



The Market Drivers for Consolidated Servicing

We live in a world of consolidation. Shareholders and customers want the benefits of economic synergies; and the drive to reduce or eliminate facilities, human resources and duplicative technology all factors into the consolidation trend. However, in the mortgage industry there are also significant marketplace phenomena that have added considerable momentum to the consolidation push, particularly in the servicing arena. This column focuses on three of them.

Market entry by non-traditional institutions

Non-traditional market entrants such as financial planners are beginning to move from the asset side of portfolio management over to the debt side. Companies such as New York-based Morgan Stanley, St. Louis-based A.G. Edwards & Sons Inc. and San Francisco-based Charles Schwab & Co. Inc. have brought new value to customer relationships by helping their clients manage debt in a more cost-effective, tax-beneficial way.

From the client's perspective, having one knowledgeable, trusted adviser to manage all his or her financial affairs makes sense. Financial consolidation allows the customer to work with one firm, and possibly with one adviser who knows the customer's entire financial picture. However, to actually deliver that service, financial planners must be able to offer integrated products, including real estate-secured loans like mortgages and particularly home-equity line of credit (HELOC) products.

To incorporate these products into their offerings, and manage the complicated servicing requirements that come with them, firms and other non-traditional market entrants can effectively consolidate mortgage and HELOC products on a single servicing platform. To do so lowers regulatory and default risk, effectively manages secondary market transactions and helps keep overall information technology (IT) costs in check. Since consumer loan servicing platforms don't offer the deep functionality required to effectively manage mortgage loans, the logical choice is to select a proven, robust mortgage servicing platform that can manage both mortgage and HELOC products with equal performance reliability.

The demand for flexible securitization

Securitization is the key to the future for nearly every financial institution, and asset liability managers want to manufacture loans that have secure secondary market ties from the ground up. Whether lenders are manufacturing consumer loans

or real estate-secured loans, institutions need the ability to quickly and seamlessly move among various investor markets to access the most favorable prices at any point in time.

Today, securities are being sold in traditional and non-traditional pools: pure asset-backed securities (ABS) pools; prime and subprime mortgage-backed securities (MBS) pools; and blended mortgage and HELOC pools. However, to maximize flexibility, the servicing platform must be able to efficiently manage investor requirements and complex government reporting for any secondary market transaction, including those that are associated with blended pools. With one consolidated servicing platform that can seamlessly manage the requirements associated with these diverse portfolios, institutions will benefit from lower risk and operating costs while improving financial performance.

The customer-satisfaction imperative

In the United States, customer loyalty is always tenuous, and competition for banking and mortgage clients is relentless. Those institutions that communicate effectively with their customers through the channels they prefer, with instant and accurate information presented in a manner customers can understand, will make great strides in their quest to keep customers happy and in the fold.

Using a consolidated servicing platform, at least for mortgage and HELOC products, allows customers to seamlessly access their real estate-secured loan information and helps servicing employees respond quicker and more accurately to customer inquiries. By collapsing all real estate products into one silo, including prime, subprime and HELOC loans, customers will receive better service, servicing employees will be more knowledgeable and institutions will be better able to manage the customer experience. In today's competitive market, these factors can be critical in helping organizations differentiate themselves from competitors and keep valuable customers longer.

Universal servicing vs. today's reality

While the idea of servicing all loans of every type on one single platform sounds appealing, the reality is that institutions are more likely to consolidate down to probably two or three platforms, at best. Given that reality, companies must determine how to pull together multiple platforms to effectively manage the customer relationship and maximize financial performance.

There are two good strategies companies can use to reach

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those objectives. The first—and most critical—strategy is to seamlessly integrate all post-consolidation platforms. Each platform must be configured to utilize Web services, and the institution must deploy a standards-based integration layer that can plug-and-play with existing systems and leverage information and services across the enterprise. As more functionality moves to this middle-ware integration layer, organizations will be able to enjoy an environment much like a single-platform environment, at a minimum gaining the information-sharing benefits of consolidation.

Secondly, some functions perform well as universal systems operating across multiple platforms, such as the collections loss-mitigation system. By utilizing one functional system that draws information from all platforms as needed, institutions can gain significant cost and efficiency advantages. They can also benefit from cross-platform information-sharing. For example, with a universal collections system, servicers can proactively identify slowing client payments on one loan ahead of wider-spread loan delinquencies on other accounts.

Ultimately, as market drivers continue to force servicers and financial institutions to evolve, the need to collapse silos and streamline technology will remain constant. Rapidly changing customer demands, rising interest rates, product innovation and even population demographics will impact business and technology decisions into the foreseeable future.

As a result, consolidation will continue to be a worthwhile goal and a viable strategy for traditional and non-traditional lenders. With a flexible, multi-purpose servicing platform, servicers can consolidate real estate-secured lending products and service them on one system with positive financial results. Then, when institutions have consolidated to the fewest possible platforms, Web services and integration will keep them moving forward to greater operational efficiency and improved financial performance.

Dan Scheuble is chief information officer for Fidelity National Information Services in Jacksonville, Florida. More information about the FNF family of companies can be found at www.fnf.com and www.fidelityinfoservices.com.