EYES ON THE WEB

Software as a Service and other Web deployment are paying lenders that have adopted them dividends for their foresight.

By Scott Kersnar

If you ask Dorado CEO Dain Ehring whether it's true that Software as a Service and cloud computing are sweeping away traditional software models for mortgage technology, he is likely to direct you to apps.gov, the government portal for cloud computing, where you will find a video clip explaining why the model is being evangelized to improve efficiency and lower costs for all government agencies.

Heading Dorado's prognostications for 2010 was the prediction that "Software as a Service adoption will reach critical mass in mortgage originator use, with more than 30% of all originations in North America occurring in the cloud."

Two other SaaS-related Dorado predictions for 2010 were (1) that turnkey approaches to updating systems for regulatory compliance would offer lenders a competitive advantage, and (2) that new integration and interoperability capabilities would bring unprecedented expansion of low-cost choices in external mortgage services.

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-Dain Ehring Dorado

Though SaaS often has been portrayed as best suited for small and medium-sized lenders, Mr. Ehring flatly predicts that within five years most of the processing in the mortgage industry will be done — by large and small lenders alike — with SaaS-based technology. Why? Because today's rapidly changing market conditions mean that large lenders no longer are willing to take a chance on lengthy and expensive implementation projects, given that "seven out of the top 10 lenders have had $100 million projects that have failed in the last 20 years."

He noted that for large lenders even more than for their smaller brethren, "it's very hard to map your profitability to your production needs. The SaaS model gives them that capability. Some of the largest lenders have hundreds of SaaS contracts in place," he said. "You don't have to educate them, they get it."

SaaS integration specialists like Boomi, BridgeWerx and Cast Iron Systems offer white papers and blogs confirming that SaaS integration of multiple applications has become literally vital for most industries and that SaaS integration is now generally preferred over creating monolithic suites via enterprise integration.

As Phil Wainwright observed in a ZDNet column, competition among technology providers is no longer a matter of survival of the fittest, "the strong, the quick and the nimble." In the emerging SaaS world, where connectedness and interoperability are key, it's "survival of the fit-most."

If mortgage industry endorsement of SaaS seems pervasive these days, that may be because no other model serves the current mortgage market as well. "Lenders are focused on one thing right now — how to grow their business while keeping costs low," observed Don Covey, managing director of origination technology for Jacksonville, Fla.-based Lender Processing Services.

"While doing so, they are also faced with the need for state-of-the-art technology. A typical LOS implementation historically required significant investment up front. This just isn't possible for most lenders in today's environment. With a SaaS model lenders can implement new technology and benefit from a variable cost structure with minimal up-front investment. In addition, SaaS actually helps the lender reduce costs, such as the IT costs for infrastructure support and maintenance. In a SaaS model, the vendor incurs these expenses.

"Furthermore, with SaaS," Mr. Covey added, "lenders do not have to worry about the time and expense of installing new releases — or the errors and compliance challenges that might occur if they do not. In the SaaS model, the vendor updates the system with the new releases, enabling lenders to focus on their core business with the most current technology."

For vendors, he observed, the biggest benefit is "a predictable revenue stream for software investment. Instead of the traditional model where there is large up-front return but little ongoing revenue, SaaS allows for a per-loan charge, which creates sustained long-term revenue.

"Furthermore, with numerous clients leveraging the technology, the vendor has a lower overall cost structure. Finally, support, connectivity and software management just became a lot easier to maintain in one data center, vs. multiple client locations across the country."

Joe Bowerbank, senior vice president of marketing for Irvine, Calif.-based Loan-Score Decisioning Systems, said that company is seeing a definite shift in the mortgage industry to SaaS and away from self-hosted, self-managed systems.

"The appetite for that model dried up virtually overnight when the market tanked in 2007," he said. "It simply doesn't sell in today's market, but our SaaS model is flourishing. Any new solutions that we develop are all SaaS. We wouldn't be able to market them if they were not. SaaS lowers the cost to run a business significantly, and in our industry, it mitigates risk."

In recent years, we have seen a number of mortgage technology veterans

bring new native SaaS-based technology systems to the market. An example is Laguna Hills, Calif.-based mortgage technology provider Quandis, whose chief executive officer co-founded the LenStar default technology system, which he sold to London Bridge in 1999. Since 2003, said Quandis chief technology officer Eric Patrick, the company has developed SaaS technology exclusively.

He said the default management system requires constant integration — as Quandis offers with the likes of Ellie Mae's Encompass LOS and PennyMac, for example — that mere Web-enablement of older default management tools cannot provide as cheaply and efficiently on demand as native SaaS can do.

If you go to www.counselordirect.com, a product of Irvine, Calif.-based Homeowner Toolbox Inc., you could conceivably find yourself looking at one of the future champions in the triumph of Software as a Service. CounselorDirect is a private-label software tool offering to come to the aid of non-profits and HUD-approved loan counselors mobilizing to make an actual success of loan modifications and the Obama administration's Making Home Affordable Program.

The technology underlying CounselorDirect, says Homeowner Toolbox chief executive officer Andy Firoved, is all SaaS-based and it's all modular as well, which enables users to pick the tools that support their particular business model.

A key piece of CounselorDirect is a Probability Meter that evaluates in real time data input to an online financial worksheet to determine whether a borrower will qualify for a specific lender's modification program.

If loan modifications are going to work on a scale large enough to lead the economy out of the doldrums, tools like this are likely to prove essential, by enabling loan counselors to free themselves from a tsunami of phone inquiries and deal only with borrowers who can be put into loan modifications that will stand the test of time.

