Setting Up for Spring

Addressing appraisal operations, data, and vendor relationships now can allow lenders to better leverage the upcoming busy season.

By **Jennifer Miller**

Volume is consistently higher in the spring, but last year, most in the mortgage lending space saw substantially higher volumes than expected. As a result, appraisal turn times and fees turned into a big problem—and fast.

With spring just around the corner, are lenders prepared for volume to pick back up again? Were last year's appraisal issues solved? Will appraisal operations be able to scale up to support production this time around?

For lenders already struggling with inefficiencies in finding and working with appraisal vendors, the time is now to troubleshoot, so operations are solid and scalable once the busy season hits.

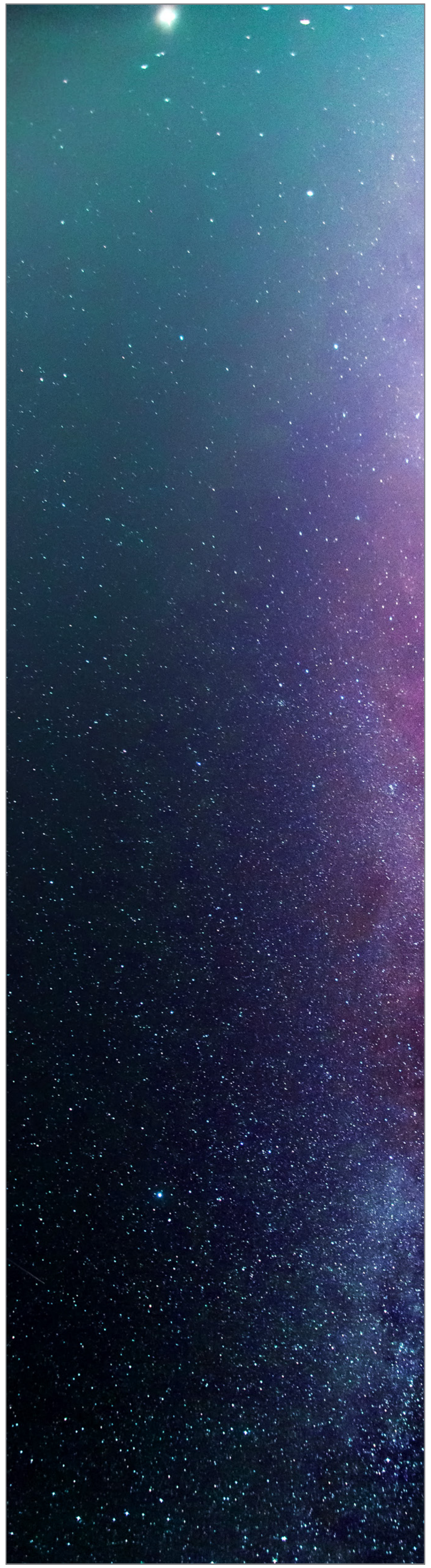
To prepare for growth, there are three main parts of appraisal operations that lenders should examine: vendor relationships, operational efficiencies, and data intelligence. Addressing these issues will help vendors avoid the costly pitfalls of inefficient valuation management—like delayed closings, poor quality reports, time-consuming appraiser searches, and ultimately, lost loans.

Improving Vendor Relationships

When lenders are busy, collateral valuation vendor relationships can make or break the operation. To prepare for growth, there are many ways to proactively nurture these relationships and prevent problems when business picks up.

Consider these options:

- *Know turn times.* Make sure turn time data is available and that appropriate turn times are being set for appraisers. With accurate information, this



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allows lenders to set more realistic closing dates that won't disappoint borrowers.

- *Add new vendors now.* In particularly busy markets, vendors should get more appraisers and/or AMCs now. It takes some preparation work to onboard new vendors but scaling up fee panel and AMC relationships now is easier now than when the storm hits. Consider a hybrid approach that uses AMCs and appraisers interchangeably.
- *QC the existing panel.* Lenders should make sure to have the best appraisers on their panels right now by running scorecards for each one. By knowing who performed best, lenders can prioritize vendors when placing orders to ensure the top vendors get the most work.
- *Communicate often.* Lenders must reach out to appraisers and/or AMCs often, even if it's just to say hi. Appraisers will devote more attention and better service to those with whom they're consistently communicating.
- *Plan with vendors.* Appraisers and AMCs must know that not all markets are the same. Lenders should work with them ahead of time to strategize ways to handle the busy season in particular markets. Consider reaching out to them before it gets busy, asking for their opinions of what went wrong last year and what needs to change this year to make sure there is less friction.
- *Offer higher fees.* When fee panel appraisers are busy, paying them a little more can move a lender to the front of the line. Account for it when disclosing fees to the borrower.
- *Make sure contracts are flexible.* If using AMCs, contracts should be structured in a way that allows the vendor to increase or decrease fees based on the market and specific areas, without renegotiating the entire contract.
- *Staff up.* AMCs should hire staff appraisers in busy markets to help increase throughput during busy months. Small appraisal shops and single appraisers should consider scaling up with trainees.

