

Freddie Mac's New Approach

It was just six years ago that the biggest mortgage technology announcement ever rocked our industry. Microsoft Corporation®, Freddie Mac, Chase Manhattan Mortgage, GMAC-RFC, Norwest Mortgage Inc. (now a Wells Fargo & Co. company) and Bank of America placed their collective weight behind HomeAdvisor Technologies Inc. By their own statements, these behemoths were set to “revolutionize the way homes are bought and sold, shaving weeks off of the mortgage-closing process and saving consumers more than \$2,000 over the life of a loan by providing lower rates and reduced closing costs.” Announced simultaneously was the acquisition of Tuttle Decision Systems Inc., a leading technology firm in risk-based pricing and loan locking.

Everyone in the mortgage industry scrambled to determine what all this would mean for their firms and their jobs. Frankly, to a lot of us it looked like the industry was being turned upside-down and would be forever changed.

Well, now we know that the anticipated change never happened.

Just a year later, Microsoft began dismantling HomeAdvisor and spun off a key division called Tuttle Decision Systems to Freddie Mac (April 2001). The mortgage technology industry breathed a collective sigh of relief, knowing that Microsoft wasn't planning to change everything. Still, much concern remained with the direction that both Fannie Mae and Freddie Mac were taking in relation to their technology initiatives.

In May 2001, David Glen, Freddie Mac's vice chairman and president, announced that Loan Prospector® would soon include point-of-sale pricing, rate locking, credit reporting and collateral-evaluation tools. The eyes of the industry remained focused on the direction being taken by the government-sponsored enterprises (GSEs) and just where they were ultimately headed with their powerful industry position and advanced technologies.

These industry fears triggered a push on Capitol Hill to consider legislative options. In 2002, I authored a white paper outlining various concerns about the GSEs and their technology initiatives. However, my subsequent discussions that year with senators and representatives had little impact. The lobbying power of the GSEs proved formidable, and the fears of many industry veterans remained.

That was then. Today, Freddie Mac's role and direction are different—not just a little different, but entirely different. As an indus-

trially as well as when evaluating the purchase of solutions from third parties.

In similar fashion, Freddie Mac has also been a consistent investor and supporter of MERS®, another industrywide technology effort that has benefited all. From the start, Freddie Mac was involved in the original proposal and made some of the first investments in MERS. More recently, Freddie Mac has been involved with the eRegistry®, a system of record that identifies the owner and location for registered eNotes.

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try, we need to recognize these changes and recognize Freddie Mac for the open, supportive and nurturing role it now plays. Let's review just how much it has helped mortgage technology advancement industrywide.

For many years, Freddie Mac has played a major role in supporting the MISMO® standards. MISMO was the first standardization effort in the industry to have truly helped streamline our industry, and it saved countless dollars for all involved. Freddie Mac helped the MISMO effort by providing support to MISMO as well as making investments to support MISMO internally. Freddie Mac's support has been warmly received. More recently, Freddie Mac has redoubled its efforts to adopt MISMO standards within its own systems

release of the eMortgage Handbook in December last year. This 44-page handbook is available to all (it's even posted on Freddie's Web site) and contains all kinds of helpful details. Never before has the industry seen such openness from a GSE.

This document was perfect for technology vendors and customers trying to understand the developing world of eMortgages. More important, it provides a framework that all can work within to rapidly develop new technologies in support of eMortgages.

Freddie Mac has also taken steps to adopt solutions from outside vendors instead of attempting to build solutions internally. Recently it purchased several significant software solutions from third parties. It appears

Freddie has switched from a build mentality to a buy mentality whenever it can.

"Rather than build and own every system and every feature from scratch, we are taking more opportunities to adopt packaged applications," explains Ed Albrigo, vice president of Freddie Mac's enterprise

Freddie Mac concentrates on making Loan Prospector a better product in its core role as an automated underwriting system.

While it continues to improve the core areas, Freddie has also moved to adopt the MISMO automated underwriting system (AUS) data set. The original Loan Prospec-

tor who will move eDocuments. Freddie Mac also won't be developing such solutions itself. However, Freddie Mac will support the use of standards throughout all the new technologies, and will provide an openness that allows technology developed by all the vendors to thrive.

Barkley added, "Our goal is to help our customers help themselves in adopting new technologies from a competitive marketplace." He has been successful in promoting the use of standards, and has even helped define the data dictionaries used by the standards. As if those accomplishments weren't enough, he also has his eyes set on working within Freddie Mac to expand the use of all the new standards.

I had the honor of speaking on a panel with Barkley at Salt Lake City-based Richard T. Pratt and Associates' Midwinter Housing Conference in March, where the topic was a concept I call the Virtual Loan Folder. It's a system where all participants in the industry can post and retrieve documents to a single folder. MERS would be used to locate the correct vault and to store information on who owns the file. It's the next step up over today's eVaults and eMortgages, in that it includes collaborative access by all parties involved in the home loan process.

Barkley talked about how today's standards could be used and how Freddie Mac would support such a system if the industry was to move in that direction. He also couldn't see how anything Freddie Mac is doing would hinder such a development. This is key, and shows how Freddie Mac looks to help drive innovation from third parties. It is these kinds of statements that are such a welcome change over the old ways of just a few years ago.

The changes also have relieved most of the fears I expressed on Capitol Hill in 2002. It's now my belief that Freddie Mac is owed a resounding round of applause. With this kind of thinking and action, the industry is sure to move much faster to adopt a more efficient process. And I believe the winners will be Freddie Mac's customers, the industry and, ultimately, the consumer.

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program office. "We believe this buy-and-integrate approach will not only help us get to the market faster with the products our customers want, but also help spur the vendor community to build the next generation of mortgage technology that Freddie Mac and others can use."

Today's Freddie Mac seems like a whole new company. Mortgage technology vendors no longer concern themselves with potential new initiatives that could significantly impact them. Freddie Mac works with them in a variety of supportive ways, ensuring they understand the direction Freddie Mac is taking and to ensure any development work is heading in the right direction. Yet, Freddie Mac is committed to the free market by allowing vendors to compete on an equal basis and allowing the mortgage firms to make their own decisions in relation to technology investments.

Let's not forget about the tossed-around firm, Tuttle Decision Systems. Freddie Mac sold it off to an independent technology vendor in 2004. Previous forays in investing with mortgage technology firms earlier this decade have been curtailed. It appears Freddie Mac no longer wishes to take ownership positions in such companies.

For a long time, Loan Prospector was somewhat feared by industry suppliers and technology vendors for how it could eventually encompass many additional areas of the mortgage process. Today it appears that

tor data structure is no longer supported, and Freddie Mac has recently completed its migration to MISMO. Further, Freddie Mac is working diligently at using MISMO standards within the systems related to selling, servicing and default.

Finally, we must recognize Freddie Mac for providing us with David Barkley, director of industry standards practices. Barkley has been an ambassador to the industry, helping so many of us. He is well-liked and appreciated by all. He's become a crucial contact, and has become key not just for letting us know where Freddie Mac is headed, but—just as important—where it is not.

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In speaking with Barkley, he emphasized how Freddie Mac wants to help its customers and the technology vendors build solutions that best work in our marketplace. "Our role is to support the vendors and provide the help they need. We work with over 60 LOS [loan origination system] vendors, providing them with development support, test-case examples and ongoing updates," he said.

Barkley also noted how Freddie's objective is to allow the industry and its customers to find and use the more efficient technologies. Freddie Mac will not be dictating which eVaults should be used or