A Portal of Portals

One of the holy grails of the industry is owning the Portal for which all industry participants travel. The dollars on the table are sizable because whoever owns the Portal, will reap transaction fees from vendors whose products are ordered through the Portal. This article addresses the tremendous number of new competitors all vying to be THE industry's portal.

Let's first define what the portal actually does for the industry. Generally, the industry's portal is the primary place on the Internet that mortgage companies go for the ordering of services, retrieving of information and to conduct business with a wide variety of business partners. Most mortgage technologists believe that the industry will come to rely on just a few or perhaps even one portal. These web sites will become indispensable for the entire staff of most mortgage companies.

Examples of portals for other industries include WebMD which plans to be the dominant portal for the medical profession. One only has to look at the market capitalization of WebMD to realize just how valuable being a portal is. Certainly, Yahoo and AOL are major portals for consumers (considered a horizontal portal since it serves the general consumer whereas a vertical portal serves a specific industry). Just about every industry segment currently has venture funded companies in a race to be the dominant portal. The mortgage industry is no different as dozens of well funded companies are in a race to run our world. So far, we are seeing total funding for this group to be over half a billion dollars (VERIFY). This is an amazing amount of funds being funneled into this brand new segment. One thing for sure, most of these portals won't survive the first two years. By 2003, most of these companies won't exist. Some will go under, some will merge together and a few, very few, might just have a lucrative business. This article will help the reader determine who the winners might be and where to place any bets.

Are today's new portals really that new? In the mid 90's there were many startup companies that attempted to become the industry's VAN (Value Added Network). This is really the same thing as a portal except these VAN's used proprietary networks rather than the Internet. As such, they were wrought with problems and never really obtained widespread usage among the industry. The two that did succeed to some extent are Freddie Mac Goldworks and Fannie Mae's Mornet Plus. The rest are either out of business or are handling some specific segment of traffic that comprises a tiny segment of what their original business plan called for. For example, Alltel's Interchange is used for many of the vendors solutions but it never achieved widespread usage among the loan originators as hoped. During the 90's, at least several hundred million dollars was invested into VAN's for our industry. However, it's probably safe to say that these investments didn't pay off as hoped.

The article I authored in October of 95 [CONFIRM DATE] for this publication gave a complete overview of the industry VAN's. In some ways, this article is a follow-up to that one since today's portals are one evolutionary step from yesterdays VAN's. The primary conclusion of that article was that the budding Internet would eventually replace these VAN's. Clearly, that has become the case as evidenced by all the investments into Portals.

One might wonder why this marketplace would attract a half billion dollars in funding. The answer lies in the almost 10 million loans that flow through our industry and all the related products and services that are required to place a buyer in their new house. Each vendor that serves the industry has been actively pursued by these portal players. The objective is always the same, to extract fees from the suppliers for being a part of the portal.

The reasons the suppliers to the industry want to participate in these portals are many. First, obtaining orders electronically can significantly reduce the cost of order obtainment. This can often run several dollars to upwards of $25. Most orders that go to a title company are done by fax and by phone. In each case, all information about the order must be keyed into the computer systems used by the Title company. Errors can be costly and they are common in such a manual world. The savings for electronic orders are real and vendors are more than happy to pay fees to third parties to obtain those savings. In the case of wholesalers, hundreds of data elements must be re-entered.

A second reason supplier's join the portals is that it provides an opportunity to get in front of their exact prospective customers. Having a primary position within the Portal can be very valuable. Portals could just become a major advertising vehicle – consider where most of the revenues for Yahoo and AOL come from. Or you can turn this around and understand how damaging it might be to a specific supplier if the supplier isn't available in a widely popular portal. Not being on a portal that the industry uses could put a supplier out of business. The suppliers will thus join various portals in an attempt to spread their bets and be everywhere. The suppliers are going to let the portals fight the battles and try to remain somewhat removed from the battleground.

