

# **Adoption of MISMO Standards in the Commercial Mortgage Industry: Results of Interviews by the VISTA Project Team**

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## **Introduction**

This memo addresses the current status of MISMO standards adoption in the commercial mortgage industry. After experiencing some success in developing and diffusing data exchange standards in the residential mortgage industry, MISMO in the past few years turned its attention to the commercial mortgage sector. We interviewed eight representative individuals involved in various aspects of the commercial mortgage industry (see Table 1 for a summary of interviewee roles and dates of interviews). Interviews focused on the extent to which MISMO standards have been adopted and used and, if not, for what reasons. Suggestions for achieving more widespread adoption of MISMO standards in the commercial mortgage industry were also discussed.

**Table 1: Summary of Interviews**

<b>Interviewee Role Information</b>	<b>Date of Interview</b>
Servicing for a large servicer	10-18-10
Origination and servicing for a large servicer	10-19-10
Origination for a large bank	10-19-10
Servicing for a large servicer	10-21-10
Originating and securitizing loans held in portfolio for a large insurance company	10-22-10
Origination and servicing for a large bank	10-22-10
Investor reporting for a large servicer	11-1-10
Portfolio lender for a large insurance company	11-2-10

## **Brief Background and Current Status of MISMO Adoption in Commercial**

Commercial mortgage loans share many characteristics with residential in that they are originated by lenders, and may be held in portfolio, or sold as investment vehicles to investors in a secondary market, much as when residential mortgages are acquired by GSEs such as Fannie Mae and Freddie Mac. There are, however, a number of important differences between the commercial and residential mortgage industries that may play a role in the ability to effectively develop and diffuse standards for data sharing, including differing industry conditions, mortgage property types and products, and types of participants. A few significant differences, as well as effects these differences might have on the willingness to adopt and use MISMO standards were discussed by interviewees and highlighted in Table 2.

A consistent theme across the interviewees was that there has been very little adoption of MISMO commercial mortgage standards both in the interviewees' own companies, and among other companies in the industry. This was especially true of the Servicing Transfer standard, even by IT product and service providers or servicers who could benefit from having a standardized transfer process. One of the servicing companies did make some use of the MISMO Inspection Standard, however.

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**Table 2: Contrasting MISMO Residential with  
MISMO Commercial Standardization Efforts**

	MISMO Residential	MISMO Commercial
Industry conditions	<ul style="list-style-type: none"> <li>• High volume</li> <li>• Fragmented</li> <li>• Much of the industry participates in loans that are securitized</li> </ul>	<ul style="list-style-type: none"> <li>• Smaller volumes, in many cases adequately handled by Excel</li> <li>• More concentrated (e.g., Wells/Wachovia accounts for 55% of CMBS)</li> <li>• Possible that a larger percentage of industry is involved in portfolio lending (than is the case for residential), where there are few potential benefits from standardization</li> </ul>
The mortgage product	<ul style="list-style-type: none"> <li>• Highly standardized product as a result of standardization of mortgage note and influence of Fannie Mae and Freddie Mac</li> </ul>	<ul style="list-style-type: none"> <li>• Many different types, e.g., retail, industrial, multifamily, etc.</li> <li>• Heterogeneous even within type</li> <li>• No standardization of basic documents, e.g., notes</li> <li>• Fannie Mae and Freddie Mac play only in multifamily segment</li> </ul>
Standardization process	<ul style="list-style-type: none"> <li>• Started with origination</li> <li>• Brought in lots of related standardization efforts (e.g., credit, appraisal)</li> <li>• Got Fannie Mae and Freddie Mac on board</li> </ul>	<ul style="list-style-type: none"> <li>• Started with servicing transfer (a process that not all players in the industry do) and inspection</li> <li>• Servicing transfer standard has a dauntingly large number of data elements, out of proportion to originators' perception of what is needed for the actual transactions</li> <li>• Perception of little integration with other standards efforts (e.g., CRE-FC, OSCRE)</li> <li>• Fannie Mae and Freddie Mac have not gotten on board—have proprietary reporting systems</li> <li>• Perception of too much focus on data elements, too little focus on processes or transactions</li> <li>• Perception that the effort has been taken over by IT product and service companies versus by users (and that the standard may be so complex that it requires IT provider support)</li> <li>• The Investor Reporting Package (not directly part of MISMO, anyway) was set to move to XML when market crashed</li> </ul>

### **Reasons given by interviewees for lack of adoption of MISMO standards**

We probed for reasons for this limited adoption. Some reasons reflected in the interviews had to do with industry forces outside the control of MISMO or the participants - mainly related to the economic recession and the dramatic drop in the number of commercial loans originated after the fall of 2008. Indeed, interviewees noted that IRP 6.0 came out just as the industry crashed and volume dropped. Most companies were reluctant to invest in new information technologies and services when loan volumes were at such historic lows.

