Reggora

The High ROI of Appraisal Innovation

White Paper

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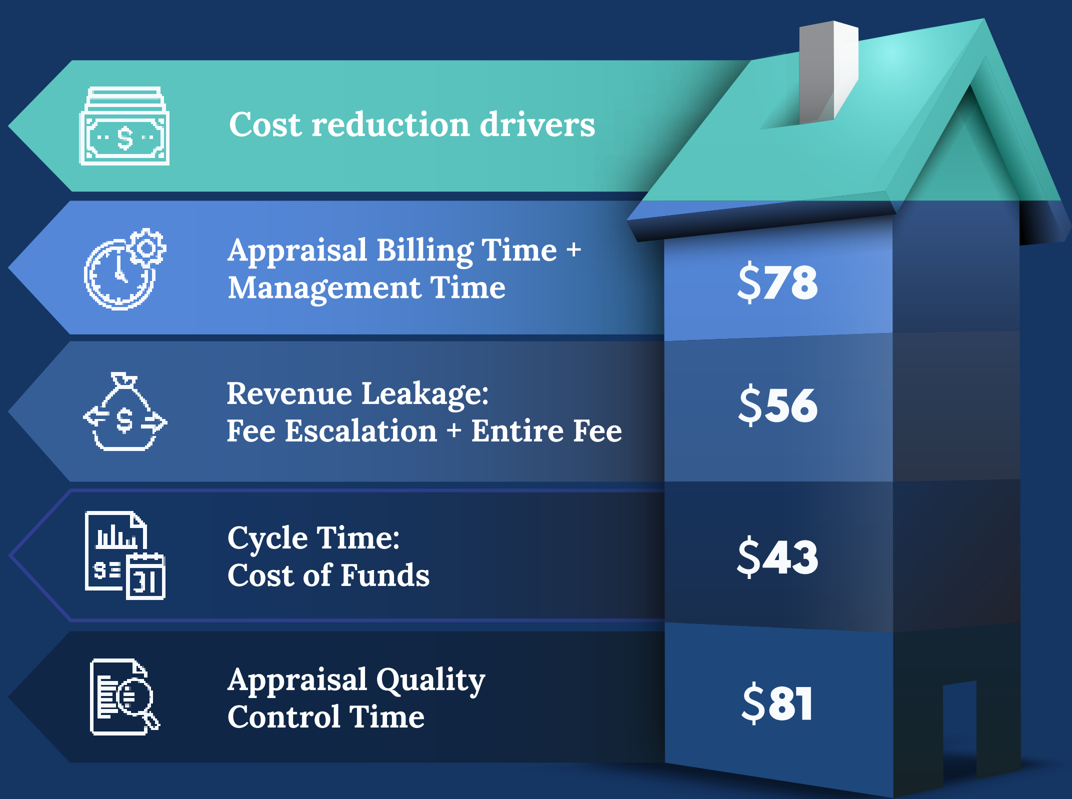
The High ROI of Appraisal Innovation

A better appraisal process will save lenders over $250 per loan and take at least two days off the loan origination process. We have the data to prove it.

Arriving at the real Return on Investment (ROI) for any new technology investment can be a challenge. The same holds true when it comes to modern appraisal technology.

The return is heavily dependent upon the business need as established in the first place. While the traditional formula for ROI is fairly simple, determining the baseline, metrics and overall goals can be anything but — especially when it comes to new technology.

$258 reduced cost per loan file



Therefore, in this paper, instead of guessing what formulaic benefits a lender could achieve from updating the software and workflows in their appraisal department and then trying to arrive at an expected ROI, we will look at actual problems that prompted lenders to innovate. We will show data from both STRATMOR Group's Lender Appraisal Performance Study and Freddie Mac's Cost to Originate Study as the benchmark costs for a typical lender's appraisal process. We will then examine actual case studies to establish the resulting benefits to prove how Reggora reduces the average cost per loan by up to $258.

But to achieve this, a number of problems must be overcome, including:

- Slow appraisal turn times
- Revenue leakage from appraisal fees
- Cumbersome accounting activities
- Manual appraisal management

We believe this is a bold approach and one that few technology developers will adopt because it forces them to point to actual user experience to support their claims. Naturally, this can be a very challenging approach for developers of new technologies because they simply don't have enough clients to support their claims. However, it's becoming more common to find new innovations springing from an existing partnership between a developer and an end user. In those cases, word of mouth will do the job of increasing the user base…if it works.

