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FEATURE REPORT

The Quest for Quality, Part 3: Appraisal Automation Eases Audits for Tennessee Bank

One critical part of appraisal quality, and one that has little to do with the appraiser's actual analysis or what's included in his report, is ensuring appraiser independence. It's a primary objective of the forthcoming Home Valuation Code of Conduct, but regardless of the HVCC, freeing up the appraiser to make objective decisions without being bullied by brokers, lenders or others has been a goal of the appraisal community for years.

Part 1 of this series on improving appraisal quality examined skill gaps in today's valuation professionals, getting out of the form-centric mentality and what appraisers can do to avoid causing headaches for reviewers and underwriters. Part 2 looked at how reviewers scrutinize reports, what they look for, which areas receive their closest attention and the online tools they're using to ensure the appraiser used sound reasoning.

For Part 3, *Valuation Review* spoke with appraisal leaders from First Tennessee Bank, a community-focused regional bank based in the Volunteer State. For this lender, the drive to ensure independence led to the implementation of an appraisal automation system with built-in quality checks and an appraiser selection mechanism.

Out with the old

The bank, which lays claim to the largest combined market share in the 17 Tennessee counties where it does business, had experienced problems with the front-end ordering process. Essentially, it had no way to ensure employees were ordering appraisals independently.

There were also problems on the back end with the review process. Specifically, reviewers often did not receive the right access levels.

Because it lacked the control it needed for the valuation process, the bank struggled through its audits.

"You can write policy and guidelines all you want, but it's hard to look an examiner in the eye and say, 'I'm 100 percent positive my policies are being adhered to,'" said **Tina Williford**, senior vice president of Credit Infrastructure and Control within the bank's Real Estate Finance department.

She said the company knew there were technology solutions that could help establish that confidence.

"Because of regulations and independent review, we weren't doing as good a job as we needed to," she said. "That's why we reached out to FNC."

Migrating from an appraisal process that Williford described as "completely manual," the bank several years ago rolled out FNC's Collateral Management System, which includes the Generally Accepted Appraisal Rules (GAAR), as well as the Appraisal Port appraisal delivery system.

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The bank is also using an FNC product that lets users determine available comps as they evaluate appraisal quality. The tool effectively lets those reviewers go back to the appraiser and say, "Help me understand. I see closer comps that look even more comparable. Why did you not choose those?"

Here's how the process works for the bank. The PDF/AI Ready report that is submitted to Appraisal Port is processed by FNC prior to being delivered to First Tennessee Bank. After the appraisal is delivered to the bank, a GAAR report is generated that provides a summary of the appraisal in terms of risk and compliance rules. Those rules are aggregated from a number of sources, including Fannie Mae, Freddie Mac, USPAP and FIRREA. Appraisal reviewers use the GAAR report as a tool to hone in on specific issues found within the submitted appraisal report.

Pleasing the regulators

First Tennessee rolled out the base version of the system originally, but Williford, who has experience working with different loan and flood ordering systems, has helped guide the lender through upgrades to a more advanced version of the platform, which has brought better automation for appraisal ordering and the overall valuation process.

The system is flexible enough now that the bank can offer managers on the line-of-business side customization options so they don't feel as if the appraisal process has been taken from them.

Most importantly, Williford said, "We can meet the regulatory requirements for independence," since the bank can now prove that 100 percent of its appraisal orders go through a standard ordering process. Audits have gone much more smoothly since the deployment.

"Now it's consistent," Williford said. "Every appraisal will have the same appraisal rules fire. They're all using the same form."

It's impossible for the line side of the business to deviate from that path.

Appraisal manager lists quality concerns

Grady Frisby, consumer appraisal manager within First Tennessee Bank's Appraisal Risk Management group highlighted four problems the bank is seeing in today's appraisal reports:

- **Lack of detail —** This includes the use of boilerplate comments, the inclusion of unsupported statements (e.g., "settlement noted" or "water present" with no additional comments or recommendations) and assuming reviewers within the bank know the answers to key questions about the report.
- **Lack of responsible reporting —** For example, reports might lack adequate neighborhood description in terms of housing make-up/type and surrounding influences that may impact value. Appraisers are also failing to report the current and/or recent market conditions properly. Others are offering opinions of value greater than predominant values with no explanation as to whether the property is an over- or under-improvement. In some reports, site information is lacking or non-existent and improvements are not adequately reported. And finally, appraisers sometimes fail to report competing sales information for the subject neighborhood properly, support their adjustments in the sales comparison grid and/or reconcile values accurately.
- **Lack of supporting documentation —** Examples of supporting information Frisby would like to see include plat maps to explain the subject site's nonconformity to surrounding properties, land sales data for the cost approach ("Fannie Mae may not want this information, but we like to have it," he said), explanation or support for obvious directional adjustments in the sales comparison grid and directional opinions of value that include reconciliation to support those decisions.
- **Failure to leverage available photo libraries to the fullest extent —** Given the technology available on the market today, appraisers should be able to use extensive photo libraries within their appraisal report to support final opinions of value. Frisby suggested appraisers use the photos as a tool of explanation. "Assume we know nothing of the area, market and subject," he said.

To ensure consistent reviews on the back end, the bank also worked with FNC to set parameters under the GAAR process.

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"We got GAAR scores, and it kicked out rules, which made it easier for the reviewers to know if there were issues," Williford said.

In addition, First Tennessee was able to set up security access to control who can review an appraisal and at what level.

"The system can be tweaked so you can do it based on how many rules fire, the total transaction amount of the debt or the value of the property," Williford added.

Succeeding in an automated world: What appraisers need to know
The move to an automated review process has pros and cons, said **Grady Frisby**, consumer appraisal manager within the bank's Appraisal Risk Management group.

"The use of technology in our review processes has provided us tools to help sort out quickly items that may or may not have an impact on both risk and compliance. With these tools, I would say it has increased the review process to a point the appraiser may think the reviews of their work are tougher," he said.

"We believe the automated reviews, when used as a tool, are tougher than a manual review because they take out the human element to a degree and point out potential problems that may not be picked up in manual review," Frisby continued. "The downside of the automated review is that it does not catch false information being reported. That falls back on the reviewer to verify some or all of the information provided to reach a comfort level that the reported opinion of value has been the result of adequate research by the appraiser."

The CMS system has also brought changes to appraiser selection. The platform's ordering process is a "random assign" system that weighs appraisers' coverage area, license status, errors & omission insurance coverage and report quality. The bank's process for deciding to retain or remove appraisers from the approved roster includes monitoring their work periodically and processing and discussing any shortfalls.

According to Williford, appraisers' feedback regarding the automated system has been positive, mostly because it's more convenient for them. For one, the automated format means they no longer receive multiple calls from underwriters or reviewers seeking clarification. Appraisers have said that helps them free up more of their day, since they don't have to wait for the phone to ring.

Frisby shared advice to help appraisers ensure their reports don't raise any red flags in First Tennessee's system.

"Use all of your senses and knowledge of the market to their fullest in providing your client the best report possible, with nothing left for interpretation," he said.

Several keys include not using flips/foreclosure sales and not hiding the terms and conditions of those sales. It's also critical that appraisers explain in detail as much as possible ("It cuts down on calls to you," Frisby said) and ensure data integrity ("We check behind you"). He also recommended they use fellow appraisers as a resource and avoid calling the processor/loan officer for help with comparable sales.

"Finally, just be specific and support your final opinion of value," he concluded.