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IRS to Use Automated Appraisals to Verify Home Equity Values

NEW YORK, March 7 (LendingIntelligence.com) — The U.S. Internal Revenue Service announced today that it will begin using electronic appraisals to measure taxpayers' home equity.

By OKing its use, the IRS adds yet another stamp of approval to the use of electronic appraisals. The appraisal industry has blasted so-called automated valuation models as unreliable.

Last year Fannie Mae and Freddie Mac started purchasing loans with electronic appraisals.

Automated appraisals have the potential to dramatically alter the economics of home lending. Each appraisal by a human costs about \$700. Each automated appraisal usually costs no more than \$30.

The IRS will use the electronic appraisal system sold by Basis 100 Inc., Toronto. The IRS said Basis 100's product, known as PASS, will increase the efficiency and speed at which the IRS responds to taxpayers' requests for an "Offer in Compromise" to pay some of their outstanding tax balances with home equity. Previously, the taxpayer was often burdened with having to obtain an independent appraisal, which would take several days. PASS reports take about five seconds to generate.

Basis100 has been providing electronic appraisals to the IRS since March 2000 in a pilot program.

About 5% of all first mortgages and 30% of all home equity loans use only electronic appraisals to gauge property values, according to C&S Marketing, a Sacramento, Calif., company that sells an electronic appraisal product.

A C&S vice president said there are risks to using AVMs. The electronic appraisals cannot always properly value rural

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properties or those located, say, next to railroad tracks or freeways, because it cannot pick up such devaluing subtleties. Also, an electronic valuation just measures a property's value in relation to other, like properties, and mistakenly gauge its worth, if there was, say, substantial disrepair.

These are the risks the appraisal industry highlights when voicing its opposition to electronic appraisals.

"AVMs are, by definition, data dependent, so our main concern is that, in any given locale, the data feeding the algorithm is going to vary in quality and therefore the model varies in reliability," said Don Kelly, a spokesman for [The Appraisal Institute](#), a Chicago-based advocacy group.

"We encourage appraisers and lenders to use AVM technology to find efficiencies, but at the same time they need to understand that they are not perfect, and many markets still need the services of appraisers to do the additional analysis," Kelly added.

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