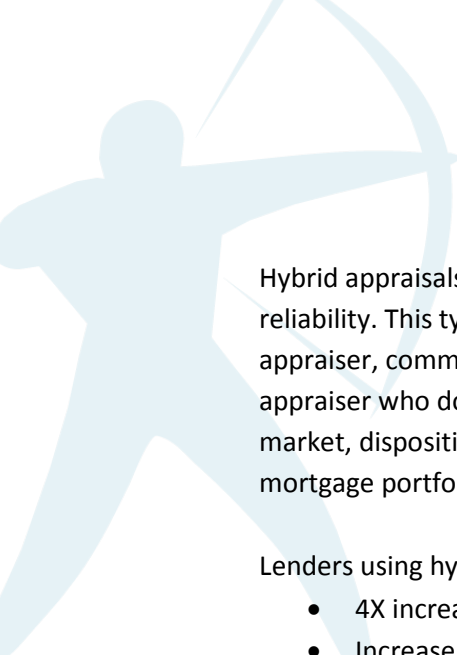




# ACCURATE GROUP

Appraisal.  
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Appraisers, Third-Party Inspections and  
the Rise of Hybrid Appraisals



Hybrid appraisals, also known as bifurcated or desktop appraisals, have a decades long track record of reliability. This type of appraisal has the subject's inspection completed by someone other than the appraiser, commonly referred to as a bifurcated process. The inspection results are then shared with the appraiser who does the analysis and estimates the type of value required by the client. For example, market, disposition, quick sale, etc. Hybrid appraisals have historically been used in the home equity, mortgage portfolio, REO and mortgage insurance termination channels for years because of their success.

Lenders using hybrid appraisals have seen:

- 4X increase in appraiser efficiency
- Increase appraiser earnings
- Promotion of appraisal independence
- Improvement of the valuation process for all stakeholders
- Reduction in post-delivery revision rates
- Reduction in overall turn times
- Ability to help underserved markets, like rural areas or locations with limited data
- Reduction in potential for discriminatory bias

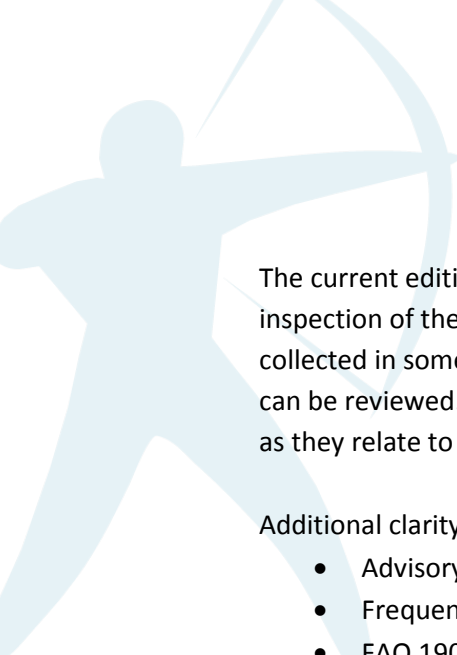
Recently bifurcation has become a major topic in the first mortgage market as the result of two events. First, the Federal Housing Finance Agency (FHFA) introducing an appraisal modernization initiative that includes discussion around bifurcation. The second being the Covid-19 pandemic, which created an environment where third-party remote inspections were required in certain situations to keep the loan process from coming to a halt. These developments have some parties seeking to learn more about bifurcation and any potential impacts on the appraisal development process.

Some appraisers have concerns around hybrid or bifurcated appraisal solutions. They fear it could introduce discrepancies into property appraisals, meaning lenders and borrowers do not get the benefit of trained eyes on the ground. Basing an assessment on similar properties will not consider improvements, like a kitchen renovation, lot-specific circumstances or other relevant property characteristics. But innovation in hybrid appraisals has resulted in more accurate and compliant options than past alternative valuation methods.

In this paper, we will detail our recommendations for the use of third-party property inspections in the appraisal process.

Appraisal development is guided primarily by the Scope of Work Rule and Standard 1 of the Uniform Standards of Appraisal Practice. A complete copy of the 2020-2021 edition of USPAP can be ordered [here](#).





The current edition of USPAP gives guidance around the issue of inspections and specifically states an inspection of the subject property is not required by USPAP, assuming relevant characteristics can be collected in some other manner. We refer you to a complete copy of USPAP where the applicable sections can be reviewed. Of particular importance are, as previously noted, the Scope of Work Rule and Standard 1 as they relate to appraisal development. Standard 2 provides appraisal reporting requirements.

