



Rethinking Collateral

As the industry looks to correct itself, technologists detail how automation can help mortgage participants assess a property's true value.

Now both GSEs will require lenders to submit full appraisal reports in electronic data format using the MISMO standard prior to loan delivery. This marks a big shift in the mortgage process. (Left to right) Jeremy McCarty, chief executive officer and chief valuation strategist at Valligent; Brian Coester, chief executive officer of Coester Appraisal Group; Bill Fall, chief executive officer at the William Fall Group; Jeffrey Taylor, chief executive officer at Digital Risk; Mark Linne, executive vice president, education and analysis at Appraisal World; and Jennifer Creech, president at InHouse; talked to our editor Tony Garritano about what this initiative means for the future of mortgage lending.

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MORTGAGE TECHNOLOGY: *What's your reaction to Freddie Mac following Fannie Mae in terms of demanding electronic appraisal deliveries using the MISMO standards?*

MARK LINNE: I think it's an amazing tipping point. I think that what's going to happen is we've been working for years now to get the MISMO standard accepted. With Fannie and Freddie both onboard now, I think that will start the move towards greater industry acceptance and ultimately that will permeate through the entire marketplace.

JEFFREY TAYLOR: With Fannie Mae and Freddie Mac and FHA constituting 96% of the marketplace, when you have those two market leaders come right out adapting a standard, it's a huge move forward for the industry because appraisal and value fraud, as we know, is one of the biggest issues out there.

JEREMY MCCARTY: I agree that it's a huge step, kind of a game-changer in that it really opens up a lot of possibilities for the valuation industry and we have the opportunity to kind of restructure the way things have

been done, moving away from just PDF files being transferred back and forth, to a whole new way of looking at valuation and quality control and risk assessment.

BILL FALL: I think one of the more significant parts of it is in context with the CFPB Act that is still working its way through Congress is that we're going to see, regardless of the iterations of the GSEs going forward, a very common technology platform on which we can have a very constructive and interactive business model, particularly when it comes to the valuation industry.

Valuations will be much more transparent and transferrable. That excites me a lot.

JENNIFER CREECH: I believe that it leads us into a whole new world of being able to analyze all the data points and be able to look at the appraisal in a deeper fashion.

You can now keep all the statistical data to make sure that you're working with the appropriate appraisers or AMCs or vendors to make sure that you're mitigating the risk on appraisals across the board.

BRIAN COESTER: What this will essentially mean is that appraisers, appraisal management companies and lenders can all capture relevant data almost instantly and share it among

each other almost instantly and really make it viewable across all platforms. You're going to see much more accurate valuations across the board.

MORTGAGE TECHNOLOGY: *FHA is now the only big mortgage investor that's not onboard. What do you think is going to happen with them?*

JEFFREY TAYLOR: Well, if you listen to Commissioner Stevens he's doing an amazing job revamping FHA right now. He's brought in a tremendous amount of experience from the mortgage industry.

I think FHA will come onboard. I think right now if you look at it, they have certain RFPs out in the marketplace and they're addressing their technology, they're revamping. I think you'll see them onboard very, very soon.

From everything I've heard from Commissioner Stevens and that I've read, I really believe he's going to bring them up to speed.

JENNIFER CREECH: Everybody is going to follow suit because it really protects the asset by understanding how strong this appraisal is.

So if this becomes an open public record, of such, where everybody has access to the data, which sooner or later that's what's going to happen, we're going to be able to use that data to

MARK LINNE APPRAISAL WORLD

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JEFFREY TAYLOR DIGITAL RISK

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create analytics to determine whether a transaction is putting a lender or an investor at risk.

Quite often in the mortgage process, all of the analysis is done on the back-end, which puts the investor and the lender and Fannie and Freddie, and everybody at risk. I believe that they'll all follow suit at some point, it's just a matter of investing in technology, doing their RFPs and being able to move that forward.

BILL FALL: I think the proactive front end is clearly where most of the action is going to fall. I suspect that the GSEs and/or FHA will start to close in on some common responses, that they're going to insist on being populated as a result.

There will be much more latitude to improve or enhance or addend certain documents to reinforce financing. We'll see a better quality product as an outcome of this. That appraisal data will also be exchanged at the front of the decision making process as opposed to reacting after the fact.

