

MBA's 97th ANNUAL CONVENTION & EXPO OCTOBER 24-27 ATLANTA

What's the Value- Choosing the Valuation Technology Solution

2010



Properties are illiquid, unique assets.

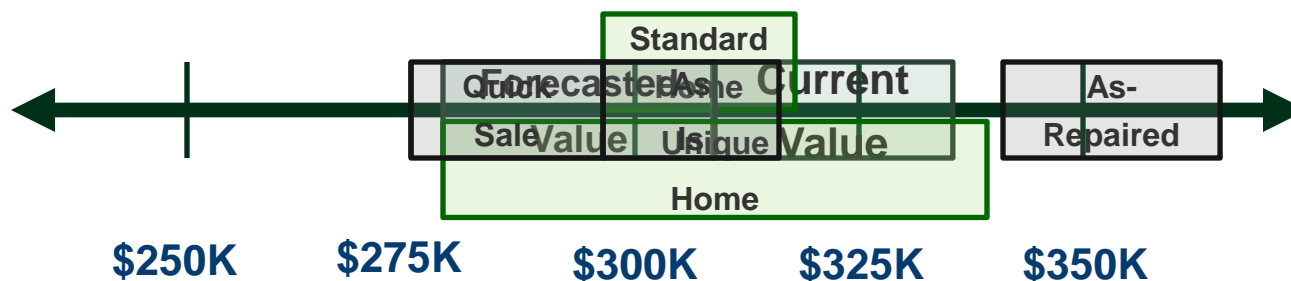
- » Heterogeneous and “thinly traded”

Property values exist in a range, not as a spot value.

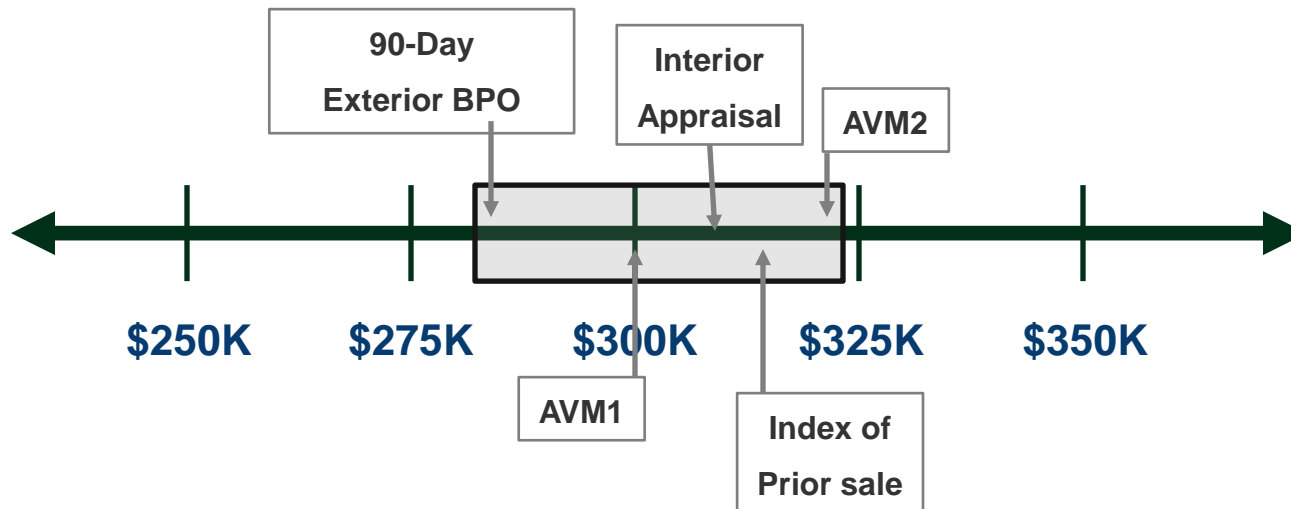
- » Value is a function of a matching process of participants

What you ask for also makes a difference

- » As is? As repaired?
- » Current? Future? Retrospective?



Different valuation products may each produce defensible property values, even if the values are inconsistent.



Track Real Estate Trends

- » Trends in national, regional, and local residential real estate
- » Trends in market segments (non distressed, price distributions)

Valuation – Mark-to-Market valuations on portfolios with limited address information

Modeling – input to user-developed models

- » Negative equity
- » Loss forecasting,
- » Etc.

