

LIXI what does it mean to Valuers?

LIXI stands for Lending Industry XML Initiative, so this is an initiative driven by the Lending industry to standardise the way data flows from Loan Writers, Lenders, Valuers and all other interested parties in the Lending industry

The website www.lixi.org.au states the following as a guide

What is LIXI?

The Lending Industry XML Initiative (LIXI) is a non-profit, independent industry organisation established to utilise new technologies for the removal of barriers to data exchange within the Australian lending industry. Through the work of LIXI it is intended that member organisations will be able to provide better and faster services to their customers at lower cost. This is being achieved through the ongoing development of platform independent, open standards for the exchange of lending-related data to replace numerous incompatible and proprietary approaches. As LIXI's name suggests, these standards are being built upon XML (eXtensible Markup Language), an enabling technology generally accepted as a vital component in the future of electronic commerce.

Members of LIXI come from a broad range of companies from across the lending industry. They include the major banks, mortgage originators/brokers, mortgage insurers, trustees and information technology providers. Each Full member organisation has a nominated representative who is able to cast an equal vote in the operation of LIXI. Member organisations are encouraged to have employees participate in working groups that shape the standards and direction of LIXI.

LIXI Valuers Working Group

In June 2004 members of LIXI were able to elect to become participants in the Valuers Working Group. The Group was made up primarily of Lenders and IT companies with only minor representation from the valuation industry, this was particularly disappointing as the likely impact of the working group will affect the way Valuers will deal with the

Lending institutions in the not to far distant future. The aim of the working group was to define the working process of the valuation process as well as establish a standard set of data to share with all industry partners.

Initially the process identified the changing status a valuation request may progress from instruction to the receipt of the final valuation report. The working group identified eleven status changes as being typical of the workflow:-

- **INSTRUCTED** means the data has been sent as a request from the Requestor
- **ACCEPTED** means the Valuer/Firm has accepted the request and expects to complete the valuation
- **IN PROGRESS** means that the client has been contacted and an inspection appointment has been made
- **INSPECTED** the subject property has been inspected
- **AWAITING AUTHORISATION** is a quality control measure in the valuation firm
- **VALUATION COMPLETED** means the data set that represents the valuation report has been sent to the Requestor
- **FINALISED** means the Requestor accepts the data sent
- **AMENDMENT REQUIRED** means the Requestor requires an amendment to the data sent
- **CANCELLED** means the request is cancelled
- **DELAYED** all the possible reasons a delay exists

The reason the status flow needed to be defined is directly as a result of the need to standardise the XML language. The above statuses are now the language Lenders and eventually Valuers will utilise as part of a normal days work. The uniformity of these statuses means everyone involved in the lending industry will be easily able to identify the correct status and what it means, it might sound trivial but when Loan Writer, Brokers, Lending Staff, Arrears management, Credit Policy staff, and Valuers all understand the processes and the language definitions it will aid the process significantly.

Another important reason for the standardisation of the workflow involves the Business to Business link that will be required by Lenders. When computers start talking to each

other, the language they use is critical to the process. The future is here now, whereby there are only two sources of data entry in some loan application approval processes.

Data Entry now replaces just typing a valuation report

Valuers will no longer just type a valuation report, the data will be entered into fields in a web page, that impact on the loan approval process.

The Loan Writer or Broker enters the data for the loan application and the Valuer enters the data for the valuation and the Loan is approved. Can you see how critical it is that the Lenders are able to receive accurate consistent data to enable this process to be achievable? Certain sections of the Valuation report will become more critical than ever before. Apart from the obvious Valuation Amount assessed, criteria such as Risk Rating will mean that loan Approval could refer to a person as opposed to a computer program determining the approval or not.

Picture the scenario, where the Loan writer submits an application with all the necessary data completed correctly. The loan is initially approved subject to valuation with an owner's estimate of \$500,000. The Lender's computer automatically requests a valuation and if the value of the subject property is assessed at \$500,000 or greater, the loan is approved. In scenario 1, the valuer enters a value of \$500,000 into a web page directly linked to the Lender's software, once the Valuer submits the value, the loan is approved, letters of approval are automatically sent to solicitors, insurers, mortgage insurers, brokers, borrowers in fact anyone with an interest in this transaction will be informed, by the computer. At this point of time you would hope as a valuer that there was not a typographical error in the assessed valuation. The potential for disaster is evident; hence quality control will become even more important. In Scenario 2, the valuer submits a value of \$540,000 but includes three 3's in the risk rating section of the report, The software at the Lender's end notes the risk rating and rejects the loan and refers it to a person for consideration, the only problem with the valuation is that the valuer transposed his figures and meant to value the property at \$450,000. This scenario is even made scarier if \$450,000 was a sufficient valuation assessment to approve the loan. The Lending industry hopes to be able to eventually approve over 50% of all loans automatically, so the data entered by the valuer takes on significantly more importance.

