

Efficiency
Savings for
Your
Appraisal
Department



Case Study Analysis

Problem

Before adopting **YouConnect**, the banks interviewed often felt that the appraisal process was adequately handled by their core appraisal/valuation team, but executives and auditors looking at metrics or anticipating increased volume and responsibility had some concerns and **wanted more visibility in the appraisal process, specifically:**

- **Bank executives were concerned about changing economic and real estate conditions** and their ongoing ability to measure and monitor the demographics and value of loan collateral.
- **Regulators pointed out inconsistencies in the appraisal process and policies**, raising concerns about regulatory compliance and the appraisal process.
- **The valuation team managed the appraisal process with only somewhat automated systems**, spreadsheets and internal databases and keeping locally on the bank's computers.

Solution

The banks adopted YouConnect for real estate appraisals and often for environmental evaluations and tracking property inspections; setup, configuration and training took from two to four weeks.

Results

The case studies revealed that due to **YouConnect**, the banks:

- **Reduced time spent addressing audit and regulatory compliance issues.**
- **Realized better levels of transparency and reporting and compliance with regulations.** **YouConnect** creates a standard workflow, creates a complete audit trail while automating repeatable tasks, and providing tracking and reporting.
- **Streamlined appraisal operations.** The process improvement via automated workflow improved the daily efficiency of the appraisal team and improved interactions with internal departments and outside vendors. Many tasks that were previously tedious and time consuming became less so leaving time to handle more pressing issues on a timelier basis.
- **Realized a variety of other benefits which are somewhat difficult to quantify financially, but are significant**, like clearer communication resulting in reduced delivery time by vendors - including reviewers, improved analysis, better monitoring of operations and loan collateral, more ensured appraisal fee recovery, reduced time managing internal IT issues and improved relations with bank lending teams, vendors, auditors, and senior executives.

Benefits

YouConnect helped the banks achieve a significant, quantifiable benefit – time savings through increased efficiency. This most often led to avoided cost of additional hiring for the appraisal team.

Increased Efficiency – Avoided Cost of Additional Hiring For Appraisal/Credit Departments

After adopting **YouConnect**, the banks found that **the appraisal team was generally at least 25% more efficient** and most expressed this in terms of reduced manpower hours or volume of requests handled, i.e. **“we can now handle “x” more than before”**. For the financially quantifiable part of the case study, banks most often **found the financial impact was realized by avoiding the cost of hiring one or several positions**. By eliminating the need for hiring additional people and/or freeing up the current staff to add more vital work to their schedule, **YouConnect’s** value could be estimated. Following is an example of the measurable efficiencies.

YouConnect Appraisal Workflow and Vendor Management - Efficiency Savings

Independent studies and actual customer interviews revealed that an appraisal workflow/ordering system like **YouConnect creates an efficiency of 25%**. Looking at this as being able to avoid the cost of new hires or freeing up an appraisal department's current personnel to handle additional or more vital work, produces the following cost savings over 3 years.

Assuming a 5 person appraisal department comprised of a Chief/Senior Appraiser @ \$150,000, Associates/Analysts @ \$100,000 each and 2 Supports, each @ \$55,000 results in a total, (fully loaded with benefits) payroll of \$460,000 or an average of \$92,000 (FTE - Full Time Equivalent). This correlates to an annual Efficiency Savings of 25% - \$115,000; which is slightly greater than the cost of one FTE.

FTE Cost & Savings				
	Per FTE	Year 1	Year 2	Year 3
Current Team Cost	\$92,000	\$460,000	\$460,000	\$460,000
Gain/Savings Efficiency @ 25%	\$23,000	\$115,000	\$115,000	\$115,000
Average Annual FTE Cost		\$92,000	\$92,000	\$92,000
Total Annual Savings above FTE Addition		\$23,000		
Total 3 Year Gain/Savings		\$345,000		
Present Value of 3 Year Cost/Savings @ 10%		\$285,988		

YouConnect Appraisal Workflow and Vendor Management - Software Fees & Implementation Costs

YouConnect's ongoing transaction fees are charged as either a percentage of the appraisal fees the bank pays or a flat fee based on expected volume. There is industry protocol for the ongoing transaction fees to be charged/passed to the borrower along with the fees for the appraisals. However it is a bank's decision whether they "pass-thru" the fees - in very competitive lending climates, the lending team may feel that charging the "administrative fees" for a system like YouConnect could negatively impact their competitive position. Even for banks that pass the transaction fees thru, there are times when the fees cannot be recovered. We have taken this into consideration assuming 10% of the time the fees are not recoverable.

For purposes of analysis we have calculated ongoing transaction fees based on actuals from our clients and industry interviews which yielded the following assumptions: Average appraisal fee \$2,500, transaction fees 3% of third party appraisal fee and 100 appraisals per month.