6 Tier Levels 12 Tiers

Price

- 0-75% of median price
- 75-100% of median price
- 100-125% of median price
- +125% of median price

Property type

- Single Family Detached
- Single Family Attached

Loan type

- Conforming
- Non-conforming

Time between sales dates

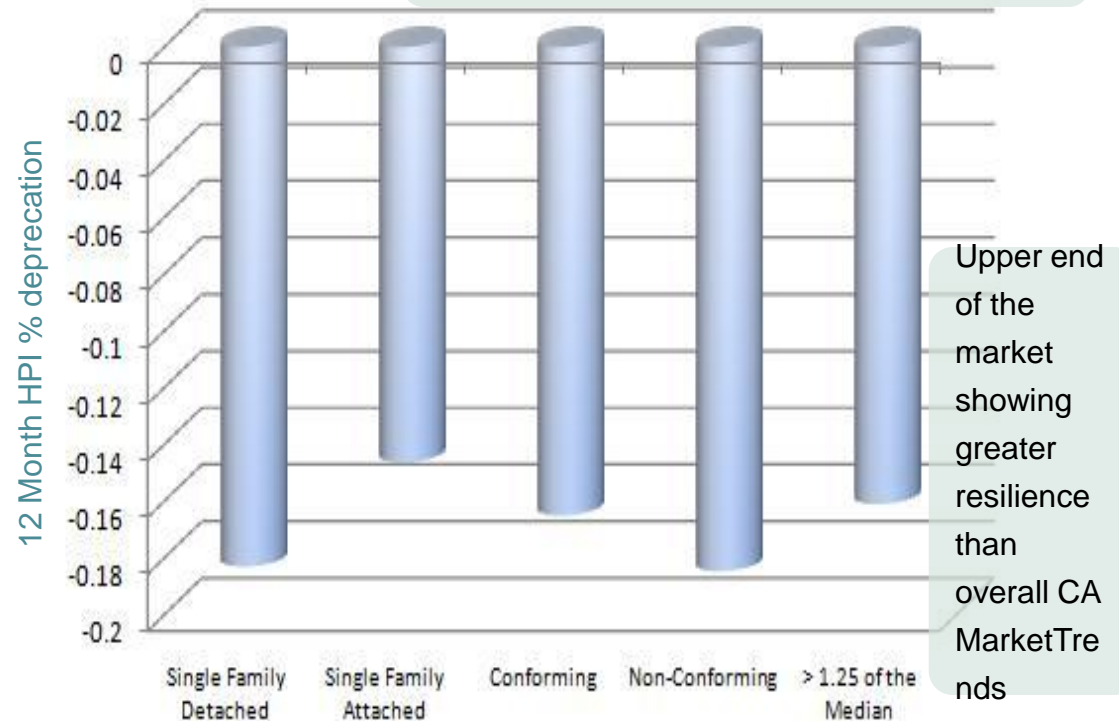
- <= 5 years between sale dates
- 5 years between sale dates

