



Redefining AVM Cascades: A Proactive Approach to Property Valuations

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INTRO

The lack of a major shift in lending from last year to this year has forced the mortgage industry to reassess how it's going to succeed. With no significant increase in housing inventory or a surge in homebuyer demand, the industry has become hyper focused on discussions around budgets, profits and mortgage volume.

These conversations on how to strategically navigate 2019 started to surface after the Mortgage Bankers Association predicted that total mortgage originations would look similar to last year, decreasing to \$1.63 trillion in 2019 from \$1.64 trillion in 2018.¹ The forecast did start to look more optimistic as the year went on, with the MBA increasing its total mortgage originations forecast for 2019 to \$1.68 trillion by April.² Despite the positive increase, companies remain on the path to figure out how they are going to grow their business this year.

This classic challenge is where companies can easily make a mistake and overlook one of the most powerful ways to increase margins. Instead of primarily focusing on how to increase revenue, one of the most impactful ways to improve the future of the business is to start with all the ways to drive efficiencies through transformative technology. As one of the most paper-intensive and detailed industries, there are numerous ways an organization can make a simple mistake that over time costs them a material amount of revenue. It only takes one small leak to sink a whole boat.

Maybe the company is having to continuously resubmit a loan or even take an extra week to process a loan because the application was filled out incorrectly. Or, maybe the company isn't streamlining the valuation process as much as it could be, creating unnecessary redundancies. These seemingly small issues add up.

The influx of technology innovation in mortgage finance has alleviated a lot of these issues thanks to the introduction of the digital mortgage and automated valuation models (AVMs), but this was only the beginning. In the past, it took years or even decades to introduce a new innovation to the world, and now, it's happening within months. Companies need to constantly be checking to make sure they're keeping up with the latest changes. It's not enough to go digital once. It's vital for them to keep evolving in order to build a strong foundation for the future success of the business.

This is especially important since the real estate industry is ripe for a technology disruption. The introduction of the digital mortgages and updated AVMs was only the warm-up period for the industry. As one of the last industries to enter the technology revolution, there's plenty of room left in real estate for companies to pioneer new digital transformations. Highlighting the property valuation industry, for a long time, it's been viewed with a one-size-fits-all mindset. The truth is that a rural house in Montana may need a completely different valuation than a house in the Dallas suburbs. It's what makes America's housing market so unique.

¹ MBA Mortgage Finance Forecast, October 16, 2018, Mortgage Bankers Association

² MBA Mortgage Finance Forecast, April, 2019, Mortgage Bankers Association

It's also a challenge that Veros is committed to solving. Veros never settled with the status quo, and with every new property value solution, they remained dedicated to reimagining and reconceptualizing the process to build a better collateral valuation solution.

Veros disproved the idea that the same solution should be used for every property valuation related to home equity lending, putting the power back in the hands of AMCs and lenders to finally benefit from a streamlined and effective valuation process.

This white paper will redefine the parameters around property valuations, as Veros harnesses robust analytics, artificial intelligence and machine learning to create a cure for the common cascade and bring a proactive approach to property valuations.

UNPACKING THE ONE-SIZE-FITS-ALL APPROACH

From the moment they were introduced to the market over two decades ago, AVMs and AVM cascades have been helping home equity lenders save time and money on valuing properties. An AVM cascade is a series of, typically, county level look-up tables that can come from a variety of sources. They were originally introduced to boost AVMs since they depended exclusively on local public records, suffering in areas where those records were missing or unreliable. AVM cascades fixed this problem by enlisting an automated “bump logic” methodology to order additional AVMs sequentially when the first or subsequent AVM didn't render a usable value.

To prove the reliability of the cascades, lenders can test the AVMs and set up and maintain the look-up tables themselves, or they can license model preference tables that are customized by AVM testing firms tailored for that lender's risk tolerance. Cascades changed the way the valuation industry operated, opening the door for widespread geographic coverage and reasonable levels of valuation accuracy.

But this was all years ago. While AVMs have consistently been enhanced on an individual basis over the past decade, the cascade hasn't seen the same type of advancements.

Although AVM cascades represented “best in class” thinking for the first decade of this century they don't typically generate a property- level AVM suitability assessment. Instead, they assume that every property is an AVM candidate and they apply county level look-up tables. Further, these traditional cascades were never intended to address the central problem: Is the property even appropriate for an AVM?

Going back to the example of a rural home in Montana to a home in the Dallas suburbs, every region is different. In many regions, the improvement of hit rates and greater AVM accuracy among top-tier AVM providers has mitigated the need for cascades to automatically run sequential AVMs. So, in the past, what might have been a trigger to run another AVM, now usually means that the property is unique in some way.

