BEWARE THE KODAK OPPORTUNITY

Beware not to go the way of Kodak. The idea is: Change with the times or be left behind forever.

By Barbara Perino and Rebecca Walzak

The most prominent news headline recently was the announcement of the bankruptcy filing of the Eastman Kodak Corporation. Kodak was once one of the largest commercial enterprises in the world employing over 148,000 people. They reached this lofty statusby mass-marketing color film, cameras and printers for use by people around the world. Remember when a very special picture-taking momentoccurred? It was referred to as “a Kodak opportunity”. Kodak was a giant in the industry. There were even songs written about it; remember Paul Simon’s “Kodachrome”? So what went wrong? What did management do or fail to do that would cause it to collapse into its current state of less than 20,000 employees and teetering on the on the verge of disappearing?

While there are a myriad of issues, both big and small, the bottom line is that they refused to change. Today everything is digital. When was the last time you actually used a camera that required you to buy film, take the pictures and then get them developed. Remember how many rolls of film you would buy knowing that many of the pictures you thought would be priceless would turn out to have your thumb in the middle. Today that same picture can be viewed, deleted, taken again and viewed again within a matter of minutes. The advances made in picture-taking have totally changed the market. Did Kodak not see this coming?

Surprisingly it was Kodak themselves that first came out with a digital film in 1975 but it wasn't until 2004 that they began to create an internal digital program. Why would a company or an industry for that matter, design and develop new technology and yet not remake themselves to support it? This same question has been asked before and the answers always seem to come back to the same thing; a leadership mindset that refuses to change; a lack of strategic insight into what changes were coming and what they would mean to the company.

Edwards Deming, the developer of statistical process control and the leader of the quality movement commented on this phenomena when he stated that we must recognize that change is not required because survival is not mandatory. In other words, if you want to survive, you have to change. For a business it means recognizing what is going on within its customer base, become familiar with the technological, human and financial changes that are taking place, the external environment in which you are operating and position your organization to be involved in what's to come.

Once these thoughts are organized a company's leaders must look at the strategic vision of the organization and how it fits into what the future brings. What will be the need for that resource in the future and if necessary what do you need to do today to reposition your organization so that its products and services will meet the needs of the future. Failing to see how identified emerging issues will impact what you do can have significant consequences. An example of this is the tale of two railroad companies at the turn of the 20th century. When faced with the development of the automobile and the opportunities it provided, one of these companies decided that to address this threat they would focus on their core competencies' which resided in the railroad business.The decision was made to focus more strongly on providing the best possible railway transportation for products and people. The other determined that their competencies were actually in the transportation business and they strategically explored ideas and technologies that would allow for all types of transportation. It is not hard to guess which one survived and which one went the way of Kodak.

So what does this mean for the mortgage industry? Surely this does not apply to us! After all, we have added technology platforms to everything we do, advanced the way mortgage financing is bought and sold, streamlined the servicing process and developed automated systems for evaluating borrower's credit risk. And as soon as the new regulations are finalized we will be ready to provide mortgage financing to a new generation of homebuyers, offer them more information than ever about how the process works and assure them that the mortgage product they have selected is the best for them and their financial well-being. But is this truly the reality we face?

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In previous articles we have discussed the generations that will follow the baby boomers and how they see their roles, responsibilities and lifestyles changing. Will they be as excited or eager to buy a home now that they have experienced the down-side of such an investment? If not, what type of housing will they be looking for? Are they going to be renters and does that mean more investment properties or multifamily housing? And who will finance these properties. After all, we have been told that speculative housing was one of the main contributors to the housing collapse.

Will the traditional family unit be changed with more individuals contributing to the income? How will the industry deal with that when we are stuck in a traditional expectation of whom and how people will make mortgage payments. And what about income? Will the types or patterns of income change? Will it become unrealistic to expect monthly payments of mortgage debt as more people become independent contractors or "contract employees" that are paid in larger amounts on a sporadic basis?

If this is the case, what does it mean to the mortgage products that we have today? Will we have to change those as well? There have already been discussions about changes to the traditional mortgage that will include a standard prescription for addressing the need to support repayment through modifying payments as a borrower's financial condition changes. And how will that change the way borrowers' are qualified?

Speaking of qualifying, what will be the process for obtaining a mortgage in the future? We are all aware of that the next generation and each succeeding generation will become more technologically oriented; expecting that every issue that confronts them can and will be addressed through an electronic tool. And do it in just a few minutes. What do you think they would say to a lender who tells them that a loan officer will meet with them to collect their information and begin the loan approval process? These individuals are much more likely to expect to simply enter several pieces of information into their iPads and be able to get an answer by return email. Or they will upload the completed application to a cloud like Dropbox. The industry has been trying to find a way to make that happen since the 1980s with no success. So what has to change to make it a reality and what company will make it happen? Will it be a traditional lender or will it be a company from a totally different industry with a better vision of the future and a stronger strategy for achieving that vision?