What we've been working on for the past several years absolutely works and in this white paper we'll point to the problems we set out to solve, the results actual lenders achieved with our new tools and then quantify the tangible benefits they received.

Overview of the Problem Areas

To fall back on the old claim that technology is designed to make the lender's process better, cheaper and faster is to cloud the issue. It's not specific enough to quantify actual, tangible results. Vendors use this often because it makes it harder for users to know how much better or cheaper or faster their process is specifically because they made the investment in new tools.

We won't settle for that level of abstraction in this paper. Instead, we'll point to specific, quantifiable lender problems that can be measured and analyze the results, both before and after implementation.

Here are the quantifiable problems we will explore in this paper:

- The actual time it takes to get an appraisal done.
- The actual time it takes to review a completed appraisal report
- The fees paid to appraisers for loans that never end up closing.
- The excess fees charged by appraisers after the borrower fee has been disclosed.
- The actual time it takes to handle appraisal payments, billing and accounting.
- The time it takes to manage appraisal orders for every loan without adding headcount.

While we feel that a detailed analysis of these quantifiable processes is essential for evaluating the effectiveness of an innovation, they are not sufficient, in and of themselves. There are also some additional factors that must be considered that add significant value to the lender's operation, even if they are not always considered as part of the ROI calculation. They include:

- Loan officers' lack of visibility into the status of appraisal orders on their loans.
- The frustration borrowers feel throughout the appraisal process.

By analyzing all of these factors, any lender will be able to easily calculate the ROI of any appraisal innovation they care to undertake.

Problem 1:
It takes too long to get an appraisal done.

The solution: Use new and appropriate technology to automatically allocate orders to the right vendors.

The results: Reduce the number of staff required; speed up the process; save money.

Any lender who has ever ordered an appraisal report knows that this process far too often takes too long. In 2022, STRATMOR surveyed a wide range of mortgage lenders regarding their views/experiences with valuation and appraisal and found that the biggest time-waster is the order placement.

Finding the right appraiser to do the job, sending the details and getting confirmation that they will complete the report by the deadline simply takes too long. The STRATMOR study showed that, on average, it took one week to find an appraiser and from the time a lender realized they needed an appraisal to final delivery was about 19 days. In many cases, that stems from the lack of sophisticated or appropriate automation and the reliance on manual processes.

Reggora's order management solution reduces a lender's cycle time by two days. Freddie Mac's 2022 Cost to Originate Study shows that the cost of funds for each day a loan was in process daily cost of funds (hedging costs & carrying funds costs) corresponded to **0.075 basis points**. Assuming an average loan amount of **$285,000**, one day of a lender's cycle time costs the average lender about **$21**, and Freddie Mac's 2019 pre-pandemic closing cycle time research showed an average cycle time of **40 days**.

Loan Cycle Time Cost Before Reggora

(on $285K average loan)

Cost of Funds: **$21.375**

Average Cycle Time: **40 days**

Loan Cycle Time Cost: **$855**

Loan Cycle Time Cost With Reggora

(on $285K average loan)

Cost of Funds: **$21.375**

Average Cycle Time: **38 days**

Loan Cycle Time Cost: **$812**

Reduced Cost per Loan $43

A privately-held regional bank in the southwest that we highlighted in a recent customer story is a great example. The lender wanted to reduce cycle times but did not want to add people to its appraisal department. After implementing new technology, the bank was able to reduce FTEs in the department, but still was able to manage order allocation so effectively that it reduced its cycle time.

“Automated order allocation has also led to a notable efficiency gain,” the bank’s Senior Vice President of Loan Operations explained in a recent Reggora case study. “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.”

That same southwestern-based regional bank reduced the time it takes to manage an appraisal order and appraisal billing by 20%, saving $100,000 in FTE overhead.

And that’s not the only example. North Easton Savings Bank saw its own appraisal turn times reduced by 35% when it implemented Reggora’s advanced platform.

Assurance Financial shaved off time on each order by automating most of the low-value tasks they used to complete manually. This led to a seven-day reduction in turn times, and borrowers greatly appreciate the faster, streamlined experience. Quicker turn times, for example, equate to approximately $150 of value per loan by shortening loan cycle times.

Problem 2:
It takes too long to review an appraisal.

The solution: Use appropriate technology to reduce appraisal review times by 82% with fewer employees.

The results: Reviews that previously took 45 minutes were reduced to only 8 minutes per loan file through a powerful integration between Reggora's platform and Clear Capital's ClearCollateral Review®.

