Looking Toward Our Future

Over 100 mortgage executives came together to attend PROGRESS in Lending Association’s Third Annual Innovations Awards Event. We named the top seven innovations of the past twelve months. After that event, we wondered what would happen if we brought together executives from each winning company to talk about mortgage technology innovation. Where do they see the state of innovation? And what innovation is it going to take to get our industry really going again? To get these and other questions answered, we got the winning group together. In the end, here’s what they said:

Our 2013 Innovations Winners

Top row left to right: Reid Smeda, President of Compliance Systems Inc.; Sharon Matthews, President and CEO of eLyx; and David Lykken, host and creator of the Lykken on Lending Radio Program. Bottom row left to right: Judy Margrett, President and Co-founder of The Turning Point; Sanjeev Dahiwadkar, CEO and founder of IndiSoft; Cecil Bowman, Senior Vice-President, Government/Industry of NCS/National Credit-reporting System, Inc.; and Molly Dowdy, Executive Vice President, Marketing of a la mode, inc.

The 2013 PROGRESS in Lending Innovations Winners gathered to discuss the future of mortgage lending.
Q: Some say innovation has to be sweeping change. Others say innovation can be incremental change. How would you define innovation?

DAVID LYKKEN: In my opinion, innovation is actually both incremental and sweeping. Let me explain. The best definition for innovation is when an innovator spots/sees/recognizes incremental evidence of potential or probable sweeping changes coming at some predictable time in the future. Timing of how far out in the future this sweeping change will happen is a key factor in this equation. It is the difference between being on the bleeding edge vs. the leading edge of change.

SANJEEV DAHIWADKAR: Most importantly, the criteria for any new innovation must include usability. Any innovation that can be used in routine processes with greater rewards than the effort or costs to implement, is recognized as a great innovation. Sometimes innovation comes incrementally, sometimes it is sweeping.

SHARON MATTHEWS: Innovation can be either incremental change or sweeping change, both of which are valuable to business. What’s important to look for, though, is how sustainable the innovation is. True innovation provides competitive advantage for some sustainable period of time.

For example, some companies get better every day by taking incremental steps to become more efficient, faster, more flexible or more responsive. They make improvements to an existing process or product, or use existing capabilities to devise a solution to a new problem that has arisen. This kind of innovation is easily overlooked because a) it happens so gradually, and/or b) it sometimes doesn’t last long. It either gets copied quickly or proves to be only a temporary advantage that isn’t sustainable. True innovators are able to produce a steady stream of incremental innovations in order to constantly stay a step ahead.

CECIL BOWMAN: Some say innovation must come as a sweeping change, while others say it can be incremental. NCS defines innovation as a better and, as a result, novel idea or method of doing things that changes the landscape. For instance, when the IRS shifted from paper tax returns submitted by mail to returns submitted electronically, it happened gradually but resulted in sweeping change. Electronic submissions went from 25,000 returns filed in 1986, sent over dial-up modems before the Internet existed, to more than 115 million in 2013.

MOLLY DOWDY: To successfully launch truly meaningful and innovative technology, it has to be built by listening to real users’ immediate needs, as well as anticipating what they don’t know they need yet. Successful and innovative software is vetted and tested, and then incrementally innovated based on thousands of users’ experiences. Don’t get me wrong. Incremental technology releases can indeed result in sweeping, radical change. Great, thoroughly vetted, and reliable software that solves real lenders’ problems does exactly that.

JUDY MARGRETT: I believe that innovation can take both forms, sometimes it can be sweeping change while other times the incremental change can have a profound impact. Innovation is the ability to deliver something new or
different to address a specific industry challenge or opportunity.

REID SMEDA: I believe that innovation in the mortgage industry needs to come from “revolutionary evolutions.” That is, the complexity of the industry does not lend itself to sudden change; yet the needs of mortgage lenders are changing dramatically. A bit of a dilemma. One of my favorite Albert Einstein quotes is: “You cannot solve a problem from the same consciousness that created it. You must learn to see the world anew.” To make a positive difference, solutions providers must re-think the true nature of the problems being solved for and define new ways of solving them vs. “shoe horning” old solutions. That is innovation.

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

DAVID LYKKEN: Great question. In spite of a few innovative exceptions, it is my opinion that true innovation has been stagnant but I see that changing for the better… here’s why… if necessity (brought about by difficult circumstances) is the mother of invention/innovation, then I am thoroughly expecting some major innovation coming in the years ahead.

SANJEEV DAHIWADKAR: For the first time in the mortgage industry, especially in default servicing, innovation is thriving. For the past several years, we have seen several technology vendors develop services and applications that improve the way mortgage industry companies conduct business. It is encouraging to see this kind of interest.