NEW: Sales Type

- Single Family Combined
- Single Family Combined excluding distressed

California – 12 month home price depreciation – Index tiers

SFD show greater depreciation compared to Condos over the last 12 months



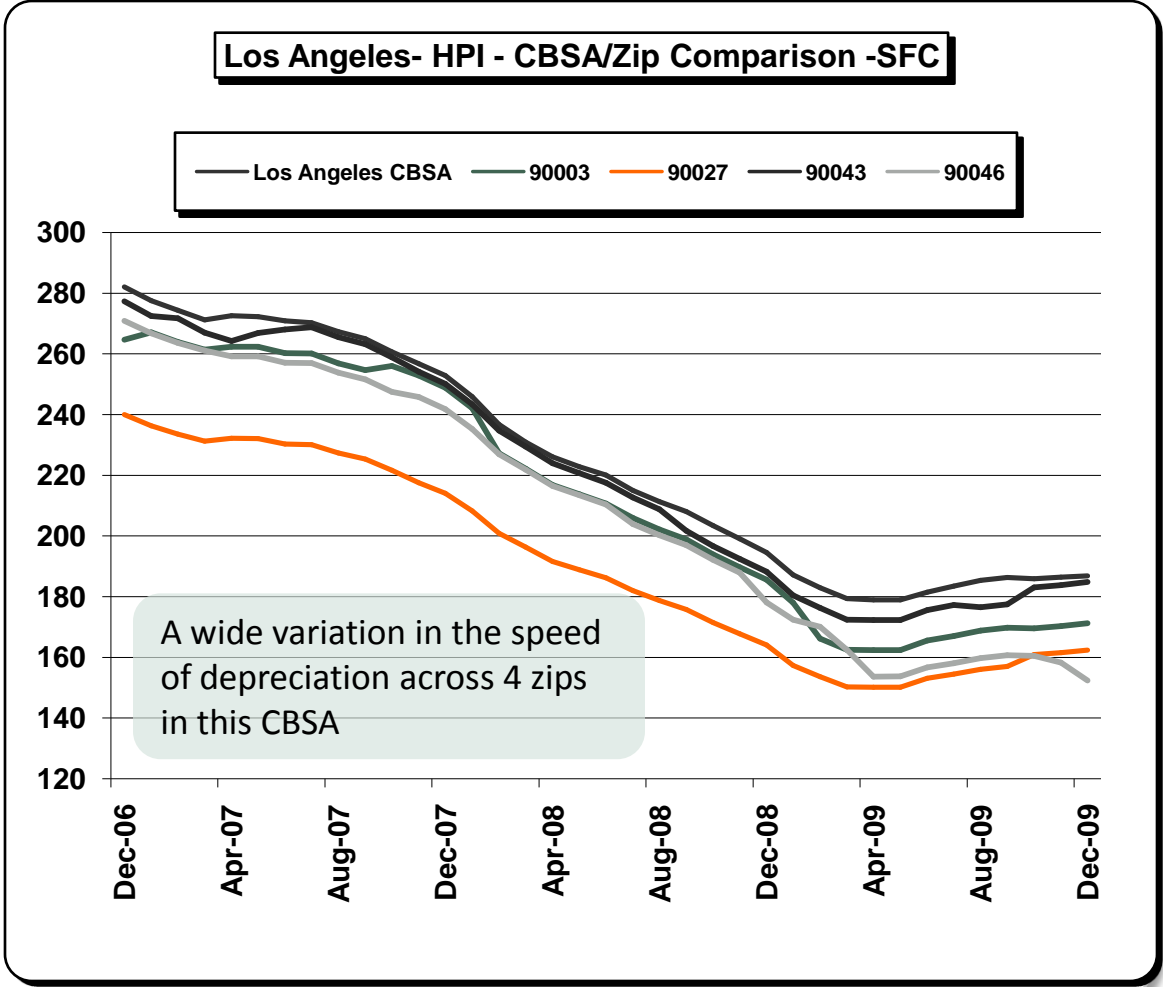
Geographic coverage:

Single Family Combined

- 6,000 +Zips
- 519 CBSA
- 1000+ Counties
- 50 States
- National

Single Family Detached

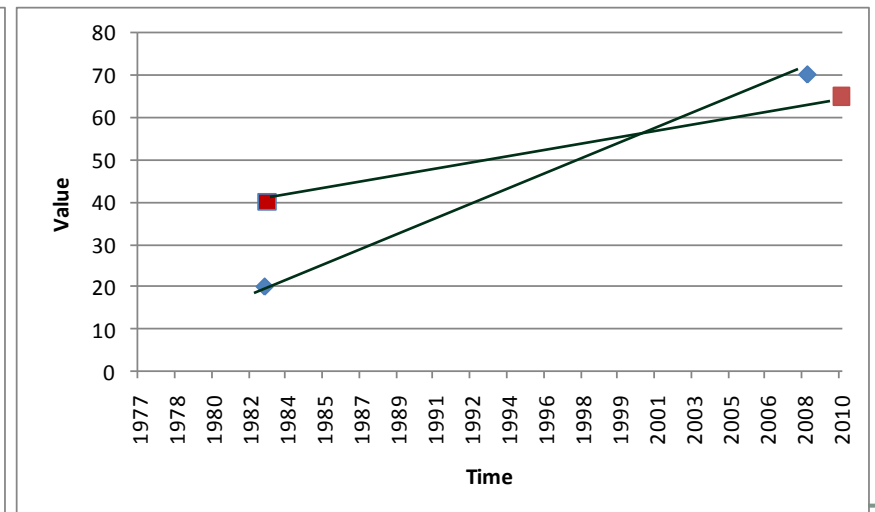
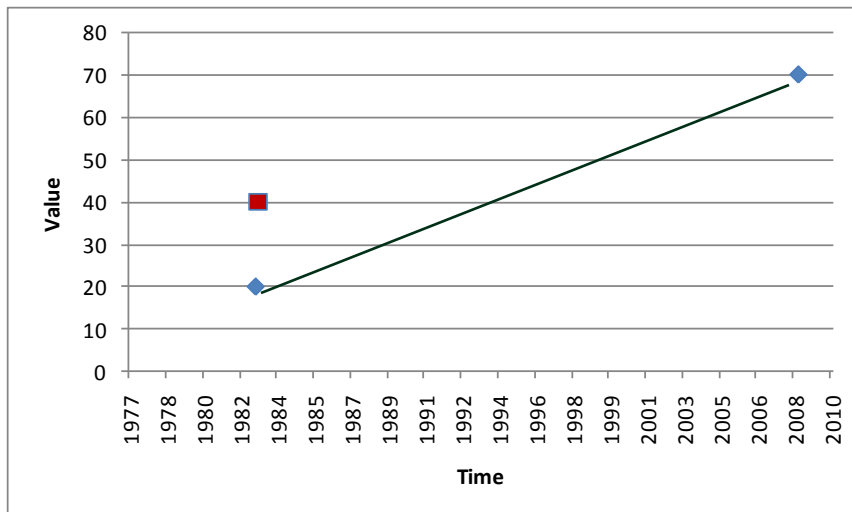
- 5,344 Zips
- 519 CBSA
- 848 Counties
- 50 States + DC
- National



Revisions: Entire series is re estimated each month to allow inclusion of new transactions

Adding these new transactions moves the average appreciation, making re estimation necessary.

- » each time a property "repeats", average appreciation since the prior sale period is influenced.



Title: Click View then Master then Slide Master to edit

Subtitle: Click View then Master then Slide Master to edit

Common use of HPI is to mark-to-market a loan or portfolio

$(\text{Sale Amount at Time 0}) * (I_1 / I_0)$.

- » Where I_1 is the current index value,
- » I_0 is the index at the time of sale

Example

- » Sale in zip code 22207 (Arlington County, VA)
- » August 1999
- » For \$450,000
- » $I_1 = 239.32$ (zip code level, SFC index)
- » $I_0 = 94.91$ (zip code level, SFC index)
- » Value at May 2010 = $\$450,000 * (239.32 / 94.91) = \$1,134,696$

When valuing a property, which tier/geo level do you use?

Tier/Geo	Combined	Non Distressed	Property Type	Price	Sale Date	Conforming loan limit
Zip Code	?	?	?	?	?	?
County	?	?	?	?	?	?
CBSA	?	?	?	?	?	?
State	?	?	?	?	?	?

For a Non-distressed property, there are 24 HPIs to choose from.

Actual property sold for \$305,000 (“benchmark”) in October 2009

Previous value: \$335,812 in April 2005 (“seed”).

