

Drawing New Battle Lines

On March 23rd the industry's battle lines were reshaped when Microsoft made a bold announcement, the formation of HomeAdvisor Technologies, Inc. Further, they acquired Tuttle Decision Systems and brought in Freddie Mac to help build some entirely new technologies for the industry. The announcement kept my phone and others ringing all the next day as throngs of reporters and industry luminaries tried to make sense of it all. It made most of the daily papers and every news source seemed to write about it. So why all the hoopla?

The creation of Home Advisor Technologies, Inc. is the perfect example of what's happening in our industry. First, we have to look at the announcement and realize that a major shift occurred in their primary direction. The original Home Advisor was all about serving the consumer and the new one seems to be all about serving lenders and Realtors. In the last 18 months there has been a fundamental shift in most of the dot com's away from a business to consumer (B2C) play and towards a business to business (B2B) play (in short, B2B2B2C). You won't see a lot of discussion about the consumer in their press release and instead, you see it discuss how it will help the industry reinvent Internet based loan origination. They will even be selling much of the Home Advisor technologies to lenders for their own web sites. This puts them directly in the realm of providing technology solutions to the mortgage industry. Their move is one towards the red-hot ASP (Application Service Provider) market.

Also mentioned was the plan to take this company public. Wall Street is currently disenchanted with virtually all the new dot coms that serve the consumer segment. Further, stock prices for recent mortgage industry IPO's like E-Loan and Mortgage.com are all below their IPO price. To get a strong reception in the IPO market, Microsoft's Home Advisor division had to reinvent itself as a B2B dot com. This announcement did this very well. It also sent the stocks of some other companies reeling – most noteworthy was HomeStore, which is the largest competitor to Home Advisor - HomeStore lost almost half its value around the announcement.

Interestingly, HomeStore is part owned by Fannie Mae. Given that Freddie Mac has financial incentives to see Home Advisor Technologies succeed, we can see some competitive forces at play. We have Microsoft, Freddie Mac and a handful of top lenders working together and HomeStore, Fannie Mae and NAR working together. We can't expect HomeStore to stand still with all this news from Microsoft. One thing for sure, the competition between HomeAdvisor and HomeStore is really heating up and it's importance probably reaches into the billions of dollars.

Besides HomeStore, other companies are also seeing the impact. E-Loan and Mortgage.com both saw their stocks drop on the news. In addition, there's a host of other dot coms hoping to go public who now have had their life made more challenging. As you can bet, there are several companies that were attempting to dominate the market of selling web site solutions to lenders. This includes companies like Dorado, Xpede, Ellie Mae, and GHR Systems. While they would certainly argue their solutions are unique and better than those forthcoming from Home Advisor Technologies, one wonders if their prospects for IPO's were just tempered somewhat. When titans of the world stake out a new claim, it certainly changes the landscape. It's just too soon to know who will be the most impacted.

Of course, an even bigger concern is what all this means for the industry. With these competitors moving full speed ahead, what does it spell out for the small originator who still passes out doughnuts at the local Realtor's offices - hopefully, not much. As I've mention in previous issues of this magazine, the Internet isn't going to replace the street originator anytime soon. Instead, it's likely that everything that Home Advisor Technologies

and the others will be doing will find it's way to the street originator. It might mean that wholesaler's will have greatly improved sites that allow you to qualify, underwrite and approve a borrower much faster. It might also mean that such technologies would become available to even the smallest broker web sites. You might even find that consumers would get directed to local mortgage brokers from the web site and all on behalf of a major wholesaler – wouldn't that be a switch.

On this last note, I think we are long overdue to have a major wholesaler produce a consumer orientated web site whose sole purpose is to drive new business to their best mortgage brokers. For example, if you look to buy a car, you don't see GM trying to sell you the car directly or through corporate owned retail stores. Instead, they refer you to the closest independently owned dealer for GM cars. Doesn't it make sense that someday, large wholesalers will actually start to support their brokers on the web rather than compete with them?

One thing for sure, the whole Internet world for the mortgage industry is moving at light speed. We are also still at the beginning. Still, these landmark moves by the titans of the industry are setting some clear direction on where we are headed. Hang on tight, the ride will only get wilder from here!