



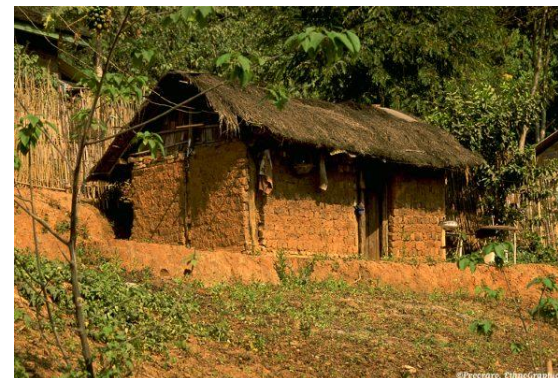
## Reconciling Various Valuation Approaches

- ◆ Products used by REO Departments to price real estate
- ◆ Reconciliation techniques
- ◆ Reconciliation providers - Can you justify in-house professionals?



## Moving inventory quickly is the name of the game...right?

- ◆ REO inventory is typically priced to sell in 30-90 days
- ◆ Various valuation products may have been obtained leading up to the property becoming REO
  - Origination appraisal(s)
  - AVM(s)
  - BPO(s)
- ◆ Does a 1 size fits all approach to marketing make sense? Consider the following:
  - Location and market conditions
  - Property type
  - Property value range



## Reconciling Values

- ◆ Lehman Brothers economists estimate that 30% or more of overall market inventory will be foreclosure listings
- ◆ Short sales are also becoming a major factor in many markets
- ◆ The majority of the country is now experiencing soft, declining, or severely declining real estate markets
  - Knowing which market your properties are located in is more important today than ever

## 3 Valuation Products are the Most Common

### Understanding the strengths and weaknesses of different valuation products

#### AVM

- *Strengths – Inexpensive, unbiased, fast turnaround*
- *Weakness – No visual inspection, may be inaccurate in rapidly changing market and non disclosure states, not really meant for pricing property*

#### BPO

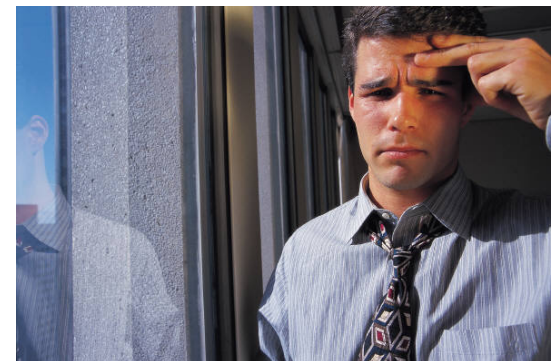
- *Strengths – Cheaper than an appraisal, may provide the insight from an agent active in the local market, includes an inspection*
- *Weaknesses – May not be objective, not always clear who actually viewed the property, unregulated service, may not be legal in some states*

#### Appraisal

- *Strengths – Provided by an objective third party who is licensed by the state, should provide a more detailed analysis of the properties value and marketability*
- *Weaknesses – Most expensive option (at least in the short run), good REO appraisers can be hard to find, turnaround times can be more lengthy than desired.*

## Reconciling Various Valuation Approaches

- ◆ Multiple valuations can create a pricing nightmare.
- ◆ Experts internally or externally are frequently need to reconcile and establish a reasonable list/sale price.
- ◆ Inappropriate list prices can lead to:
  - Underpriced properties and exacerbated losses
  - Unneeded further damage to neighborhoods
  - Reputational risk
  - Overpriced properties languish on the market driving up carrying costs



## Are Internal or External Experts Better?

The following numbers are an example of the cost benefit analysis that should be addressed:

- Inventory = 1,000 properties
- Average Loan Balance = 200,000 (75% of value)
- Monthly Carrying Costs = 1% of LB (may be significantly more in declining markets)
- Total Cost to Carry = \$2,000,000/Mo.
- 90 Days to Closing = \$6,000,000
- Value of inventory = \$266M
- Selling the property 10% below recoverable value = \$27M increase in loss severity

## Are Internal or External Experts Better?

Unless you can find a company well trained experts on reconciliations, internal experts generally make the most sense. Here's why

### Internal Staff

Staff Review appraiser \$50/hour (includes hard and soft costs)

Staff coordinator \$25/ hour

Time for reconciliation = 1.5 hours Review Appraiser

.5 hour Coordinator

Data Costs \$15.00

Total cost per reconciliation \$102.50

### External Reconciliations

Reconciliation cost = \$125

Review of reconciliation = \$25

Total Cost = \$150

Difference \$47.50 or 46%



## Are Internal or External Experts Better?

Either internal or external valuation expertise is critical to minimizing loss severity, legal and reputational exposure.

A \$275,000 property selling for 10% below the achievable price leads to an additional \$27,500 in loss severity. Employing objective and skilled experts to get the price correct costs \$100-\$150 per property.

Do the Math!

