

MBA's COMMERCIAL/MULTIFAMILY SERVICING and TECHNOLOGY CONFERENCE 2010

MAY 23–26, 2010 + NYC

Developing and Employing Standards: How an Idea Goes from Inception to Reality to Use

Moderator: Steve Viole, **Director, Global Private Market Services**, TIAA-CREF

Jack Huntress, **VP of Business Development**, EDR, Inc.

Gloria Zimmer, **MISMO Standards Director**, MERS

Mark Linné, **EVP Education and Analytics**, Appraisal World, Inc.



Internet

Compatibility/Interface standards associated with network externalities. These sorts of standard enable ready entry into a market for compatible products or to join a communications network . They serve to consolidate markets and encourage the development of critical mass.

OSHA

Minimum Quality/Quality discrimination - associated with lower transactions costs and avoiding Gresham's Law by creating confidence amongst buyers that products and services will be fit for purpose. This group includes health and safety and environmental standards.

Nuts/Bolts

Variety Reduction - associated with economies of scale and stable development trajectories. Conformity to a standard reduces the number of different product offerings but enlarges the market, reducing production and distribution costs for suppliers and search and testing cost for buyers.

eCommerce

Information standards - facilitates trade and market development, codifies knowledge enabling dissemination and take up. Again transactions and search costs are lower and markets work more efficiently.

Electronic Data Interchange (EDI) – Credit card and PayPal communication

OpenTravel – Travel related services: American, Hilton, Hertz, Expedia....

iCalendar – Calendar events used by Google, Microsoft....

vCard – Electronic business cards

Electronic Health Records (EHR) – Hospitals, Labs, Doctors, Patients

Interagency Group (IAG) – E-ZPass electronic toll systems in 14 states

OpenDocument – Google Docs, Microsoft Office, Lotus, WordPerfect

MISMO – Real estate: Originators, Servicers, Brokers, Attorneys,



Benefits of Standards

1. Efficiency

2. Accuracy/Precision

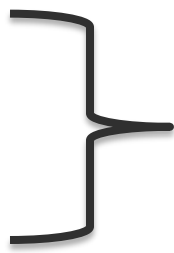
3. Reduced Business Risk



Good

4. Innovation

5. Opportunity



GREAT!



Efficiency from Standards

- Reduce the friction of doing business with others
- Reduce the friction within the walls of the company
- Savings as less QA/QC is needed or redundant oversight
- Allow external companies to perform aspects of business that are not profitable



Accuracy from Standards

- Chasing a standard, firms will “one-upsmanship” to achieve high precision and accuracy
- Better accuracy and precision allows for better decisions



Reduced Business Risk

- Don't do what you are not good at, focus on what you are good at
- Be better informed with enhanced granular information
- Reduce the chance you'll be caught off guard through Key Performance Indicators

Imagine if all screws, nuts and bolts were of varying sizes and threads...?

Process began around 1800 (intra and inter company)

Took some **industry** (railroad) and **government** but by about 1870 William Sellers's system had taken hold once mandated by the US Federal Government for all contracts.



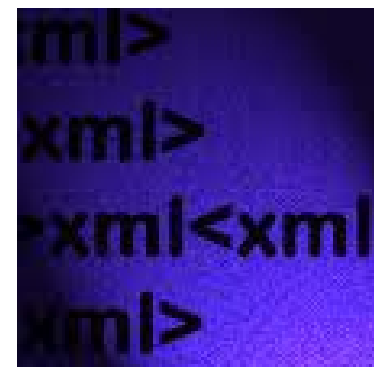
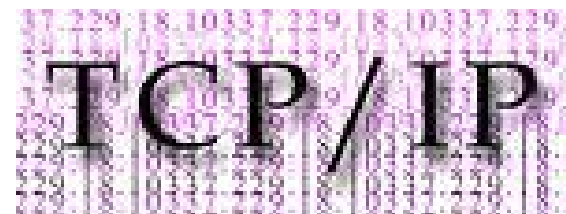
Leads to:

Industrial Revolution (commercialization of goods and the assembly line)



Opportunity! Create The Internet!

The World Wide Web Consortium (W3C) is an international community where Member organizations, a full-time staff, and the public work together to develop Web standards.



Leads to:

Email, eCommerce, Mobile Computing, Globalization



- It is very **powerful**, very **flexible** (eXtensible) and **hugely adopted**
- In a sense, it “powers” the internet (CNN, YouTube, ESPN – nearly every modern website utilizes XML)



Bank of America





We don't really know...

- They didn't know they were going to **start the industrial revolution** with the standardization of the nut and bolt
- They didn't know they were going to enable **eBay, Amazon, and the iPhone** to do what it does...
- We don't fully know what will come of the adoption of a standard in commercial real estate
- History indicates we will see innovation and further there will be opportunity for those that embrace and lead

