

Appraisal Summit: Python: SEC Asset Backed Securities Rule

An Appraiser's Perspective

Purpose

- The primary driver is to re-establish trust in the MBS market by providing a sense of security by requiring detailed data collection via standardized software platforms.
- SEC is requiring collection of data points which provide a comprehensive collection of both the credit and collateral on each loan within the mortgage backed security package

Purpose (cont.)

- Given the detail and volume of data collected, it is reasonable to assume that new positions will be created for individuals to develop quantifiable analytics which measure MBS performance
 - SEC indicates the user will input programmable data and the investor will conduct their own analysis.
 - An initial standard criteria of analysis would provide a minimum comparative analysis of the data set otherwise determining the quality as well as risk of the MBS may be difficult

Purpose (cont.)

- Ideally, the captured data would be summarized to provide an overview assessment of the MBS package.
- Similar to proposals by Fannie Mae and Freddie Mac the data sets will track:
 - Collateral
 - Credit
 - History of the loan file
- MBS will include the officer, appraiser, financial institution of each loan file thus increasing accountability


Observation - Commentary


- Collateral information on properties by location, ownership, property characteristics (i.e. single-family dwelling, condo, vacant land), etc. will also be assembled.
- The data base could be utilized to create a “grading system” to qualitatively or quantitatively measure “risk” associated with the collateral providing an excellent basis for assessing the asset.

Examples

- Scoring risk of ownership/property (for example recognizing the lower risk associated with owner occupancy in existing single-family dwelling in contrast to spec construction)
- Geographic risk associated (i.e. In communities where a single industry affects employment; it will increase subsequently credit and property valuation risk. One example is Detroit, Michigan where the financial viability of the car manufacturing industry has a direct impact on employment and an indirect affect of property valuation.)

- Companies containing stocks as traded on the New York Stock Exchange are subject to quarterly reporting – Stocks typically trade based on “perceived risk” confirmed by corporate reporting on a quarterly basis.
- In contrast, information on MBS is typically collected at inception thru collection of property data points including sales price appraisal, AVM, etc.
- Real time reporting will recognize that “Market Value” is fluid... (This contrary to prior analytics which due in part to technology limitations operated primarily on the assumption that collateral is relatively static).

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- Subsequent reporting, specifically on-going monitoring of the analytics will allow the MBS rating to be adjust on in real-time
 - Similar to stocks... value will “float” on perceived fluctuation in risk
 - Periodic reporting will confirm risk allowing for greater transparency, increased liquidity and marketability.

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- Detailed data collection at the time of loan initiation
 - Information on continued data point collection for long range monitoring of the collateral is limited.
 - Enforcement procedure would provide additional security

Impact to the Real Estate Appraisal Industry

- Traditionally appraisers are utilized at the inception of the loan process – many have not connected the appraisal product to the MBS. MBS is a new market segment
- As demand for collateral valuation gains momentum in the MBS market, residential and commercial appraisers will be challenged to create USPAP compliant products for the MBS arena
- The increased monitoring process will result in greater demand for property valuation tools

General Observations

- Given the volume of residential loan production the data set is large and easily quantified
- Residential Securitization Transparency and Reporting Project RESTART is designed to provide standardization to the industry
- Residential appraisal software programs are currently working on implementation of XML MISMO formatting

Residential Mortgage Backed Securities (RMBS)

Periodic monitoring may include:

- 1. AVM's and other technology based valuation tools
- 2. BPO's
- 3. Conventional Appraisals

A hierarchy of property valuation tools are typically utilized based on degree of increased risk

Commercial Mortgage Backed Securities

1. Smaller data set (than RMBS), however significantly higher average collateral value per unit
2. Traditional commercial appraisal data is not created in a data platform (hence collateral information may require re-entry or appraisers would need to learn to convert file to new software media)
3. Current data and proposed data points may not capture the sensitivity in the cash flow to detect as well as monitor fluctuations in the income stream

CMBS (cont.)

4. Rate of return must incorporate risk and potential for appreciation associated with the collateral. The appreciation rate may be sensitive to changes in the marketplace over time
5. Commercial AVM's and BPO's are not generally accepted in the marketplace – There is good potential for an appraiser driven product (somewhat constrained by cost)
6. Long range commercial appraisals should be cognizant of both initial and long term use – product should be structured with an intended user which incorporates the initial client as well as the end user (CMBS) – added revenue potential from periodic appraisals which references portions of the initial report

Commercial Mortgage Backed Securities (cont.)

7. Regular monitoring more difficult to quantify than RMBS. Data tracking of CMBS should also capture changes in market conditions.

Commercial Mortgage Backed Securities (cont.)

SEC recognizes the value of the MAI designation.

Proposed Commercial Data Points includes one which captures whether the initial appraisal was prepared by a MAI.

Summary

- SEC proposal will increase captured data
- Appraisals which were initially utilized at the inception of a loan product will expand their scope as well as product to include the end user – specifically monitoring of the MBS
- The MBS marketplace will require a redesign of the appraisal product to embrace new technology as well as a product designed to accommodate the needs of this industry