The one primary disadvantage to a vendor is if their service becomes perceived as a commodity. This can occur when the portal creates an environment where all vendors look the same. For example, most automated underwriting systems have the ability to order a Credit Report. In such an environment, every Credit supplier looks identical. The only way to compete is then on price – not exactly what most business want. While credit reports have become a commodity, other transactions like Title insurance is still very service orientated. Title vendors go to great lengths to differentiate themselves from the competition. It's not attractive to Title companies to be placed in an environment where such differences can't be emphasized. This has led to two models being adopted by the portal hosts. The first model uses a central database that stores and then moves all orders in and out. The second model just provides a direct connection to each supplier and passes information from the user to the supplier. See the side bar for the pro's and cons of these two models.

With a half billion in investments and over 20 (?) portals currently in development or being launched, we must try to understand who's going to win this race. Let's start with how orders are handled today. Mostly, the orders are coming from loan officers and loan processors that work for mortgage companies. These users each have mission critical applications where they spend most of their time called Loan Origination Systems (LOS's). The logical conclusion would be to place access to the portal within these applications. Most of the portals are at least building interfaces to the LOS's and some are creating partnerships with the LOS's. Traditionally, it's the LOS's where all the order forms are printed in the off-line world. The LOS's also must track the orders and obtain information when the ordered product is returned. Several of the LOS's are building their own portals since they currently have the relationship with the customer from a technology standpoint. NetUpdate recently purchased a LOS vendor (Byte Enterprises) to insure they could obtain all the orders coming from Byte's customer base. By owning the LOS, they can also prevent the other competing portals from reaping orders from Byte's customers. A primary reason for First American to buy Contour Software, Inc. was to obtain a greater portion of orders for First American's services. The advantages that the LOS's have are that all orders are currently handled through the LOS (in the offline world), the LOS has the data repository for which all data must travel, the LOS's can control access to the databases of loan information, and the LOS's can build the best integrated ordering solutions for the industry suppliers. For the LOS's, their most significant problem has been the lack of funding needed to build out their own portals. There are several other categories of industry participants that are developing portals.

A few wholesalers have attempted to offer portals to their mortgage brokers. Most notably is Countrywide who's LandSafe division has sought orders from Countrywides customers for years. With so many brokers using Countrywide's wholesale web site (www.cwbc.com), they hope that brokers will also use this site for the ordering of all their services. Another wholesaler (and also an online retailer) iOwn, is building their portal called ePass hoping to use their LOS division called Genesis to earn transaction revenue.

Mortgage Insurance (MI) companies appear to be entering the race. MGIC has created a new company called eMagic.com who's sole goal is to be an industry portal. So far, MGIC is the only MI company to do so but we could see more join. Their challenge would be to have the industry coming to their web site all the time rather than just when mortgage insurance is required. Another problem is that competing MI companies are unlikely to join this portal which limits it's success since many loan originators often use several MI companies. Still, they have great relationships with their customers and have a national sales force to help market eMagic. In fact, many of the portals lack a national sales force with strong relationship with the industry's originators. Getting originators to use these portals is quite a challenge and having a sales force capable of face to face selling and training can be highly valuable.

The next group with their sites on being a portal are the GSE's. Both GSE's have a long history of delivering transactions between originators and industry suppliers. Freddie Mac has GoldWorks and Fannie Mae has Mornet Plus [CHECK NAMES]. However, these solutions have been Value Added Networks. Fannie Mae is clearly moving in the direction of bringing these solutions to their web sites. Having Mornet Plus functionality from their web site is a natural evolution. Freddie Mac has been a little more quiet about their plans for GoldWorks and how it might migrate access from the public Internet. A significant advantage for both GSE's are that they're automated underwriting systems are widely used. As such, the order of services from these systems could be a formidable weapon in the portal war. Already, both systems are ordering thousands of credit reports a month. Fannie Mae has been aggressive at signing up other automated underwriting systems to further enhance their portal status. Will the other services be far behind? A weakness that the GSE's share with many other portal players is that their portal must come through the LOS's. The LOS's may choose to only implement certain transactions and not others.