Which HPI gets us the closest using the seed? Error is shown below

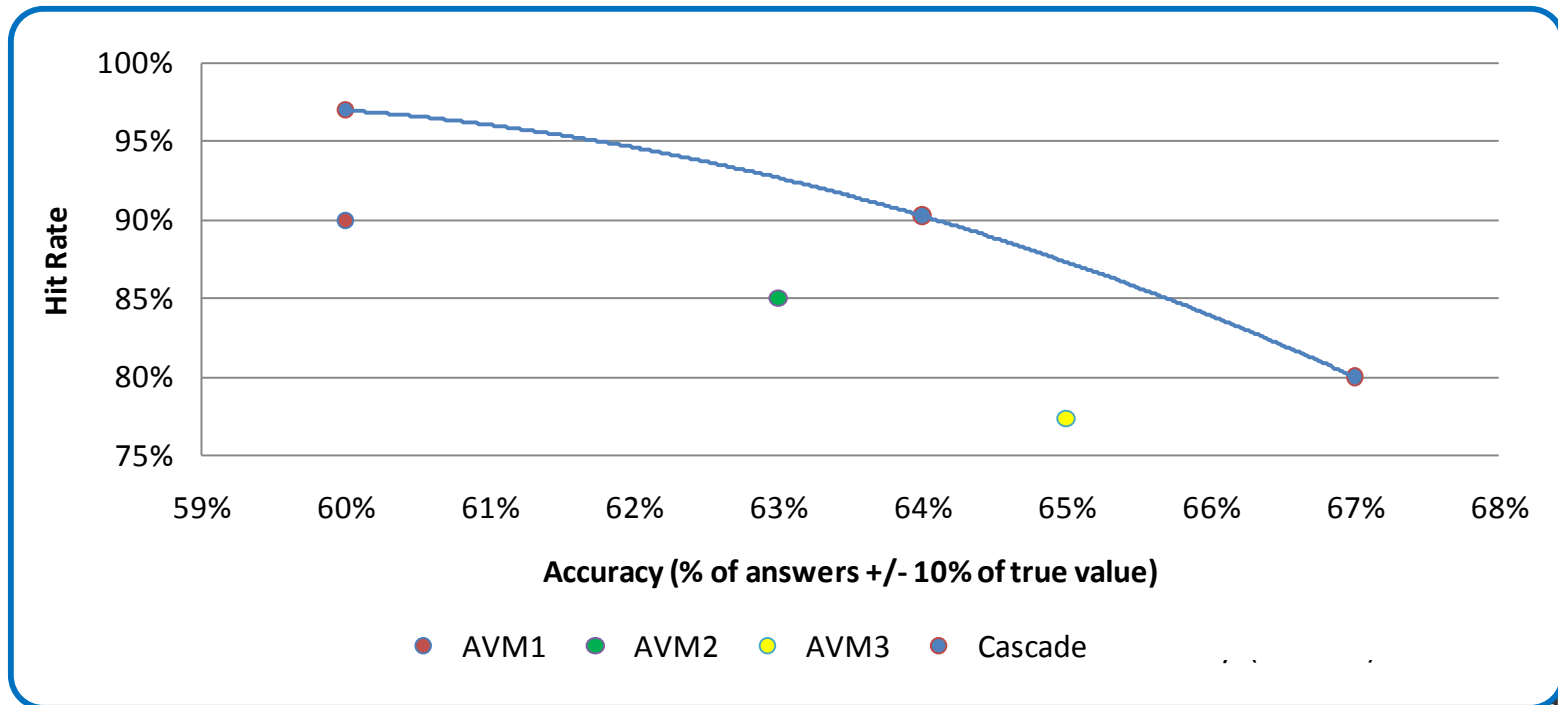
Tier/Geo	Combined	Non Distressed	Property Type	Price	Sale Date	Conforming loan limit
Zip Code	-17.3%	-13.1%	-17.9%	-19.4%	-9.2%	-4.4%
County	-12.1%	-9.2%	-12.7%	-10.6%	-10.6%	-12.0%
CBSA	-9.8%	-4.2%	-11.6%	-7.9%	-7.9%	-11.0%
State	-7.2%	-1.7%	-8.0%	-5.4%	-5.4%	-7.8%

