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Paying To Use Your Own Bathroom: AI XML



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In 1834 in New York City, the Astor House was unveiled. Its crowning achievement was that it had water closets and bathrooms to serve all 300 hotel guest rooms. As one of the first modern buildings built with extensive plumbing, the Astor House was nothing less than revolutionary.

Anyone who knows their history knows John Jacob Astor. He made his first fortune in fur trading and then invested it in hotels and real estate.

If anyone was in the position to lock down the indoor plumbing standard and get a piece of every "transaction", it was John Jacob Astor. It's not much of a stretch to imagine Astor creating a plumbing standard after he built his hotel, controlling and owning that standard, and requiring a fee whenever the new technology was used.

Formats, Pipes, and Infrastructure

But, we all know plumbing is just infrastructure. Like every other industry, there are industry standards in plumbing that no one "owns", like the threading on a pipe. Open standards make sure pipes from one vendor match up with pipes from another, and nobody has to pay anyone else just to make sure the two ends fit together properly.

Modern technology infrastructure relies on open standards too. Like all other industries, technology companies differentiate themselves from their competitors on interface and workflow design, speed, customer service and other proprietary intellectual properties. One company can build the equivalent of a better pipe wrench or a better valve with the assurance that they will still fit the pipes in the house, and that the customer will not have to pay a fee to someone every time they flush the toilet.

Alphabet Soup That Matters

Sometimes, companies put proprietary standards — non-open standards that they control — on top of open standards and potentially confuse the market. In our industry, that's happened with the Appraisal Institute (AI) Ready certification. It is a proprietary certification which includes "open XML". By riding on the XML moniker, which the world knows is popular and open, AI XML seems as though it too is an open standard. But it's really not.

On April 1, 2004, I was quoted as saying the following in an article in Mortgage Technology Magazine about AI Ready compliance and related products.

"...It would be misleading to suggest that we think that AI Ready is the best approach. Frankly, we think MISMO standards are a far better way to go. AI Ready isn't an 'open' standard at all. It's

XML, but the specs require that it be delivered to the recipient via AppraisalPort, a commercial website owned by FNC... FNC owns the tools that generate AI Ready files, and as a result provides a restrictive license to users of those tools on what they are essentially allowed to do with those tools... The whole arrangement would be akin to the MBA mandating that all MISMO files have to be run through a for-profit, fee-based website that they themselves own..."

It's hard to believe, but that article was published four years ago almost to the day. And, yet very bright and well known industry executives are still scratching their heads trying to figure out how the whole FNC/AI Ready/AI XML/AppraisalPort system actually works.

Speaking of scratching heads, it may seem odd that I use both "AI Ready" and "AI XML" in this article. I think, and I say "think" intentionally, that AI Ready is a certification process (and logo) and AI XML is a data format. Confused? We all are. It's so convoluted that even the AI and FNC seem to get it wrong many times in their own websites and documents. So, who knows?

The confusion is compounded by the fact that AI Ready appears to *theoretically* be an "open" certification that allows "open" XML formatted data, but it has to be sent through FNC's *proprietary* AppraisalPort web portal. AI Ready compliance and logo licensing isn't granted unless the software vendor proves not only that they can properly replicate the AI XML data format, but that they send it through FNC's for-profit AppraisalPort website, which charges every appraiser a fee.

The fact that there is a for-profit entity judging who is and who isn't AI Ready (and who is paid a fee by the appraiser when using AI XML) shows that it's not an open standard. Open standards are published and the industry vendors simply take it upon themselves to properly and creatively implement them, and their clients get to benefit from the standard at no charge.

If the vendor implements the standard incorrectly, they lose clients, just like a plumbing manufacturer would lose clients if they produced pipes that didn't properly fit other pipes. That's the only incentive needed in an open standard.

OADI, or "Oh my...?"

To send an AI XML file through AppraisalPort, software vendors have to agree to a license to use FNC's proprietary Open Appraisal Document Interface, or OADI, software. (Smart — putting the word "Open" in the name of a tool that is, in actuality, quite "closed".) That license, of course, mandates that the OADI can only be used to upload files to the AppraisalPort website, which charges the appraiser a fee for every report. The components of OADI which place the XML into an "envelope" for transmission can't be used in any way to send through another portal, or even to send directly from one appraiser to another.

John Jacob Astor would be jealous. OADI with AI Ready is a virtual plumbing toll booth.

Why does OADI matter? Besides serving as the hook that ties a software vendor to the AppraisalPort website as part of AI Ready compliance,

the OADI software serves one other vital purpose: Forcing the appraiser to legally acknowledge what is the actual “delivered report”.

