Mortgages in 2005

Now that predicting the year 2000 has become so easy, let's take a look at what the industry will look like in 2005. Making such predictions is never an easy task but I do consider it my specialty. Of course, the easiest statement to make is that the only constant is change. However, there will be much more than just constant change between now and 2005. Instead, we'll have massive change. The industry will be somewhat re-invented by then. What follows are my best predictions on where it's all headed.

To start, mortgage brokers can breath a sigh of relief as their market share will increase to over 80% of total production. Not that the whole picture is rosy because it's not. They are increasing their share of a shrinking pie. They are loosing business in two primary areas. First is the refinance business. Refi's will no longer be the domain of the mortgage broker. Technology, primarily web sites, will do away with the need for mortgage brokers to handle refi's. Instead, the large servicers will simply allow borrowers to make those "one click" refinance decisions over the web. They'll take control of the relationship and keep their borrowers from refinancing to another company.

The second area that brokers will loose business is in the areas of seconds or home equity loans. Increasingly, the Internet will also own this market. I'd predict that by 2005 85% of all seconds will be done online by major lenders. Brokers offer the most value in the purchase transaction where hand holding is a big plus. For refi's and seconds, this value-add just isn't that strong. The Internet does a great job of educating the consumer and stepping them through a difficult process.

So why then, is 80% of the purchase market still being handled by mortgage brokers if the Internet is so powerful? Of course, I never said that the purchase market wouldn't come from the web. In fact, 95% of all borrowers will use the web in many ways to arrange their loan. They'll likely still use a local mortgage broker for the purchase transaction. The primary reason for this is the importance of a local relationship and mortgage brokers have been proven to be the least cost originators. Thus, the web will be an integral part of the offerings of every mortgage broker but they won't be loosing all their business to online lenders. Yes, there will be 20,000 mortgage web sites out there and consumers will use these web sites to help select a local mortgage company and to understand the process. Further, the web will be the primary communications system with the consumer.

It's after the loan is originated where things will really start to get interesting. With the Internet, it's all about disintermediation within many industries. For the mortgage industry, we'll see significant changes in the landscape between the mortgage originator and Wall Street. What isn't exactly clear yet is who will get squeezed out but it's pretty clear that someone will. My guess is that we'll see the mid-sized mortgage lenders taking the brunt of it. We'll see 80% of the loan volume flowing through the top 6 wholesalers. There will be significant economies of scale when it comes to obtaining loans from mortgage brokers. The Internet will streamline the process significantly. The relationship between the mortgage broker and the wholesaler will become much less of a human process. Loans and their data will flow quickly and efficiently with very little human touch. Risk Based pricing will be in full swing and even the borrower prequalification process will become highly automated taking this aspect out of the hands of the mortgage originator. Loan officers will handle far more loans but they'll take much less effort and time.

In there a NASDAQ in our future? The idea of an electronic loan trading system for the industry is intriguing and clearly, numerous well-funded companies are targeting this space. We could see brokers posting all their processed loans to such an environment and the large wholesalers vying to purchase these loans under very slim margin conditions. Technology and the Internet have the ability to do for the mortgage industry what E-

Trade did for the average stock trader. These large wholesalers could maintain profitability because of their ability to dramatically streamline the loan acquisition and funding process. However, most wholesalers haven't even begun to scratch the surface with E-Commerce. The first wholesalers to really build a slick E-Commerce solution could gain significant market-share in short order. Brokers will flock to such a system if it provides real value and makes their job much easier.

Other functions like loan processing, underwriting and closing will continue to become more efficient and Internet centric. Nothing major here, we'll just see a continuation of past years where these processes continue to see efficiency gains through improved technology.

As you can see, by the time year 2005 rolls around, this industry will have endured more changes then it has in the last 20 because of technology. It's an exciting time. Look for the opportunities and look out for the land mines.