GLORIA ZIMMER, MERS

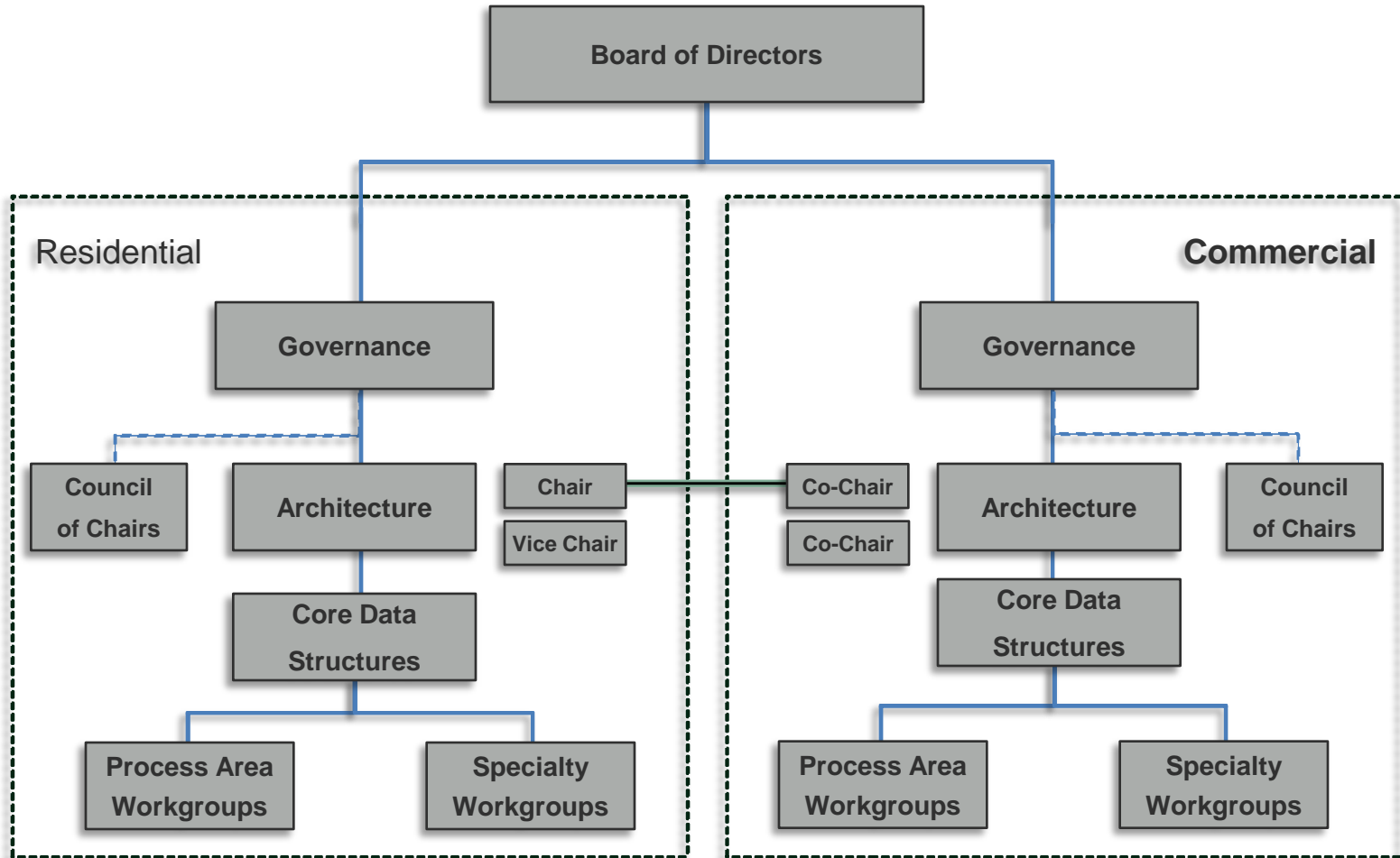
- MISMO: ‘Mortgage Industry Standards Maintenance Organization’
- Mission: To develop, promote and maintain e-commerce standards for real estate finance industry
- 501(c)6 subsidiary corporation of MBA, under operational management by MERS
- Enables more efficient and economical exchange of mortgage-related information among borrowers, lenders, service providers, investors, servicers

- XML: Extensible Markup Language (late 90's)
- MISMO formed in 1999 – first meeting in early 2000
- Three primary areas:
 - » Residential
 - Origination, Secondary, Servicing Transactions
 - Real Estate Services
 - » eMortgages
 - Online originations, electronic service ordering and fulfillment
 - Document imaging, paperless delivery
 - Electronic signing solutions
 - eClosing and eRecording systems
 - » Commercial



- Establishes data standards to meet the needs of the commercial mortgage industry, working within the framework of the MISMO organization
- Workgroups:
 - » Architecture - Rent Rolls & Operating Stmtns
 - » Core Data - Property Inspections
 - » eMortgage - Property Appraisals
 - » Servicing - Document Classification
 - » CMSA-IRP - Environmental & PCA Reports
- SEC Response

- As an organization encouraging the participation of competitors, MISMO meetings are conducted in accordance with MISMO's IPR and Antitrust Policies.
- The IPR Policy preserves subscribers' and MISMO's intellectual property rights in published standards
- Adopted (retroactively) effective November 1, 1999
- Commercial effective date - May 13, 2004
- Provides for a 30-day IPR Disclosure Period
- MISMO offers a royalty-free End User License to use the standards





- Build business data dictionaries to ensure understanding when exchanging data
- Develop industry-wide XML standards in XML Schema format
- Promote related technology standards necessary to enable eCommerce
 - » (digital signatures/credentials, security best practices)



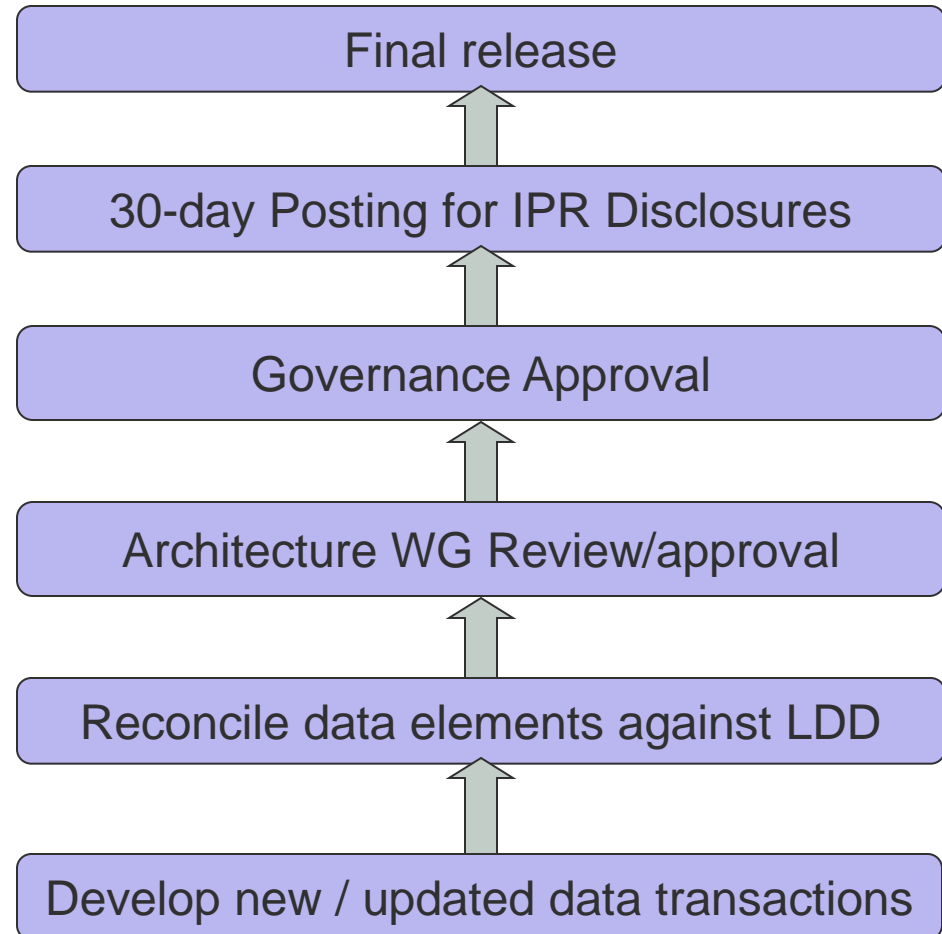
- Industry Business Data Dictionary (LDD)
- Industry standard messages - XML Schemas
- Common Reference Model:
 - » Single data repository/reference model
 - » Consistent message structure
 - (Loan, Collateral, Party, etc. with DEAL at root)
- Engineering guidelines for creating XML Schema
- Implementation guides to use MISMO standard transactions (by individual business/process area)

