

Looking To The Future

Our Innovations Winners gathered to discuss the present and the future of the mortgage space.

Over 120 mortgage executives came together to attend PROGRESS in Lending Association's Innovations Event. We named the top seven innovations of 2011. After that event, we wondered what would happen if we brought together executives from each winning company to talk about mortgage

Executive Interview

technology innovation. Where do they see the state of innovation? And what innovation is it going to take to get our industry going again?

To get these and other questions answered, we got the winning group together. In the end, (Back Row Left to Right) Lester Dominick, President of MortgageFlex Systems; Brent Stokes, Senior Vice President of Sperlonga Data & Analytics; Jeff Wirsing, President and Co-Founder of GreenBar America LLC; (Front Row Left to Right) Ravi Ramanathan, President and CEO of Decision Ready; Joe Badalamenti, President and CEO of Five Brothers; Bruce Backer, President of LoanSifter; and Jennifer Miller, President of a la mode's Mortgage Solutions Division, talked about a lot of pressing industry concerns.

PHOTOGRAPHY BY TONY ELLIOTT



Executive Interview

Q: Some say innovation has to be sweeping change. Others say innovation can be incremental change. How would you define true innovation?

JEFF WIRSING: More often than not innovation involves incremental change in how something was done previously ... but the end result is to effect a significant change, or ripple effect, that reaches a critical mass. It's almost like a chess match. As in chess ... a piece gets moved from one square to another. When that happens it opens up a multitude of other opportunities for the other pieces. That being said, it's only true innovation if the result is an improvement over what you had before.

JENNIFER MILLER: A true innovation creates a solution to a problem that has never been done. It's a new and creative way to describe, solve, or redefine a problem that impacts the daily lives of a particular market. And taking it a step further to provide context – it's applying technology to solve a problem in ways that no one has done before.



LESTER DOMINICK
MortgageFlex

"True innovation is the creation of a product or service that does a better job of solving a real problem than what currently exists."

LESTER DOMINICK: True innovation is the creation of a product or service that does a better job of solving a real problem than what currently exists. Sometimes a small incremental change can have a great impact and carry a small cost. Sometimes it takes a completely new solution to have great impact. The determination if a product or service is a successful innovation is ultimately determined by the market, which considers costs and benefits. True innovation has to be proven and sustainable.

JOE BADALAMENTI: Innovation is at the heart of all progress and success. It is the introduction of new methods, ideas or products. Innovation can take the form of sweeping change, while at other times it may take the form of incremental change. Five Brothers defines true innovation as the process of applying knowledge, expertise, and technology to meet the challenges and opportunities in the market.

BRUCE BACKER: It is possible to have incremental innovation without a sweeping change by applying proven techniques to a new market or product or by enhancing products in ways the market hasn't seen. By studying technology innovators such as Google, we've been able to create performance efficiencies and reliability that this market has not experienced with product eligibility and pricing engines, and I would consider that incremental innovation. But your purest innovation is often sweeping, or at least it has a sweeping impact on the market. By getting a clean start, you are not held back by tunnel vision or the design limitations of the current system.

RAVI RAMANATHAN: I believe true innovation always stems from creative approaches to difficult challenges. Innovation is taking creativity a step further by putting ideas into action. That means coming up with a new solution, product or service that will have an impact. It usually involves taking risks, and thinking outside the box, which



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RAVI RAMANATHAN
Decision Ready

of course is at the very heart of innovation. All innovation is important, whether it be a large and far-reaching change, or come in the form of smaller, incremental changes to build upon an original idea, which seems to be more the norm.

BRENT STOKES: I also don't believe that innovation has to involve sweeping change. Innovations often incrementally improve an important aspect of daily life in surprising ways. We've had cell phones for more than a generation now, but innovative technologies have made them far more useful over the last 10 years or so. Those changes have been incremental in nature. True innovation usually means turning a good idea on its ear and creating something that works better, easier, faster, cheaper or a combination of all of these.

Q: How would you define the state of mortgage industry innovation? Is it thriving or in a state of decay?

LESTER DOMINICK: A little bit of both and a

Executive Interview

whole lot of being stuck in neutral. There is a tremendous amount of focus required on current and future regulatory compliance. Even the most aggressive innovators must devote their most valuable resources to compliance as their highest priority. There are certainly many opportunities to create innovative products and services taking advantage of new technologies and information distribution channels. New consumer technology innovations are happening every day and lenders have realized that today's consumer expects the same advanced conveniences in their lending experience. I'm only seeing a few companies devoting resources to pursue this opportunity while most are just trying to get by with just focusing only on compliance.

JEFF WIRSING: From my perspective, I see very little true innovation in the mortgage industry. It's not thriving and it's not in decay. It's just stuck. I compare the "system" that we call the mortgage industry to a car that worked for many years. But times have changed and the old reliable



Joe Badalamenti
Five Brothers

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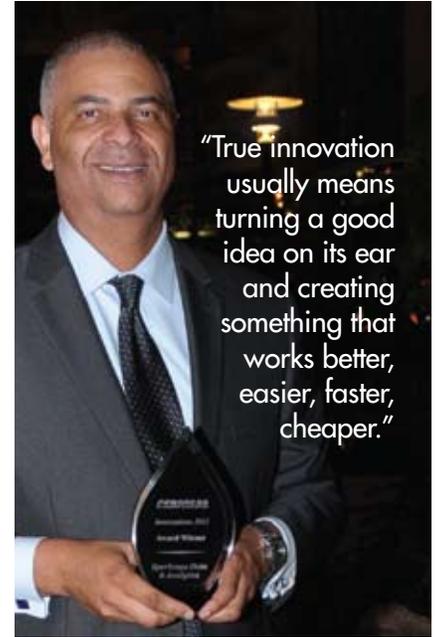
car just doesn't serve our needs any more. In an effort to fix a variety of problems the participants in the mortgage industry have been dismantling the car, re-building it with the exact same parts, and (surprise, surprise) getting the exact same result.