System Costs

On-going Transaction Fees - 3% - 4% of Appraisal Fee (Fixed or Flat Fee Also Available on Request)

\$3,500 one-time set up \$3,500
 \$350 Hosting charge/mo. \$4,200 Annual Cost

<i>Assumes Recovery of Fees</i>	Year 1	Year 2	Year 3
Set Up Fee	\$3,500	\$0	\$0
Hosting/Maintenance Fees	\$4,200	\$4,200	\$4,200
Total Transaction Fees	\$90,000	\$90,000	\$90,000
Transaction Fees Recovered	\$81,000	\$81,000	\$81,000
Net Fees Paid for YouConnect	\$12,500	\$9,000	\$9,000
Total Cost	\$20,200	\$13,200	\$13,200

<i>Assumes NO Recovery of Fees</i>	Year 1	Year 2	Year 3
Set Up Fee	\$3,500	\$0	\$0
Hosting/Maintenance Fees	\$4,200	\$4,200	\$4,200
Total Transaction Fees	\$90,000	\$90,000	\$90,000
Transaction Fees Recovered	\$0	\$0	\$0
Net Fees Paid for YouConnect	\$97,700	\$90,000	\$90,000
Total Cost	\$97,700	\$94,200	\$94,200

Indirect costs for integration and training varies, but because **YouConnect** is built on new technology with a focus on the User Experience, training costs are low. This is particularly true for internal users and external users who aren't in the system for the majority of their workday. Email instructions are mass provided for external users - vendors/appraisers. The lending teams are trained via a 30 minute webinar with the **YouConnect** team and need limited support from the appraisal team. **YouConnect** is a SaaS-Software as a Service product hosted outside of the banks infrastructure and therefore requires no hardware and very little time from the bank's IT group. Based on interviews with clients we created the following table to illustrate indirect costs for integration and training.

Metrics used: IT professional full time salary \$150,000 - During Launch 1 FTE @ 8 hours, ongoing 5 hours per month; appraisal staff average salary of entire team \$92,000. Needed: 6 hours per team member (assumes 5 person team) for 4 weeks; lending group including assistants (assumes 100 parties) via 30 min webinar(s) - average salary including loan assistants \$100,000

Indirect Costs				
	Prior & During Launch	Year 1	Year 2	Year 3
IT Support	\$577	\$4,327	\$4,327	\$4,327
Appraisal Manager & Staff	\$2,654	\$0	\$0	\$0
Lending Team	\$2,404	\$0	\$0	\$0
Total Indirect	\$5,635	\$4,327	\$4,327	\$4,327

Total Costs per year and present value @ 10% over 3 years

<i>Assumes Recovery of Fees @ 90%</i>	Prior & During Launch	Year 1	Year 2	Year 3	Total	Present Value
	Net YouConnect Fees		\$20,200	\$13,200	\$13,200	\$46,600
Indirect Costs	\$5,635	\$4,327	\$4,327	\$4,327	\$18,615	\$10,760
Total Cost	\$5,635	\$24,527	\$17,527	\$17,527	\$65,215	\$49,950

<i>Assumes NO Recovery of Fees*</i>	Prior & During Launch	Year 1	Year 2	Year 3	Total	Present Value
	YouConnect Fees		\$97,700	\$94,200	\$94,200	\$286,100
Indirect Costs	\$5,635	\$4,327	\$4,327	\$4,327	\$18,615	\$10,760
Total Cost	\$5,635	\$102,027	\$98,527	\$98,527	\$304,715	\$248,204

* With No Recovery of Fees, the cost is nearly equal to the average cost of an FTE in appraisal department at \$92,000

Cash Flow

	Prior & During Launch	Year 1	Year 2	Year 3	Total	Present Value
All Costs - Assumes Recovery of Fees	\$-5,635	-\$24,527	-\$17,527	-\$17,527	-\$65,215	-\$55,073
Benefits*		\$115,000	\$115,000	\$115,000	\$345,000	\$285,988
Net Benefits	-\$5,635	\$90,473	\$97,473	\$97,473	\$279,785	\$230,915
ROI					-429%	419%

Initial Payback Period/Recovery

Year 1 Cost/Mo. Incl. StartUp Fees	\$2,513
Year 1 Benefit/Mo.	\$7,539
Payback/Recovery Months	0.33 Better than breakeven at start

	Prior & During Launch	Year 1	Year 2	Year 3	Total	Present Value
All Costs - Assumes NO Recovery of Fees	\$-5,635	-\$97,700	-\$94,200	-\$94,200	-\$291,735	-\$242,566
Benefits*		\$115,000	\$115,000	\$115,000	\$345,000	\$285,988
Net Benefits	-\$5,635	\$17,300	\$20,800	\$20,800	\$53,265	\$43,422
ROI					18%	18%