- Volunteer industry practitioners form workgroups
- Workgroups provide technical, business expertise
- Data reviewed by Core Data and technical structure reviewed XML Architecture workgroups for approval
- Approved by Governance - standards, other artifacts
- Released standards openly available on www.mismo.org
- Standards you implement are dictated by your business purpose



MISMO Release Process

- Publication
- 30-Day IPR
- Governance
- Architecture
- Core Data
- Workgroups



- Workgroups use Excel spreadsheets to create their vocabulary – defined template
- Listservs to communicate – announce calls, hold discussions, exchange artifacts
- Adobe Connect web sessions for calls
- Developing artifacts posted on SharePoint – subscribers-only web repository
- Wiki – interactive repository, Engineering Guidelines
- Contivo Builder – Liaison Technologies
 - » XML Vocabulary management/modeling tool

- Commercial Board of Directors members:
 - » Tom Fink, Managing Director, Trepp, LLC
 - » Bill Frazer, SVP, CBRE | Melody
 - » Joanne Denver, Managing Director, Babson Capital Mgmt
- Commercial Governance Committee members:
 - » Jim Cooke, Ballard Spahr, LLP
 - » Jack Huntress, Environmental Data Resources
 - » Steve Dale, Genworth Insurance
 - » Jim Flaherty, CMBS
 - » Bob Wright, Midland Loan Services, Inc.



Welcome to MISMO

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- [Liaison's Contivo Builder...](#)

4 Ways to Get Involved

Transparency has become the key commodity in today's financial market
MISMO can help you achieve it.

[Home](#) > [Getting Started](#)

Getting Started

This section introduces you to MISMO across a variety of areas depending on whether you are new to MISMO as an organization, have a desire to participate in defining the standards or simply have a desire to implement and use the standard. Here you can access information directed at the following:

- [Introduction to MISMO](#)
- [Getting Started Defining the Standard](#)
- [Getting Started Implementing the Standard](#)

Introduction to MISMO

If you are new to MISMO, the best place to start is to understand who and what MISMO is as an organization. Review the [Intro To MISMO](#) presentation which introduces the following topics:

- History of mortgage data standards
- Purpose and deliverables of MISMO
- Subscriber benefits
- Overview of the organizational structure including the workgroups
- Overview of the MISMO release process and technical architecture

News and Notes

- [NRMLA and MISMO Form an Alliance to Create Data Standards for Reverse Mortgages](#)
- [Commercial MISMO® Releases Rent Rolls and Operating Statement Standards](#)
- [Version 3.0 Candidate Recommendation Released](#)

Latest Specifications

- [Rent Roll v2.0.1](#)
- [Property Valuation Response v2.6](#)
- [Property Valuation FAQs](#)

MARK LINNE, APPRAISAL WORLD

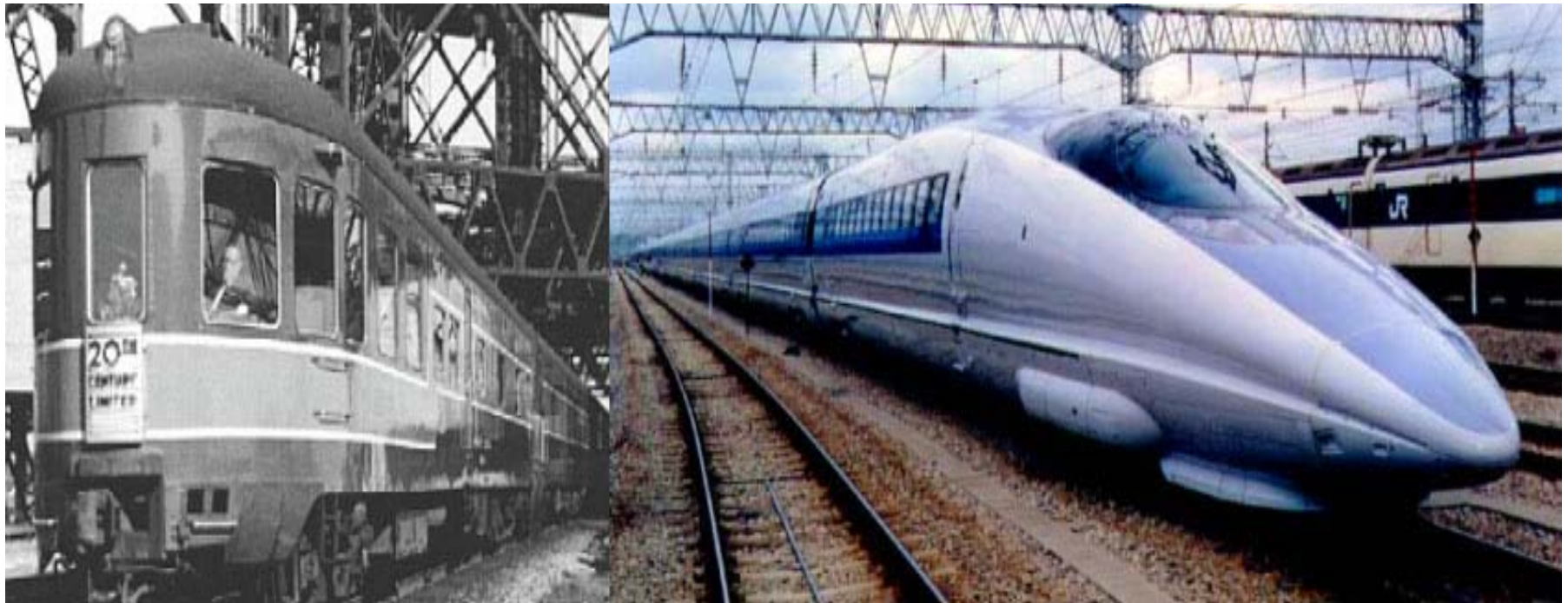
- I am a technologist
- I am an appraiser
- Today a perspective that melds both

