The Rise of the **Mortgage Technology Conglomerate**

In April of this year, ISGN Technologies Ltd., Philadelphia, the parent company of Conshohocken, Pennsylvania–based MortgageHub Inc., announced the acquisition of Livonia, Michigan–based Dynatek Inc. The month before that, it announced the acquisition of a number of technology solutions from Minneapolis-based Fair Isaac Corporation.

By itself, the Dynatek acquisition wouldn't be the harbinger of a new trend. However, over the last few years we have seen a tremendous number of mortgage technology acquisitions that have given rise to a new term we are just beginning to appreciate: the mortgage technology conglomerate (MTC).

Behind the scenes, there is a race going on. A number of MTCs are seeking to build out their own product lines with the best possible solutions to complete the goal of having the best end-to-end offering. Each of the MTCs is watching the market for the best names in mortgage technology in the areas of customer-relationship management (CRM), lead generation, Web site development, loan origination systems (LOSes), transaction platform, closing, secondary marketing and servicing.

Already it's a competitive field, with no one MTC having a big lead. Some—such as Brookfield, Wisconsin–based Fiserv Inc.—have been at this for years, while others are relatively new. However, it's only in the last few years that we've seen so many firms become so active in their acquisition activity.

There are many factors that have given rise to this model. They include:

- *Cross-marketing*—Having a number of firms working together allows for cross-marketing of the various products among the entire customer base.
- *Integration*—With all the products under one umbrella, they can be well-integrated so that a customer can expect the data to flow seamlessly among all solutions.
- *Shared research and development (R&D)*—Often, the different divisions can share R&D resources, and much of the shared R&D can be moved offshore to minimize expenses.
- *Partnering agreements*—Agreements with third parties can be shared among the divisions, providing both greater negotiation strengths and economies of scale.

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- *Shared management*—Top mortgage technology talent is very difficult to find. So with shared management, for example, a strategist/visionary could be shared among several divisions.
- *Elimination of redundant areas*—Several areas of each division can be shared, reduced and/or eliminated, including compliance, accounting, human resources and management.
- *Customer relationships*—Many MTCs can seal a strong relationship with their customers so that the customer purchases all of its mortgage technology solutions from the one MTC.
- *"Stickiness"*—This is a term used to define how unlikely it is that a customer would jump to a competing solution. When a customer has multiple solutions from a single MTC, it increases the stickiness of all the solutions. In other words, the more solutions a customer buys from a single MTC, the more difficult it is to move those solutions to a different MTC.

From this list, we can see there are many advantages that the MTCs are grabbing a hold of. Still, there can be difficulties with acquisitions. The MTCs must be careful to find just the right firms that have the needed solutions to complete their product lineup.

In looking at potential acquisitions, the MTCs must make sure the founders will help transition the firm to new ownership, and that the bond with the customers will flow over as well. The MTCs must also ensure that the R&D staff remains in place and that crucial employees are happy with their new parent.

So just who are these new pioneers in our industry? The following is a list I've compiled of some of the top MTC firms building out complete product lines that serve our industry.

- Fidelity National Financial Inc., Jacksonville, Florida
- First American Corporation, Santa Ana, California
- Fiserv Inc.
- Harland Financial Solutions Inc., Portland, Oregon
- ISGN/MortgageHub
- Jack Henry & Associates Inc., Monett, Missouri
- Metavante Corporation, Milwaukee
- Stewart Information Services Corporation, Houston

Each of these firms is at a different stage, and each has different strengths and weaknesses. All but ISGN are public firms. Mortgage lenders must consider the total MTC offerings—but in some cases many lenders will still find that purchasing best-of-breed solutions from multiple MTCs, along with independent vendors, can make sense. There are clearly disadvantages to having solutions from different MTCs and independent vendors. Still, it can make sense in some cases where the strengths of individual solutions outweigh any of these disadvantages.

Those lenders willing to commit all of their purchases to a single MTC might find a number of advantages in doing so. First, discounts are sometimes available for multiple purchases. Second, the customer has added clout for customer service and customization. I've known of cases where a mortgage company was able to obtain special favors with one division of an MTC because it was a very important customer for another division of the same MTC. These special favors can be very helpful at times. Third, the solutions are often well-integrated when they come from the MTC. In rare cases, even the user interfaces can be similar. Finally, it can be helpful to deal with a single MTC for contractual issues and third-party relationships. Perhaps a given MTC has an excellent relationship with a preferred credit vendor, and that vendor is well-integrated. If the mortgage firm prefers that credit vendor as well, it can be a good marriage.

Can the independents survive?

The MTCs are working to put together their technology enterprises, and, meanwhile, the independent vendors are being challenged. The independent vendors are those technology firms that are not part of any of the MTCs.

Increasingly, I'm hearing that some of the independent vendors are finding it a challenge to get in the doors of the lenders. When a lender has an existing relationship with one or more of the MTCs, it is sometimes excluding the independent vendors from the selection process.

This dilemma seems to occur primarily with core applications such as loan processing, closing and servicing. For more of the fringe applications, it has not yet been an issue. I consider fringe applications (or non-core solutions) as imaging, pricing engines, compliance solutions, fraud solutions, Home Mortgage Disclosure Act (HMDA) reporting and so forth. Still, even these firms are wondering whether their long-term success might be impacted by the MTCs.

The MTCs have some advantages over the independents, as mentioned. However, the independents have some ammo of their own. I find that the independents can be more nimble and resourceful. They can develop applications faster, and often for less cost. This is because the independent vendors have less overhead and bureaucracy with which to deal. They don't have pressures from distant management teams.

Additionally, because they are not affiliated with any large organization, independents can be a "Switzerland"—with the ability to partner and sell to all. A good example is when I sold Contour Software to First American Corporation, I found my previous partnerships with other title companies became severely strained.

The one very real aspect of all this is that the industry has gone through a major shift in the last several years, and the MTCs are here to stay. I believe the MTCs will continue to gobble up the star independent players in the core areas. Meanwhile, the independents will either join an MTC or do what they do best: adapt to survive. The mortgage technology arena will never be the same.

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