

Giants in the Canyons?!

By Mark P. Dangelo

The mortgage industry has witnessed significant modernizations during the last five years to increase the availability of credit to first time home buyers, and those seeking investment alternatives to a lackluster stock market. With the expanded usage of piggybacks, interest only, hybrid ARM's, and minimum payment loans, the consumer appetite to take advantage of double digit housing appreciations has continued to sustain near record loan volumes. According to a recent UBS report, since 2003 the markets penchant for providing increased credit and risk have created a tripling of interest-only jumbo loans (*i.e.*, >\$360K USD).

As we experienced during the refinancing boom just a few short years ago, our ability to recognize a profit while increasing closure ratios is directly affected by the organizations integration of seemingly endless processes, regulations, and fragmented technologies. Since the late 1990's our industry has spent considerable sums seeking out new loan originating, document management, and workflow systems.

To deal with many of the back-office challenges, we have employed offshore resources, outsourcers, and follow-the-sun organizations and techniques. During these rapid expansion cycles, this investment was warranted and sound allowing us to reap unprecedented profits and marketshare. However, what is facing our organizations in the future? Are we prepared for the complex servicing, risk mitigation, and foreclosure disputes that could present themselves as early as 2006?

Expensive and Unrealized Promises

We recognize that our solutions within mortgage origination and servicing are fragmented with too many vendors and niche-based offerings. Keeping pace with volumes, technological evolution, and regulatory changes has stretched our resources and our budgets. As an industry we spend billions on solutions that fail to meet projections and promises. If our markets begin to negatively correct, can we safely promise our shareholders and investors that their faith in our information processing abilities will meet quarterly projections and regulatory oversight?

An answer to our quandary and business demands may be found in cross-industry lessons learned. It's been over 30 years since non-mortgage industries adopted and matured enterprise-based software capable of integrating delivery services, business processes, workflow, and supplier management. Massive industries and vendors have built their reputations on meeting and exceeding business demands from the smallest manufacturer to the largest pipelines of pharmaceutical drugs and research in the world. Financial institutions around the globe have used these enterprise systems to identify bottlenecks, reduce costs, and improve productivity with greater information accessibility and accuracy.

While they were used in the 1990's as a panacea for every organizational pain hyped by the media and vendors alike (remember Y2K?), enterprise software has consistently proven indispensable for nearly every company who has pragmatically adopted their structured and continuous improvement techniques. While mortgage processing

currently presents some very unique challenges for enterprise software and system adoption, there are those visionaries and vendors who are setting their sights on establishing end-to-end "ERP" software for the mortgage industry.

Preparatory Moves

Market speculation and first mover actions identify a series of military-like "pincher" moves by non-traditional mortgage vendors and outsourcers. Starting in earnest during 2004, the enterprise vendors, outsourcers, and system integrators began establishing strategic alliances with existing mortgage vendors to leverage vertical domain knowledge and for immediate market legitimacy. These collaborative relationships allow the larger enterprise providers to cross-sell their existing financial services relationships into the mortgage niche. For the smaller, mortgage specific vendors, they were afforded access to proven multinational systems personnel and software who promoted their offerings to an expanded prospect base, while simultaneously integrating their solutions with those of bigger, instantly recognized brands. As a customer, this transparent integration allowed for a perceived reduction in the number of vendor contacts and time-consuming integrations ? ? "less is more."

In early 2005, we have observed an increased number of these non-traditional vendors touting integrated banking products for inclusion into the mortgage space. With ERP software vendors fighting for customer acceptance, survivability, and relevance, we have witnessed an increase in their cross-promotion of ideas from dashboards, warehouses, imaging, workflow, asset management, customer contacts, and of course compliance and risk management. This second series of initiatives is positioning their solutions and personnel into the nucleus of traditional mortgage vendors, while laying the foundation for a more global appeal which could be triggered by souring loan portfolios and increased servicing costs.

To support the above analysis, we only have to look within the confines of our existing software and services vendors to validate the market evolution. These "new" mortgage solutions are adapted from manufacturing disciplines, supply chain sourcing, and configurable policies and systems that were readily available in the mid-1990's. So it is not only non-traditional vendors that are adopting an ERP approach from cross-industry lessons learned. It is our own well-capitalized mortgage vendors who have quietly adopted the enterprise disciplines for processing, compliance, customer management, and servicing.

The Prize

As 2005 draws to a close, it is expected that the announcements from non-traditional mortgage vendors will be very apparent and cumulative. With the need for compartmentalized and expedited business process adaptability (BPA), the new players and their offerings will highlight customization, responsiveness, accuracy, predictability, and cost savings. Using the latest technologies and mortgage standards, increased emphasis will be given to co-sourcing (*i.e.*, cooperative) relationships to take advantage of unique and expensive skills, while promoting internal efficiencies using globalized workforces.

Additionally, the software solutions provided will yield stringent data security and controls to minimize and dare I say, guarantee against the loss of customer and financial data. Combined with the need for data consolidation and common "sourcing," the broad-based

offerings and capabilities are already in existence from major infrastructure vendors (e.g., EMC, HP, and IBM storage virtualization products).

Also in existence today is a breaking down of the mortgage mindset that barriers for entry can only be met by mortgage banking vendors. An inference of how misguided these thoughts can be was sited in early May 2005 in the Financial Times. In this article it outlined how Microsoft researchers have defined 10 generic processes which exist for any company. These common processes are then broken down into 1500 sub-processes allowing for standardized software components regardless of the vendors unique solutionsⁱ. What could this mean for you? Common software, integrated data types, faster implementation timeframes, and increased data accuracy just for starters.

Look for incremental offerings by both non-traditional and traditional mortgage vendors when it comes to an ERP-like solution. With the increasing acceptance of data standards and definitions, the time-to-deliver practical solutions have been shortened. Entry by the non-traditional players will continue to take the path of least resistance by leveraging their existing relationships within diversified financial institutions. As they expand their products, services, outsourcing offerings, and alliance relationships look for a more direct niche focus. Traditional, channel vendors will transform their offerings to be more "ERP-like," while others will opt for joint ventures or being bought outright.

We've all seen the "pie-in-the-sky" projections and the soothsayers promoting their own agendas. Like you, I have grown accustomed to being disappointed by over zealous writers and columnists during my last 22 years. The mortgage industry is ripe for change, and there are "giants out there in the canyons" who are very prepared to create victories utilizing a new set of "rules." We need to be cautious but diligent when enterprise solutions are being proposed ? ? but I am confident they will become commonplace as we begin 2006.

ⁱ "Plugging together software may soon be painless," Richard Waters, May 3, 2005, Financial Times (www.ft.com)