Process Improvement

Acquisitions Galore

In the past month two big mortgage technology acquisitions have happened. Now I wonder: So, what happens next?

By Tony Garritano

By now you should know that Davis + Henderson Corporation (D+H) has entered into an agreement to acquire Harland Financial Solutions (HFS) and Accenture has agreed to acquire Mortgage Cadence. Two big acquisitions to be sure. Having heard the news I wondered: Now what? How do these acquisitions reshape the mortgage technology landscape? Before I get into all that I thought that it would be best to clue you in on these two deals in case you have not read the news elsewhere.

First, D+H acquired HFS for big bucks. The purchase price for the Lake Mary, Florida-based HFS is approximately $1.2 billion in cash. Here's why D+H says this deal makes sense for them: The acquisition enhances D+H's competitive position as a leading North American financial technology provider to larger financial institutions, community banks and credit unions, according to D+H. D+H is acquiring 100% of HFS from its parent company, Harland Clarke Holdings Corp., at a purchase price of $1.2 billion.

"HFS' services, including cloud solutions delivered on an account-based fee basis or in house depending on customer preferences, are the perfect complement to D+H's portfolio business solutions, with limited overlap of clients or products," said William W. Neville, President of D+H's U.S. Operations. "The combination of our two firms will create a larger product and service portfolio for U.S. banks and credit unions who will now be able to access integrated, market-leading technology solutions through a single vendor."

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Prior to this D+H acquired point-of-sale Mortgagebot for over $230 million and Web-based LOS Avista Solutions for $40 million. The company is laser focused on the U.S. mortgage market. They were contemplating several smaller acquisitions to become a leading player but discarded that idea when they heard HFS was for sale.

In the second deal, Accenture agreed to acquire Mortgage Cadence, a provider of loan origination software and electronic document management services in the United States. The acquisition will add a technology platform to strengthen Accenture's mortgage business-process outsourcing (BPO) services and enable the company to provide software to mortgage lenders looking to increase efficiencies and reduce costs. Terms of the transaction were not disclosed.

Under the agreement, which is subject to customary closing requirements, Mortgage Cadence will become part of Accenture and its software will be incorporated into Accenture Credit Services, a business service within Accenture's financial services operating group that provides consulting, technology and outsourcing services to financial institutions. Accenture Credit Services will use Mortgage Cadence technology as a core loan origination platform to process mortgages on behalf of its outsourcing clients. Accenture also will provide the software to lenders on a standalone basis through Accenture Software as part of its banking software portfolio.

Terry Moore, global managing director of Accenture Credit Services said, "By adding this key mortgage processing asset, we will enhance our end-to-end credit services capabilities and bring a new generation of mortgage processing services to the industry. This offers lenders improved speed-to-market, cycle-time, costs, and productivity."

Now that we have all the details down, let's talk about what really matters, the industry impact. Will these two acquisitions fundamentally change the LOS space? The answer, in my humble opinion, is definitely not. It's wonderful that two large players, Accenture and D+H, think enough about our industry to acquire technology components as part of a strategy to offer a full, end-to-end solution to lenders, however that's really nothing new. We've seen this type of activity historically from players like Fiserv, LPS, ServiceLink, ISGN, etc. The real question becomes, what will Accenture and D+H do with the technology now that they own it.

"I was pleased that Mortgage Cadence found a long-term partner to help build and support their clients and business partners," said Jordan Brown, Managing Principal at consulting firm MarketWise Advisors. "The transaction, however, did not come as a huge surprise. It should be a positive for Mortgage Cadence and its client base. For Accenture, it is all about how they execute their business plan and leverage the asset. There is a great deal of competition in the space among technology giants, which represents an opportunity but it is all about implementation and execution. It is an opportunity for Mortgage Cadence to step up their game with a deeper pool of resources and capabilities. In the competitive context, this acquisition provides an opportunity for other very adept systems providers to take stock of their product capabilities and service offerings."

When discussing the D+H acquisition of HFS, Brown noted, "This was an aggressive move into core banking and pivot from their existing focus. From strictly a U.S. mortgage technology perspective, HFS has several systems that will require significant investment and management focus to get new traction. I am not convinced that this is a mortgage technology play, but rather a much broader leap to achieve D&H's stated goal of becoming a leading provider of financial services technology to North America."

Noted industry researcher and head of Mortech, LLC, Jeff Lebowitz added, "Through HFS, D+H acquires a very strong core banking position among small and medium size institutions. The acquisition protects HFS from continual erosion in the mortgage industry. HFS was early in its expensive and long-overdue rebuilding of E3. They likely will abandon E3 in favor of the Mortgagebot-Avista product line. HFS clients in the midst of defecting from E3 will hesitate. They will look at the prospective capabilities they might receive from the combination of D+H/Harland. D+H is counting on preventing further market share loss and cross selling services to ensure that this acquisition is additive.

"On the other hand, Mortgage CUSO Prime Alliance Solutions significantly broadened the customer base of Mortgage Cadence when Mortgage Cadence acquired them. Accenture will extend the marketing reach of the combined firms to international financial markets. Joining Accenture Software likely will not change the type of institutions served by Mortgage Cadence, but will expand its scope and market reach. The Web capabilities of Prime Alliance already are among the best in the mortgage business. Accenture will extend this to broaden its functionality and product array. Accenture is filling a glaring gap in its end-to-end credit financial technology services strategy. Accenture/Mortgage Cadence will give D+H a run for its money."

So, are competing LOS companies afraid that they have two new larger competitors to deal with? For the most part, this is nothing new to a lot them. "From our perspective, we believe it's a good thing as it relates to us and other LOS providers," reported Binh Dang, President of LOS LendingQB. "Whenever an acquisition like this happens where you have a behemoth like Accenture come in that has deep pockets, resources, and a new agenda on where to take the business, it creates uncertainty among existing clients. Uncertainty creates opportunity for the competition.

"Accenture stated that they intend to become "the largest end-to-lend player in the United States, offering technology, business process outsourcing and software." That means they intend to capture the lion's share of business for LOS deals, other technology projects, and the BPO space. Notable is that this was attempted several years ago by a couple of large technology companies that acquired existing LOS providers, but failed at bringing this type of aggressive business model together. It could easily happen with Accenture, too."

Keven Smith, President and CEO of Mortgage Builder agrees, "Both acquisitions are good for the industry. It shows that things are happening and people are willing to spend money in the mortgage industry. Technology has risen to the top of the list when it comes to mortgage origination, which is very good. Cadence was owned by an investment company and Accenture is looking to invest in the LOS space to build out that product, so everyone wins. However, it will take Accenture a while to figure out how to build out Cadence, which may slow down new development. Harland has lots of good nuggets and has always been a solid company. E3 has been a good sweet spot for us to sell off of. Regardless, they have a strong core banking offering.

"Everybody is trying to line themselves up and get all the pieces in their portfolio," concluded Smith. "So, I don't see these deals changing the landscape, I see it as a positive for the industry in that larger companies are interested in the space and offering an end-to-end solution." ❖

Tony Garritano is Chairman and Founder of PROGRESS in Lending. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker. He can be reached via e-mail at tony@progressinlending.com.