But SaaS has clear applications on the origination side of the mortgage process as well. For example, Kevin Marconi, chief operating officer of Kansas City-based United Fidelity Funding, stated flatly that the only efficient way for even the largest lenders to move forward in dealing with the new RESPA requirements is with SaaS technology.

"Through our SaaS integrations with two vendors [Del Mar DataTrac and LoanScore] we took the new RESPA rules and came up with a new flow. Greater communication with the brokers is key, not person-to-person on the telephone, because that doesn't scale. You want the loan officer to get on the computer, enter his information and get an immediate answer. I absolutely believe SaaS is the future for mortgage technology."

Lender testimony to the benefits of having an LOS architected as a native SaaS application when paired with a thin client comes from Robert Jones, CIO of Kalispell, Monn.-based Mann Mortgage. "Native SaaS allows the

Software as a Service Defined

In some circles the mistaken notion persists that SaaS and cloud computing are simply terms describing Internet delivery of rented technology applications a la the old service bureaus — mere synonyms for Application Service Provider (ASP). To the contrary, research firm IDC has defined the key characteristics of the SaaS model as:

- Network-based access to, and management of, commercially available (i.e., not custom) software;
- Activities that are managed from central locations rather than at each customer's site, enabling customers to access applications remotely via the Web;
- Application delivery that typically is closer to a one-to-many model (single instance, multi-tenant architecture) than to a one-to-one model, including architecture, pricing, partnering, and management characteristics; and
- Centralized feature updating, which does away with the need for downloadable patches and upgrades.

customer to exploit the best of both worlds," he said. "Because the application actually executes on the customer's PC via a thin client, all devices local to the customer remain available: Printers, logical drives, general ledger and business intelligence applications can be exploited along with the SaaS information.

"The vendor maintains application integrity, version control, availability, security and backup — those costs are transferred to the SaaS vendor."

Like others we interviewed, Mr. Jones says SaaS is especially useful for compliance. "Many of the checks we run to ensure we are in compliance with federal and state guidelines, are automated," he reported.

"A few clicks reveal in seconds if any of our many transactions will violate HMDA, ECOA, or other statutes. While operating in SaaS, we have implemented data checks where a transaction cannot continue to the next phase, unless certain conditions are satisfied. One example is that a loan may not proceed unless the Good Faith Estimate has been disclosed to the potential borrower."

SaaS specialists among the providers make a firm distinction between native SaaS architecture and mere Web enablement. Mortgage industry technology shoppers in the market today need to be sure that what they are buying is truly SaaS and not just an ASP application. "Non-native SaaS is merely hosting a Web-based application multiple times, requiring each instance to be updated separately," states PCLender's president and CEO Lionel Urban. "Oftentimes it is a network application that is not even 100% Web-based. With a native SaaS application table management is much easier, less expensive, and more secure. This results in less obligation on the customer, and the minimized workload for the service provide means that more resources can be devoted to meaningful system enhancements."

"Simply put," said Mr. Bowerbank, "a lot of vendors are touting themselves as being SaaS simply because it has become a hot buzzword that helps them sell their solutions. If lenders hear vendor-speak such as Web-enabled, Web-access or Web-based, and they're looking for SaaS-only solutions, they would be wise to assemble a list of tough questions to learn more about the merits of the underlying technology. If the solution has to be installed at the client site, is only accessible through a VPN such as Citrix, or requires a data mart or other repository that houses information at the lender's physical location, then it isn't SaaS."

Still, SaaS and cloud computing have scarcely swept aside use of all the older production-proven technology systems. Like most vendors these days, Laguna Hills, Calif.-based mortgage compliance technology vendor QuestSoft offers two sets of products, says company president Leonard Ryan, "one set that is located at the institution and one that is 100% Web-based." He describes specific advantages to each model, partly based on differing requirements for the 48 loan origination systems with which QuestSoft is integrated.

"I think the thing that SaaS brings is that it allows you to have your representatives anywhere and that you're not as worried about the financial and technological resources," he said. "Conversely, though, when you do SaaS you have certain areas where it is not as robust." In the compliance arena, for example, he sees SaaS as most useful in handling issues that need to be decided in seconds, whereas it is not as capable as DOS-based systems of transmitting compliance data on a bulk basis.

While SaaS is only one component of cloud computing — along with Web Services, Infrastructure as a Service (IaaS) and Platform as a Service (PaaS), SaaS is the most visible and the lightning rod for the most concern, largely about the legal and security issues that still persist about the Internet itself.

In reply to those who claim that reliance on Internet connectivity is a major drawback of SaaS, Mr. Urban pointed out, "Lenders are already relying on the Internet to do business whether they use a SaaS model or not. DU, LP, credit agencies and product and pricing engines all require Internet access now. That argument just gets weaker as Internet access continues to get better, faster, and cheaper. It's almost like saying the light bulb is a great invention, but it requires electricity."

Like others interviewed for this article, he warned that vendors and users who lag in SaaS adoption sideline themselves to their own detriment, since so much of the technology development going on today is being done for SaaS and cloud computing, even among defense contractors. Executives in and out of the mortgage industry have to sit up and take notice when they hear that SaaS vendor SuccessFactors told a roomful of Silicon Valley conference attendees that it uses a mere 150 servers to provide a multitenant application infrastructure to 2,850 customers and 5.4 million users. MT

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