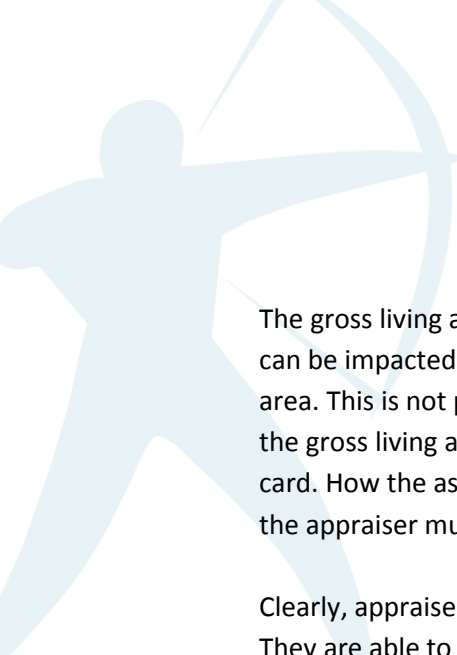
Additional clarity is provided by:

- Advisory Opinion – 2 (AO-2), Subject: Inspection of subject property
- Frequently Asked Questions (FAQs), FAQ 189 – Drive-by and desktop appraisals
- FAQ 190 – Inspection of subject property
- FAQ 227 – Can I perform an appraisal if the property inspection was done by someone else?

The responses and illustrations to the advisory opinion and FAQs make clear that relying on a third-party inspection can be done within the requirements of USPAP. The guidance does indicate that the appraiser needs to have reasonable belief the data is reliable and follow the other development and reporting criteria within USPAP.

During the course of a typical appraisal (non-bifurcated workflow), the appraiser relies on many types of third-party data. An appraiser’s inspection might include the review of documents prepared by others. This can include a plat of survey, a list of recent improvements and possible comparable data provided by the borrower or a real estate agent. Applying their professional judgement and experience, decisions are made on how to interpret this data and if it is relevant for inclusion. During the comparable selection and analysis phase of an assignment, third-party data is the primary source. The appraiser will most often use a multiple listing service (MLS) to collect a pool of potential comparable properties. Written descriptions, data points and photographs that are part of these listings are reviewed. Some of this data is checked against other third-party data sources such as assessor’s records or the Recorder of Deeds. On occasion, some appraisers will call either the listing or selling agent to conduct an interview and gain more potential information. Important decisions on this third-party data are made by the appraiser, which will significantly impact the appraisal assignment results. Two major examples of comparable datapoints an appraiser must reconcile from third-party sources are condition and gross living area.

The condition rating of the subject property compared to the comparable properties used in the analysis can be an item where significant adjustments must be derived. Most often, the appraiser bases the condition of the comparables from the MLS description and photographs they view online. Using their experience and professional judgement, they are able to assign a condition rating to a property that they have never been in. It is worth noting while there are cases where an appraiser uses a property as a comparable that they have previously been in, it is not the typical circumstance.



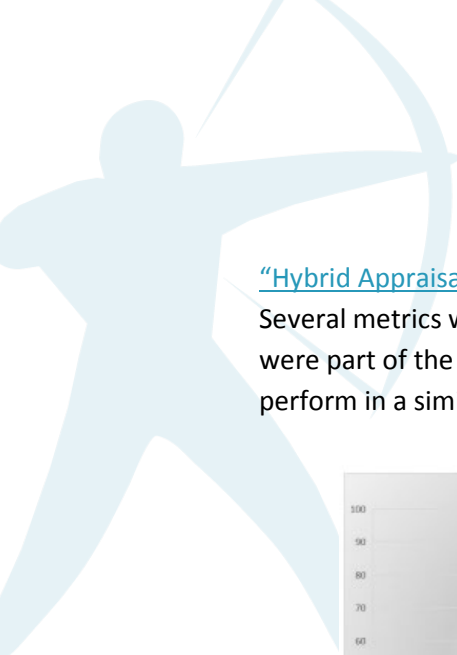
The gross living area of a subject property versus a comparable is another area where assignment results can be impacted. An appraiser will physically measure the subject property and calculate a gross living area. This is not possible for the comparable properties. The appraiser must use a third-party source for the gross living area of the comparables. Most often, this source would be an assessor's property record card. How the assessor measures, rounds measurements and treats areas like two story ceilings are items the appraiser must reconcile in order to make a reasonable comparison.