This is where a more proactive approach from Veros comes in, ending the notion that every property valuation fits into one model. Before ever running an AVM, Veros first determines property-level suitability, deciding upfront at the unique property level which ones are and are not suitable for AVM use.

Veros designed VeroPRECISION™ to disrupt the traditional AVM cascade approach and create a forward-thinking alternative option for home equity lending. The



new suitability solution equips AMCs and their lenders with an AVM decision engine that optimizes the AVM experience for the lender, saving AMCs unnecessary expenses and valuations.

PROPERTY-LEVEL SUITABILITY IN ACTION

Property-level suitability pioneers a completely new way of executing valuations related to home equity lending, providing a next generation cascade alternative. By conducting a first initial valuation test on the property with VeroPRECISION, users can streamline operational processes, reduce unnecessary expenses and significantly mitigate risk by eliminating erroneous valuations.

Here's a quick breakdown of those three advancements.

1. Streamline Processes

As mentioned previously, not every property is the same. By checking AVM suitability first, AMCs are getting the efficiencies of running an AVM on properties that are appropriate for such a tool, and avoiding properties better suited for a different valuation product or service. When an AVM is determined to be appropriate, the best AVM for the property is selected eliminating the need to run through multiple AVM products that may be left on the cutting room floor.

2. Reduce Expenses

Since users are only charged for AVMs on properties that pass the suitability test, VeroPRECISION saves users money by not having to pay for AVMs for unsuitable properties or for the scoring process used to determine suitability. On average, this will result in a 20-30 percent savings. Beyond the costs of running erroneous AVMs, lenders are also risking losing business. At a certain point, home equity lenders will not want to work with an AMC who is improperly delegating what type of valuation is needed or piling up unnecessary costs.

3. Mitigate Risk

VeroPRECISION also serves as an initial check for AMCs to make sure they're not running AVMs on properties that could get them or their clients into trouble. The surge in mortgage regulation also came with an increase in the need for technology to help drive compliance.

VeroPRECISION differentiates itself by utilizing a Suitability Score based on a proprietary analytics-driven formula and backed by Artificial Intelligence. This score is used to determine whether or not the property fits in the AVM box. If the results indicate the property is a good candidate for AVM use, VeroPRECISION automatically orders the best performing AVMs and picks the most appropriate valuation for the property

using a case-based reasoning Artificial Intelligence engine. The customer is also given complete, transparent and easy-to-understand due diligence data upfront and on an ongoing basis.

This next step is what distinguishes VeroPRECISION and is the key element in helping bring a proactive approach to property valuations. Since VeroPRECISION is integrated through the VeroSELECTSM online ordering and management platform, when a property is run through VeroPRECISION and it comes back saying it's not a good AVM candidate, VeroSELECT provides lenders with several valuation options as part of the complete and fully automated valuation solution. This ensures that AMCs are given the right tools and vendor support to provide complete valuation solutions for this segment of the market.

THE FUTURE OF PROPERTY-LEVEL SUITABILITY

VeroPRECISION is the result of a continued mission from Veros to create advanced forms of business intelligence software. As the market reaches historically high levels of residential equity, VeroPRECISION provides a much-needed solution for home equity lenders and AMCs, offering an effective and streamlined process that the industry can leverage to help maintain and increase market share over unsecured consumer lending by accelerating the property valuation process and ensuring optimal operational efficiency.

The first round of disruption came with the transformation of AVMs in the market. And, like any game-changing technology, it never stops evolving. Individual AVM performance has increased significantly over the past decade. And now, it's time for the next generation AVM cascade. VeroPRECISION improves the traditional AVM cascade approach and ushers in a new wave of valuation technology. That new technology redefines the parameters around property valuations and proactively determines if a property is a suitable candidate for AVM analysis.

Looking ahead, there will be more market segments that need valuation solutions, and as more people accept this new evolution in lending, Veros will be there to deliver innovative solutions.

For more product info, go to or click on the following links:

veros.cc/veroprecision

veros.cc/veroselect

About Veros Real Estate Solutions

A mortgage technology innovator since 2001, Veros is a proven leader in enterprise risk management and collateral valuation services. The firm combines the power of predictive technology, data analytics, and industry expertise to deliver advanced automated solutions that control risk and increase profits throughout the mortgage industry, from loan origination to servicing and securitization. Veros' services include automated valuation, fraud and risk detection; portfolio analysis, forecasting, and next-generation collateral risk management platforms. Veros is also the primary architect and technology provider of the GSEs' Uniform Collateral Data Portal (UCDP). For more information, visit www.veros.com or call **866-458-3767**.

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