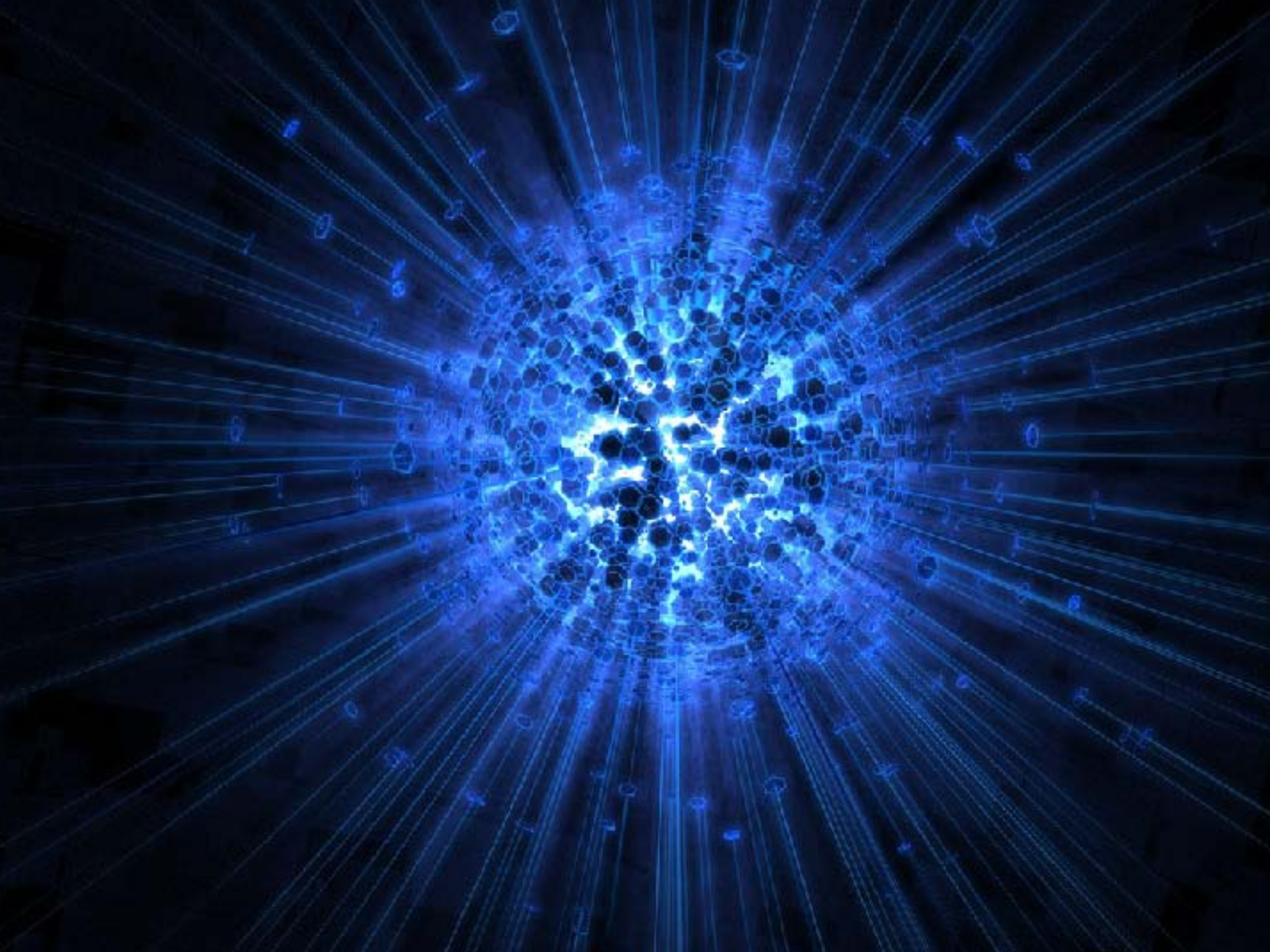
- **The Future of Valuation**

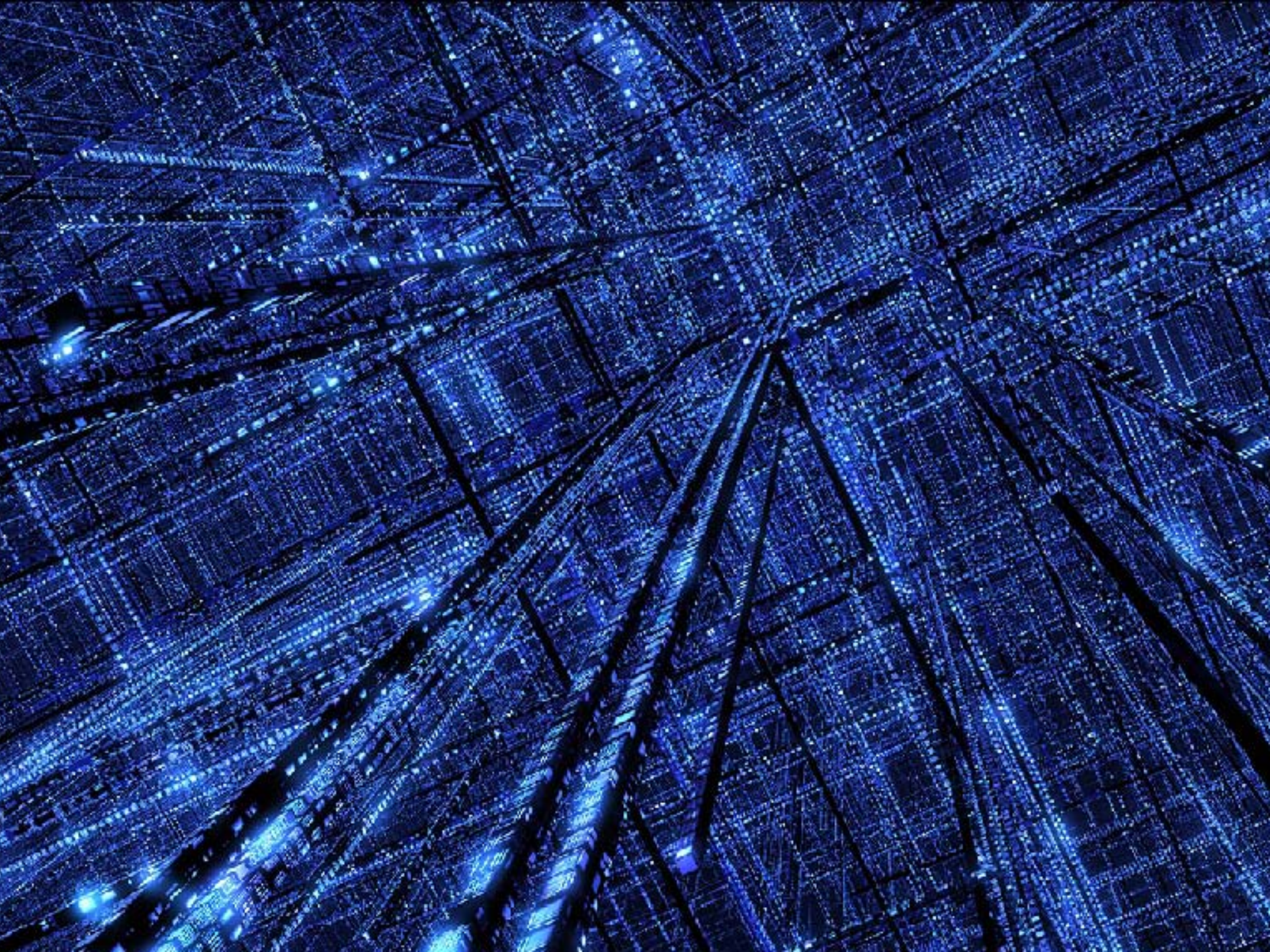
or

- **Data Standards and their Importance**

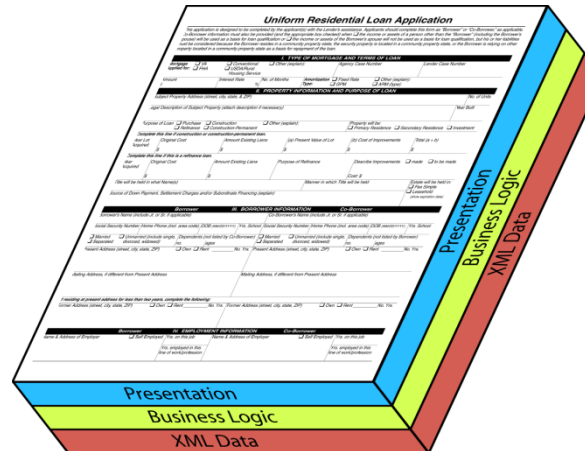
Real Estate is an Industry in Transition







Much of what we do today on the valuation side is very
“opaque”



We see the top level-but none of the data, analysis or
support behind it

Historically-Fannie/Freddie and Data

- **Availability of unprecedented amounts of data**
- **Harmonization of Data Standards**
 - MISMO
 - OSCRE
 - OGC
- **XML**
 - The *Lingua Franca* of Data Standards
- **Innovation beginning to offer alternatives in the trenches**