That’s because of how the AI XML format is maintained and how the data is used when sent to the client. The typical appraiser works up a report using their desktop software and assumes that what they see on screen and what they generally develop into a deliverable PDF is what the client will also see. In fact, the appraiser is bound by USPAP to take reasonable precautions to ensure that the PDF that they delivered cannot be altered and the appraiser’s signature cannot be re-applied to an altered report without a password or some other sort of PIN.

But that’s exactly what happens when a report is converted to AI XML format. The appraiser’s data is unlocked and the appraiser’s signature is bundled up into the OADI’s envelope as an unlocked image along with the unlocked data. Since AI XML doesn’t support all of the forms that an appraiser may have used, and since it strips much of the formatting, addenda, photos, and other attachments, the report that the appraiser sees on screen in the OADI interface potentially differs radically from what the appraiser worked up in his or her software. By making the appraiser acknowledge the “new” report on screen prior to transmission, the OADI viewer has covered FNC’s legal bases in terms of not having modified the appraiser’s report. That’s because you just agreed that what you saw is indeed the report you delivered.

One catch: Unless you know that beforehand, you now don’t have a copy of what you sent in your workfile. Second catch: Even if you do, the report you just sent includes your signature embedded in it without the security of it under your control. Your signature could show up at the bottom of reports which may or may not look like what you saw, since there is no original PDF of the report that you approved. There’s just AI XML data and your signature, and it has to ability to be presented on screen in other formats. Those with your AI XML data can potentially view and print a report with your signature which bears no resemblance whatsoever to that which is stored in your workfile.

Fitting Pipes, Not Grinding Axes

As a company, we don’t care what data format is used to transmit appraisal reports. It can be a PDE, MISMO XML (Mortgage Industry Standards Maintenance Organization), AI XML, or a text file for all we care. We have nothing to gain by using or not using AI XML or any other format. We do however have concern for our appraisal clients and even for lenders who rely upon something considered an open standard, only to find that it’s not, and that it brings legal and regulatory complications along with it.

Whichever data format is used, for it to be truly open, any lender, large or small, must be able to use it to order an appraisal from any appraiser or appraisal management company they want. That company must be able to pass the order on to any appraiser, and they must be able to use any forms software they want. Then the report must be able to be delivered back up through the transaction chain unencumbered, without the fear of the report being changed, and without the appraiser having to stop off and go through a “toll booth” owned by a third party.

The Cat is Out of the Bag

The mortgage and appraisal industries are catching on. Recently a petition was presented to the Virginia Appraisal Board reportedly due specifically to the problems with the Appraisal Institute/AI Ready/FNC/AppraisalPort scheme. The petitioners request included:

“To amend the Real Estate Appraiser regulations to require providers of electronic portals to cease doing business in Virginia until such time as they provide the Board with sufficient evidence and

documentation that ensures the integrity and unadulterated transmission of appraisal reports from the appraiser to the client and/or end user of the appraisal report.”

It’s my understanding that one of the points of interest in the Virginia debate includes the information we provide to our appraiser customers in one of the screens that pops up before we hand over control to FNC’s OADI software. What our customers see during our software’s workflow process is presented below:



We doubt that the Virginia board will be alone in being concerned. All it takes is for appraisers to make the same sort of request of their own state regulatory bodies, since they are in charge of ensuring the integrity of the appraisal process and of USPAP compliance by licensed and certified appraisers in their state.

It’s unfortunate that the Appraisal Institute’s respected name is attached to something that causes these problems, but it’s unclear whether the long-term legacy of the Institute’s financial investment in FNC is causing it to be potentially an unwilling partner in this situation. If there is still a financial link between the Institute and FNC, we believe it has a fiduciary responsibility to disclose that to its members and to the state boards, divest itself of any such financial ties, and reclaim the AI Ready as its own and make it truly open and freely available to its members and the industry at large.

Flushing the Problem Once and For All

The Institute could solve the problem quite quickly. First, the AI Ready certification and AI XML format need to be completely divorced from a for-profit, proprietary vendor and open to anyone who wants to use it. Second, the format needs to specifically mandate the incorporation of the desktop-generated PDF of the appraisal report that the appraiser saw on screen in his or her appraisal software. Third, the format needs to have no provisions for including the appraiser’s signature at all.

That’s it. Once the Institute does that, you won’t have to pay any longer to use the pipes in your own house. FNC would still be able to charge a fee, but it would have to be based on their innovation and service, on the value they add, rather than on their control of a supposedly open data standard. ☒

ABOUT THE AUTHOR

Scott led the original deployment of a la mode’s Mercury Network, an open architecture platform of desktop software and Internet servers, connecting appraisers and lenders for almost a decade. As early as 1991, Scott served on X12, EDI, and electronic messaging standards committees as a member of DISA, EMA, and MISMO.