



VeroSCORE

Appraisal and Collateral Risk Scoring

VeroSCORE provides intelligent analysis of valuation reports that enables mortgage lenders, servicers and investors to make faster and more informed decisions about loan collateral.

Historically, the measures of total loan risk have always been found in the three Cs: Credit, Capacity and Collateral. The development of automated credit scoring solutions sharply improved the assessment of borrower risk. At the same time, these solutions enhanced the speed and accuracy of the process behind measuring a borrower's inclination and ability to repay a loan. While these solutions satisfied the first two Cs in the risk equation, the third C, collateral, remained unanswered — until now.

VeroSCORE brings significant efficiency to measuring valuation reports and providing support behind the collateral decision. Not only will VeroSCORE provide notable enhancements to the risk measurement in the appraisal, VeroSCORE also gives an unprecedented and immediate snapshot into the collateral property that is independent of the valuation.



What is VeroSCORE?

VeroSCORE provides an automated, rapid review and evaluation of the contents of an appraisal report and associated risk.



VeroSCORE appraisal scoring will enable users to rate the quality of the appraisal report in real time. VeroSCORE allows lenders to instantly determine whether an appraisal may be automatically accepted, requires manual review, outright rejection, or other further diligence. Lenders can easily implement Veros appraisal scores for better collateral decisions, benchmarking reporting and vendor management.

The correct analysis of appraisal data is more complex than simply applying a set of basic or static rules. The scope and variety of residential real estate across the nation, as well as the variation in an appraiser's reporting practices, demands a more rigorous and technologically advanced analysis to yield meaningful results. In short, useful and trustworthy appraisal scores created by experts in both the latest analytic technologies and best practices in the development and management of appraisals must be applied. Based on Veros' experience in property valuation products and methodologies, data analytics and predictive technologies, three key components for an effective overall appraisal score have been identified. These key components are: Completeness, Compliance, and Credibility.

How Does Appraisal Risk Scoring Work?

Veros accumulates the results of numerous separate views of the appraisal report into an overall numeric appraisal score (e.g. 0 to 1,000 ... with 1,000 being the best) derived from individual components or categories. Each component (e.g. Compliance) undergoes its own separate analysis that is independently weighted in developing a final score for that particular component or category. Individual component scores and analysis can also be used independently in business and routing decisions.

Reports are generated identifying which rules fired and what action needs to be taken to correct the identified problem. A "zero" score report, or a report that fails to reach a certain client-established threshold, can be immediately returned to the service provider with a detailed description of the actions required.

Rule components increase in complexity and are progressive in nature. Compliance Rules build on Completeness Rules and Credibility Rules build on Compliance Rules. Due to the progressive nature of the rules, some clients may choose to execute Compliance Rules only on appraisal reports that achieve a passing score for Completeness, and likewise, execute Credibility Rules only on reports that pass Compliance.

Running the rules progressively produces the benefit of ensuring incomplete reports are not unnecessarily run for compliance risk. The overall benefit is that errors are detected at the point of entry into the system and only those reports reaching a client-driven threshold can pass through to the next level of scoring.



Completeness Rules

Veros' Completeness Rules electronically examine each field in the appraisal report to confirm that required fields are populated and the data is presented in the correct format. The rules instantly identify any field that is either not populated or contains data in an unacceptable format.

Veros' Completeness Rules have been specifically designed for each report type. These rule sets have been constructed with the recognition that certain fields are required in every report (property address, effective date, value opinion, etc.), while the presence of data in other fields will be dependent upon the specific nature of the assignment type. For example, purchase transactions are processed differently than refinance transactions; when the transaction type is indicated as a refinance, the rules skip past elements that are only required for purchase transactions.

When the Completeness Rules find that a required field has either an incorrect format or data is missing, the appraisal report will lose a predetermined (and user-customizable) number of points. For every field that is populated in an incorrect and uncorrectable format, (e.g. date format of DD/MM/YYYY instead of MM/DD/YYYY), the appraisal report will again lose a predetermined number of points.

The Veros Completeness Rule Set weighting has been developed by experienced appraisers and with input from seasoned review appraisers reflecting real world, modern appraisal practices as well as lender, servicer, agency and non-agency investor requirements.

Users of Veros' valuation management platforms benefit from additional functionality that standardizes certain data fields so some data, even when presented in an unacceptable format (dates, dollar figures, etc.), will be scrubbed and transmitted in the correct format eliminating the need to return the report for correction. This will result in direct reductions of time and costs for delivering appraisal reports and associated data to the secondary markets.