MARK LINNE: I think it's also important to note that one of the reasons Fannie and Freddie are doing this is so they can drive the whole next generation of modeling and analytics and risk analysis.

To the extent that they're successful in that regard, and I believe they will be, FHA and frankly everyone else will want to be part of that, and will want to participate in the ability to really data mine to an extent that has never been previously possible.

So I think that's a very compelling reason to get onboard.

JEFFREY TAYLOR: Just one more point. The GSEs and FHA are relooking their acquisition models. Traditionally it was always closed phones, they relied on reps and warrants, but now you have a situation where they've realized that they are the first line of defense.

This is a huge, huge step in getting that appraisal in shape so they can make a real-time decision on acquisition early on.

I believe FHA will absolutely follow

and then from that you're going to see much more robust front-end processes by all three utilities.

BRIAN COESTER: We have appraisals that go back 20 years that we can't do anything with and that data still is valuable.

Was there a misrepresentation of a property? Was the square footage different? Was the appraised value significantly higher only six months ago?

The GSEs don't have a clearly defined way of searching appraisals.

JENNIFER CREECH: It would provide a complete profile on that property. It's like when you look at somebody's credit report and you're looking at what does their credit look like for the last 10 years.

Similarly, we should have a profile on the property where you can see what it appraised for over the last 10 years and have that data when you're making a lending decision. Or even the trend analysis when you look at when you start to audit these appraisals and you have all the electronic

JEREMY McCARTY VALLIGENT

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BILL FALL
WILLIAM FALL GROUP

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data to go back and say was it important that the square footage was off by 20%?

Maybe it's not important in the lending decision. Maybe it's not important in the value. But once you can data mine all of this and go back and analyze it, you can decide what are the important points and how far off can the discrepancies be and still be an acceptable product?

I think we move to another level, and not just on appraisals, even on the data from the specific appraiser, because the appraisal is done by an appraiser and now you've got the ability to tie it—the appraisal quality back to the appraisers and that's been a real hot button lately. It's about quality on a transaction.

BRIAN COESTER: I know there's talks about geocoding the appraiser. They're going to have a measure of where the appraiser does appraisals and they'll say from there, "This appraiser is competent to do these areas based on this data because they've done these ap-

praisal there and we've found them all to be accurate."

JENNIFER CREECH: The data analysis will tell you about the appraiser. It allows the analysis to see if that appraiser is good, and check their quality in that geographic area.

BILL FALL: It strikes me that we've seen a lot of residue around the geographic competency of an appraiser. There's a lot of other competencies that have to be factored into the decision making of who is the best valuation expert for the particular assignment.

JENNIFER CREECH: That's my point. What I was saying to you is that it doesn't necessarily mean the appraisal is bad.

The investor would have that information to analyze it and say, "Was it an issue if that appraiser was over 10 miles away or was it not an issue?"

You also have to look at that appraiser and ask, "Do they have the competency to deal with that transaction?"

That also would tie into the rating of appraisers, which would then improve

the system. If you look at why a lot of this is coming up, it's because of fraud and misrepresented appraisals.

If we can cure the problem at the root, which is actually starting at the appraiser and then do the data mining, the world is our oyster. We can really get the data we need to make good decisions and mitigate risk.

MORTGAGE TECHNOLOGY: *But what do lenders need to do to be ready to comply with these new standards? Is it simply a vendor issue whereby the vendor has to get the data in the proper format on behalf of the lenders? Is there going to be process changes or workflow changes that the lenders themselves are going to have to do?*

MARK LINNE: In most cases the vendors are working currently on this and most vendors are part of the MISMO workgroup that's developing the standard.

