

The Triage Approach To Estimating Value

To address the explosion of defaults in recent months, many lenders are ordering large numbers of broker price opinions (BPOs). This is necessary to obtain the most accurate valuations for distressed properties. To improve the efficacy of the BPOs purchased and, in some cases, reduce the overall cost of the valuation process, a “triage” approach is increasingly being adopted by lenders both for risk-based pre-sale valuations and for post-sale and real estate owned (REO) management.

As an alternative to appraisals, BPOs are requested because they incorporate the expert knowledge of a local real estate broker familiar with the neighborhood and the property. BPOs are a valuable component of every servicer’s process, yet no professional, even the most experienced, can incorporate hundreds of comparable sales into his or her analyses. While automated valuation models (AVMs) do incorporate vast quantities of data, their value accuracy for distressed properties has historically been limited. However, the expanded availability of REO sales data and advancements in modeling techniques have allowed valuation providers to bridge the gap and produce high-quality automated estimates of distressed sale prices.

When leveraged appropriately, both AVMs and BPOs are invaluable tools that can deliver vital business intelligence to lenders and servicers. In fact, they can be used together to deliver a more robust set of valuation data for better decision-making.

Some lenders order multiple BPOs on

an asset then manually reconcile discrepancies in an attempt to improve valuation assessments. Because the accuracy of each BPO is highly dependent on the opinion of the broker performing it and the comparable properties selected, the values derived from multiple BPOs can differ substantially. The valuation review professional, perhaps located many miles away from the property, must decide which value is based on the “right” information. In one lender test using third-party BPOs and internal reconciliation processes, the analysis showed that reconciled values were ultimately no more predictive of an REO sale price than was the first BPO ordered. The additional costs of a second BPO and reconciliation process proved to be of questionable value.

Properties are illiquid assets, and, therefore, a range of values can each be defended based on sound valuation practices. Value range is based on property condition, uniqueness, heterogeneity of housing stock and sales pace. In today’s market, it is difficult to get a sense of the range using a process that selects only a handful of comparable sales for analysis. Forward-thinking servicers are combining BPOs and AVMs to provide a more comprehensive assessment. Lenders and servicers can benefit from the best that both BPOs and advanced AVMs have to offer - the benefit of a broker’s local knowledge and the variety of data comparisons made possible by an AVM.

Servicers are saving money by reduc-

ing the need for manual BPO review on properties that have an AVM corroborate the value conclusion. When the values diverge, the data in the AVM report can expedite the manual review process by highlighting the information worth reviewing.

Servicers also save money in the valuation-update process. Most servicers have a policy of updating property values on REO assets approximately every 90 days. If an AVM value was similar to the BPO value when both were first obtained, then AVMs can be used for value updates. Not only does using the AVM in this way save money, but it also saves time. Updated pricing decisions can be made more quickly, allowing attention to be focused on other asset-management activities.

After 90 days, there is a potential for REO properties to have sustained damage or deterioration. For assets on the market an extended period of time, it is beneficial to use AVM updates with a BPO to identify specific damage. Servicers still save money but do not eliminate eyes on the property to determine an accurate value.

This triage approach to valuation review has been standard in loan originations. In fact, risk-based appraisal review is required in order for lenders to meet regulatory standards. So it comes as no surprise that it is valuable for REO and loss mitigation uses, as well.

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