Other reasons for lack of adoption mentioned in the interviews include:

- Some interviewees had the perception that, although MISMO focused on a number of different standards addressing key transactions in the industry, it had not fully taken an "end-to-end" process view. Consequently, in the value chain of a commercial mortgage, stakeholders might be able to use standards for one or another part of the overall process, but not all of the parts in sequence. Hence, participants are ultimately forced to resort to non-standardized and cumbersome ways of moving data through the value chain.
- Most interviews felt that the investors were the ultimate clients in the commercial mortgage industry value chain, and investors are not demanding XML for a number of reasons. The smaller ones want the data in Excel spreadsheets and the big institutional investors have their own non-MISMO systems. Investors want the data in a format they can look at, so none of them adopted MISMO. Additionally, interviewees noted that investors often use third party data analysis organizations such as Trepp in order to process the data to understand how their investments have been performing. This further limits investors' demand for MISMO standards. Interviewees felt that it was not clear to investors how they would benefit from adopting an XML-based approach to investor reporting.
- In several interviews with servicers, interviewees indicated that they would use the standards if they were integrated into the industry's primary servicing software vendor's products such as McKracken. Lack of MISMO compliance, however, was not seen as enough of a disadvantage to cause them to migrate to another software package that is MISMO-compliant.
- Interviewees involved in origination felt that the existing standards were too overwhelming in detail, and not tailored well to their needs. One interviewee mentioned, for example, that the Interim Servicing Transfer Standard required as many as 800 data elements supplied, and felt that 100 to 150 elements should have been sufficient.
- There was widespread agreement from the interviewees that the costs of implementing MISMO standards exceeded anticipated benefits. Additionally, some interviewees indicated that they not only had a main mortgage servicing system, but also maintained many side systems from different IT product and service companies, which would increase their costs of implementing MISMO standards. Consequently, they vastly preferred that their servicing software vendors would adopt the MISMO commercial mortgage standards, thereby reducing the need for modifying side systems. Interviewees felt that many companies were not adopting MISMO standards due to the perceived costs of implementing. More importantly, the perceived lack of benefit combined with high perceived costs inhibits adoption.

## Going forward

Each interviewee was asked about what steps MISMO might take to enhance the prospects for standards adoption and use in the commercial mortgage industry. Several important themes emerged:

- **The need for a more strategic approach to the standards making process.** It appears that the “laissez faire” approach to standards development, in which a particular transaction is developed only if there are MISMO participants willing to work on it, may not be the right approach in the commercial sector. Some interviewees felt that it resulted in a piecemeal approach as noted above. They suggested a more strategic approach in which the set of standards that are absolutely essential for the industry be determined, and then the right people be actively sought after to develop them. Some had the sense that there should be an effort to start at the front end, rather than focusing on servicing, so that data is captured at the outset and reused without rekeying multiple times throughout the value chain. It is important to recognize that not all participants need all the data though.
- **Greater outreach efforts to other, related industry segments.** Interviewees emphasized the need for more extensive outreach to other groups in the industry. There needs to be more MISMO outreach to people involved in property management, appraisal companies, inspection, and investor reporting. Some interviewees felt that the needs of these other types of organizations were not addressed by the current set of standards. There may be a perception problem, as there are standards on the MISMO site that do emphasize such functions as rent roll and operating statements, but some interviewees did not seem to be aware of this.
- **Focus on data analysis organizations as a means of bringing the investors on board.** Investors are not demanding standards, but they do need improved analysis of the data in order to enhance their investment decisions. Several interviews referred to third party organizations (e.g., Trepp) providing this kind of strategic analysis of the CMBS coming from servicers and trustees. Getting them to demand MISMO compliant XML data feeds would drive the adoption of standards by servicers. Demonstrating how receiving the data in this format would aid in analysis would be helpful. One caveat here, however, is that making the data easier to analyze might actually threaten directly the business model of these third party data analysis companies.
- **Look for other sources of leverage to drive demand, such as the SEC, ratings agencies, large IT product and service providers such as McCracken and Enterprise, large institutional investors like MetLife and TIAA-CREF, and the GSEs, Fannie Mae, Freddie Mac.** These latter organizations have their own non-standards based systems, but do have the capability to work with XML feeds. Collectively and even in the form of just small groups, such organizations represent and offer powerful leverage that could be utilized to advance MISMO standards adoption. However, it was noted by interviewees that a requirement by the SEC to use standards for SEC filings (Reg A/B) would most likely be insufficient to accomplish widespread adoption throughout the rest of the industry, since it would not address the demand for receiving data in standards-based formats elsewhere in the value chain. It was also suggested that the timing of SEC filings, two weeks after investor reporting, would diminish such a rule's effect on MISMO standards adoption.

- **Synchronize with other industry standards.** Several interviewees suggested ensuring that MISMO work with the OSCRE XML standard (property management on the input side) in order to get that data directly into loan servicing systems. They felt that currently these different standards do not match up.
- **Better communication with non-technical decision-makers.** Most documentation currently seems to be oriented to technical specialists. Communication to and for non-technical decision-makers is an urgent need. One interviewee recommended a "MISMO for Dummies" describing the costs and benefits of adopting MISMO standards, written for a non-technical audience.
- **Ensure that the costs of implementation are commensurate with the expected benefits.** What seems to be needed here are success stories that more clearly articulate the benefits of adopting MISMO standards for different kinds of industry participants.

### Summary

**Many factors seem to be working against the adoption of MISMO commercial mortgage standards.** However, the industry is presently experiencing a modest rebound, and interest in standards may grow once volume grows. The highly variable nature of commercial lending may seem like another difficult obstacle, but interviewees noted that even though the initial loan deals are highly negotiated, once one gets past this, much of the servicing activity is pretty standard. The interest in the opportunity to improve efficiency with higher data integrity was universal among interviewees. It is clear, however, that much more work on articulating the cost benefits of adopting MISMO are needed to stimulate demand. Research shows that examples of actual benefits from the adoption of an innovation are a much stronger predictor of adoption than hypothetical advantages. Therefore use cases can be a start, but to be truly convincing, benefits need to be based on actual experiences of MISMO adopters, so true case studies demonstrating these benefits need to be completed.