Initial Payback Period/Recovery

Year 1 Cost/Mo. Incl. StartUp Fees	\$8,611
Year 1 Benefit/Mo.	\$1,442
Payback/Recovery Months	6.0

* Average appraisal team FTE - \$92,000 at an annual Efficiency Savings of 25% = \$115,000

Additional Benefits

Personnel/FTE Savings

Like all areas of banks, the credit department gets pressure all the time to keep vendor fees down. The biggest cost of the banking business is salaries. The appraisal department can receive reimbursement from the borrower for the fees of third party service providers, and many times pass on administrative or review fees to the lending department with the goal of having their budget be a breakeven proposition; this is also applicable to environmental and engineering due diligence. The credit department is often scrutinized as a cost center. To that end, creating efficiencies can have significant impact by having the fewest, but best people focused on the most important projects.

Vendor Management

Grade vendors by criteria such as timeliness, the number of disputed reports, and analyze the revealed metrics any number of ways - vendor fees by grade, average system grade distribution. State certification licenses and insurance are automatically tracked, monitored and communicated when renewals come due. No more time-consuming back-and-forth emails with vendors to update licensing and/or insurance.

Credit Side and Lender Department Interaction

The visibility tracking and reporting enables improved communication between the lenders and the credit side and it even helps track and lower/eliminate your non-recoverables - when the borrower doesn't pay for a third party service and the bank has to. **YouConnect** was not only created to automate a typical bank's appraisal function, it is customizable to accommodate the process differences of individual banks. While bids are sent to the lenders anonymously, the credit department is in full control providing transparency and yet allowing communication between departments that facilitate the lender communicating with the borrower for the collection of fees.

Reporting and Metrics

YouConnect provides reporting including appraisal turnaround times from acceptance date to completion, resulting in substantive decrease in the number of business days it takes a vendor to deliver. This serves to shorten the time it takes to process a loan with review turnaround in total process time and metrics quantified. Pipeline reports of requests and their state of completion can be easily viewed, adding process improvement that can have significant impact.

Regulatory Compliance

Regulatory pressure requires banks to properly manage appraisal ordering. Dodd-Frank and the Interagency Appraisal and Evaluation Guidelines both require appraiser independence. **YouConnect** provides independence of the collateral valuation function; both appraiser

independence and the independence of the persons within the appraisal function. **YouConnect** satisfies federal and state examination and auditing requirements to achieve proper safety and soundness. In addition, **YouConnect** is hosted by a national IT infrastructure provider in a SSAE 16, (formerly SAS 70) compliant environment. RealWired as a company annually completes the rigorous AICPA SOC2 audit, providing additional verification to its technology and cloud computing users of the design and operating effectiveness of its internal controls.

Avoid Legacy System's Limitations

Legacy applications and systems still work, of course, and therefore have their place, but ultimately they need to be phased out and replaced with the latest applications and systems if bank modernization programs are to have any real chance of success. Where existing systems and applications are deemed to be still useful, and are left in place, their suitability and effectiveness must be monitored regularly. Many decades old legacy systems are inflexible and closed, and each time a bank desires an improvement, they must be "hard coded," which can take many months. Such closed systems render product development and management initiatives cumbersome and slow. These outdated systems can often prevent financial institutions from offering differentiated products on a timely basis.

Buy vs. Build Scenario

One of the most significant challenges of building an internal solution is too many diverse systems and applications acquired over time - often as a result of mergers and acquisitions, inefficient legacy applications - systems that possibly should have been retired years previously, and rigid infrastructures. Banks need agile technology that will enable them to bring products to market quickly. Among the many challenges banks face today, the need to regularly analyze and modernize technology platforms is paramount. If banks do not modernize, they are likely to fail to give customers what they want, generate adequate profits, and deliver shareholder value. Typically the cost of an in-house solution is cost prohibitive long-term.

Competitive Edge

For those responsible in the internal departments that manage the appraisal process, measurement of the timeframes to complete things and reporting on those timeframes is critical - the borrower, the lender and bank management all are looking to keep pace with things real-time, as well as have a picture over time for understanding internal operation efficiency. Pressure for timeliness and accuracy go hand-in-hand, and for some the transparency of the "turnaround time" is a new normal. **YouConnect** provides the tools, data and reporting allowing you to focus on the importance of credit underwriting best practices.

About RealWired

With over 25 years in the commercial real estate business, RealWired focuses on streamlining the business of commercial real estate with processes and technology, all the while focusing on what makes the commercial real estate industry tick – people and the relationships they build.

More Information

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