Regulators require the lender to review each appraisal report before using it to underwrite a new mortgage loan, but this takes time. In our research with STRATMOR, we learned that it's taking lenders far too long.

The issue comes down to underwriters spending too much time performing checks on reports that were created perfectly in the first place or wasting time gathering property information that could have been included as part of the package. This is where automation allows underwriters to spend less time managing each report and focusing on appraisals that require their attention.

Reggora's appraisal quality control solution reduces a lender's review time by **82%**. On average, across Reggora's customer base, quality control took **45 minutes** per appraisal prior to using our review solution. Freddie Mac's 2022 Cost to Originate Study shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with processing and underwriting, assuming 75% of each hour is productive, **an hour** of quality control costs the average lender **$132**.

Appraisal QC Cost Before Reggora

Average QC Time: **0.75 hours**

Labor Cost: **$132**

Appraisal QC Cost: **$99**

Appraisal QC Cost With Reggora

Average QC Time: **0.14 hours**

Labor Cost: **$132**

Appraisal QC Cost: **$18**

Reduced Cost per Loan **$81**

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We want to make the borrower's experience better by making the review process more efficient, quicker, and ultimately more cost-effective.

-Ashley Bierwolf, Director of Product Management, Clear Capital

Problem 3:
Lost revenue as result of uncollected appraisal fees.

The solution: Use an automated payment processing solution to conveniently collect appraisal payments from the borrower upfront once receiving ITP.

The results: Revenue leakage from unpaid appraisal fees is completely eliminated.

Lenders who collect at close are losing revenue in deals where the borrower walks away after the appraisal is completed — this leaves the lender to foot the bill for the entire appraisal fee. This is happening more often as consumers complete applications with more lenders and then choose one to close with. The Intent to Proceed (ITP) does not guarantee the lender can close. The disappointing result is significant amounts of uncaptured revenue.

These results will vary by lender and are a function of the total loan volume, the loan fallout, and the percentage of unpaid fees. However, in the case of a regional bank in the southwest, the right technology saved the bank $125,000 annually by eliminating revenue leakage from uncollected appraisal fees.

So let's look at two scenarios for an average lender. According to STRATMOR Group's 2022 appraisal research, the average cost of an appraisal is **$629**. Worse is when a fee escalation also occurs without a Change of Circumstance. If the borrower chooses another lender and neglects to pay for the appraisal, the lender is forced to also absorb the additional escalation cost, which is, on average, **$181** per loan for lenders nationwide.

There's far too much revenue at risk for lenders not to fix this problem immediately. A simple process change to upfront collection completely eliminates revenue leakage caused by borrowers walking away from a deal after the appraisal is performed. As STRATMOR Director of Customer Experience Mike Seminari points out, collecting appraisal fees up front is a critical route to success for any lender.

Losing $629 or $810 on transactions that don't close adds up quickly. Across Reggora's customer base of more than 120 lenders, this typically occurs on **4%** of a lender's transactions. As an example, here is how much that costs a lender originating **10,000** loans per year:

Scenario 1

Lender Loses the Entire Fee of $**629**

Total Cost:
10,000 x 0.04 x $629 = $**251,600**

Cost Per Loan: $**25.16**

Scenario 2

Lender Loses the Entire Fee and Covers Fee Escalation, Totaling $**810**

Total Cost:
10,000 x 0.04 x $810 = $**324,000**

Cost Per Loan: $**32.40**

100% of losses eliminated by collecting at ITP

Problem 4:
Revenue loss resulting from appraisers raising their fees.

When lenders disclose fees to the borrower and then later find that their appraiser has escalated the fee, they have the option of redisclosing the Change of Circumstance to the borrower and collecting the higher fee. But in **26%** of transactions, appraisers issue a fee increase that doesn't qualify for a Change of Circumstance. In these cases, the lender is completely stuck with the escalated fee, which cost **$181** per loan on average. If you apply these industry averages to a lender whose volume is 10,000 loans per year, the result is **$470,600** in losses, or **$47** per loan file.

The solution: Proactively increase fee schedules by market and vendor using nationwide appraisal data, ensuring the correct amount is disclosed.

The results: A reduction of revenue leakage from fee escalations by 65% without the need to issue a Change of Circumstance or increasing the risk of fallout. With 26% of appraisals impacted, that trims the impacted files down to 9.1% of total volume.