BRENT STOKES: Mortgage industry innovation may not be thriving the way it was in previous real estate cycles, but it's certainly not in decay. On the origination side, we are not seeing as many new loan programs or technologies that make mortgage credit as widely available as before. We are, however, seeing new ideas to make loans more safely. On the servicing side of the mortgage business, we are seeing innovation, especially in the foreclosure segment. Why? Because mortgage servicers are still trying to cope with the aftermath of the largest financial crisis.

JOE BADALAMENTI: The past few years have been extremely challenging to the mortgage industry. The industry has been forced to respond to the massive influx of new rules and regulations, challenging economic conditions and uncertainty in the market. These changes have spurred a wave of new innovations to meet these challenges. The silver lining is that the innovations created over the last year specifically address new market conditions, which are helping servicers maintain control in this new environment. Some innovations have been sweeping changes, while others have delivered incremental change, but one thing is certain, innovation in the mortgage industry is not in a state of decay.

RAVI RAMANATHAN: Overall, I would say the state of innovation in the mortgage industry remains vibrant, but in different areas from those we saw prior to the crisis we are presently dealing with. As a sector, we continue to innovate in the segments most in need of help.

BRUCE BACKER: I believe mortgage tech-



BRENT STOKES
Sperlonga Data & Analytics

"True innovation usually means turning a good idea on its ear and creating something that works better, easier, faster, cheaper."

nology innovation is thriving. Today's regulatory and consolidative environment is forcing innovation to be centered first and foremost around compliance needs and tight integrations between best-of-breed solutions. This type of "forced" innovation may not be as press-worthy as the big splash of production innovation, but it doesn't suggest any sort of ongoing concern.

JENNIFER MILLER: There's no doubt that mortgage industry innovation is currently thriving. Regulations have necessitated considerable innovation with regard to appraisal independence and delivery, just to name one industry example. The market has also been an impetus for innovation since mini booms require technological investment to seize market opportunities.

Q: Lastly, if there was one innovation that the mortgage industry needs to get closer to recovery, what would it be?

BRUCE BACKER: We've seen the aftermath

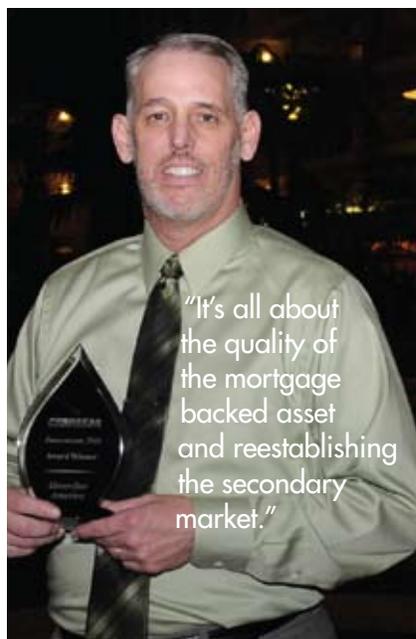
of some innovations that have driven the industry's boom periods, so I'd be skeptical of any magic bullet that will substantially enhance the market in the short term. For the industry to strengthen its reputation, it needs to continue supporting the education and empowerment of borrowers.

RAVI RAMANATHAN: Finding a quicker and more efficient way to resolve delinquencies and foreclosures would help get the industry back on track. As everyone knows, there are markets in the country with a shortage of housing inventory, yet an abundance of foreclosed properties waiting to come onto the market in the form of shadow inventory. Often servicers are stymied by the fear of lawsuits and potential compliance issues. Addressing those concerns and using technology to ensure that foreclosure processes are legal and compliant will ease servicers' minds. Then the number of properties currently being tied up and hanging over the market can be moved.



Bruce Backer
LoanSifter

"Today's regulatory and consolidative environment is forcing innovation to be centered first and foremost around compliance."



Jeff Wirsing
GreenBar America LLC

"It's all about the quality of the mortgage backed asset and reestablishing the secondary market."

JOE BADALAMENTI: Implement innovative, regulatory-compliant mortgage technology solutions that enable residential mortgage servicers to effectively respond to constantly changing market conditions. This type of innovation will provide servicers with the ability to maximize asset preservation, reduce costs, and optimize borrower relationships.

JEFF WIRSING: It's all about the quality of the mortgage backed asset and reestablishing the secondary market. Over the last 3+ years we've seen changes in the mortgage industry that effected licensing, valuation, compensation, legislation, fraud, analytics and underwriting guidelines. Despite all of those efforts the result (for all intents and purposes) is a complete lack of investors coming back to the secondary market. And the one thing that has been conspicuously absent in all of these "fixes" is the consumer.

LESTER DOMINICK: A loan product that

would reduce the financial risks for a family being homeowners would be great. The product would offer financial stability and flexibility in all economic conditions for the majority of homeowners. It would balance the benefits of an appreciating market against the downside of a declining market.

JENNIFER MILLER: The biggest area where innovation can be applied is in the arena of analytics – especially when it comes to evaluating appraisals in such a way that the good can be picked from the bad. Appraisers are coming under fire because they are being viewed as the party that is "killing deals." But in some cases, the deal should be killed.

BRENT STOKES: We also need more efficient ways to bring qualified buyers and motivated sellers of properties together. This means removing the friction that separates the housing supply, including REO and the distressed borrower inventory, from willing and capable buyers. ❖



Jennifer Miller
a la mode

"The biggest area where innovation can be applied is in the arena of analytics – especially when it comes to evaluating appraisals."

2011

INNOVATIONS Party Shots

Photography By Tony Elliott

