CoreLogic®

A Paradigm Shift in the Speed of Valuations

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THE EVALUATION OF A NEW LOAN

A new mortgage loan is triggered with consideration of two numbers:

1. the borrower's credit worthiness (FICO®)
2. the worth of the collateral pledged for the loan (a valuation)

FICO scores and other measures of credit worthiness are trusted, as well as readily and instantly available. Valuations, on the other hand, currently don't share the same benefits. This is an issue impacting the lending industry as mortgage interest rates continue to rise and refinances decrease, creating a demand for Home Equity Loans we can capitalize on quickly. We'll discuss the factors impacting valuations and explore new technology solutions to help rapidly close loans.

Equity lending has increased in popularity over the past few years. According to a report from TransUnion®, 1.6 million homeowners will open a Home Equity Line of Credit (HELOC) in 2018, increasing to an estimated 8.4 million lines opened from 2019 to 2022. Further, mortgage interest rates have risen over the past 18-months from 3.75% to 4.5%, with expectations of a continued increase through the end of 2018. Increasing equity is creating the demand. After all, we certainly don't want to touch our 30 year mortgage fixed at 3%, yet we still want the boat, pool, new car, or to pay for college or a wedding.

As lenders look to capitalize on this demand, there are a few considerations regarding valuations:

01 The proliferation and availability of data in the residential property world is as good as it has ever been. It's been said we are drowning in data and starving for information. Yet today, the ability to trust the data and analytics—information built on this data—is as high as ever in the history of lending. Lenders have a unique opportunity to trust the data and build processes and lending approaches that are data-based, maximizing efficiency and reducing costs.

02 New technology and solutions give lenders an instant understanding of the collateral they are dealing with at the point of application. Physical characteristics from national databases ensure comprehensive coverage and accurate information. Analytics tell a lender what is going on in the neighborhood and if the home will be a complex valuation assignment.

Automated Valuation Models (AVMs) can indicate if the borrower's self-assessment of equity is reasonable, without providing a point value estimate. This information can drive the workflow for the lender and the initial risk assessment, most specifically the type of valuation product appropriate for the property and lending scenario. Lenders can also overlay information about the borrower to determine the most appropriate collateral valuation service if the borrower intends to proceed with the loan. The analysis is best accomplished in a collateral valuation management system.

03 Time and costs matter a great deal in HELOC lending. This is due to the fact that loan origination costs are typically held by the lender rather than directly by the borrower. Competition within mortgage lending is quite high to secure HELOC borrowers, plus the loan is typically held in a portfolio on the lenders balance sheet.

THE RISE OF VALUATION PLATFORMS

When it comes to valuing collateral, lenders are best served when they use a valuation platform that is vendor neutral. Lenders need a program for collateral valuation that is cost effective, efficient and compliant. Valuations platforms provided by CoreLogic® are vendor neutral, meaning lenders use whatever service providers they prefer.

Many reputable Appraisal Management Companies (AMCs) and other valuation providers offer good valuation products suitable for equity lending; however, without a platform between the lender and its vendors, it is difficult to avoid single points of failure or to monitor the process. Platforms allow lenders to use their selected vendor(s), and effectively exercise 3rd party vendor oversight, monitoring their vendors' performance, and optimizing redundancy and extra capacity. Further, the ability to adopt new products and processes easily, and with the flexibility to switch, is a tremendous benefit of a premier platform.

With a valuation platform in place, a lender can build out a risk-based collateral valuation approach. An effective program will consider both the collateral valuation and compliance risks in conjunction with the borrower, or overall loan risks. Keeping cost low is key to success, especially given the lender is typically bearing the loan origination cost for HELOC opportunities. Intuitively, there are loans that do not need a full appraisal and can utilize an AVM with a Property Condition Report (PCR). Examples within this segment include loans where the loan-to-value ratio (LTV) is very high, market complexity is low and the borrower is highly credit worthy. Regulatory guidance such as the 2010 Interagency Guidelines on Appraisal and Evaluations provides a base set of components for a successful program.

A typical risk-based service type determination might look like this:

Example Scenario	FICO	Complexity	LTV
AVM-PCR	High	Low	50% or lower
Desktop Appraisal-PCR	High	Med-Low	75% or lower
Exterior Inspection Appraisal	Medium	Medium	80% or lower
Interior Inspection Appraisal	Medium	Medium-High	80% or lower

ENSURING A SUCCESSFUL PROGRAM

Effective monitoring is required for lenders to deploy a program of this nature, more specifically an AVM program. Fortuntely, technology has come a long way in the past 20 years, allowing AVMs to become more accurate and reliable, increasing the effectiveness of monitoring. Many lenders are successfully remaining compliant while adopting programs that incorporate AVMs and other valuation tools. Lenders can install a monitoring program themselves, or select a reputable 3rd party provider to monitor and provide an AVM cascade, ensuring the best AVM for any given geography and property type is applied.

When selecting a 3rd party vendor, it's best practice to use a valuation product that is appraiser based. When the risk is tied to a loan and the associated value of collateral, the judgment of a human being is necessary. For example, using a PCR combined with an appraiser's analysis of the condition information, public physical characteristics and market data provides a solid basis for a risk analysis by a lender's underwriter and is cost effective. Lenders can use a platform to manage this bifurcated process, or can engage one or more vendors (AMCs for example) to determine the need for each individual loan.

Valuations platforms provided by CoreLogic also provide the ability for lenders to create a custom format and/or tool for use by selected vendors (AMC or direct engagement). This effective format eliminates the complexity and risk of error caused by multiple vendors sharing data in different formats and results in consistent accurate analysis.

Automating the Quality Control (QC) process is also key to success and compliance. Though a lender can outsource the manufacturing of the inspection or valuation product, the lender is never absolved of responsibility to ensure results are reliable for the intended purpose. To be consistent, compliant and efficient, all critical in the HELOC lending process, a lender must use an automated risk screening, combined with a risk based review workflow. Here again, a technology platform for lenders enables this process. Using a platform with standardized forms creates systemized data inputs, allowing lenders to apply the same review process regardless of vendor. Additionally, the automated risk based review capability allows lenders to avoid wasting their most costly expense (human resources) reviewing low risk valuations. Rather, lending experts can help reduce costs without increasing risk by focusing on loans that may cause a policy exception.

BOTTOM LINE

Compliant, cost-efficient collateral valuation for HELOCs is possible in today's environment with the use of proven platforms. When a HELOC is combined with an automated valuation cascade and automated risk-based review process, this evolved valuation is easily within reach for lenders of all types and sizes.

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ABOUT CORELOGIC

CoreLogic (NYSE: CLGX) is a leading global property information, analytics and data-enabled services provider. The company's combined data from public, contributory and proprietary sources includes over 4.5 billion records spanning more than 50 years, providing detailed coverage of property, mortgages and other encumbrances, consumer credit, tenancy, location, hazard risk and related performance information. The markets CoreLogic serves include real estate and mortgage finance, insurance, capital markets, and the public sector. CoreLogic delivers value to clients through unique data, analytics, workflow technology, advisory and managed services. Clients rely on CoreLogic to help identify and manage growth opportunities, improve performance and mitigate risk. Headquartered in Irvine, Calif., CoreLogic operates in North America, Western Europe and Asia Pacific. For more information, please visit corelogic.com.

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17-PDGMSHFT-1018-00

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