Fee Escalation - Impacted Files	
Frequency of Escalation w/o Reggora	26%
Reggora Reduction in Escalations	65%
Frequency of Escalation w/ Reggora	**9.10%**

The best appraisal management platforms use nationwide appraisal data to provide reports that tell lenders exactly where appraisers are routinely increasing their fees, giving the lender the flexibility to update fee schedules regularly and reduce this risk. This is exactly how PRMG is using Reggora technology to make weekly adjustments to their fee schedules.

Revenue Leakage Before Reggora

Frequency of Escalation: **26%**

Cost of Escalation: **$181**

Fee Escalation Cost: **$47**

Revenue Leakage With Reggora

Frequency of Escalation: **9.10%**

Cost of Escalation: **$181**

Fee Escalation Cost: **$16**

Reduced Cost per Loan $31

Problem 5:
It takes too long to handle appraisal payments, billing and accounting.

The solution: Allow Reggora to automatically collect payment, pay vendors and organize all payment details for accounting in one place.

The results: Reduction of time spent on these tasks by 50% or more, reducing the cost to originate.

Lenders are finding that they can easily cut the time it takes to manage invoicing/payment collection/accounting/vendor payment in half with Reggora technology. This reduces costs and the number of FTEs required to perform these slow, expensive manual tasks. By redistributing this function, Reggora empowers lenders to, in turn, reposition those FTEs for more productive, sales-related tasks. Let's take a look at what that looks like in numbers.

Reggora's appraisal billing solution reduces a lender's review time by **50%**. On average, across Reggora's customer base, employees spent **1 hour** on billing activities per order prior to using our payment processing solution. Our research shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with billing, assuming 75% of each hour is productive, **an hour** of appraisal billing costs the average lender **$69**.

Appraisal Billing Cost Before Reggora

Average Billing Time: **1.0 hours**

Labor Cost: **$69**

Appraisal Billing Cost: **$69**

Appraisal Billing Cost With Reggora

Average Billing Time: **0.5 hours**

Labor Cost: **$69**

Appraisal Billing Cost: **$34**

Reduced Cost per Loan $35

A privately-held independent mortgage company located on the west coast reduced the time it takes to manage an appraisal order and billing by 50% and reduced its cost per loan by $192. The southwestern regional bank previously referenced shaved 20% off the time it takes to manage an appraisal order and invoicing and saved $100,000 in FTE overhead.

A great example of how much time automation saves a lender is Alpha Mortgage, which eliminated 15 hours of work per week from its accounting team by automating payment collection activities.

Problem 6:
It takes too long to manage appraisal orders.

The solution: Use the appropriate technology to automate most of the order management process.

The results: The ability to move FTEs into revenue-generating roles and reduce costs at the same time lenders can scale the output of the FTEs that remained in place.

The STRATMOR/Reggora data clearly showed that utilizing human resources in the appraisal process is time-consuming, under-productive, and expensive. Time spent on order creation, order allocation, payment, and status updates makes it harder for staff to solve real problems or put more time into more complex sales-related or production-related tasks.

Reggora's order management solution reduces a lender's time managing appraisals by **33%**. On average, across Reggora's customer base, it took **1 hour** to manage one appraisal order prior to using our platform. Freddie Mac's 2022 Cost to Originate Study shows that the fully-loaded hourly cost of personnel (total comp + benefits + space/tech/corporate overhead allocation) associated with order creation, order allocation, payment, and status updates, assuming 75% of each hour is productive, **an hour** of appraisal management activities costs the average lender **$132**.

Appraisal Management Time Cost Before Reggora

Average Management Time: **1 hour**

Labor Cost: **$132**

Appraisal Management Cost: **$132**

Appraisal Management Time Cost With Reggora

Average Management Time: **0.67 hours**

Labor Cost: **$132**

Appraisal Management Cost: **$88**

Reduced Cost per Loan **$44**

When Alpha Mortgage embraced new appraisal automation solutions from Reggora, the lender was able to reduce the number of FTEs on the appraisal desk by 75%, reducing the cost per loan by $70. At PRMG, a similar move saved 1,000 FTE hours per month, or the equivalent of about 6 FTEs.

The intangible factors that still matter to lenders

Each of the links above points to verifiable data that points to measurable savings of time and money in the appraisal process. This all points to a very clear ROI for investing now in a better appraisal process ($258 per loan), as well as the most effective technology.

But there are other equally powerful reasons to move forward, including the ability to gain incremental top-line growth. While some benefits are less tangible and harder to quantify, solving these problems will have a significant positive impact on the lending enterprise. A better appraisal process can solve the next two problems.