They're working with Fannie, they're working with Freddie, so for the most part I think that vendors will make sure that the appraisers are capable of

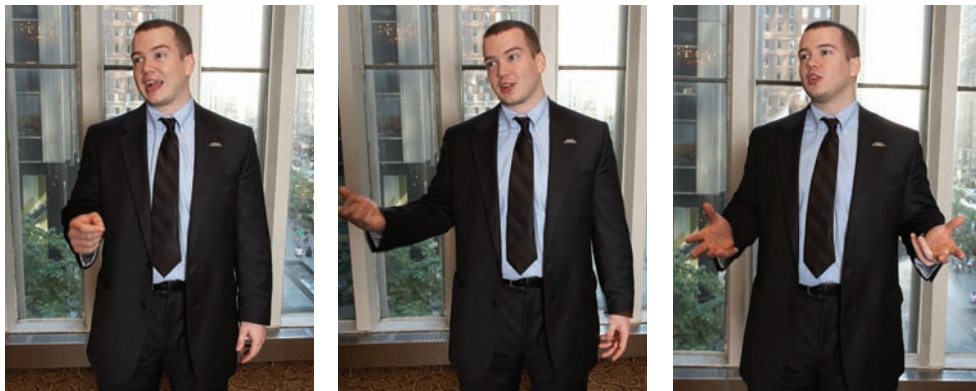
JENNIFER CREECH
INHOUSE

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BRIAN COESTER COESTER APPRAISAL

What this will essentially mean is that appraisers, AMCs and lenders can capture relevant data.



uploading and delivering that information in an appropriate manner. For lenders they'll simply be part of that process.

It will be an education process. They need to be aware of it, but I think that the vendors will really be the ones that connect all the dots.

JENNIFER CREECH: All lenders have to accept the MISMO format, but most of them do. I don't think there's that many out there that are behind the times.

Everybody has been converting into that for some time. As long as they have that ability they're fine. There's always ways to convert data if they were to get a file that didn't meet the standards that they needed.

BILL FALL: The delivery platforms I suspect will have the really hard work. Lenders will call on the vendor to deliver the report, either the individual appraiser or the AMC, what have you.

JEFFREY TAYLOR: The vendor or whoever is preparing the appraisal will have to be ready. We knew this day was coming.

JEREMY MCCARTY: I agree. We've dealt with some lenders that are proactive about moving towards this and others that are still struggling with it. A July 1st deadline might be unrealistic for some lenders.

BRIAN COESTER: I honestly don't think July 1 is going to happen. I just don't. I think they're going to push it back to September or even January. The top 29 lenders are ready, but the 10,000 other lenders have not even started.

They don't know what it is. There are smaller regionals that don't even know

how to spell MISMO and they're not totally ready. They still write to Fannie and write to Freddie.

I think they're going to push it back and the responsibility is ultimately going to fall on the AMCs and the vendors.

MORTGAGE TECHNOLOGY: *Could this act as a framework as other investors enter the mortgage space?*

BRIAN COESTER: Investors almost have no appraisal data, really. When you look at a loan pool that you're getting ready to purchase, you have the address, the loan amount and the original appraised value and that's it. This would cause a gold rush of data where they actually have data points that are relevant to the property.

JEFFREY TAYLOR: I think those days are gone. You're right, it's what was done in the past. I just don't see that coming back.

JEREMY MCCARTY: These Wall Street investment firms are great at analytics and that's what they do in other aspects of their business. With the data, they will have a field day.

MARK LINNE: I think there's more opportunity today than there's ever been. It's an opportunity for the valuation sector of our profession to demonstrate that they can provide transparent, credible and authentic valuation. They need to show that they're capable of earning back the trust of the consumer.

Appraisers will take advantage of the data we've been talking about, and they'll be able to apply the same types of analytics and tools to provide supe-

rior valuations.

JENNIFER CREECH: We have an opportunity now to truly protect the consumer by having the data available to determine truly what is that property worth.

You as a lender, or an investor, you don't want a high value, you don't want a low value, you want an accurate value.

Data mining will allow us as an industry to give mortgage professionals some tools to be able to, not guarantee, but get real close to knowing that the value that we're getting is true and accurate.

BILL FALL: I think the word renaissance is a good one, actually. It's not a single point in time. It really is a process and we are largely going to have much better availability to tools as well as the data to apply to find a way to formulate more intelligent and defensible valuation opinions.

That said, between the forces of data and the forces of human judgment, it's incumbent on the industry and the individuals that are in the industry on a person-by-person basis to really advance the standing and the respectability of the valuation industry and the role that it plays in creating a transparent, confident, consumer-oriented market.

I'm going to be excited to see what the audience of our peers does around this to embrace this opportunity to raise the credibility of the industry and the role that the appraiser has to play in that.

That's going to be a fascinating challenge. **MT**