



Is SaaS For Real?

Is all the talk about Software as a Service going mainstream for real? Is this a lasting trend or a momentary fad?

There has certainly been a lot of talk about Software as a Service (SaaS). I remember the days when many disputed the future validity of any Web-based approach. They said that lenders would never go along with it. Critics cited security reasons as the biggest hurdle. However, security around Web-based applications has improved and more and more vendors are moving to offer SaaS products.

For example, origination vendor Ellie Mae reported results for the fourth quarter and fiscal year ended December 31, 2011 and spoke very highly of how important SaaS has become to their company's financial viability. Total revenue for the fourth quarter of 2011 increased 48% to \$18.8 million, compared to \$12.7 million in the fourth quarter of 2010 at Ellie Mae. Net income for the fourth quarter of 2011 was \$1.8 million, or \$0.08 per diluted share, compared to net income of \$1.9 million, or \$0.11 per diluted share, in the fourth quarter of 2010.

Why are the numbers so positive? Ellie Mae says SaaS has a lot to do with it. The number of lender users actively using the company's Encompass enterprise solution ("active lender users") increased 17% year over year to 46,238. Of all active lender users, 23,319 or 50%, were using the SaaS version of Encompass, an increase of 74% year over year. In total, 5,540 SaaS success-based pricing (SBP) seat licenses were sold, or booked, during the quarter, including 1,690 new seat licenses and 3,850 conversions of existing licensed Encompass and Datatrac users to the SBP model.

In talking about this trend, Sig Anderman, President and CEO of Ellie Mae, said, "Our 2011 financial performance reflects strong momentum for our on-demand offerings, which accounted for 86% of total 2011 revenue. Growth continued to be fueled by our popular success-based pricing solution, with over 18,000 SBP seat licenses sold during the year, an increase of 57% from 2010. The number of active SBP users doubled in 2011, to over 19,000.

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"This SaaS, end-to-end solution is increasingly resonating with lenders, as it enables them to streamline and automate the mortgage origination process and address the proliferating regulatory challenges and investor demands for quality and efficiency," he continued. "By offering this comprehensive suite of services on demand with an attractive pricing and risk proposition, it enables our customers to focus on the business of originating loans, rather than technology infrastructure, with Ellie Mae as their aligned technology partner."

Realizing the strength of SaaS, Ellie Mae recently announced that Cathleen Schreiner Gates has joined the company as its senior vice president (SVP) of sales and client services. In this role, Ms. Schreiner Gates is responsible for all client-facing activities, including new client acquisition, implementation, training, client services, on-going account management and client care. She reports to Jonathan Corr, chief operating officer (COO) of Ellie Mae.

Ms. Schreiner Gates joins Ellie Mae with more than 25 years of experience, working in marketing, sales and field operations with various companies, including start-ups and high-growth companies, where she helped them transition into successful software as a service (SaaS) providers. Most

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recently, she was SVP of sales and client services at Bersin & Associates, LLC, Oakland, CA, a global provider of research, tools and advisory services in talent management, corporate learning, leadership development, talent acquisition and human resources.

Over the course of her career, Ms. Schreiner Gates has held executive management and senior sales positions at Clickability, MarketTools, Keynote Systems, SiteROCK and NinthHouse Network. Most notably, she spent more than 10 years at Hyperion Solutions, a business-performance-management software company acquired by Oracle in 2007. In her role as VP of sales, she helped the company grow its revenues from \$10M to \$500M. During her tenure, Hyperion went public, acquired four companies and moved into several new markets.

But why was she really brought on board at Ellie Mae? “Ellie Mae’s business model is rapidly shifting from an enterprise software to SaaS,” said Corr. “Cathleen’s experience at Hyperion is exactly what we were looking for. Not only is she a proven sales leader, but she is also someone who understands the complete client experience and can help us maximize client satisfaction as a SaaS provider.”

As we all know Ellie Mae caters to small and midtier lenders. These lenders are satisfied with out-of-the-box solutions, but what about the larger lenders, will they gravitate to SaaS? To answer this question I went to Mortgage Cadence, an origination vendor that touts having many larger lender clients. Rob Janotte, EVP of Product Management at Mortgage Cadence, said that he, like Ellie Mae, believes that SaaS is here to stay.

“As margins continue to shrink due to the erosion of available product options in the mortgage industry, lenders must find ways to leverage economies of scale, drive down operating costs, and reduce overall maintenance costs,” he noted. “Lenders only need to look to the ‘clouds’ for a solution. With all the benefits that cloud computing has to offer, it is a no-brainer for survivors in the mortgage lending space to utilize cloud-based SaaS technology solutions. SaaS offerings provide fast, inexpensive, and very stable services that decrease implementation

times and allow faster realization of ROI. While lenders may face some of the hardest times they have experienced in the last 20 years, cloud-based SaaS computing solutions will provide opportunities for cost savings, decreased implementation times, and operational efficiencies like never before, getting clients to ROI exponentially faster.”

As they say though, the proof is in the pudding. Are lenders willing to come out and tout SaaS as something that swayed them toward making a given technology decision? In fact, many are. For example, Independence Mortgage Company’s 2011 restructuring plan included moving to a cloud-based server, using Microsoft Office 365 and equipping its sales team with iPads for work on the go. Avista Solutions’ cloud-based, all-in-one format fit the company’s new business profile, provided much-needed data security and freed its IT department from cost and resource burdens, Wickham said.

“My big push for Avista was that it complements my IT objective for the group globally,” Independence Mortgage Company Director Jim Wickham, a Certified Mortgage Banker, said. “It’s secure, has a central source of maintenance, offers remote access and is not device specific. We’re moving to Microsoft Office 365 and the cloud-based server for our business unit, and when we complement that application with Avista’s Web-based format, we achieve our goals.”

So, what’s the long-term takeaway of the future of SaaS in the mortgage space? A popular technology blog called “Inspirations” put it this way:

By using Cloud computing, many companies are now offering SaaS over the Web. Salesforce.com is one such company which pioneered the use of serving software over the Web. Salesforce.com’s flagship on-demand CRM (Customer Relationship Management) is now used by millions of people across the globe. Its annual revenues are to the tune of \$1.27 billion in 2010. The growth of companies like Salesforce.com signifies the growing popularity of SaaS, which was the result of innovation in cloud computing.

I think “Inspirations” has it right. SaaS is here to stay. ❖

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