Where it started

Fannie Mae Announcement 09-14

- Acceptance of electronic appraisal reports via MISMO XML Standard

Enable Fannie Mae to develop tools and metrics

Enhance collateral risk management

- Analysis
- Modeling
- Decision-making capabilities

Fannie/Freddie

Uniform Appraisal Dataset

- Appraisal Data Definitions

- › September 2010 Release
- › January 2011 Implementation

- Uniform Collateral Data Portal

- › October 2010 Available to Vendors/Stakeholders
- › April 2011 Implementation

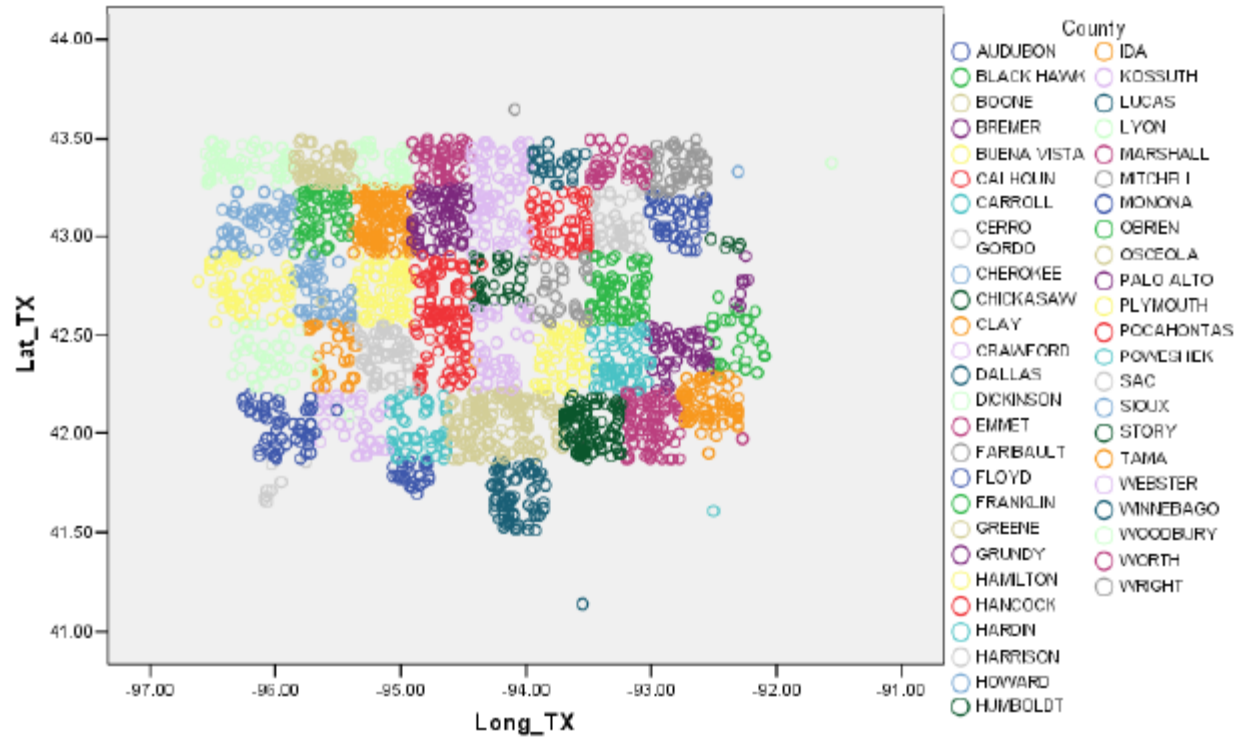
Using advanced technology to redefine and reinforce the appraisal process

