Reggora

Why Mortgage Lenders Should Optimize The Appraisal Process Now

White Paper

Reggora.com

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Introduction

In today's competitive mortgage market, few things are more important than high borrower satisfaction scores. One of the biggest factors in achieving these is time to close, especially for purchase money mortgage loans. When lenders work on optimizing their production processes, those who seek to remain competitive and reduce operating costs are reimagining how they handle appraisals.

Reggora recently collaborated with industry research leader STRATMOR Group to explore mortgage lenders' greatest pain points in the appraisal operations process. The data show that from the moment the lender realizes they need an appraisal to the moment they receive a complete report is 19 days. This result paints a vivid picture explaining why appraisal optimization should be a top lender priority now.

To begin, appraisal operations are considered the slowest part of the overall production process. In fact, the chokepoints common to appraisal operations often negate many of the gains won by optimizing other phases of the process. In our survey of the industry, 36% of respondents advised us that the report is actually late more than 20% of the time.

The result: 1 in 8 closings are delayed because of the appraisal. When closings are delayed, lenders can lose business. When you consider that two-thirds of the lenders we spoke to were ordering more than 100 appraisals per month, that's a lot of potential lost business.

Lenders know this is a serious problem and they know any and all advances in the appraisal process are needed. A Fannie Mae study released in the first quarter of 2022 showed that 94% of lenders surveyed believed "appraisal modernization is valuable, and 61% think it's very valuable."

Lenders that hope to grow in this highly competitive market will have to address appraisal optimization now if they hope to reduce their cost per loan, as well as satisfy borrowers and streamline their overall workflow. The place to start is understanding why the appraisal process moves so slowly.

Why the appraisal process takes so long

In our work with STRATMOR, we took a very rigorous approach designed to provide a 360-degree view of everything going on in the lender's appraisal department. We discovered that most of what was happening there was happening manually. Survey respondents told us that 52% of appraisal-related lender time is spent on scheduling and follow-up.

Even worse, respondents to our survey said it takes an average of 7 days to find an appraiser and get the appraiser's visit scheduled with the borrower. And that's for a routine appraisal. Complex properties take even longer to place with the right appraiser.

Every lender knows that manual processes are inefficient. It's why they invest in technology. But that investment hasn't happened as often or to the same extent in the appraisal department of many lender shops. The appraisal staff is left tracking everything by hand.

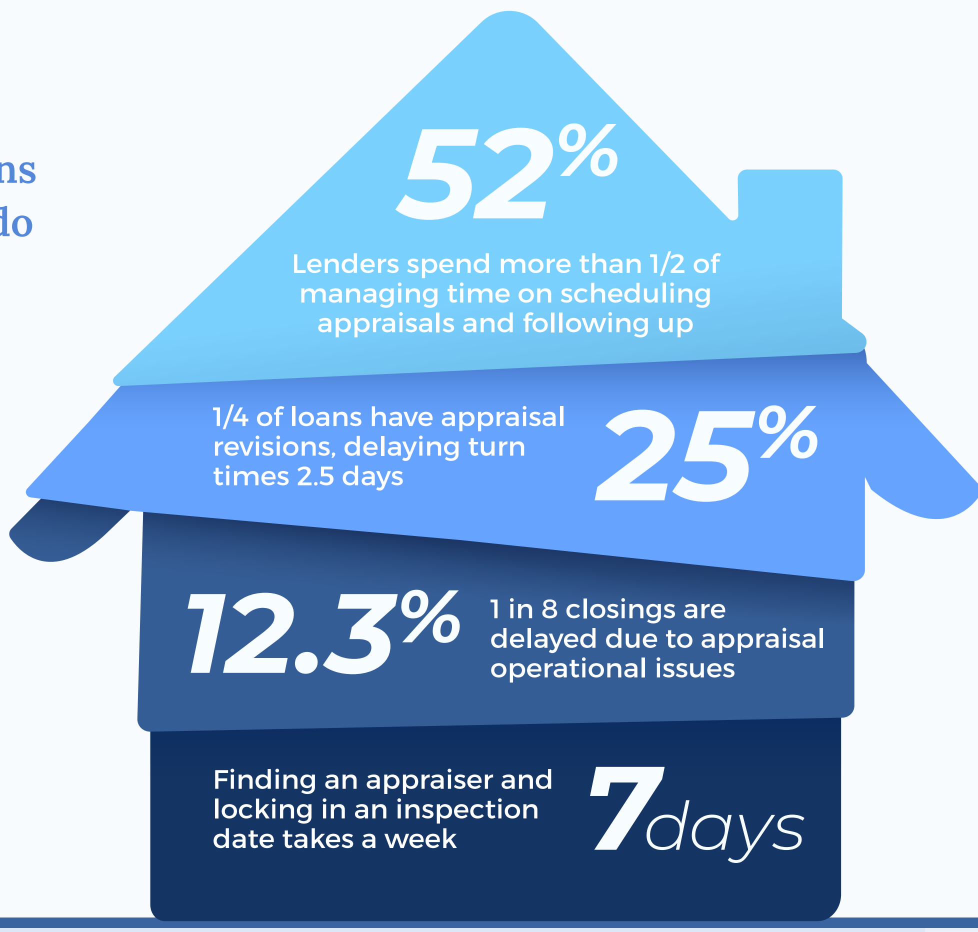
Our research reveals that the lenders' top two appraisal priorities are achieving on-time report delivery (38%) and improving report quality (35%). This is a challenge for them because 1 in 4 appraisals triggers a revision request and 1 in 5 is delivered late. When the department does request a revision, it takes at least 4 days to complete.

