

Automated Valuations



When Cheaper and Faster isn't Better

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Many recent articles have addressed the issue of privacy rights and appraisal reports. Data mining by various companies to reinforce automated valuation models (AVM) have exposed information that was thought to be protected. Privacy rights are certainly a concern when this happens, but are only the tip of the iceberg. AVM's and/or management

companies have circumvented the entire inspection process by looking at computer data or contracting to take a photo from the street in an attempt to estimate a value via exterior inspection only. Neither source could possibly be considered thorough and may even do a disservice to the owner.

For many years, banks and lending institutions have attempted to shortcut the appraisal process in the name of speed and rapid turnaround times for borrowers. On the surface, this appears to be a favorable turn of events for homeowners. Cheaper, faster, better, right? Not necessarily when the home has customized features or upgrades that simply cannot be accounted for from a 'drive-by' inspection.

In the race to take every shortcut available in the name of saving time and money, lenders frequently miss unique features that can influence value. Conversely, specific problems stemming from deterioration, deferred maintenance and other forms of depreciation can also go unnoticed when relying solely on a photograph.

“Would you like to be the first to cross the bridge that was constructed by the lowest bidder?”

There is an argument that has been presented by several AVM's that tract subdivisions, where sales data is more readily available, certainly do not need the specialized services of an appraiser. Really? How about the owner who has invested thousands of dollars in a new kitchen? Can that feature be readily seen and accounted for in a drive-by only inspection? What about the home with water damage that is passed off as being in 'average' condition by an AVM? Are they being well served by an out of state or even out of country computerized model?

The entire issue of automated valuation modeling goes far beyond privacy concerns. It leads down the slippery slope of poor customer service, and incomplete (even faulty) information. A home in poor condition is deemed 'average' while the residence with recent upgrades is given the same label. One is over-valued and the other falls short of what the market might truly be willing to pay. This incorrect data is then relied upon by lenders. It affects billions of dollars and results in an industry that is based on poor information at best. This is a classic example of when cheaper and faster is not necessarily better.

Part of an appraiser's responsibility is to be the eyes and ears of the lender or any client for that matter. Much has been said of appraiser fraud in recent years. Specifically that AVM's are completely unbiased and thus more reliable due to the fact that they cannot be swayed by client pressure. Granted, a few bad apples have soured the reputation of an entire community.

However, what safeguards exist to prevent lenders from manipulating AVM data and the computer models that interpret it? Bias, deceit and corruption can unfortunately appear at any time and in any venue – be it an appraiser or computer data analyst. The old adage of 'you get what

you pay for' still rings true. Would you like to be the first to cross the bridge that was constructed by the lowest bidder?

In order to offer services at rates below the competition, to keep lenders happy and to keep the phones ringing, corners are cut, ethics are overlooked and values manipulated. This is absolutely why it is imperative for users of appraisal services to seek out reputable appraisers who have stayed the course and made a commitment to the profession. Appraisers with a proven track record are out there and can be readily found.

What's the risk of working with an unreliable appraiser you ask? As long as we get this silly loan requirement out of the way and I get my money, it'll be ok. Maybe, but based on a fraudulent appraisal, you may be lent more or less money than is appropriate – a potential problem either way and definitely harmful to investors and the larger economy as a whole.

This is precisely why organizations such as the Appraisal Institute came into existence more than 75 years ago. There is a reason why it is the oldest, largest and best regarded of the various appraisal organizations. Members have a proven dedication to the profession and an adherence to a code of ethics and continuing education requirements that go far beyond state licensing alone. Look for the SRA and MAI designations bestowed by this organization as a reassurance of quality and integrity. It is a proactive step that you, as a user of appraisal services, can take in assuring a degree of quality and thoroughness.

We want the best we can afford in all our purchase decisions. The same should hold true of the services we seek and the people who provide them. ●