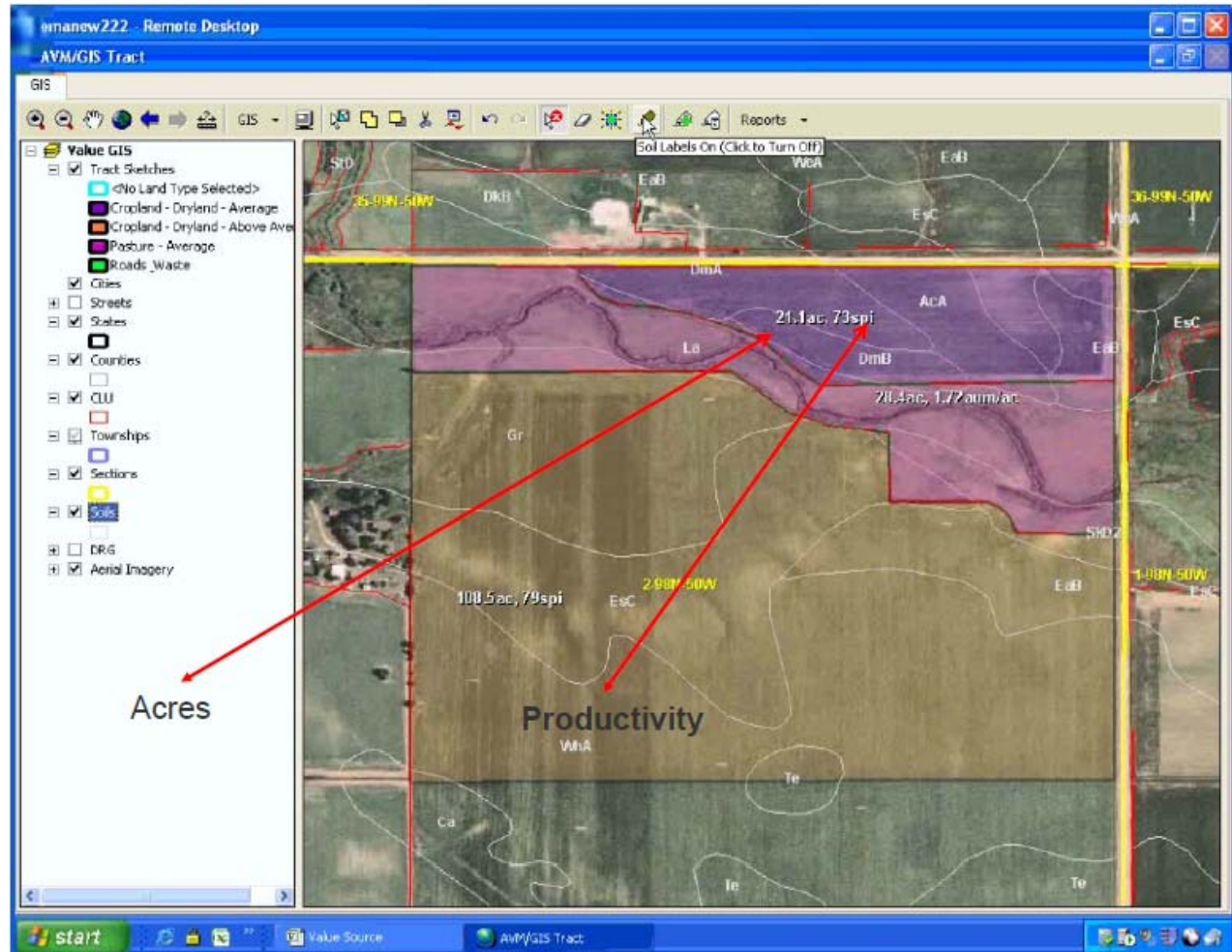
Leveraging technology

Doing it right the first time

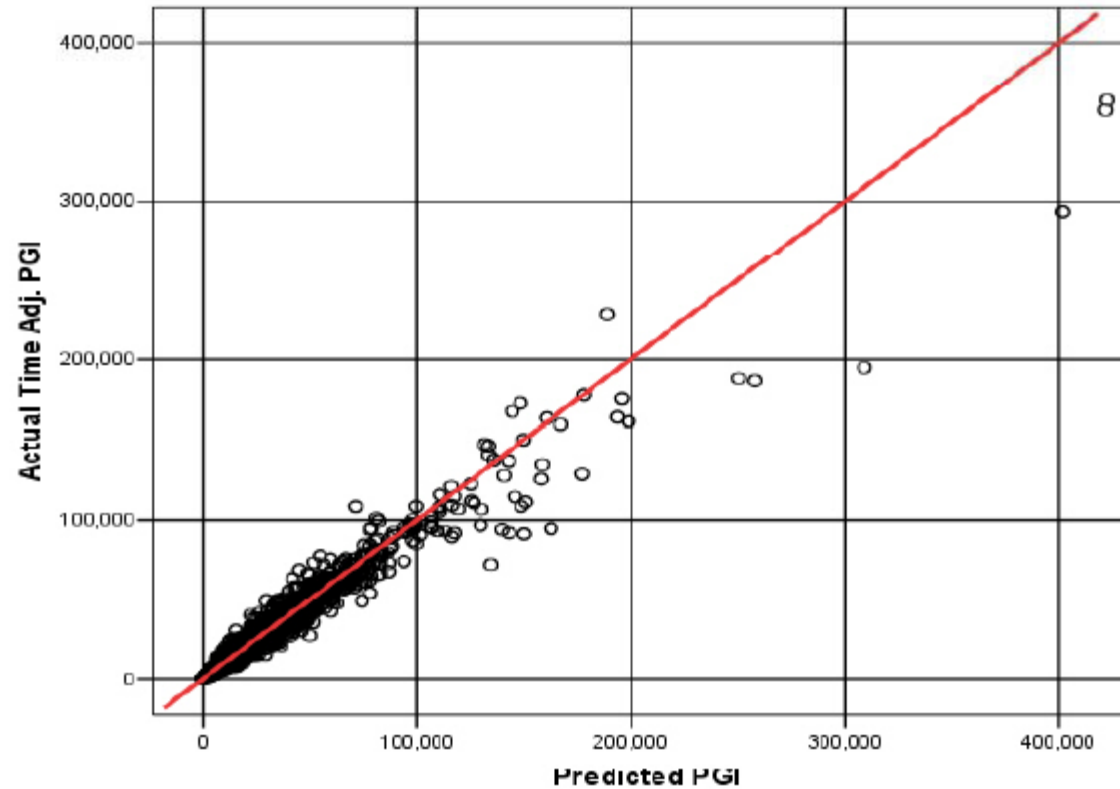
- New analytics will permit this
- Transparency, enhanced analysis, reliable values
- Ultimately reducing the risk in the transaction