SHARON MATTHEWS: Innovation is absolutely thriving in the mortgage industry. It may not be immediately obvious to the consumer, but as industry insiders we know that lenders and vendors have continued to successfully innovate. Our industry has been going through a great deal of upheaval, and much of our collective innovation has gone towards addressing the particular challenges presented as a result of the recent market collapse.

If you look closely at many of the innovations in the last 3 or 4 years you will see that data-oriented solutions that move us closer to a true paperless e-mortgage are underpinning the current wave of innovation. Why? Because such solutions are transparent, traceable, auditable and consumer friendly – characteristics that are highly valued by influential regulatory bodies such as the CFPB, OCC and FHFA among many others.

CECIL BOWMAN: Innovation in the mortgage industry today is neither thriving nor stalled, but moving at a normal pace. This industry is very risk adverse and that has made it slow to adopt major innovations. As a consumer-reporting agency, we provide many standardized products. Each week our development team releases five or six advancements, much of them in response to regulatory changes. Advancements in origination and servicing applications for mobile technology and integrating e-signature solutions, on the other hand, have been significantly slowed in order to incorporate regulatory and legal concerns.

MOLLY DOWDY: Innovation is definitely thriving in our industry. We’ve seen incredibly smart and creative solutions in the last few years.

Collective innovation has gone towards addressing the particular challenges presented as a result of the recent market collapse.
Sharon Matthews
eLynx

The most important innovation for the long-term would address how to originate loans for first time homebuyers who are greatly burdened by student loan debt.
Cecil Bowman
NCS

Innovation is definitely thriving in our industry. We’ve seen incredibly smart and creative solutions in the last few years.
Molly Dowdy
a la mode
JUDY MARGRETT: I believe that innovation is thriving in the mortgage industry today. The rapid influx of new rules and regulations has challenged all industry participants, but it has also created opportunities for innovation to flourish in this current climate.

REID SMEDA: The realization of the need for innovation is thriving; it remains to be seen how well such necessary changes will be embraced by lenders. It is encouraging to see the innovations of CSi’s fellow recipients of the 2013 PROGRESS in Lending Innovations Award and the PROGRESS in Lending’s Executive Team’s commitment to encouraging innovation.

Q: Lastly, if there was one innovation that you would say the mortgage industry desperately needs to happen over the next twelve months, what would it be?

DAVID LYYKEN: The industry needs a fully integrated end-to-end dashboard that incorporates meaningful and intelligent key performance indicators.

SANJEEV DAHIWADKAR: The biggest innovation that is needed in the mortgage industry would be to address collaboration and/or compliance. Ideally, the innovation would effectively blend the two areas. The right technology has the potential to have a significant effect on how the industry remains productive and compliant in this new regulator-driven environment.

SHARON MATTHEWS: With mortgage fraud on the rise, and the CFPB bulletin last year reminding banks of their accountability for third-party service providers, there is significant opportunity for innovation in the title industry, particularly in how to combat settlement agent fraud. The challenge in this area is notable – there are literally thousands of settlement professionals, many of whom operate as independent agencies. As lenders look to gain greater assurance from the title insurer on the good standing of the closing agent designated to complete the mortgage transaction, there needs to be a way to efficiently provide that assurance without slowing down the mortgage process. Innovations here will center on how to maintain current profiles on settlement agents, particularly the independent agent community that is more difficult to track; and how to create a workflow that is both simple yet effective enough for lenders to adopt as an accepted industry process.

CECIL BOWMAN: The one innovation that the mortgage industry desperately needs to make happen over the next 12 months is an easement of creating further new regulations. We also need to quicken the adoption of electronic signature and eliminate errors in which creditors report data to the repositories. But, perhaps the most important innovation for the long-term would address how the mortgage industry will originate loans for first time homebuyers who are greatly burdened by the student loan debt that they’ve accumulated during their college years. Currently acceptable DTI ratios will not work for this specific population, and their student loan payment schedule will lower their available cash as compared to the previous generation.

MOLLY DOWDY: In preparation for the upcoming regulation effective dates, it’s critical to look at your workflow and apply consistent processes and generate audit trails for all the steps taken in your origination process. Documenting your due diligence process will not only prepare you for exams, but will also expose inefficiencies within your own organization that can be quickly remedied and result in more profit.

JUDY MARGRETT: The mortgage industry innovation that needs to be addressed is the one that allows lenders and/or servicers to establish a controlled environment in which all players in the mortgage marketing process are able to collaborate and communicate with maximum efficiency to drive high-quality business quickly, securely and compliantly.

REID SMEDA: Simply stated: Solutions that empower lenders to adapt to changes (regulatory, product, policy, market, etc.) quickly and frequently are needed. ❖
Innovations is all about recognizing the top technology advances of the past twelve months. Over 100 executives gathered to see who would be recognized this year. Here’s a glimpse into the highlights of this very special event: