

# Managing REO

Making Foreclosed Property Profitable

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## Managers Seek Ways to Deal With Conflicting Valuations

New products are being used by lenders to assist in reconciling disparate values on specific properties.

BY JENNIFER HARMON

**D**efault and REO managers are getting new valuation tools to help them make better decisions throughout the default, loss mitigation, foreclosure and REO process. Concepts like “bump logic” which began on the origination side of the business, are now finding favor among servicers; meanwhile new offerings are helping managers “to break the tie” when a loan file has multiple conflicting valuations. New valuation tools also offer faster valuations and at a lower cost.

What’s driving this innovation is the noticeable shift in the business from origination to servicing. “The challenge for the whole industry -- for lenders and servicers and providers, like us, is to refocus from a purely production mindset to one that also addresses the needs of servicing. And to do it quickly and nimbly, which is easier said than done after years of focusing almost exclusively on refi demand,” said DeAnna McCann, chief marketing officer of the Poway, Calif.-based eAppraiseIT, a national appraisal management company, which is owned by First American. In the past year, she says the servicing portion of eAppraiseIT’s business has grown by 50%.

At all stages of the default/REO process, it is a challenge for managers to understand the current value on a property. They are always looking for the most cost efficient and accurate products to gauge the value.

In early default stages, say 30-days late, this usually means selecting quick valuations that are not expensive. “Here, a servicer usually opts for some type of AVM or BPO.

They want a quick snapshot and they realize that only a certain percentage of late payments will be problems,” she said.

But getting that picture can be problematic: AVMs sometimes won’t produce a “hit” or will come back with a value considerably different than the origination appraisal. “The manager then must place another [AVM] order or get a BPO or drive-by appraisal.”

To address this need, eAppraiseIT developed its RAVE process. RAVE relies on “bump logic” to automatically order the appropriate level valuation product, beginning with the fastest and least expensive, usually a two-AVM cascade. If the AVM cascade doesn’t do the job, it escalates the order an enhanced AVM then a BPO.

Conflicting valuations are another common occurrence within the default process. A property that’s heading for foreclosure, for example, may have an origination appraisal, a couple of AVMs, and maybe a BPO or drive by -ñall with differing valuations. As the servicer is preparing to bid in the foreclosure process, the manager needs to know what the appropriate valuation is. One new option is EAppraiseIT’s Value Reconciliation Report. It is being used by lenders to assist in reconciling two or more disparate values on a specific property. “During the reconciliation process, the servicer forwards to us their valuations for research and review. Typically it takes 24-48 hours. And it frees up the internal appraiser staff to focus on other things,” said Ms. McCann.

A Value Reconciliation Report compares and studies the origination appraisal and other valuation reports for methodology, and takes into account market conditions and comparable sales.

The report may identify causes for the disparity among valuations and eventually serve to support the broader case

presented by the lender when requesting re-purchase consideration. "It's cheaper than doing yet another valuation. The cost of a reconciliation report is about \$85," she said.

While cost sensitivity is an issue on the origination side of the business, it is more of a concern on the servicing side, McCann said, because costs can't be passed along to the borrower. That's why she believes new hybrid valuation products will be well received by services. At the MBA in October, eAppraiseIt unveiled an AVM-Assisted Appraisal that fills the gaps between AVMs and more extensive appraisal products.

Unlike static automated valuation products, the AVM-Assisted Appraisal is interactive. It puts the latest AVM technology at the fingertips of seasoned appraisers, presenting them with the results of three AVMs, access to scores of additional comparables and a location map of the subject and selected comparables. At any step in the process, the local appraiser can override the subject or comparable property characteristic information, the comparables selected, adjustment factors and the final value conclusion. When the appraiser is satisfied with the criteria, a click of the button instantly recalculates the property value.

"The AVM-Assisted Appraisal can be done with a current or retrospective effective date," she said. "The appraiser has an

almost limitless ability to make the appropriate adjustments. You just hit a button and it recalculates the valuation."

The AVM technology coupled with the expertise of an appraiser who knows the market area, improves upon the basic AVM alone. Ms. McCann says the company plans to add digital photos and on-site visits to the product. The company estimates that the turn-time for an AVM-Assisted Appraisal will be less than 48 hours in metropolitan and suburban areas, and says that the product will be priced competitively with other desktop appraisal products.

"In preparing a foreclosure bidding strategy, a manager needs a sharper valuation," she says. "At this stage, a servicer may go for a full appraisal or might use a less expensive AVM-Assisted instead."

In addition to these interim products, eAppraiseIt also offers traditional REO appraisals. "At a certain point in the REO process you need to know the condition of the property. So we offer BPOs and traditional REO appraisals.

"As a full-service provider," said Ms. McCann, "It is our goal to be able to offer cost effective and accurate valuations at any stage of default process and to give our customers a variety of options that will fit their needs."