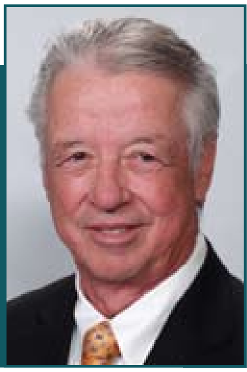

Future Trends - By Roger Gudobba

20 Years Later

Recently I was looking back at some old technology magazines and what I found might shock you.

As I was looking at some old technology-related magazines I came across the cover story for the March, 1991 issue of Mortgage Banking magazine, which was "Technology: More Systems, Less Paper". I thought it would be interesting to review the issue's feature articles to determine what we thought was needed for the future and to see what we have accomplished towards those goals over the past 20 years. Throughout the article you'll see the headline of the feature article, an excerpt from that article and my comments today reflecting on how far, or not, that we've come. Here we go:

The Great Industry Data Bank

The large secondary market agencies probably have a better view of the extent of automation in the mortgage business than just about anybody. They deal on a regular basis with thousands of sellers/servicers who boast widely varying degrees of automation in their operations. At HUD, Freddie Mac and Fannie Mae technology is being used to make the most of vast amounts of lender data being collected. Efforts are also underway to permanently replace paper in the scheme of things.

You need to **analyze your** overall process from **top to bottom** with the thought that simple improvements may not be enough.

Secondary market agencies deal every day with the stratification between the technology "haves" and "have-nots". If there is one thing technology brought to the mortgage industry, it's the ability to collect millions of items of individual data about borrowers, lenders and loans. Part of what is hampering the transmission of data electronically is a lack of uniform standards. No one seems to be able to agree on the correct format and content for electronic data transmission throughout the mortgage banking industry. Unfortunately, the data knife has a double-edged blade. The better the agencies become at manipulating data, the more they may be tempted to use it to closely scrutinize everything a lender does. Complaints from lenders were that they feel publicizing such information is like forcing them to publicize trade secrets.

My thoughts: Communication between two parties works best when they speak the same language. Otherwise, something is usually missed or lost in the translation. Back then there were silos of information within an organization. The origination, loan administration and secondary were mostly independently managed by disparate systems. There was a strong need for developing standards. In my opinion the reluctance to share information and move towards a common standard was very self-serving for the lenders and agencies. This proved to be very short-sighted for the industry.

The article goes on to claim that most data processing is concentrated first on the areas of need- what can't be done without it. So the loan administration area is always the first to be automated, followed by secondary market. The origination side is just beginning to have its technology needs fulfilled. The lack of staying power, leadership and standardization has worked against some software producers in their attempts to create links between secondary, servicing and origination programs.

My thoughts: Many of the top lenders spent literally millions of dollars searching for a technology solution. Some tried to develop internal systems, some acquired existing solutions and others relied on the technology vendor for their operation. In reality most of these had limited success. Today some of these lenders and vendors are no longer in business.

Back to Mortgage Banking magazine: Additionally, the agencies and some of the sophisticated mortgage banking firms started taking advantage of imaging technology in their operations. The Freddie Mac pilot project incorporates the use of scanning technology where the computer examines images of documents and checks for certain pieces of data. Mark Fleming stated "It's smart enough to look for a space where a signature or endorsement has to exist and see that there's nothing there and immediately flag that". At Fannie Mae, they're looking at a variety of things, primarily putting more effort into the MORNET system, but also at scanning and optical disk technologies. The corporation sees a potential for artificial intelligence in underwriting. "We're looking at experimenting with it, but not aggressively and nothing near-term is likely to come about" said Fannie Mae Senior Vice President and Chief Information Officer William Kelvie.

The Editor, Janet Reilly Hewitt, stated in her commentary "As the article reflects, there is still a lot of paper out there – no threat to Federal Express is emerging yet from this industry. But then again, change is rarely delivered overnight".

My thoughts: The sad part is that this is still mostly true some 20 years later.

The MI Technology Race (Private Mortgage Insurers)

This article says MI profits during the 1970's were healthy. Widespread "high appreciation" kept homes virtually assured of not going into foreclosure. Underwriters had less than a 2 percent rejection ratio. Some MI companies did not even have a claims department. But in the mid 1980's, forces changing the mortgage business began eroding MI companies' profits. High claims generated from the introduction of teaser-rate ARM's and other creative products, coupled with a severe housing recession led to an increase in foreclosures. Part of this change was due to increased emphasis on volume by originators, which led to poor loan quality. S&P Credit Review stated: "Lax underwriting and inadequate pricing led to this financial crisis"

My thoughts: We had a falling housing market, foreclosures, exotic loan products, inadequate product pricing, lax underwriting. Does any of this sound familiar? History has shown the mortgage industry to be very cyclical in nature. When will we learn from our mistakes? The article notes that going forward, the major mortgage insurers are all investing heavily in technology. The balance they are striving for is improved customer service and improved underwriting to provide competitive pricing. They've got their sights set on gaining a competitive edge down a path that promises faster service and better risk assessment. Plans call for electronic access and storage of documents, leveraging artificial intelligence in the development of automated underwriting standards and setting data standards based on Electronic Data Interchange (EDI).

My thoughts: The EDI architecture was composed of fixed length records with fixed space for data elements. Changing or modifying record layouts was a very time consuming and labor intensive process. The MI companies worked collaboratively and their EDI work was very useful in the development of MISMO standards some 10 years later. However, it took the better part of the next 10 years to fully evolve into an industry standard.

> I believe we have made more progress in the **last few years** as the industry is more well **positioned to embrace** technology than ever before.

My Takeaway

What do I take away from this experience going down memory lane? Organizations have to approach their technology investments very carefully. We tend to be very reactive in this industry rather than proactive. You need to analyze your overall process from top to bottom with the thought that simple improvements may not be enough. Is there a better way? Think outside the box. Technology is the easy part; it's the cultural change that's hard. ❖

Roger Gudobba has over 20 years of mortgage experience. He is CEO at PROGRESS in Lending and Chief Strategy Officer at technology vendor Compliance Systems. Roger is an advocate of data standardization and a more data-driven approach to mortgage. Roger can be reached via e-mail at rgudobba@compliancesystems.com.