For this property, the Non-distressed, State HPI was the best choice

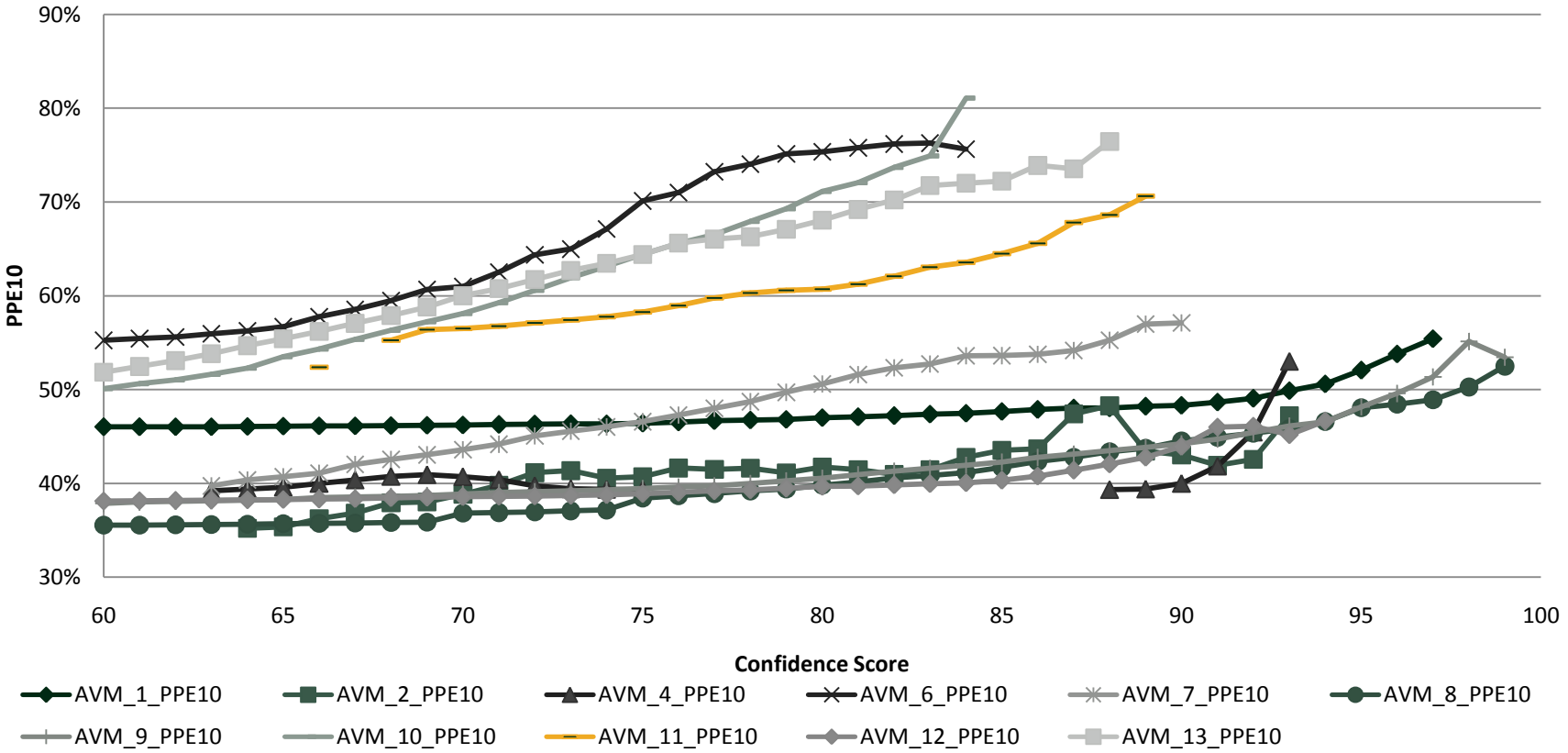
- AVM Cascade are generally more accurate than any component AVM and AVMs are generally more accurate than HPIs at the loan level.
- Best use of AVM/AVM Cascade is when loan level accuracy is required.
- Portfolio Mark-To-Market When full addresses are available and a higher degree of accuracy is required
- Loan Level Loss Mitigation Strategies- modify, refinance, short sale, foreclosure optimal treatment decisions.
- Portfolio Risk Stratification
- Loan Application screening and Appraisal Review