Improving Appraisal Operations

In addition to vendor relationships, evaluating internal appraisal operations can also allow lenders to better leverage the busy season and booming mortgage markets. To make sure teams are ready for production spikes, consider these five tips.

- *Get the right technology.* Invest in an appraisal management system to help connect with appraisers and AMCs. When looking for the best solution, make sure it's integrated with any existing Loan Origination System (LOS). When the LOS syncs with the appraisal management system, the entire process is easier on staff members. It also reduces errors and saves time on every appraisal ordered.
- *Use a single dashboard.* Even if ordering from appraisers directly, using AMCs, or ordering residential appraisals, reviews, or commercial appraisals, all communication should be logged in one central system. There are too many compliance risks and hassles when using multiple websites or systems for each vendor or product type. One system is ideal from an operations and efficiency standpoint, too.
- *Provide easier, better borrower service.* The right technology provider can dramatically improve the borrower's experience and overall efficiency. First, considering handling borrower appraisal payments securely online, removing the burden and liability from internal loan officers. Once the appraisal report is complete, use technology to automatically deliver a secure, compliant copy to the borrower and any other stakeholders with a branded web portal, emphasizing the organization's commitment to borrower information and security.
- *Base fees on data.* Figure appraisal fees based on real market fees to avoid wasted time and renegotiations after the appraisal fee has been disclosed to the borrower. If using AMCs, be sure to add the AMC fee on top of the appraisal fee. Set fees for each market, but make them competitive so they attract top-tier vendors.
- *Manage vendor performance.* An effective appraisal management system should provide easily accessible data to help manage vendor performance. It should monitor vendor turn times, fees, ratings, revision request cycles, vendor capacity, and assignment acceptance rates. These metrics give lenders an objective view of operations and will help improve efficiency over time.

Data Intelligence in Appraisal Operations

To be successful in mortgage lending, organizations must be on top of market trends. There are so many data points available, sometimes it's hard to focus on what really matters in appraisal operations and collateral valuation.

The four data perspectives described below are all readily available in the industry and can give companies a sizeable advantage.

- *Originations in particular markets.* Real estate markets are hyper-local, and watching the origination volume statistics in particular service areas is critical to long-term success. With local data, lenders can focus and see trends that matter the most to their business—before everyone else does. If watching local origination volumes, lenders can have a plan in place so vendor relationships are at full-throttle and operations are at their most efficient. Mortgage lenders who can effectively scale operations faster than their competitors will outperform them and build relationships that give them advantages for years.

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- *Trends from operations last year.* Lenders should consider appraisal and valuation product orders from last year, both early in the year and during the summer. They should analyze which areas saw an increase in valuation, turn times, and fees. By knowing what happened last year and when, lenders can develop a plan to proactively manage those areas before it gets busy again. Do they need to raise fees in certain markets or reach out to a few appraisal management companies now? Watching recent history in specific areas allows for proactive management of borrower expectations and service. Should closing dates be better calculated to align with expected trends? If so, having a plan in place now will make a dramatic difference in overall success rates.
- *Vendor performance statistics.* Valuation management software will provide insight and analytics into vendor performance. Whether using appraisers, appraisal management companies, or both, lenders should monitor order acceptance rates, average turn times, rework rates, on-time rates, and revision request cycles. Beyond just examining its own vendors, lenders should also make sure to look at outside data on the overall average appraisal turn times in specific markets. With this information, it's possible to verify that operations and vendor panels are performing competitively with the overall market. Monitoring even the simplest vendor performance statistics will prevent lenders from wasting time placing orders with vendors who aren't likely to accept them or assigning time-sensitive reports to a vendor with a history of late deliveries. Appraisal revision cycles are notoriously time-consuming and expensive, but lenders can significantly reduce these hassles by measuring and monitoring the quality of a vendor's previous work.
- *Appraisal fees.* It's crucial to have data for appraisal fees nationwide, as well as the specific fees and turn times available in particular areas served. If a lender is paying too little, it will only attract vendors that aren't performing assignments for other lenders. If paying too much, Loan Estimates can scare borrowers off a deal. It's important to keep constant tabs on the ever-changing appraisal fees landscape in order to intelligently manage appraisal operations for the benefit of both borrowers and the institution as a whole.

Behind every successful production team is an efficient, fully scaled, and efficient appraisal operations team. With these tips, lenders can start making improvements to vendor management process immediately and ensure teams are ready to leverage the busy season and growing markets. **M**

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