The industry suppliers themselves have also jumped on the portal bandwagon. The first was Stewart Title with their spun-off division called Real-EC. The suppliers would like to own the portals of the industry for both control and profit opportunities. First American's FAST-Web and Chicago's CastleLink are primarily serving their own products. Real-EC is more broad based carrying competing products. All are currently carrying thousands of transactions. They also have interfaces with many of the LOS's. Their national sales forces have the relationships to help push customers to use their solutions. However, many originators are reluctant to exclusively use a portal with limited availability

The last group of prospective Portal owners are independent companies setup for the expressed purpose of being a portal. There are many companies in this category and it's where we see the most significant investments. We've seen their names splashed heavily in advertising and trade journal articles for the last twelve months. They have names such as OpenClose, Cybertek, Ellie Mae, Ocwen OTX, LoanTrader, Integrate-online OnePipeline and Xpede. Each of these companies has had significant funding most of which came from Venture Capitalists. With so much funding, these companies have a big advantage over the entrenched players. In addition, they have no legacy systems to convert – they can build the Portal from the group up. However, they are new to the industry, which often brings distrust by such an age-old mortgage industry. Further, they have neither existing relationships (like the GSE's and LOS's) nor do they have the national sales forces such as the MI companies, existing suppliers and some of the LOS's.

On page XX, is a table that shows the characteristics of each Portal player. While each Portal has many different characteristics, they all share at least the common ground of working to move orders from mortgage companies to industry suppliers for items like Title Reports, Flood Insurance, Credit Reports and Appraisals.

Throughout all this development, these companies have emphasized what the user wants – the desires of the mortgage company staffs everywhere. After all, users will place their orders on the systems they prefer to use. Few of these companies have actually sought to determine what the industry suppliers want. As mentioned previous, none of the industry suppliers care to be commoditized and be forced to look identical to their competition. Further, if they must be a access fee to the Portal, they must be able to deliver their products in the fashion they deem most appropriate – product differentiation is a crucial issue.

What do the vendors want.
Check to insure all advantages/disadvantages are list above based upon the slide presentation.
Who might want to buy the owner of a portal?
Mention Homestores' purchase of Wildfyre and Professional Agent

SIDEBAR
Discuss each classification of Portal Players and their advantages/disadvantages

SIDEBAR
Data repository model versus a data pass through model.

