



## Transaction Fees

**F**OR EVERY LOAN THIS INDUSTRY PRODUCES, myriad third-party services are used. These can include title insurance, credit reports, appraisals (traditional and automated), flood certificates, mortgage insurance, underwriting systems, closing document solutions and more. Mortgage companies encourage these service providers to reduce their prices as low as possible—it's all healthy competition.

However, what many mortgage companies don't know is that some of the profit margin is now going to pay for electronic delivery of these services through a whole new medium. Significant fees are now being paid to transaction platforms or portals, and these fees are altering the landscape of our industry.

If you order a credit report today through a platform such as that offered by Dublin, California-based Ellie Mae Inc.'s ePASS®, approximately \$1 is collected by Ellie Mae from the credit-reporting company. If you order the same product directly from the vendor's own solutions, that \$1 is not charged. Other platforms also charge fees to the service providers, such as Realec Technologies™, a majority-owned subsidiary of Fidelity National Financial, Jacksonville, Florida, with significant equity ownership by Stewart Title Co., Houston, and LandAmerica Financial Group, Richmond, Virginia. (The amount of fees charged differs by platform.)

In fact, most of the loan origination software (LOS) companies are rapidly building a portal or partnering with one so they can also participate in this newfound revenue. For example, the LOS vendor Pipeline Solutions, Sacramento, California, recently signed on with the ePASS platform even though they both compete in the same LOS space. The LOSes are in an interesting position as they reside in the digital world between the mortgage company

and the service provider. The data in the LOS must interchange with the data in the systems of the service providers.

The smaller LOS vendors are having a difficult time building a portal needed to support the thousands of service providers. In order to compete, they are being forced to find a portal partner.

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Building a portal solution can run into the millions of dollars in development costs. The larger LOSes have the resources to build their own, as well as command the resources and portal fees from the service providers.

One leading LOS player, Calyx Software, San Jose, California, has been slow to jump on the bandwagon but is now actively negotiating deals with some companies such as wholesalers that buy the loans from their broker customers. Wholesale lenders can sometimes pay as much as \$50 per loan to a portal for having great connectivity with and positioning in the portal when compared with their competition. Calyx has been actively building its own portal solution rather than partner with another company.

A significant share of mortgage

loans flows through Calyx. Thus, what Calyx does with its portal could have significant impact on the industry. The service providers are watching Calyx carefully and doing everything they can to position themselves favorably with the firm. Still, the firm's founder, Doug Chang, remains elusive about his plans for Calyx and what the future of its portal will look like financially. My attempts to reach Chang for comment on this subject were unsuccessful.

One thing is for sure: Not even Calyx can alter the course of this changing landscape. It's conceivable that at some point in the future, some LOSes may be given away for free by their developers. Already, my understanding is that the revenues derived by software licensing at Ellie Mae have long been surpassed by its portal fees. While no LOS software firm has taken the bold step of giving away its software, the lower-priced LOS vendors are watching carefully for this possibility.

The longer-term implications are already being felt in the service provider landscape. The largest service providers are in a race to build solid relationships with the LOS vendors. They are making heavy bets to ensure they have a solid footing on these new digital highways.

First American Corporation, Santa Ana, California, owns a significant portion of Ellie Mae; Fidelity National Financial acquired Eastern Software Corporation, Sharon, Pennsylvania, and owns Realec; and CBC Companies, Columbus, Ohio, bought out Byte Software, Kirkland, Washington. In my view, service providers that haven't got a foothold in the LOS marketplace are in a tough spot, and are trying to figure out what to do. Of course, many eyes are focused on Calyx. To date, Calyx has remained neutral and non-partisan. It's no secret that numerous service providers have been interested in buying Calyx, but so far, its owners

apparently have shown no interest in selling.

While all of this has been occurring, the service providers' sales forces have had to dance around this changing landscape. The account executives who frequently visit mortgage companies selling credit reports and other services are commonly asked which LOS products are the best. Historically, my perception is they have been somewhat neutral and freely gave feedback on what they thought were the strengths of the various LOS offerings. Today, however, that question is a loaded one.

An account executive whose parent company has an ownership stake in a certain LOS may be giving LOS product

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recommendations that whether knowingly or not do not represent a completely neutral point of view. Mortgage companies that seek out these account executives as independent referral sources may not fully understand this.

Mortgage companies must now factor in new information when looking to purchase an LOS. They must consider which LOS vendors are closely aligned with which service providers. For example, if a mortgage company uses Fidelity National for much of its needs, Ellie Mae may not be a good choice—an interface to Fidelity is almost nonexistent. Similarly, if a mortgage company goes with Eastern Software, will it find it difficult to purchase offerings from First American? This new landscape adds another dimension to buying an LOS that companies need to be aware of.

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