Musings from the MBA Technology Conference

As you might guess, I'm really in my element at the Mortgage Bankers Association's (MBA's) annual National Technology in Mortgage Banking Conference. It's my favorite event, as all the technology firms gear up to present their best new offerings. It also tends to be more of a vendor show than a lender show. It's about strategic alliances and tying different technologies together. It's always a hotbed of activity.

While I'm a mortgage technologist, I'm probably more jaded than most. I tend to look at the failures just as much as I look at the successes. I feel I learn an equal amount from both. What really hit me at this year's MBA technology show was the number of document-management vendors. These are the vendors that offer solutions to scan paper documents, store them and deliver them where needed. There were so many at the conference this year that I decided to count them, and came up with a whopping 29 vendors. Many of these vendors I've never even seen before. Only a few have been at previous MBA technology conferences. By my count, there are more of these vendors than any other type of vendor.

Let me start by saying I do believe in imaging, and I really like what it's doing for the industry. While imaging has been around for 10-plus years, it's only recently become financially viable for the mortgage business. We are currently seeing rapid adoption of this technology throughout the industry.

However, I find it hard to imagine that this industry can support over the long term the large number of vendors currently competing for relevancy. If I am right, it means at least a few clients will be stuck with a dead-end solution. The lenders that buy their systems will be forced to take over development of the software application or migrate to a different vendor. Our industry is certainly full of such stories, and all lenders should avoid these disasters at all costs.

Many lenders are looking at adding a document-management solution, but how can you decide which system is right for you? From my perspective, I'd focus on the following. First, it makes sense to look for a firm that's established and has a solid customer list. There are companies that offer these solutions that have been around the mortgage industry for many years. Some of these firms are also a loan origination system (LOS) supplier or a provider of some other core software solution.

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Second, check the size of the company's customer base and how rapidly it is adding mortgage companies as clients. Make sure the company is a real leader. However, base your decision on your own analysis of the product. Don't just follow the crowd.

Third, I suggest a cautious approach with vendors that consider the mortgage industry their next new market. In my view, if you didn't grow up around mortgages, it's just too difficult to "get it."

Finally, take your time. It's my opinion that this technology is just beginning to be financially justifiable (and barely, at that). With these solutions, you're not going to see huge efficiency gains and you may not even see any noticeable effect on your bottom line, based on what I've seen so far. There is a bright future, but we may be a few years away from seeing the real potential of these solutions.

Each year I see a few new LOS vendors, but over the years I've seen fewer new entrants. All of the market leaders today have been around for 15 years or more. There are several reasons why new LOS vendors have such a difficult time gaining a toe-hold. Again, for those lenders that adopt an LOS from a new provider, they take a chance that the firm folds a year or two later. Make sure you do serious research and don't buy into all the hoopla as to why a company's new LOS is far superior to anything else in the market today. Perhaps the only exception to this might be for a lender that must have a pure Web-based LOS. There's not much out there from existing vendors, so it might require a look at a newer company if this is a crucial selection factor.

One of the hot topics of conversation at MBA's technology conference was what metrics or approach can help lenders determine what systems truly make them more efficient. There's a growing chorus in the industry centering on technology efficiency. It's very difficult to determine what technology solutions are actually improving efficiency when all factors are considered. I have seen a large number of technology implementations that simply moved expenses from the production side to the information technology (IT) side—a great way for any chief information officer to increase his or her budget and relevancy.

However, lenders aren't in the business of being technology companies—they need to maximize their profits from loan production and servicing. There are so many technologies that have had no positive impact on the bottom line.

Even worse, we've all heard stories of companies that have spent many millions of dollars only to dump the entire system a couple of years later. This industry knows failed technology ventures well.

I'm not sure there's a clear solution to this problem, other than developing extensive surveys on the efficiency of existing systems. Perhaps we should also write more about the mistakes. Unfortunately, few companies want to share their failures, as most want to sweep them under the rug. I suggest we start documenting failures and do more to publicize them for all to learn from. Yours truly will do his best to do so.

Perhaps the one standout at this year's MBA conference was the automated valuation models (AVMs). While certainly not new, they have really taken off in the last year or two. I met with Steve Schroeder, chief executive officer of C&S Marketing, Sacramento, California, and was really surprised at his company's revenue growth. I try to avoid discussing specific products, but I think it's important to discuss an area of mortgage industry technology that is finding real success.

Schroeder's company shot from $1.5 million in revenue in 2000 to $60 million in annual revenue today. That's an amazing growth rate and signals that AVM technology is on the rise.

Most mortgage brokers are a good lot, but they also will make an effort to place a loan with whatever lender will take it. Let's assume that a broker has a loan with a somewhat inflated traditional appraisal. The broker will shop it around until he or she finds a wholesaler that doesn't use an AVM on every loan. The result of the growing acceptance of AVMs is that lenders not using an AVM are increasingly being adversely selected for a disproportionate share of potentially bad loans. Shroeder's business (and others in the AVM niche) is to funnel bad loans away from customers, and clearly it's working well. It's rare that this industry sees a technology company achieve such rapid revenue growth.

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As usual, it was another great show. Walking through the exhibit hall makes me think how the chief information officers (CIOs) of the industry must be trying to avoid the mines in the minefield. There are a lot of vendors willing to take your IT dollars, but few can provide rock-solid evidence that their solution will show results to the bottom line. Even worse, step on a mine and you can kiss your CIO job goodbye. It's no secret that a CIO's No. 1 fear is choosing a system that ultimately fails. It's a sure step to a new career.

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