

AVMs: The Next Generation

With fraud on the rise, new automated valuation models might help brokers stay alert

By **Arturo Garcia**, executive vice president, PLATINUMdata Solutions

INACCURATE COLLATERAL VALUATION, whether arising from fraud or other market-related factors, is the mortgage industry's loss-leader. Fraud-for-profit almost always relies heavily on manipulated collateral valuation.

As mortgage originators, brokers often have become scapegoats for the fraud phenomenon — especially collateral-valuation fraud. This mind-set is unfortunate, however, because it draws attention away from the fact that brokers can be the first line of defense in matters of fraud or collateral misvaluation.

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More than ever, it is imperative that brokers evaluate mortgage collateral objectively and subjectively. In addition to mastering to the art of collateral appraisal, the mortgage industry must encourage a science of collateral valuation. By adopting the use of automated valuation models (AVMs) in the past decade, the industry is doing just that.

Evolution of AVM tools

In the past decade, Internet-based technology has allowed for the development of AVMs, identity-verification tools and, increasingly, fraud alerts. These tools search

publicly available data such as sales comparables, property-tax records, community amenities and Social Security number data-banks, and they deliver the information in a useful format for mortgage-lending purposes. Many mortgage professionals were intrigued by the idea that appraisals, one of the most time-consuming and subjective elements of origination, might become more efficient; that delayed appraisals might never again hamstring a loan's progress; and that they would also become more objective. But from a high-volume position, brokers also wanted AVMs to be more reliable and less of a hassle.

AVMs proliferated and grew even more sophisticated in their ability to validate critical decision-making information for mortgage lending. And they are increasingly convenient when several are available via a single access point or platform. Those first AVM platforms helped the mortgage industry realize the power of key valuation data during underwriting.

They especially helped for second mortgages or other home-equity products. Borrowers seeking a second mortgage or home-equity line of credit pose less risk because they and their properties were vetted during the original loan process. While home-equity lending requires a new credit score and debt-to-income calculation for the borrower, it relies on the original physical appraisal for base value. As such, an AVM adequately manages collateral-risk elements.

AVMs also taught us that different sources of information about the same property could tell radically different stories — or reveal subtleties — with a significant impact on decision-making. Early AVM platforms also helped the industry understand how much more it needed to know and how much more functionality was needed to help AVMs meet day-to-day origination demands.

Next-generation platforms

Today, next-generation AVM platforms offer a range of options related to selecting, analyzing, comparing and finally, managing the use of AVMs and other automation tools.

Several AVMs are available. Each offers its own methodology and its own perspective on the data points, governing algorithms and geographic variables that comprise real estate valuation. Wholesale lenders and investors have a sophisticated understanding of each of these products and consider their characteristics when determining the ideal AVM or combination of AVMs that aid collateral-value efforts.

Advanced platforms bring several AVM tools to the table and allow administrative rules to automate the selection of AVMs based upon which wholesaler will fund the loan. Next-generation AVM platforms offer far greater functionality than previous cascading AVM-ordering solutions. This not only improves the accuracy and reliability of values determined from them, but it also provides process improvement and market intelligence.

For example, AVMs capabilities can include:

- **Administrative control** over AVM ordering to meet the needs of the secondary market;
- **Reporting capabilities** that allow managers and executives to monitor AVM usage easily; and
- **Fraud-prevention tools** that verify borrower identity at the point of sale.

A true next-generation platform not only searches the traditional collateral indicators

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of fraud, but it also identifies the relationship among parties involved in the deception.

Valuation threats and challenges

In the past five years, the mortgage industry has experienced rampant fraud because of rapidly escalating prices. Although mitigated somewhat by an appreciating market, the financial loss from fraudulent appraisals, flipping schemes and other

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deceptive activities has been substantial. Now that the market is cooling in a number of areas, it is more important than ever to have an accurate assessment of current property values.

One fraudster scheme often is to offer older comparable sales to support a value that was there but that is no longer the case. Knowing this, it is important that brokers use an AVM platform that offers many means to detect fraud or fraudulent activity in a given area. The best AVM platform is one that continually updates itself through the accumulation of real-world results that are continually challenging the system's performance.

The most valuable platform provides lenders with objective values to give them comfort that neither the appraised value nor the AVM value is inflated. The AVM does not necessarily provide an exact value, but neither does an appraisal. A value derived from information delivered by a next-generation AVM platform can give lenders confidence that using the proper cascade or fraud-prevention tools will minimize their potential losses.



Competitive brokers want to be compliant with underwriting guidelines to keep their loan pipelines profitable. When it comes to accessing multiple valuations, any platform can deliver one or more lender-approved AVMs. For the broker who needs to manage a more complex network

of lenders' underwriting guidelines at high-volume production, however, an AVM-platform provider that can ensure correct access to appropriate AVMs is important.

It is crucial for brokers to appreciate AVMs, to gain an educated perspective on their use and validity and to determine a strategy for managing them to achieve business objectives, such as creating lender relationships. Brokers will come out ahead if they originate loans with their wholesale lenders' underwriting requirements in mind, automate the management of AVM selection and apply what they learn to long-term business strategies. **■**