- INNOVATION IN THE TRENCHES





Crop Land PGI Model Equity Analysis



Collateral Valuation Report

Get Sales and Listings
Comp Filter
Reload Original Boundaries

All Listings
Comp Listings
All Sales
Comp Sales

GENERAL

Total: 14 Oldest: 10/24/2008 Newest: 04/23/2009

Price: Low: 139,900 High: 286,500 Pred: 227,300

DOM: Low: 6 High: 187 Pred: 42

Age: Low: 1979 High: 1995 Pred: 1981

Sq Ft: Low: 914 High: 1702 Pred: 1567

Price/SqFt: Low: 121 High: 182 Pred: 152

NEIGHBORHOOD CHARACTERISTICS AND STATISTICS

12-Months Statistics	Characteristics	Graphs	Veros Forecast	
In Last:	3 Mos.	4-6 Mos.	7-9 Mos.	10-12 Mos.
Total Listings:	14	19	13	15
Median List Price:	\$227,300	\$189,900	\$189,900	\$195,000
Total Sales:	0	5	7	13
Median Sale Price:	No Sales	\$165,000	\$190,000	\$197,500
Days on Market:	No Sales	71	13	42
Sale Price / SqFt:	No Sales	\$113.25	\$127.51	\$114.82
Low Sale Price:	No Sales	\$155,000	\$155,000	\$153,000
High Sale Price:	No Sales	\$250,000	\$231,500	\$244,000
Sale/List Price Ratio:	No Sales	97.07	101.42	99.06

Absorption Rate: 8.72 **Months of Supply:** 2.08

Demand/Supply: Shortage In Balance Oversupply **Est Mk Time:**

Marketing Time: Under 3 Mos. 3-6 Mos. Over 6 Mos. 0

Values: Increasing Stable Declining

Estimated Sale/List Price Ratio: 100.00

Neighborhood Description (Pg 1)

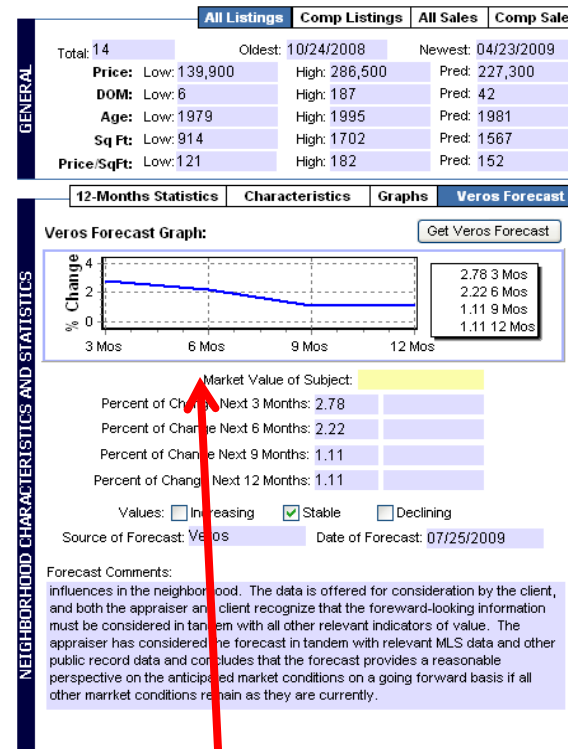
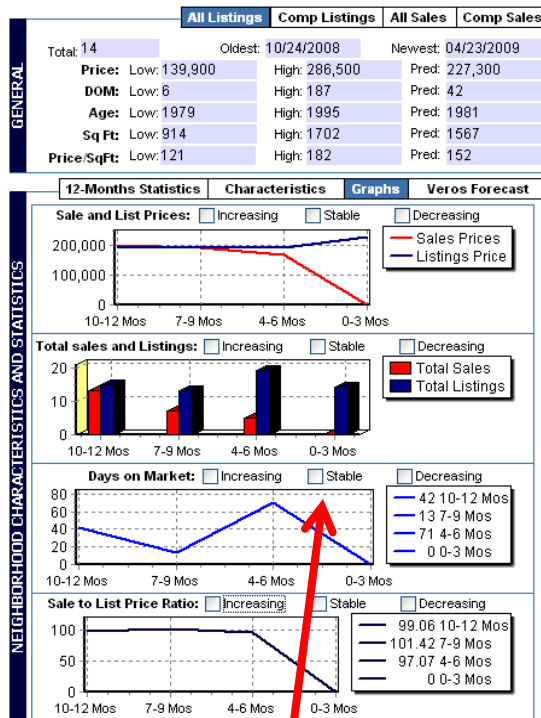
Market Conditions:

Set Boundaries Name: **Glenbrook** Save...

Clear Street Satellite Hybrid Area of Neighborhood: 1.105 sq miles

Map data ©2009 Tele Atlas

In the neighborhood analysis, all of the 1004 MC characteristics plus a spatial display of data



Neighborhood characteristics and forecast values
going forward from the effective date

Sophisticated Analytics-Regression Analysis

Run Analysis
Comp Filter
Ranking

Indicated Market Value by Regression: **\$262,175**

Sales
Regression Details
Listings
 Use ONLY Sales Checked BOTH "Include in Regression" AND "Use as Comparable" in Regression Analysis

Predicted Values to Actual Sale Prices

Select Sales

Regression Output Statistics			
Statistical Measure	Model Output	Expected Range	Confidence
R2	33.49%	55% to 88%	Low
Adjusted R2	24.50%	55% to 88%	Low
COV	100.23%	95% to 105%	Average
COD	3.73%	<20%	Very Good
Standard Error	11.59%	<15%	Good

Evaluation of Data and Analysis	
Number of Observations	Average (43)
Quality of Data	Acceptable
Comparison of Subject to Data	Acceptable
Overall Agreement with Model Output	Very Low
Overall Agreement with Model Accuracy	

Components of Value				
Variable Name	Most Probable Value	Probable Value Range	Significance of Variable	Include in Regression
Base Neighborhood Value	\$191,142.25	\$114,866.46 to \$267,418...		
GLA	\$25.19	\$3.64 to \$46.74	17.82 %	<input checked="" type="checkbox"/>
Total Baths	\$4,103.6	-\$14,371.03 to \$22,578.22	04.49 %	<input checked="" type="checkbox"/>
Site Area SF	\$2.24	-\$1.46 to \$5.93	07.40 %	<input checked="" type="checkbox"/>
Garage Spaces	Excluded			<input type="checkbox"/>
Carport	Insufficient Data			<input checked="" type="checkbox"/>
Basement Area	Excluded			<input type="checkbox"/>
Bsmnt Finished Area	Excluded			<input type="checkbox"/>
Year Built	-\$854.28	-\$1,974.08 to \$265.52	11.08 %	<input checked="" type="checkbox"/>
Fireplaces	Excluded			<input type="checkbox"/>
Pool	Insufficient Data			<input checked="" type="checkbox"/>
Spa	Insufficient Data			<input checked="" type="checkbox"/>
Sale Date (per Day)	\$12.55	-\$18.28 to \$43.38	04.09 %	<input checked="" type="checkbox"/>

