

Predictions for 2001

As I'm writing this, we are close to the new year which is always my time to predict what will happen in the arena of mortgage technology for 2001. Below are a slew of technologies that have impacted or may soon impact our industry. For each, I give my general overview of the solution and where I think it's headed. I also provide a rating from Cold to Hot.

ASP – Cool

Loan Origination Systems that are ASP based (application service provider) will find a cool reception among mortgage origination companies. Perhaps their biggest weakness is that they'll never work on a portable laptop (at least not until we have high speed wireless internet access). Further, when you truly look at something like an ASP loan origination system, it will be more expensive and less productive. On the surface, the ASP model looks very intriguing but fools beware. Looking under the cover and you'll see a long list of problems. An ASP solution will only be viable for a small minority in the industry. Further, it will be the entrenched technology providers like Contour that will supply these systems if they ever make sense. The many startups currently coming on line will find high losses and lack of customer acceptance. Mortgage companies investing their staff into these solutions will find their experience troubling. However, it should be noted that many other ASP solutions should be hot. These include E-Commerce solutions for wholesaler to broker communications, management reporting solutions, providing loan status to third parties and many others.

Electronic Transactions – Hot

Ordering credit reports electronically has been popular for many years. Yet, the other transactions like appraisal, flood and title orders have yet to gain widespread use. In 2001 we'll see a significant increase in ordering all types of services electronically. Eventually, like credit reports, electronic orders will become a defacto standard. You can look forward to the day when it's all ordered, tracked and received electronically. Having full access to the Internet by all the loan processors in the industry will be a big boost for this.

Internet Portals – Warm

I really like this concept but it probably won't take hold of the industry until 2002. This year, we'll see Portals that offer a wide variety of features and services to meet the needs of every mortgage company. Eventually, they'll be like a virtual office. For anyone that has used MyYahoo, you'll get the picture. We'll see one simple web site that incorporates and integrates everything a mortgage

company does or needs. The industry is just now getting turned on to these web sites and the sites are still in their infancy. For 2002, they should be red hot as the industry really starts to use them for all that they can be.

Digital Signatures – Cold

I find it hard to believe that a loan officer and Realtor are just going to tell their client to go logon and close on their house. This is the biggest purchase of a consumer's life and all those documents are daunting to say the least. A consumer will want their hand held as they poor through the 100+ pages of a closing package. A digital signature and an electronic signing room is a far cry from your loan officer handing you the keys to your new home at the closing table. With that said, there are some uses for digital signatures. For home equity loans and up front disclosure packages, they could work great. Even refi's could be handled this way. However, there's still a major problem. Consumers will have to obtain a digital certificate, which still requires seeing a notary and completing a somewhat difficult process. In 2001, it's just not going to happen.

Electronic delivery of documents – Warm

While the signatures may not be digital, everything else will be. Sending documents through the Internet is a great way to make our industry more efficient. Already, many companies are doing this on a regular basis and you can expect it to go mainstream in 2001. There's not much to dislike other than some of these files can really clog up an email server. Electronic documents (especially when using a PDF format) can get really large. Also, this only works one way since the signed documents still must be physically delivered.

XML – Luke Warm

The industry would sure love a standard and nothing has come closer to it then XML and the MISMO group (they define the data within the XML format). A lot of talented folks have put their heart into creating these standards and some of the technology companies in the industry have started to use them. Still, they don't work for all transactions and in all circumstances for a wide variety of reasons. Thus, this standard will be a little hit and miss. We'll just begin to see it's use in 2001 but it will be sometime after that before significant usage is seen. To the mortgage originator XML really isn't that important as it all operates behind the scenes. For them, the only issue is if the data moves from company to company without fail. For this reason and others, alternative data formats will continue to see widespread usage.

Rate Distribution Systems – Cold

Since the early 80's we've had companies attempt to create a wholesaler to mortgage broker solution. Such a solution would distribute rate and product information from wholesalers to mortgage brokers. On the surface this appears to be a perfect new

business for budding entrepreneurs. However, I've seen over 25 companies in the last 20 years attempt to build this solution and all have gone out of business. Further, they have all sunk their life's savings into this business model. Most invested millions only to see losses for their efforts. I'm not aware of a single company that ever earned a profit trying to distribute rates and product information and yet, more are in the works today. The only development in this area is that wholesaler web pages are replacing the need to fax rate sheets. Granted, this isn't much of a change and you'd think something better is coming along. Unfortunately, it just isn't so.