Servicing is also another area that is ripe for major changes; if we have servicing organizations at all. With all records maintained electronically and automatic transfer of funds, will we even need to have an organization that is made of manual processes? But what about all those problems that require a service representative contact the borrower to resolve the issue or the calls from borrowers seeking information? Those as well can be handled electronically today. Imagine a program that alerts a borrower to a change in interest rates that would lower a monthly mortgage payment and asks if they want to proceed. If the borrower responds yes, the necessary documents are presented on the screen and the borrower signs electronically thereby refinancing the loan in a matter of minutes. Can't be done? Well a version of it already has been. Unfortunately because it prevented loan officers from making commissions on all the refinances, they threatened to leave the organization that had implemented it, forcing them to choose between the technology and the loan officers. Will decisions like that be common in the future or will we have leaders who understand the opportunities and take on these changes?

But let's go even further; to the development of a totally different approach to financing home purchases. The USA Today, in its recent coverage of the Consumer's Electronic Show in Las Vegas, highlighted the fact that "smart electronics" were predominate in all areas of the consumer electronics industry. If con-

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sumers are able to have washers, dryers, cameras and fitness devices to help them achieve goals and do the work for them, what will they expect from mortgage lenders? Will there be a "finance app" that actually tells individuals, based on their income, how much of their money to save and how much to spend to reach their financial goals. These spending parameters would include housing and most likely be structured to incorporate housing payments based not just on the ability to repay, but on the ability to obtain tax advantages and overall life time financial objectives. One new lender, GreenBar America, is already focusing on this type of business. How will the rest of the industry respond? Or imagine collecting information on a borrower and evaluating them for a mortgage only to have them argue the amount and/or payment based on what their "smart" technology is telling them. How meaningful would our traditional credit policies be then? How effective would we be in providing the appropriate consumer protections that new regulations are focused on? Lenders need to be prepared for this eventuality. They need to be thinking strategically about how to survive in such an environment and have a comprehensive strategic planning process.

A strategic planning process is not just one person putting together sales goals for the next quarter or even the next year. It is not about developing a budget or forecast. It is about taking the time to envision the future and determining what role or roles your organization will have in that vision. This is something that needs to be done collectively with the entire executive management team. The management team must come together to discuss ideas, options and make decisions. The process involvescumulative thinking, the ability to determine multiple strategies and the plans for implementing each specific strategy. As Jack Welsh, former CEO of GE has often stated. "Change before you have to." But the ability to bring individual ideas, concerns and objectives together to produce these cumulative thoughts requires the use of an external resource. Executives typically hesitate to hire a "consultant" to facilitate such a sessionunder the guise of "we don't need that". But the reality is you do. Being emerged in the day to day operations of any organization results in a short-sightedness; in other words you have to focus on the short term in order to do your job. The switch to creating a long-distance vision is impossible without someone there to pull you away from the issues and ideas that await you in the office. So if you care about your organization, want it to be a leader in the industry or have a legacy for your grandchildren, you need to start the strategy development process and bring in external support to make it happen. The value of an impartial third party includes helping you look at all ideas, some of which you may not have thought about. It also gives you some fresh perspectives to consider, even "out of the box" thinking.

Once you have these multiple strategic approaches developed, the leadership team should be charged with identifying potential implementation plans and possible threats or fears to this implementation. They need to evaluate what people, processes and technology will be required and determine if what is in place today is sufficient and if not, develop a plan for getting where you need to be.

It is also important that you keep abreast of other new programs; what is happening in the regulatory environment, the technology advances and just what is going on in the world in general. Even though you may have a regular stream of information about the mortgage lending industry, other industries or other people may make an insignificant improvement or change that can spiral into unforeseen opportunities that had never been considered before.

Francis Bacon once said "He that will not apply new remedies must expect new evils." And whether you think of innovations and change as evils, the reality is that they are coming toward us at a rapid pace. So the question you must ask yourself is: "What is my plan as change occurs?" What strategy have I developed for incorporating these new ideas into my organization? If you don't have any, or you haven't even thought about it yet, are you really the leader the company needs? After all, a leader is not someone who follows others. He or she is the person in front pointing the company in a new direction. If you are the leader the company needs, you must take action sooner rather than later or you will find those following you yelling for you to get out of the way. ❖

About The Author

Barbara Perino is a Certified Professional Co-Active Coach guiding her clients who are executive leaders and their staff. Barbara has been trained through The Coach Training Institute (CTI) located in San Rafael, CA. She completed a Coaching Certification Program through CTI and the International Coaching Federation (ICF). Prior to becoming a coach, Barbara was a 16-year veteran of the residential mortgage industry in a national sales management capacity for property valuation and residential mortgage service providers.

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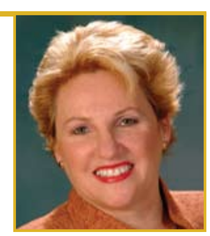

rjbWalzak Consulting, Inc. was founded and is led by Rebecca Walzak, a leader in operational risk management programs in all areas of the consumer lending industry. In addition to consulting experience in mortgage banking, student lending and other types of consumer lending, she has hands on practical experience in these organizations as well having held numerous positions from top to bottom of the consumer lending industry over the past 25 years.