standard is not widely adopted. “If its not broke... well you know”.

¹ (Mortgage Industry Standards Maintenance Organization)

Security Issues

As I mentioned earlier, e-mail is not a secure format for the delivery of appraisal reports. From our first e-mail project at Bank of America we learned that the technology for securing e-mail was just not there at the time. It still isn't. We did projects using PKI (public key infrastructure) and client certificates but the problem was managing all of the client certificates for each staff member. Imagine that many hurdles just within one organization, now try to imagine managing certificates for several lenders and thousands of appraisers just to make e-mail secure. It's not going to happen.

Web-based products using SSL3 (secure sockets) provide a much more secure and reliable means for transporting data. This is the type of security that is used in online banking programs. Security is improved even more when using 128-bit encryption, the highest available security level.

I suppose we could question whether the data contained in an appraisal is confidential and non-public. The Gramm-Leach-Bliley Privacy Act has been getting a lot of attention lately. I just read an article that stated that appraisers would not be subject to the Final Rule's initial notice or the "opt out" requirements as long as "nonpublic personal information" was not disclosed in appraisal reports. That's about as clear as mud. How do we define what is public information and what is not. And of course we know that politicians never change their mind...

At the same time, we have the FDIC reviewing their regulations regarding the online delivery of financial services. There are questions about the authentication of electronic appraisals and the security of electronic signatures. In my opinion, it is better for us to err on the side of caution and make sure that the transmission of appraisal related data be performed using the most secure technology possible. That of course rules out e-mail as a safe and reliable delivery method.

So,

That's where we've come from and where we are headed. Who knows when we will get there. Arrival is really subjective. For some, PDF is the penultimate and will satisfy them for quite a while. For others, arrival means nothing less than total integration of the

process from beginning to end, from the LOS integration to the closing documents. That is still on the distant horizon.

Thanks for your attention