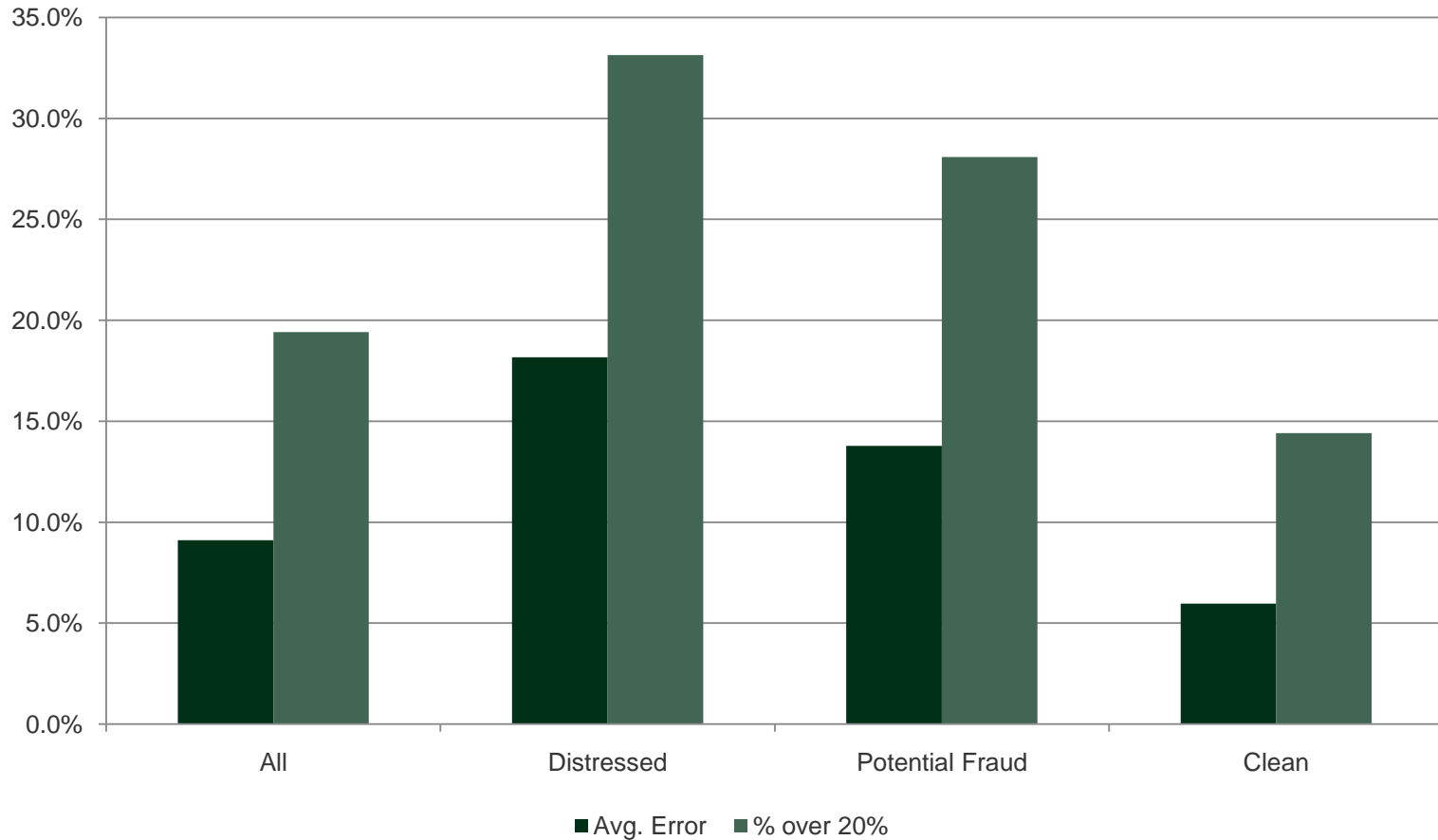
Select the “Optimal” AVM conditional on the Property Characteristics

If done right the Cascade is more accurate than any one component AVM given a level of hit rate or vice versa- An improvement in the Production Possibility Frontier



PPE 10 by Confidence Score





Remove records already valued and re-calculate performance

Round 1		
AVM	PPE 10%	Hits
AVM 1	59%	366
AVM 2	58%	552
AVM 3	56%	349
AVM 4	53%	681

Round 2		
AVM	PPE 10%	Hits
AVM 3	60%	42
AVM 2	55%	214
AVM 4	49%	334

Round 3		
AVM	PPE 10%	Hits
AVM 2	55%	201
AVM 4	49%	300

Round 4		
AVM	PPE 10%	Hits
AVM 4	39%	128

The Non-Conditional Ranking

Final Conditional ranking		
AVM	PPE 10%	Hits
AVM 1	59%	366
AVM 3	60%	42
AVM 2	55%	201
AVM 4	39%	128

Should I set a Min. Performance Criteria?

Cumulative vs. Incremental Performance

