The Importance of Standards

The CRN Standards Committee was formed to provide a collateral risk perspective to the creation, adoption and application of new and emerging standards in the residential real estate finance industry.   This is envisioned to be delivered in the form of position papers, recommendations and perhaps the instigation of new standardized elements or components such as the adoption of measuring standards for building area and the creation of a spatially-aware property unique identifier (PUID).

Background

Post World War II, our great country recognized the need to build a transportation system to facilitate commerce. Congress enacted the Federal Highway Act of 1944 and thus began the construction of 40,000 miles of roads and secondary feeder roads. Standards were set, projects were funded and today we take that system for granted. Building those superhighways was essential to facilitate commerce and the post war boom.

In 2007 we experienced the Mortgage Crisis. It was evident we did not have the infrastructure to accommodate the massive volume of mortgage transactions. Electronic filing platforms lost thousands of transactions . Deeds were either lost or never recorded at all and massive amounts of fraud occurred. "Robo-signing" entered the lexicon; a fraudulent practice to attempt to cover up sloppy loan documentation.

The Mortgage Bankers Association's data standards arm, the Mortgage Industry Standards Maintenance Organization (MISMO) has seen its adoption grow over the last decade thanks primarily to the Federal Housing Finance Agency's Uniform Mortgage Data Program (UMDP) requirements. Fannie Mae and Freddie Mac (collectively, the GSEs) have collaborated and standardized datasets for key components of loans securitized by them such as the loan application, appraisal, closing disclosure and loan delivery requirements.   In the collateral sector, there is a current effort to update the Uniform Appraisal Dataset (UAD) from its original pubication in 2011. It includes not only a new dataset, but a complete overhaul of the GSE published appraisal policy and the consolidation of the required reporting (e.g. Uniform Residential Appraisal Report (URAR)), and eliminated property type-specific exhibits.

Today the Uniform Collateral Data Portal (UCDP) captures appraisal data. That information is not made available to all stakeholders.   Earlier proposals, when the initiative was a Fannie Mae only project prior to UMDP, had contemplated making that collected data available more broadly. Today there is increasing demand to "democratize" the data and make it more generally available to other stakeholders.

Building the Superhighway

It is long overdue to begin discussions of building the real estate transaction superhighway. The obvious first step to such an endeavor is to streamline data transfer through standardization. Presently disparate data sources across different stakeholders in the real estate transaction result in bottle-necks, delays and errors; adding cost and risk to the transaction. The logical first

step of standardization is development of a unique identifier for all real estate in the US. We count all people in the US with the US Census, yet we have no catalog for all real estate. Our federal, state, county hierarchy is a complicating factor. We have 3142 counties (or county equivalents) in the US, which generally rely on a county's Assessor Parcel Number (APN) to identifying real estate for taxation purposes. While APNs are a common method of identifying real estate, they are not standardized or geocoded, and have no inherent logical connection to the property itself. Postal addresses, designed for the delivery of mail, have proven to be insufficient identifiers for finance purposes particularly for multi-family and rural properties due to the lack of a consistent unit numbering approach or the use of P.O. Boxes in lieu of an address. As longitude and latitude coordinates are two dimensional and represent a single point on land, they are insufficient to identify units on elevated floors of condominimum and Co-op projects as they lack the elevation component.

Creation and implementaion of a universally adoptable, spatially-aware Property Unique Identifier (PUID) enables capabilities such as three dimensional modeling to represent any property and rich property charactertics information embedded within a hash. A key use case for PUID could be gathering a cooperative, distributed network of repositories for key property details such as Gross Living Area sizes and employ enabling technologies such as blockchain.

Gross Living Area Standard

It seems elementary, but the measurement and building area calculation methodologies are inconsistent across the various professional constituents in the housing industry. Assessors, appraisers, inspectors and real estate agents vary on definition and application of measuring a home.   There are standards that have been promulgated, such as American National Standards Institute's ANSI Z765-2003 (Square Footage – Method for Calculating) and American Measurement Standards (AMS) guidelines, but the adoption and application has been inconsistent.

This core detail complicates collateral risk management as it impacts the verification of a key property characteristic and selection of suitable comparables. The concept of Price Per Square Foot is a real estate staple; the importance of accuracy and consistency cannot be underestimated. While enforcement, reliability and certainty of a standard being employed is an even bigger dilemma; it is certain that, precision in real estate dimensional quantifications, from front footage to Gross Living Area is absolutely paramount as data collection, analytics and artificial intelligence becomes increasingly more sophisticated. As technology progresses with measuring devices and video capture of interiors, a standard is essential for innovation to flourish.

Further, the use of non-appraiser inspectors who provide property data collection services (property condition, photos, etc.) require guidance for using such standards when measuring Gross Living Area. The subject for the next whitepaper from this committee will take a deep dive into the challenges and opportunities for standards applied to measuring requirements in residential real estate. The paper will explore usage, issues, challenges, and trends in traditional methods as well as a look at the impact of new technologies.

Get Involved

The Collateral Risk Network is at its core an advocacy and education organization. Members gain valuable insights on the industry, coming changes and peer networking. Committee membership is extended to CRN members only.

Committee Leadership

Chair: Elizabeth Green, LoanLogics   Vice-Chair: Tim Staudenmaier, Class Valuation