The Journey to Appraisal Modernization and What to Expect Next

Appraisal modernization has been in the works for several years, and those efforts are about to pay off

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When it launches sometime in 2025, the Uniform Appraisal Dataset (UAD) 3.6 will make the appraisal process more accurate, consistent, and easier to complete by standardizing appraisal reporting. While there will be a learning curve, appraisers and the entire mortgage industry ecosystem can look forward to many benefits.

One of the most significant changes impacting appraisers is the data formatting on the Uniform Residential Appraisal Report (URAR) which will replace previous forms with a single report structure adaptable to a variety of property types. Instead of appraisers needing to enter all appraisal data manually, UAD 3.6 will facilitate feeding data to appraisers; however, this will be a function of UAD users like lenders and appraisal management companies (AMC).

Today, appraisals can be tedious since appraisers must individually identify features in every room of a home even though, for example, all the bedrooms have carpet and drywall. UAD 3.6 provides a more detailed structure for reporting than the current format. While this may seem like more work for the appraiser, the data structure will make it easier to automate the inspection and data collection process.

To take the most advantage of UAD 3.6, appraisers will need to make a few fundamental changes in the way they work, explains Jeffrey Rauland, Chief Appraiser, Consolidated Analytics.

"Appraisal technology can guide appraisers and assist with some of the more repetitive tasks," says Rauland. "This update is more than a new form. It's a new way to arrange and format data."

This article describes how the industry arrived at UAD 3.6, the benefits of the dataset, and how its rollout will impact appraisers.

A Brief History of Appraisal Modernization

The Uniform Residential Appraisal Report (URAR) has been around since the 1990s. Although it was updated slightly in 2015, the form was dated, and technology had come a long way since the form was originally designed. Around the mid-2000s, industry stakeholders sought to overhaul the form and standardize appraisal valuations and streamline the appraisal process. One of the first steps was to create a Uniform Appraisal Dataset (UAD) which created standard definitions for items including condition and quality.

In addition to digitizing the form, the plan was to incorporate dynamic questioning, which changes questions based on previous answers. Unfortunately, the Great Recession and housing market collapse put those plans on hold.

By 2016, the industry once again took up the charge for appraisal modernization, with wide-spread support from the government sponsored enterprises (GSE),

government agencies, regulators, and the appraisal industry. Progress, however, was slow until the pandemic shifted the modernization effort into high gear.

COVID restrictions limited in-person appraisals and appraisers relied on drive-by appraisals for less risky or lower loan-to-value (LTV) loans. The industry pushed for modernization and stakeholders turned their attention to ironing out details such as order initiation, pricing, and standardized language.

Fast forward to today, and much of the infrastructure needed for UAD 3.6 is ready, says Rauland. "The industry has solidified how lenders, appraisers, and software providers will communicate with the GSEs. The appraisal software for ordering an appraisal and submitting it is nearly complete," he explains. Rauland predicts that mortgage professionals should expect a limited rollout of UAD 3.6 by mid-2025.

What This Means for the Industry

Appraisal modernization has significant benefits to the mortgage industry, including reducing costs, streamlining processes, and enhancing risk management. While traditional appraisals will still play a role, hybrid appraisals requiring less time and effort and even value acceptance appraisals will increasingly replace traditional appraisals. Since non-traditional appraisals take less time, lenders can provide quicker loan approvals to satisfy borrowers.

Fewer in-person appraisals decrease costs for both lenders and borrowers while the use of artificial intelligence (AI), big data, and automated valuation models (AVM) enhances the accuracy of property valuations and improves risk assessment and decision-making. These technologies can also ensure appraisals are compliant with initiatives from Federal Home Financing Agency (FHFA), Fannie Mae, and Freddie Mac.

Data and images are stored in an XML file, improving transparency for all parts of the loan ecosystem, from origination to underwriting to closing to securitization. "You'll have access to much more depth of property level data" says Rauland. "For a portfolio manager or investor, that granularity will improve risk management."

Appraisal modernization also enables lenders and appraisers to handle the inevitable boom and bust cycle of residential real estate and the appraiser labor shortage. Appraisers become more efficient, and automation scalability allows the mortgage industry to react to volume increases and decreases without cyclical hiring and firing.

Appraiser responsibilities will not change, but appraisers will have access to much more computing power, notes Rauland. "Appraisers will still rely on statistical analysis and the expertise to select the most appropriate comparable from a sea of noise," he notes.

Because it will leverage AI and other technologies to find errors, UAD 3.6 will also enforce good, well-analyzed appraisals.

Expect a Smooth Landing

Modernization won't force appraisers into a box. Appraisers are still needed to conduct full valuations for higher risk properties or for borrowers who prefer exterior and interior appraisals. Lenders will be able to offer a menu of choices to borrowers, ranging from an AVM to a hybrid appraisal, to a traditional appraisal.

Change can be scary, and some appraisers have voiced concerns about the rollout. But there's nothing to worry about, says Rauland. "All the industry stakeholders are assigning their best people to work on appraisal modernization," he explains. "UAD 3.6 will be fully functional and working before it's launched."

About Consolidated Analytics

Consolidated Analytics is an end-to-end mortgage services platform that delivers value to clients in origination, servicing, and capital markets, from asset-level analysis to enterprise optimization. A leading provider of real estate valuation, risk management, and advisory services, our comprehensive suite of solutions encompasses due diligence, residential and commercial valuation, collateral risk assessment, and regulatory compliance, enabling our clients to stay ahead in today's dynamic market.