This department, more than most others in the lender's enterprise, could benefit from automation, but it's usually the last to get it. Part of that is because so much of the process happens outside of the lender's four walls and out of the company's control. But it's also because the risks inherent in new tools, like desktop appraisals, aren't well understood by lenders yet.

Boil all of this information down and our research reveals that by optimizing the appraisal process, lenders can reduce their cost to originate by up to $258 per loan. One would think that the obvious answer is to simply invest in new technology to better manage this department. Unfortunately, it's not that simple.

The true costs of appraisal operations to lenders — how do you stack up?

STRATMOR's 2022 Appraisal Operations Survey shows how issues in a lender's appraisal process disrupts the mortgage cycle. How does your operation compare?



Why lenders are finding it challenging to invest now

The mortgage industry hasn't taken a new loan application with paper and pencil for 35 years, at least not routinely. In all that time, they have invested in new tools and technologies according to a predictable pattern that correlates to industry loan volume.

When volumes peak, lenders have money to invest, but no time to implement new technologies. When volumes are at their lowest, no lender wants to commit funds without knowing when the market will rise. It's during the transition periods between the peaks and troughs when lenders make their investments. Industry data suggests that we are in such a transition period now.

Record high inflation has forced the Federal Reserve to raise interest rates in an attempt to curb it, which has increased the cost of funds for lenders. Consequently, mortgage interest rates are rising as well. The industry is seeing the corresponding fall in loan volume, with refinance volume plummeting in particular.

Unfortunately, lenders are not seeing a similar reduction in their cost to originate. This is having a negative impact on earnings. Independent mortgage banks and mortgage subsidiaries of chartered banks, for example, showed a net gain of $223 for each origination of 1Q 2022. That represented a significant decline from the reported gain of $1,099 per loan in 4Q 2021. In fact, the same research revealed that production expenses per loan had ballooned to $10,637 per loan. That represents an increase of more than $1,000 per loan in just the previous quarter and more than $2,500 per loan one year ago.

To make matters worse, lenders are coming down off the biggest year in mortgage lending history. Freddie Mac is now estimating the total 2021 loan origination volume at $4.7 trillion. With the Mortgage Bankers Association (MBA) estimating industry 2022 volume at around $2.4 trillion in its June 2022 forecast, that's a long way to fall.

Much of this loss will come from refinances, which MBA expects to plunge by 68% this year. That's bad news because refinances are faster, easier, and cheaper to originate than purchase-money loans, which means the lenders' cost per closed loan is going to go up.

But while decreased volume and margin compression provide ample reason for lenders to resist any new investment right now, there are actually many compelling reasons for doing exactly that—especially with appraisal technology.

Production expenses have ballooned to $10,637 per loan

Why it still makes sense to focus on optimizing appraisals

When is the right time to improve the process that takes the most time and adds the most risk of disappointing the borrower? **Now**. It doesn't matter if the lender is experiencing high volume or low, an optimized appraisal process is beneficial in any market cycle. That's true whether it helps better capture and process volume spikes or aids in the maximization of profit in times of more moderate revenue.

Just ask Kevin Peranio, Chief Lending Officer for PRMG. As PRMG continued to grow in volume, their switch from managing their own panels to an AMC partnership model removed some communication breakdowns. But the leading wholesale lender was still in need of a transparent, rapid-speed communications system that could adapt to their needs. They realized that the time was right to pull the trigger and teamed up with Reggora.

"If you look at originators doing more volume, they've leveraged modern tech," Peranio said. "If I'm an appraiser and want to do more volume, I need to leverage modern tech. The bifurcated process is a tremendous opportunity for appraisers to do a ton of volume and being an early tech adopter with Reggora, which allows appraisers to do just that, is going to put you at the forefront of serving more families and making more money. I'm a huge fan of it."

