Showdown in the E-Commerce World

There currently are about two dozen companies all set to bring mortgage originators the benefits of E-Commerce. Their "Portals" will be offering solutions for ordering services such as Credit Reports, Title Insurance, Appraisals, Flood Insurance, etc. In previous columns, I've outlined many of the companies chasing this Holy Grail of our industry. They include companies like Ellie Mae, OpenClose, Fannie Mae, Ocwen, and the loan origination system vendors.

There's a showdown coming among these companies. There are two fundamentally different methods of how these E-Commerce portals operate. The first method is what I call the data repository model. This method is used by companies like Ocwen and Fannie Mae (as part of their Mortnet Plus solutions). The primary characteristic of this model is that the users operate almost entirely within the software provided for by the portal vendor. A user of Ocwen's OTX for example, would order products, receive products and generally interact with the system without ever leaving it.

The second method is whereby the Portal acts as a conduit and data management system. Users will use the Portal to access all of the service providers of the industry but they will frequently be passed through to the service providers own E-Commerce engine. This method primarily passes data back and forth to the service providers but does not control the user interface technology. Instead, each service provider (such as the Title companies) develops their own user interfaces and controls the user's experience.

The two methods differ primarily in who's user interface is being used, that of the service provider or that of the Portal. It's likely that only one of these solutions will survive but it's not clear which one at this point. Below we examine the pro's and con's of each solution. Let's first look at the Pro's and Con's of the data repository model.

Pro's:
1) The user needs to only learn a single user interface regardless of which
Service provider they are order products and services from. This makes the program much easier to use.

2) All the data is managed in one central location. This allows integration with the internal systems of mortgage companies much easier. This is especially important for large lenders with custom internal loan origination systems.

3) Switching to a different service provider is easy for the user since no re-training must take place.

4) The platform helps level the playing field for service providers since the small providers would have equal footing with the large vendors.

Con's:
1) Service providers typically do not actively support these models as they can't control the users experience. Instead, the service providers promote their own solutions. This is especially important to the large staffs of sales people that the service providers employ.

2) The service providers must custom build the interface solutions which can delay or hinder a service provider's participation.

Let's now look at the other model where the data is passed through.

Pro's
1) Service providers completely control the users experience which allows the building of an E-Commerce platform that's best designed for that service providers products.

2) Since the service provider builds and controls the software that their clients use, they can add special products and features that aren't available through the other portals.

3) Once users learn to use the service providers solution, users are less likely to switch to a competing vendor. This creates better and longer lasting relationships with their clients.

4) Their own sales staff can provide the training needed by mortgage originators. Since they can perform the training, they remain in control of the sales process.

5) Service providers that can offer many of the products mortgage originators need are in a better position to offer a full E-Commerce solution.

Con's
1) Mortgage originators are reluctant to learn and use proprietary solutions.

2) Larger lenders that wish to build E-Commerce connectivity to their own internal solutions must build a special interface for each service provider.

3) This method also requires that each service provider build their own E-Commerce platforms. While this may be an advantage for larger providers, it can hurt the small providers without the resources to build robust E-Commerce solutions.

As we can see, there are many pro's and con's to each approach. I estimate that over one half billion dollars is being invested into this race. Out of the 20+ companies chasing this market, only a few will survive. I predict less that five will have any sort of success three years from now. The question now is, which five?