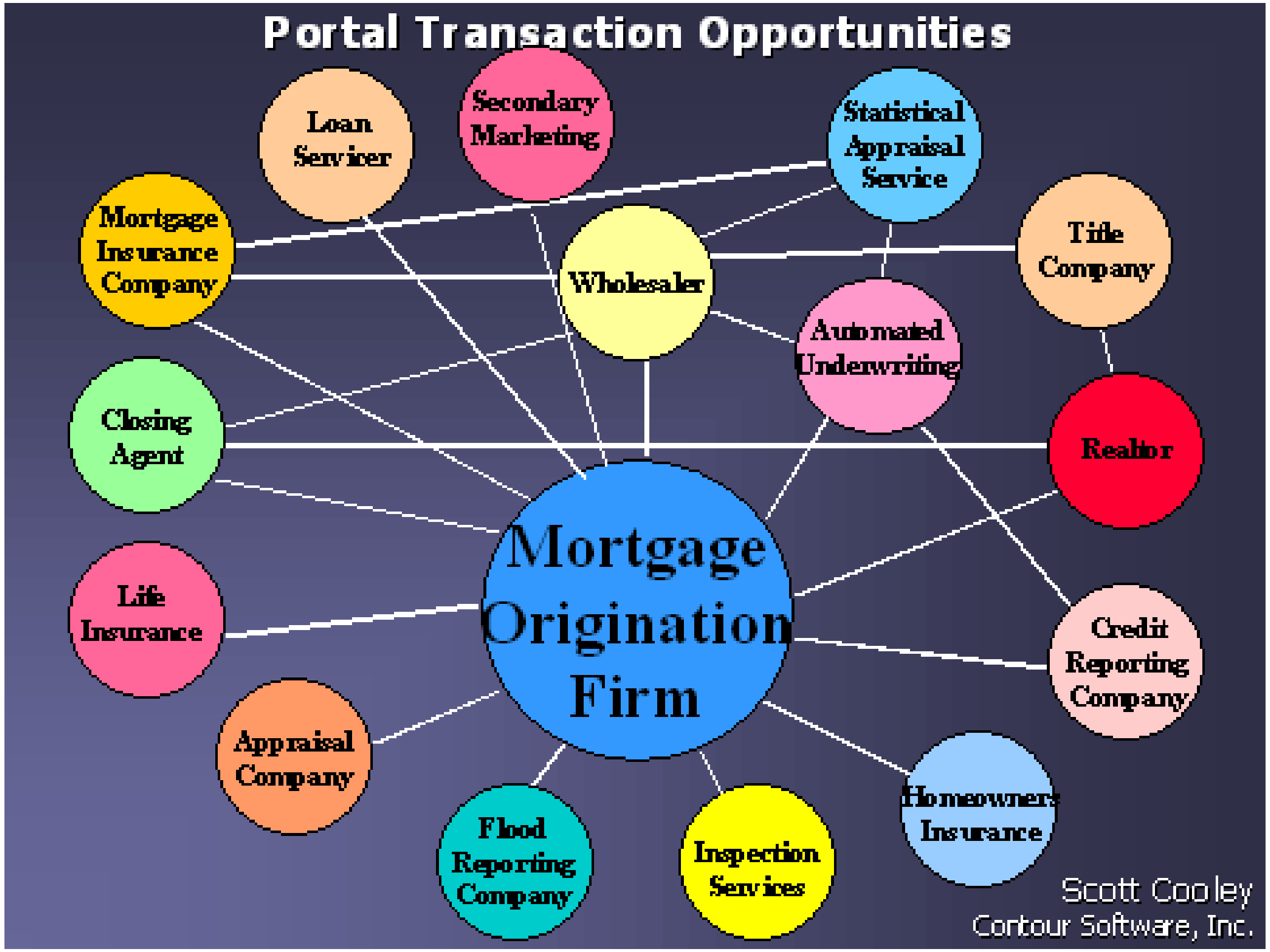
CHART
On the right side column, we'll list all the companies that are offering a portal solution for the industry. Across the top, we'll list the various features and transaction types handled. This will be a two page spread.
For the minimum companies that are involved see the slide below. However, there are other vendors as well. Check ads in industry

pubs and check the vendor list for the NAMB trade show. Obtain as many as possible. Add Lion, Inc, GHR, Homeloan.net, Myers Business Center, Onepipeline.

Along the top of the chart (use Excel) will be all the transaction types. The chart below contains these transactions. We must differentiate between Y-Yes, N=No and P=Planned. A Yes indicates that it's currently operational. To the transactions on the chart add Loan Product/Pricing. In addition to transactions we want to include the following features:

- Order Placement – can you place an order electronically through the portal – this should always be yes
- Order Receipt – can you receive the order electronically for 50% or more of the orders
- Order Tracking – does the portal allow for order tracking
- Active News Feeds – does the portal offer a source for general news on the industry.
- LOS Integration – does the portal move data to and from most LOS's
- Common Interface – this means does the portal have the same interface for every order or does it integrate into the service suppliers user interface.
- Warehousing the Data – does the portal warehouse/hold the data on their systems or do they simply act as a transfer agent. LOS's are the latter whereas Ocwen is the former.
- Charges the User – does the mortgage originator pay a fee to use the portal.
- Competitors On-Board – This means are direct competitors allowed to be on the portal. For example, does emagic have any competing MI companies. This question would be N/A for the LOS's and most of the Independents since their competition wouldn't need to use that portal.
- Funding – this is funding in millions of dollars

There may be more features that are needed to add to this list. As we visit each vendor, we need to see what other features they advertised.


Portal Transaction Opportunities
Loan Servicer
Secondary Marketing
Statistical Appraisal Service
Mortgage Insurance Company
Wholesaler
Title Company
Automated Underwriting
Closing Agent
Realtor
Mortgage Origination Firm
Life Insurance
Credit Reporting Company
Appraisal Company
Homeowners Insurance
Flood Reporting Company
Inspection Services
Scott Cooley
Contour Software, Inc.