Problem 7:

Loan Officers (LOs) don't have visibility into the status of appraisals on loans.

The solution: Use technology to give LOs visibility into every appraisal order's status via your LOS and their smartphone.

When the LO can't answer the borrower's questions about the status of the appraisal, the borrowers lose faith in their trusted advisors. The result can eventually become loan fallout.

It's not just end users who feel a lift, borrowers have a better experience when there is less uncertainty in the process. When LOs and loan processors can quickly answer their questions about the status of their appraisal report, it improves their experience and increases referral rates.

This is exactly what both North Easton Savings Bank and PRMG experienced when new technology from Reggora gave them the power to routinely share good news with LOs and referral centers about each appraisal.

"One of the great benefits of using the Reggora system is the communication piece," said Jim Dell'Anno, former Vice-President and Sales Director for North Easton Savings Bank. "We've seen instantaneous pickup from the loan officer being able to see all through the transaction, what's going on with the appraisal, from the moment it gets ordered to the day that the appraiser accepts, to the inspection date, to when the appraiser sends it in. My loan officers have given me nothing but positive feedback."

The results: Improved borrower experience, reduction of fallout, increased profitability and improved retention rate for the best loan officers (which is a far superior approach to staffing management than other costly recruiting methods). Eliminating the constant calls, texts, and emails from LOs hunting status updates both improves operations team efficiency and creates a better employee experience.

Taking time out of the appraisal process keeps borrowers happy. Plus, collecting appraisal fees at ITP locks in borrowers and reduces the likelihood a lead could be poached after a credit check. Fixing a long-standing pain point in mortgage — the appraisal — has helped lenders improve LO recruitment and retention.

Problem 8:
Getting an appraisal done frustrates borrowers and isn't a fast, convenient part of your digital mortgage.

The solution: Position the appropriate technology to accelerate the appraisal process.

The results: Achieve higher borrower satisfaction scores, which increases repeat and referral business, retains top LOs and strengthens relationships with business referral partners.

Turn times are incredibly important to all stakeholders in the mortgage process. While it is possible to measure turn times, and we have done so in this paper, the less tangible benefits delivered by a faster process may be harder to measure — but they're no less important.

Lenders that reduce borrower frustration reap many benefits. Just ask Assurance Financial, a lender that used Reggora appraisal management technology to reduce appraisal turn times by 7 days! Or Neat Loans, another lender that benefited from shorter turn times and higher borrower satisfaction by routinely closing loans in just 15 days.

"I've been told by the LO that we won the deal over another bank because the borrower was not expecting an appraisal to be scheduled that fast," Adam Dagilis, appraisal desk lead at Neat Loans, said. "The borrower has been shocked by how fast the appraiser has accepted the order. I know it's definitely made a difference for our borrowers."

Katherine Campbell, Chief Digital Officer for Assurance Financial, agrees and says smart lenders will be going digital now. "Borrowers will have expectations, so having a digital process will ultimately affect your ROI. This year is a great opportunity to address your appraisal tech stack because the market is ready for a digital experience. Creating a seamless digital experience for the borrower is no longer a luxury, but an expectation. This is the year to implement."

The results speak for themselves:

$34 **Appraisal billing** • ***$34 savings per file***, resources spent managing invoicing, payment collection, and financial tasks related to collecting appraisal payments & paying appraisal vendors.

$43 **Cycle time** • ***$43 savings per file***, a faster mortgage cycle time and reduced carrying and hedging funds costs.

$56 **Appraisal fees** • ***$56 savings per file***, reduced revenue leakage due to appraisal fees not collected from the borrower (i.e. deal is lost or a fee escalation without a change of circumstance).

$44 **Appraisal order management** • ***$44 savings per file***, resources spent managing the appraisal order (ordering, communication, receiving & follow-up).

$81 **Quality control** • ***$81 savings per file***, resources spent QCing each appraisal.

That's a **$258** reduction in cost per loan. But that's not all our data revealed. Lenders also earned an additional **$28** per loan from a **5%** increase in referral business.

Total ROI: $286 per loan file.

Every institution is different and calculating your exact ROI will be an exercise specific to your overall situation. That said, we would very much like the opportunity to sit down with you and explore where appraisal technology can reduce your cost to originate, based on a wealth of data from our research with STRATMOR Group and the results of your peers.

Contact us today at reggora.com

About Reggora

Reggora is driving appraisal innovation with our modern, two-sided platform for mortgage lenders and appraisal vendors.

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.

Schedule a demo today

reggora.com/demo-request