# Shopping Wisely for Technology

As advanced as we like to think we are, our industry still makes its share of mistakes. Most of them seem to be in the technology sector, or at least related to technology in some way. At least that's my perspective from years of participating in the mortgage technology side of the business and observing many purchasing decisions.

In the last few years, several top-10 lenders have written off hundreds of millions of dollars on technology investments. Since these companies are public, we get to learn about their mistakes. However, I can tell you that the same mistakes are being made among all sizes of mortgage banking firms. In this month's column, I review some of the common mistakes I've seen over my 23 years of working with mortgage bankers.

Perhaps the most common mistake is reaching for the next technology platform before it's ready. We saw this with the DOS-to-Windows® migration and again with client-server, application service provider (ASP), and so forth.

Too many companies feel they must have a competitive edge by being ahead of everyone with their technology. The point they miss is that often the mainstream applications are the most efficient. Newly introduced software is rarely refined enough to be more efficient.

For example, it took the Windows platform about five years before it caught up to the productivity of the DOS versions in the loan origination system (LOS) arena. What I mean by this is that when the first version of a Windows-based LOS came out, it was about five years before the Windows-based LOSes were more productive than their DOS counterparts.

For those companies that bought some of the initial Windows products during the early 1990s, they were less efficient than their competition (the opposite result of what they thought they were buying). Further, the companies paid more for these solutions in many ways, including software, hardware, training, support and troubleshooting expenses. Despite all this, I can assure you that once a Windows version was released by any vendor, decision-makers had a difficult time purchasing a DOS product from another vendor. Now, I'm not advocating old technology, but leading-edge truly can be bleeding-edge.

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**—Scott Cooley**

Human nature tells us there is safety in numbers. Yet, when it comes to making decisions on technology, the committee process has it perils. I can't explain why committees can make such poor decisions, but I see it happening over and over again. It probably has something to do with group psychology.

Perhaps it also has something to do with each member of a committee wanting to buy the most advanced system and a system that is at the higher end of their price range. This might cause the firm to routinely buy a system too complex or advanced for the needs of the company. Too often, mortgage companies buy a solution that is simply beyond their needs and means.

In a similar fashion, the analysis these companies perform in their search for technology doesn't seem to help. Usually, these analyses assign points to various attributes or features. The problem is that points are awarded for the most advanced features, and points are rarely considered for product stability and overall efficiency (the most crucial aspects of any core production solution).

I recently had a call from a smaller mortgage banker that does conforming, alternative-A and subprime lending. Further, a little less than half of its business was retail and the rest was wholesale. The lender originated loans and held some of the loans through to servicing. Others, it sold off. While this could describe a lot of companies, it is a nightmare for a chief information officer.

The relatively low loan volume doesn't allow the budget that is required to automate an operation that handles every conceivable loan product and service. Compare that situation with another firm of similar size that primarily originates only one type of loan through a wholesale channel and sells off to the secondary what it funds. Such a firm would save dramatically when it comes to its automation budget.

The executive I spoke with was experiencing a high level of frustration. The end-to-end solution the company was using had significant weaknesses in core areas, though some areas were fine. Its solution lacked a product/pricing engine altogether, and the loan-production software had just the bare minimum needed.

This is an example of how industry executives need to do a better job of considering the automation expenses associated with their origination business strategy.

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Software vendors can tell you what their average customer looks like. Yet, most vendors will tell you that a customer of almost any size can also use their products. Don't believe it.

For all core software segments (product/pricing, LOS, closing, secondary and servicing), each vendor absolutely must gear its company to service a certain-size customer. For example, a broker LOS isn't going to work well for a midsized mortgage banker. At the same time, a mortgage broker buying a high-end solution would quickly find it spent far too much and the system is far too complex for its needs. What's important is to find the vendors that target firms your size. If you go too far outside vendors' average-client parameters, you can expect problems. It really makes sense to make sure your firm looks very similar to the vendor's typical client.

There's one more common mistake I see. Many attempt to find one vendor for all of their needs. This is called an "end-to-end" solution. There are several vendors out there that sell their prospects on the benefits of having one company for all your technology needs. There can be problems with this approach. Sometimes, these systems end up being fair in some areas and great at few or none. They also can have significant holes in areas that could be crucial to your company.

Over the years, we've seen more mortgage companies going with a "best-of-breed" approach. They will buy pieces from firms that do the job best for that technology segment, and then interface the product to other modules from different vendors. It is true that the interfacing can be problematic, but the efficiencies gained will offset these problems. Further, the promises of MISMO® are finally starting to bear fruit.

As the vendors adopt industry standards, it becomes much easier to piece together everything needed. Eventually, you'll be able to plug and play modules from half a dozen different software vendors and know that because they are MISMO-compliant, the data will move back and forth. This is where the industry is headed—and it's a good thing.

Having said all this, I concede that many of the issues I raise here are based on generalities. Contrary to my earlier point, I actually have seen some committees come up with good ideas and I even have seen some end-to-end solutions work OK for the right firm. But when considering your next technology purchase, it would be wise to take all these issues into consideration. If you avoid these common traps, you'll end up being far more competitive.

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