Clearly, appraisers are already using significant amounts of third-party data during the appraisal process. They are able to do this and deliver results that are credible and useful to their clients. We are of the opinion that third-party inspections are another piece of data that appraisers have the ability to analyze and use without adding risk to the appraisal process. There are best practices appraisers should use when accepting this type of data.

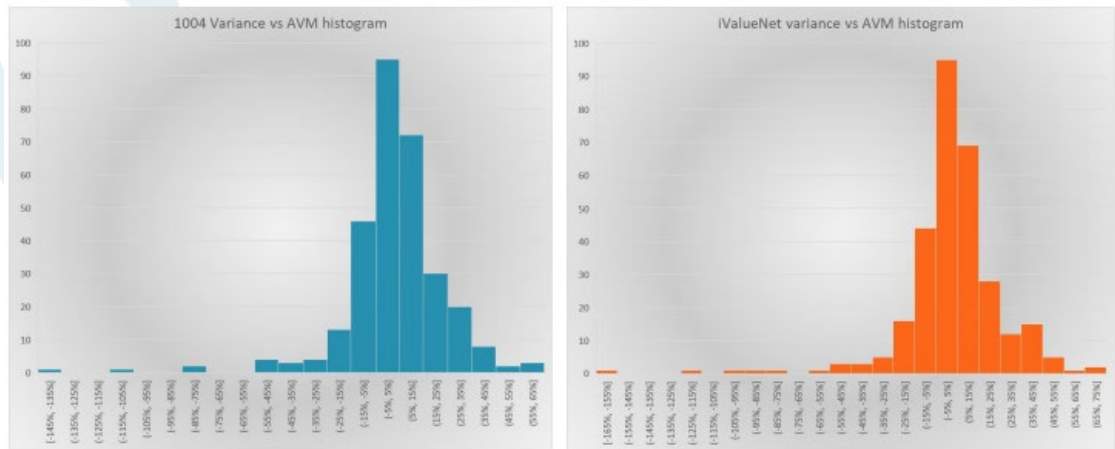
When working with an appraisal management company (AMC) an appraiser might ask the following questions:

- What are the requirements to be considered as an inspector?
  - From what field do they come from?
  - Are they licensed in another area of real estate?
  - What does the vetting process consist of?
    - Interviews?
    - Background checks?
- What is the onboarding and training process?
  - Are their contracts to sign?
    - Is there a code of ethics that must be agreed to?
  - Is there written documentation to assist in training?
  - Do new inspectors complete test orders prior to going live?
- How are active inspectors supported and monitored?
  - Are there software applications inspectors use that ensure quality?
  - Do these applications include modern sketching technology?
  - Is there a quality control process?
  - Are inspectors work product scored for performance monitoring?
  - Can appraisers ask questions about the inspection report they receive?

Robust controls around third-party inspections allow appraisers to produce appraisals with equivalent credibility as appraiser inspected assignments. This can be measured through a study of results from the two methods, which are benchmarked to an independent indicator. We have issued a whitepaper titled,



[“Hybrid Appraisal for First Mortgage Portfolio Transactions,”](#) featuring a study that confirmed our beliefs. Several metrics were used in this study and for visual ease, we have included an image of histograms that were part of the study analysis. Statistical support was provided by our analysis that bifurcated appraisals perform in a similar manner as those completed with the traditional process.



Lenders have been utilizing hybrid appraisals to originate portfolio loans for years and would not continue to do so if these products were adding even a small percentage of risk to their balance sheets over the traditional valuation process. Accurate Group provides industry best third-party inspection controls, is the market leader in bifurcated appraisal products and desktop appraisal technology. We provide valuation solutions to the top U.S. banks, credit unions and mortgage lenders of all types. Given the market climate, it’s important to select the appraisal product that provides the best combination of price, speed, accuracy and compliance.

## About Accurate Group

Accurate Group is a real estate technology and services leader delivering technology-driven property appraisal, title data, analytics and digital closing solutions to banks, credit unions, servicers, non-banks and capital market firms. By combining modern process automation, accurate data and innovative SaaS and mobile technologies, Accurate Group provides its clients with the best combination of speed, quality, regulatory compliance and price.

With Accurate Group, the real estate finance community and consumers benefit from market-leading solutions that enable modern digital frameworks, improve accuracy, lower costs and improve compliance across all types of real estate loans, mortgage-related assets and real estate portfolios. Visit [www accurategroup.com](http://www accurategroup.com).