Other sections of the valuation report that could impact on the approval or rejection of a loan application could include:-

- Zoning
- Land size
- Building area
- Lenders Caution flag
- Necessary repairs
- Two tiered or multi tiered market
- Rental assessment
- Sales Evidence, etc

Service Level Agreements and Standing Instructions

LIXI has not had a direct impact on the Service Level Agreement, however the implications are that the rules applying to each Lender can only be accommodated in this agreement and the Standing instruction.

The Valuers knowledge of the Service Level Agreement (SLA) and how it operates will become critical to the processing of entering valuation data. Incorporated in most SLAs should be the Lenders Standing instruction, which is a floating document, able to be amended and updated regularly. The older SLAs used to incorporate a few API specific comments, a note on fees, and a PI requirement. The more modern SLA will incorporate the original requirements as well as how you will deal with a web page (potentially outsourced to a third party provider), cancellation policies, fee structures, a fee quotation mechanism, a list of properties required to be highlighted as a warning flag, e.g. Mortgage insurers may not insure properties that are less than a certain building area in size, it will be important not to just identify the building area component in the report, but also highlight this elsewhere in the report, probably in the risk rating section, there will almost certainly be a mandatory requirement to provide further commentary to explain the valuers rationale.

Standing Instructions will highlight specific lending issues relating to the loan process, it will be the valuer's responsibility take these into account with each assessment, the difficulty will arise when many different Lenders have different specific requirements.

What it means to be a LIXI Member

XML is new to many organisations in the Lending Industry. On the other hand, several LIXI members have considerable background with XML design, development and implementation. Being part of the LIXI group is an excellent way to keep in touch with this extremely fast moving technology and how it is being used in the Lending Industry.

Being a member of LIXI means the ability to participate in the standards development process, all members have a voice and this guarantees the opportunity to positively influence outcomes. The valuers working group has already completed the first stage of the standard, which is continually being updated as realistic practical situations present. The opportunity to change the standard in a wholesale manner is gone, however valuers who will use the standard have the capacity to offer suggestions, and it was never the expectation of the working group to provide the definitive model, set in concrete.

It is the objective of LIXI to make all information freely available to the public, however it will be common for most initiatives to have a gestation period of several months and more ambitious goals will require even longer periods. For members of LIXI working on XML implementations, the ability to actively observe and prototype evolving standards could prove invaluable in time to market or in the cost of building compatible systems.

Personally, my association with LIXI has been a huge learning curve. As a valuer, we are trained to complete valuations to the best of our capacity. The expanded IT knowledge, involving data transfer, databases, B2B links, XML and other IT terminology has taken some time to understand, it really is another language. Valuers must become conversant with the implications of XML technology in the lending

process. The new requirements, place added emphasis on consistent communication, high level of quality controlled data input and accurate commentary. One mistake could mean the approval of a loan automatically, that should have been referred to a person or even outright rejected.

What LIXI means to the Valuers

Many lenders have adopted the standard being known as CAL, the valuation part of the whole LIXI standard is relatively quite small, however as far as valuers are concerned the standard has recognised the importance of the Property Pro valuation report for better or worse, as it remains the current minimum standard required. The Valuation Data Exchange Requirements document used Property Pro as the template and expanded the result to include many lender specific positions. Effectively there is significantly more data field entry requirements now, than Property Pro required, however it is the working group's belief that Lenders will eventually streamline the amount of data required to achieve a basic approval of a loan. Some lenders only require 10 to 15 data fields to approve a loan, so it follows that Valuers could only be required to initially provide a minimum set of data, with the capacity to complete a full registered report if required. The Mortgage Insurers have a big say on the valuation data report's required fields, if their requirements diminish it could see the end of Property Pro as we now know it, and replaced with a mini subset of data entry requirements and the "capacity to complete a full valuation report if required.

Valuers will become data entry experts as opposed to report writing experts. With these programs likely to be housed on the web, the valuer with internet access could complete valuations anywhere they have a connection. Valuers will not need fancy report writing programs initially, just web access. The problem will arise when they will require multiple logins for multiple Lenders. It will then become the challenge of the Valuation firm to create an internal program that treats all Lenders the same way and is able to upload (XML) data from their own system to the Lenders IT system.

Technology has changed our industry over the last 5/10 years, with more data being readily available the changes in the next year or so will impact on the way valuers conduct their business everywhere.

Footnote

Les Rausz AAPI is a non practicing valuer who has an interest in one of Perth's largest valuation practices, established the Ray White Valuers Franchise network around Australia and is the Managing Director of smartVAL, which is a web based valuation distribution model. Les has been active in the LIXI valuer's working group since its inception.