LOS's – Hot

Some in the industry have wondered if eventually, the LOS's (Loan Origination Systems) might be replaced by online versions (such as the ASP solution mentioned above) or perhaps by other solutions like AUS's that become much more comprehensive. While I can see why some may hypothesize about such, I can assure you that for as far as the eye can see, the LOS's are here to stay. LOS's are much more than just printing loan applications and other related documentation. They are the central database for everything a mortgage company does. Their uses include tracking all customer correspondence, providing management reporting, tracking all documentation, performing all compliance work, tracking customer's escrowed fees, managing the staff and a wide variety of other services. In the future, a major aspect of the LOS's will be to handle all data flow between the mortgage company and all the 3rd parties involved in the loan transaction. E-Commerce will continue to become a core function for the LOS.

E-Lenders – Cool

About two years ago, I gave a speech at the Annual NAMB conference about the demise of the dot-com E-Lenders. I provided a long list of everything that was wrong with the model and why mortgage originators need not concern themselves with the then occurring onslaught of well funded pure internet lenders. Wow, did a lot of money get thrown away. There still isn't much of a future for E-Lenders. However, the online world may still take something from the average mortgage originator. Most susceptible are refinance loans where large services may produce streamlined refinancing options from their web sites. Consumers could simply go to their existing lenders site and answer just a few questions to have their rate lowered. Income from refinances is something most mortgage originators rely on today but could be soon lost. Home equity loans may also be sourced through the Internet for the majority of such loans in the future. The good news is that the vast majority of purchase transactions will continue to flow through local originators.

Web Site Builders – Warm

A lot of Internet Service Providers are getting hit hard in the public markets with their stock prices 80-95% off their highs. Still,

those companies that host web sites will always be around even if consolidation dramatically reduces the number of ISP's. In our industry we have had hundreds of ISP's that will build a web site for a mortgage company. These numbers have been reduced dramatically and most mortgage companies now realize, they need to work with an ISP that exclusively works in the mortgage industry. There are several dozen of these but this number is also shrinking. By the end of 2001, it should be clear who the remaining winners are in the ISP battle for market share within the mortgage industry. Eventually, it should get down to just a few. Look for the market leaders by finding who has the largest number of customers. You'll get more bang for buck from the biggest ISP's that serve just our industry.

Invasion of the Dot-Com's – Cold

The carnage from the overall dot-com world is amazing. We'll see much of the same thing from dot-com's that serve our industry. Companies like Mortgage.com just never had a solid business model. Beware, as there are several more out there that won't make it. There were dozens of new dot-com's at the MBA Annual Convention and I'd bet more than half of these won't be there next year. If you are considering signing up with one of these firms then do your homework first. First determine if the company goes under, would you be harmed. If so, you need to make sure they have thousands of other customers and are showing strong promise with their business model. You want to make sure they will be successful. If they have dozens of customers or less, you'll likely end up with a failed company.

Broadband access – Hot

In 2001, we'll see the majority of the mortgage industry adopt broadband access solutions to the Internet. This could be ISDN, DSL, Cable modems, T1 or even some of the brand new high-speed wireless solutions. As we all become far more reliant on the Internet for our day-to-day business, we need to insure the employees of the company are operating at peak performance. You just can't expect a loan processor to use the Internet like it should be when communicating at 56kbps or less. If you aren't using high-speed access today, you should be soon.

PDA's - Cold

Every few years we get a new wave of ultra small computing devices and the latest are the PDA's from companies like Palm and Handspring. While these devices are far better than anything that preceded them, they still aren't up to the tasks that a typical mortgage originator needs. For example, a new loan file can require hundreds of data elements to be entered. On a PDA, entering this amount of information is very tedious and time consuming. It would be so unproductive that most consumers sitting with a loan officer would begin to question the professionalism of the mortgage company. Many other issues exist as well. Loan officers need to

show charts, loan amortization schedules and loan product comparisons side by side. These are the tools of the profession and a PDA could never do justice when compared to today's laptops. Sure, a PDA might be fine for a loan officer to use to keep track of appointments and phone numbers but every loan officer should be well equipped with a laptop that's capable of handling every request a prospective borrower could come up with.