Complete?

- ✓ Data populated
- ✓ Correct format
- ✓ Required fields per report type



Compliance Rules

Veros' Compliance Rules have been developed from the appraisal guidelines issued in legislation and by regulatory agencies, GSEs, HUD/FHA, VA, mortgage insurers and the Appraisal Foundation. These rules are constantly updated to reflect the most current terms and requirements.

The Compliance Rule Set examines each appraisal report field-by-field for use of unacceptable terminology (e.g. crime-ridden, poor neighborhood) and ensures the correct terminology is present in certain identified fields (e.g. the neighborhood field: trend of property values must contain one of the following: increasing, stable, or declining).

The Compliance Rules also examine the report relationally and conditionally. Specific fields are compared with each other for consistency and accuracy. For example, if the subject is a manufactured home, the Compliance Rules check the year it was built to ensure the home was constructed after June 15, 1976. In this case, the rules also examine the report for the presence of required terms relating to the manufacture date of the home.

The appraiser's name and license number are compared with the national registry to identify possible licensing problems. This rule set also checks to ensure the appropriate license level for the assignment, and that the state of issue matches the state in which the appraised property is located. Like the Completeness Rules, this rule set may be customized for client-specific requirements.

Compliant?

- ✓ **Field-by-field terminology**
- ✓ **Relational review**
- ✓ **Conditional review**
- ✓ **Accuracy check**
- ✓ **License validation**



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Credibility Rules

Each appraisal can be examined for potential risk within, as well as outside of the appraisal. Veros' Credibility Rules examine the appropriateness and quality of the data within each field and throughout the report. Credibility scoring and analysis identifies critical connections within the appraisal report and matches related data fields for consistency. The data in the report is also measured against internal and external data sources to determine how the appraiser completed the report.

Examples of external checks or validations include:

- ✓ **Distance of comparables from the subject property;**
- ✓ **Dates of comparable sales to that reported and to the date of subject valuation;**
- ✓ **Percentage differences and calculations between comparable property characteristics and subject property characteristics;**

Risk is measured both in terms of property risk (i.e. is there inherent risk in this specific property) and in terms of market risk (i.e. how does this property relate to its market).

Veros' Credibility Rules also include examination of the appraisal against internal, propriety data that enables comparison of the appraisal report to other appraisal and market data for the same neighborhood. Veros' ability to access current and historic data for the same neighborhood enables a comparison of each report across a series of data points for quick identification of properties and appraisals that are clearly outside normal ranges.

Collateral Risk Score

Identifying and minimizing appraisal risk is critical to safe and sound lending. However, an appraisal report can pass all rule sets and be a complete, compliant and credible appraisal report with an accurate and reliable value conclusion for a property that may still present a higher than typical default risk.

VeroSCORE is unique in the market today because VeroSCORE also looks at the underlying collateral apart from the appraisal report. Identifying appraisal risk is critical, but without pairing those findings with an objective assessment of the real property that will serve as collateral, the picture is simply incomplete.

The Veros Collateral Risk Score assists users in determining whether or not there are latent risks associated with the property that are not reflected in the valuation.

Credible?

- ✓ **Appraisal data**
- ✓ **External data**
- ✓ **Quality check**
- ✓ **Comparable check**
- ✓ **Subject risk review**
- ✓ **Market risk review**
- ✓ **Historic data review**
- ✓ **License validation**



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Appraisal and Collateral Risk Scoring

Identifying & Mitigating Collateral Risk While Improving Productivity

VeroSCORE provides the most robust and comprehensive set of automated appraisal rules in the market today and is designed to enhance the capacity of review by a skilled appraiser or underwriter.

Scores can be used to make automated initial accept or reject decisions as well as more advanced and appropriate routing decisions – which can ensure loans enter the most appropriate funding stream reducing the risk of buy-backs. Application of Veros' appraisal scoring technology will result in **immediate cost savings** over traditional review procedures.

Thorough review and analysis of an appraisal report with Veros Risk Rules provides the clearest picture of whether or not a particular appraisal is reliable for the lending decision at hand.

As a market leader in the field of property analytics and predictive technologies, Veros is uniquely able to apply advanced analytic tools to the analysis of each property for a more detailed and comprehensive assessment of property and market risk than any of its competitors.



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