Comments on Regression Analysis	

Appraiser's Opinion of Market Value	
Apply Regression Value	0 as of 7/27/2009

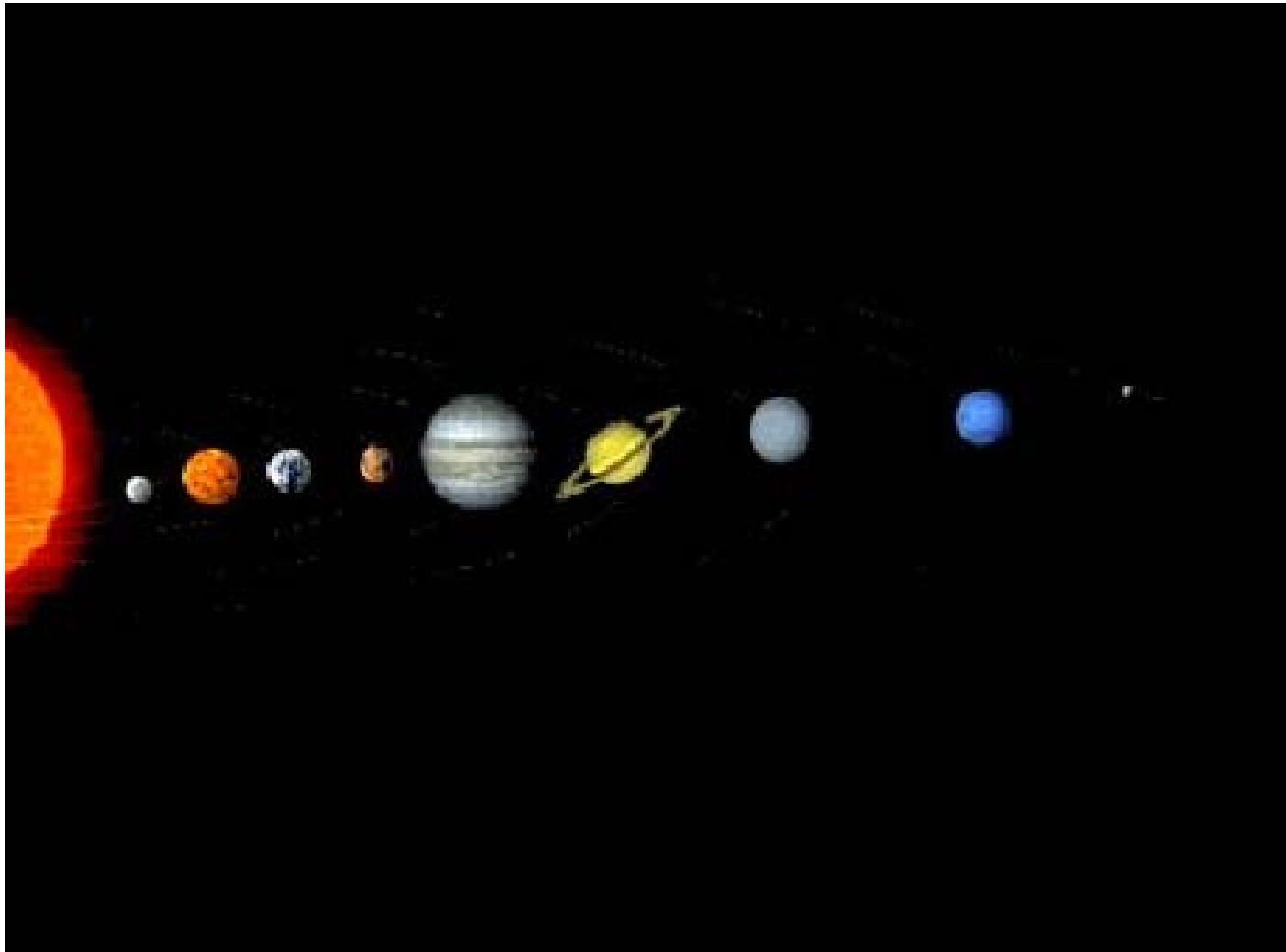
Appraisers are trained to understand and use regression analysis

- **We have the data**
- **We have the analytics**
- **We have the need**

- **What we need now is the desire to encourage new products to come to market**

Innovation Happens Because the Planets Align

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The general line about standards

- **Standards improve efficiency**
- **They create clarity**
- **They create understanding**
- **They create rules**
- **They enhance interaction**

- **Standards will permit the aggregation of ever-larger datasets; changing the paradigm of analysis**



Seeing Data in A Different Way

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- Bottom Line: Standards will be the catalyst for redefining analysis-real estate analysis cannot be left behind
- Standards will enable better quality data and better analysis
- This is the right time to “care”, get involved and drive the change
- At the very least, be **aware** of what is going on!

The Bottom Line

- **The lack of open standards inhibits innovation; prevents any changes to the status quo-no matter how beneficial such changes might be**
- **Open standards will facilitate a broad range of alternative opportunities for products, data and technologies**
- **Everyone wins**

[feature]

- If you want more depth:
- Open Data Standards:

Why You Should Care

- » Valuation Magazine 4th QTR 2009

Open Data Standards: Why You Should Care

*As standardization evolves,
so will the entire valuation process*

By Mark R. Linné, MAI, SRA, and John Cirincione, SRA

A significant challenge facing the real estate industry is the lack of a common language for data. Terminology and core-business elements have a bewildering array of varied nomenclature, with different descriptive field names and definitions applied to the same processes and data. Multiple costs and fees are not from the lack of a standard "sketchy" lead to redundant manual entry and other inefficiencies. In addition, the lack of standardization stems from changing vendors and suppliers, and stifles innovation.

In theory, real estate is one of the last major components of the economy to take advantage of the standardization of data and the technological innovation that has defined other sectors of the economy. It is clear in talking to lenders, vendors and technology builders that open data standards will not only change how appraisers present data to their clients but will in all likelihood change the very manner in how properties are valued and analysis performed.

Background

Historically, only limited market data was available to discern the nature of the greater marketplace. In the recent past, accurate and meaningful data was difficult to obtain, standardize and analyze. With limitations in data came restrictions in the nature and extent of the analytical process. Less robust data sets for real estate meant less information to feed analysis. Perhaps the biggest trend that will affect the valuation

Thank You!

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Mark@AppraisalWorld.Com



Redefining the Landscape of Valuation