- Kevin Peranio, Chief Lending Officer at PRMG

Peranio and PRMG also place a high priority on empowering their appraisal partners, so for them, appraiser adoption is always an important factor in choosing new technology. The implementation of Reggora was well-received by PRMG's panel, another major factor in the success of the implementation.

But what if volumes aren't high? The management team at one regional bank which adopted Reggora says it's still time to optimize the appraisal department. The bank was spending about $100,000 annually, tasking a staff member with chasing down past-due appraiser invoices. It was taking up time from full-time employees in multiple departments, including operations, revenue, accounts payable, and others. This is a real problem for banks that are losing staff as volumes fall.

The bank implemented Reggora's platform, and its automated payment processing and automated order allocation functionality quickly empowered employees to spend more time focusing on their core jobs (rather than on redundant, manual tasks), even as it improved the bank's overall efficiency.

"In our more metropolitan markets, with more available appraisers, we've seen a drop in turn times. It's roughly one day less for those markets compared to what the branches stated their turn times were in our previous solution," according to the bank's SVP of Loan Operations. "By having our process set up to default to collecting at the time of ordering, we have seen significant improvement on this front compared to our previous platform."

In real numbers, that's a reduction in the bank's revenue leakage of an estimated $125,000 annually.

Whether volumes are high or falling, it just makes sense to optimize the mortgage lending appraisal process now.

Optimizing the appraisal process matters now more than ever

While we've worked with lenders intent on offering their loan officers and borrowers a better experience from the appraisal department in all kinds of markets, this work becomes increasingly important in markets like the one we're in now.

Having a high cost to originate when loan volume is very high is survivable, if not sustainable. But during lean times, lenders must cut operational costs. Profit per loan is simply too low today to continue to pay high costs for loan origination.

Naturally, each lender will approach this challenge in their own unique way. Some will reduce staff; others will sell off servicing rights or whole loan portfolios or even consider selling their companies. Others will chase market share by offering lower rates or cutting their fees. This "race to the bottom" is particularly dangerous, but it's a gambit some will try. Richard Martin, director of Real Estate Lending Solutions at Curinos, has observed this as evidence of a bit of panic on the part of lenders.

If we can judge by the flurry of appraisal-related activity at the GSEs, lenders aren't the only ones concerned. In March 2022, Freddie Mac issued new guidelines aimed at modernizing the appraisal process, including the introduction of ACE+ PDR (property data report). Another tactic Fannie Mae and Freddie Mac are implementing is accepting more desktop appraisals.

"We feel this is the right time...with regard to appraisal modernization," said Scott Reuter, Chief Appraisal Officer at Freddie Mac. "We're helping to build out product offerings on the spectrum between waiver and full appraisal."

Scott Reuter *Chief Appraisal Officer at Freddie Mac*

Why now? It's about a faster, digital process. In a recent webinar featuring both GSEs, Reggora CEO Brian Zitin put it clearly: "As everything else in the mortgage process continues to get better, in the last two years, appraisal turn times actually got worse. Appraisal continues to be a bottleneck around the ideal one-click mortgage...By unlocking a new option that has the potential to have faster turn times, it's going to remove that bottleneck from the overall digital mortgage process. That's why for lenders who are looking to optimize speed to close, appraisal has to be on that checklist. Otherwise, you're never going to get there."

The value and ROI in appraisal optimization

When it comes to optimizing the appraisal process, lenders are implementing an appraisal innovation platform. That's what the lenders from our two previous examples — PRMG and a regional bank — did when they engaged Reggora.

They, and other institutions like them, are doing it to achieve a number of benefits.

Time Savings

Both of these institutions saved time. Another good example is North Easton Savings Bank, where VP – Director of Sales Jim Dell'Anno saw a "gaping hole" in his appraisal department, where turn times were approaching 30 days.

His solution was automated payment processing via Reggora technology. The bank implemented Reggora's platform and saw a 35% improvement within weeks. "I can't imagine how many man-hours per month we had spent on payment processing and balancing GL accounts [before Reggora]," Dell'Anno said.

Lenders know exactly how important this benefit is. According to a recent Fannie Mae study, 38% of lenders said the biggest single benefit of appraisal modernization is shortening loan cycle times. Time in our industry is more than just money. It's borrower satisfaction and that's future business. But it's only the first benefit of appraisal optimization.

Better revenue management

The regional bank we previously highlighted estimated that in 2019, it lost $75,000 to uncollected appraisal fees on transactions for applicants who would ultimately choose another lender. When volume spiked 60% in 2020, revenue leakage rose to an estimated $125,000.

The streamlined revenue collection, remittance capabilities, bidirectional integration with the LOS, and ease of use that came with Reggora all helped show immediate improvement. Ultimately, the leakage stopped.

