

Ask Tommy: Your QC Expert



By Tommy A. Duncan

Tommy: When performing reviews on appraisals, do you recommend an automated valuation model (AVM)?

Lately, there is a lot of press about large mortgage banks that used AVMs to determine property values for reducing Home Equity Lines of Credit (HELOCs) and now these financial institutions are faced with class-action lawsuits based on incorrect values as part of the allegations. One such suit, *Michell Kimball v. Washington Mutual Bank* alleges that the bank used faulty AVMs to create a pretext for its credit limit reduction and account suspension. After Ms. Kimball learned that her HELOC was frozen, she called customer service and was informed an AVM showed the property value had significantly declined. In disbelief, she challenged the bank. She was required to use the bank's "preferred" appraiser and a full residential appraisal was performed and the results of the appraisal valued the property was worth 1.5 times the AVM's estimate. Mark one up for the appraiser and the consumer.

There are several other lawsuits in the works with similar type of claims where faulty AVMs were used. The adverse affects of the AVM product and the impact it is having on the consumer is beginning to surface, and I expect there will be more outcry from industry leaders as consumer complaints surface.

The Home Valuation Code of Conduct (HVCC) lists the AVM as a form of quality control on appraisals during the 10 percent sampling of Section VI. The AVM is much more affordable than a Field Review Appraisal however, I learned during my year deployment in the Global War on Terrorism that modeled data used in intelligence was often skewed and incorrect. We found ourselves having to use human intelligence to validate information that later discredited the data models. I see the AVM having the same type of effect as I saw during the war. One must know its limitation and for the best results, have a human to verify the information. Yes ... an appraiser. Use an appraiser to validate collateral. A Field Review Appraisal or a drive-by is what we use, and yes it costs more than an AVM, but it puts an eye on the target and fills the gaps in performing appraisal audits.

I believe there should be a balance in technology and the way it is applied in the mortgage industry. However, the AVM product has its place, but shortcuts may end up being the long way. In the mortgage fraud cases Quality Mortgage Services have performed, AVMs were never used. An appraisal, whether a full appraisal or a field review, was used because the appraiser is the subject matter expert and places more credibility on a licensed professional. An AVM cannot testify in a court of law and will not hold up in court because of problematic flawed information.

I believe the AVM is probably a good product during pre-funding and underwriting as something to support a desk review. However, a Field Review Appraisal is my product of choice during post-closing quality control. But, I have also seen where a Field Review Appraisal or another appraisal was ordered during underwriting. It is difficult to say which method, desk review or AVM, was used to provoke the underwriter to order another appraisal or Field Review Appraisal. What I do know if you want stronger supporting evidence, an appraiser is required.

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