Increased management visibility and control

Larger institutions that operate large wholesale or branch networks often find that decentralizing the appraisal function can lead to problems. But pulling it all in-house isn't possible with a manual process. Reggora has been the answer for many firms, including PRMG.

"Reggora did a good job of changing the communication within the system where everyone can see the notes…because at the end of the day, we're purchase driven in our retail channel in a normal market, we're 89% purchases, and you cannot miss purchase closing dates," explains PRMG's Peranio. "If we have a good transparent system and process, and good technology where communication is open, like with our Reggora software, then we can have as few surprises as possible."

That increased control and time savings in order management amounted to reduced operational costs. In fact, we also learned that PRMG saved 20 minutes per loan file while fulfilling 3,000 orders per month after implementing Reggora.

Better staff management

Finally, freeing up staff to move away from the appraisal desk to higher impact roles has been a big win for many, including Alpha Mortgage. In fact, “75% of my efficiency is not having to re-enter data. That’s number one,” said Alpha Mortgage Systems Manager Jan Valencia.

As a result of replacing the manual processes with automation, she was able to reallocate three-quarters of the full-time employees on her team to more impactful roles in the business. When you consider the reallocation of appraisal desk staff combined with time savings among accounting employees, the net savings based on industry-standard compensation equates to about $70 per loan file.

Achieving all of these benefits requires an integrated solution that can seamlessly connect directly into the lender’s LOS. That’s what Reggora’s solution provides, especially for lenders who use Encompass.

Ultimately, all of these benefits contribute directly to the lender’s bottom-line profitability. According to recent STRATMOR/Reggora data, it means an additional $286 in revenue per loan.

And what does it cost to get these advantages? Reggora’s platform doesn’t come with any hard costs for the lender. Every fee can be passed back to the borrower, making the technology effectively cost-free.

The other side of the equation

To realize the benefits of appraisal management technology, a lender's investment is almost nothing. First, lenders implementing Reggora's technology don't face a significant, upfront fee at the time of implementation. The cost, instead, is felt per transaction—and can be easily passed along to the lender's clients.

Just as important is the fact that appraisal optimization is a relatively light lift compared to other optimization efforts, such as LOS, POS, eClose/RON, title, compliance, or data security.

With the right technology partner, it takes very little time and effort to implement an innovation platform. For example, PRMG turned off ordering on previous systems for 90% of its branches within 60 days of implementing the Reggora platform.

"It was really quick and we sunsetted our last system fast. With 1,400 people in our retail channel, if you include all the processors and 250 branches, it was pretty smooth," says Peranio, "I felt like Reggora's team was always there and available. Their team was receptive and fast and invested in the change management."

One pitfall that many lenders fall into when implementing new technology is low staff adoption. That's not a problem in the appraisal department. At least not with Reggora.

"It's really just a program that's easier on your eyes," the regional bank executive said. "I think any user can jump in there and learn it right away within a couple hours, if they're brand new to it. I definitely like the user-friendliness of it overall."

The regional lender saw a 95% adoption rate among its panel of appraisers, a level that technology developers in any other part of the process would die to see.

Alpha Mortgage is another Reggora partner who experienced similarly high adoption when it implemented our platform. Alpha transitioned from a completely manual process to Reggora. According to Alpha Mortgage executives, the positive response they received from implementing Reggora from their underwriters, appraisers, and loan processors was "immeasurable."

The combination of a downturn in the market among new purchases and refinances with the large opportunity appraisal presents means that lenders must prioritize appraisal optimization now. In lean times there may be fewer levers to pull to increase margins, so decision-makers should invest in a solution that can increase scalable efficiency. It's not enough to save a few dollars during periods of low volume. Far better to optimize a process that can also help achieve more inventory at a quicker rate during busier times in the market.

The case is crystal clear. Successful lenders are already optimizing their appraisal process. In a competitive purchase market especially, now is the time for all lenders to do the same. To do otherwise would be to ignore these compelling reasons: the impact of appraisals on the mortgage process—regardless of market volatility, increased control over the process, and the big return for a relatively light lift. Finally, what comes next? Address the gaps within your appraisal operation to boost your bottom line.

Get all the benefits that come from optimizing your appraisal department with Reggora. Contact us today.

About Reggora

Reggora's modern appraisal management platform is designed to help lenders gain a competitive edge in today's marketplace while also preparing for the future.

With Reggora, mortgage lenders across the country are processing more appraisals than ever before while delivering an enhanced borrower experience. Lenders benefit from faster appraisals and fewer manual tasks thanks to capabilities such as advanced payment processing, algorithmic appraisal ordering, automated appraisal quality control, status updates, and more. In addition, an open API along with robust LOS and POS integrations help align lenders' tech stacks to deliver unprecedented operational efficiency.

Learn more at www.reggora.com