



by  
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# Staying Ahead of the Trends

We need to **simplify and reduce costs** to maintain profit margins, remain competitive and continue **to deliver value.**

**WE'VE ALL OPINED ABOUT THE MORTGAGE INDUSTRY'S** technology struggles. In particular, the client-server environment we co-invested in the last five to 10 years has been a time-intensive and complex legacy.

In the end, we need to simplify that environment and dramatically reduce costs so we can maintain our profit margins, remain competitive and continue to deliver value to our clients and to the industry.

We can see where mortgage technology is headed. The Web services environment is dynamic, relatively easy to work in, fast and flexible.

Also, when combined with workflow and rules engine technology in the industry today, it represents the kind of platform environment we can all operate in for the next 20 years.

Of course, the real challenge ahead of the mortgage industry lies in that foggy shadow world "between now and then."



Legacy systems have been remarkably change resistant in the last several years, despite the introduction of promising technologies. The reality is that the sheer magnitude of system renewal needed in the mortgage industry is daunting to say the least. Hundreds of interfaces to other systems and thousands of business processes spanning disparate channels have kept IT shops running at a frantic pace just to essentially stand still.

Unless there is clear focus, and an organized approach to this evolutionary period in our history, we will see more failed strategies than successful transitions. Institutions must think carefully about their business strategy, cost structure, risk tolerance and the long-term needs of their customers before finalizing their transition plan.

But for better or worse, most institutions are already well underway in their quest to deploy more flexible technology. For many, the effort is returning early dividends. Others have made expensive mistakes and are re-thinking their approach.

## NATIVE INTERNET TECHNOLOGY VS. INTERNET ENABLEMENT

As organizations prepare to implement a technology renewal strategy, many will begin the journey with the introduction of an Enterprise Application Integration Framework – essentially a roadmap

illustrating how Web services and middleware can be used to glue together new capabilities within the existing environment.

By adopting native Web services standards like XML and SOAP, institutions can simplify and streamline integration and technology management tasks that have been stubborn barriers to change. Development time for new applications is dramatically shortened, and integration with complex legacy systems is faster and easier. Components can be updated or developed based on organizational priorities, and implemented without waiting for other components to be completed.

As a result, companies can start experiencing the benefits of new and improved functionality, without disrupting legacy-dependent operations.

However, mortgage lenders are also relying on Internet-enabled solutions to keep pace with competitors and transform their business models. In fact, for many institutions the Internet has become a mature channel, and their real challenge is to bring other channels up to the capability level of the Internet.

One of the most obvious examples of this is the explosion of online mortgage originations. Lenders are expanding their reach and their pool of prospective borrowers by using the Web to deliver innovative services and products in real time. The Internet has also facilitated the creation of electronic partner networks so lenders can electronically access vendors and bundle together services and products in almost limitless ways.

But an Internet-centric strategy still has some limitations. For example, processing bulk transactions on the Web continues to be confounded by "timing-out" interruptions. Even more importantly, concerns remain that Internet solutions

involve higher operational and security risks than traditional computing.

Still, the Internet has become a major force in mortgage banking, and has dramatically impacted the way the financial services industry operates.

### TRANSITIONAL SOLUTIONS VS. STOP-GAP MEASURES

Technology executives will continue to be challenged by tough decisions as they allocate resources between improvements that are expedient, and those that will deliver value throughout the technology transition and beyond.

Stop-gap measures, such as the roll-out of a GUI interface on a mortgage production system, may be required to address immediate needs like user-friendly training for new employees. In some cases, technology "wrappers" can work around legacy system constraints to gain needed functionality. Unfortunately, many of those investments will eventually be "thrown away" as newly developed components come online.

But some transitional applications will also become a part of the new technology environment. For example, Web services can help organizations gain better access to their data today, and will also define the plumbing of tomorrow's system architectures.

Business Process Management and the underlying business rules management solutions can help companies gain immediate efficiencies, and in the longer term, will become the common language used by IT professionals and business experts to improve enterprise-wide performance.

The best IT shops will effectively strike a balance by implementing stop-gap measures while maintaining their focus on longer term transition priorities. To the extent that single applications can accom-

plish both objectives, the enterprise and its customers will benefit even more.

### THE TRANSITION TO SMART DOCS

One of the realities of our business today is that mortgage lenders produce more paper of record than data of record. Enterprise document management technologies will play an increas-



ing role in allowing institutions to manage the reams of paper in each loan file more effectively while transitioning to a paperless world.

While there is little doubt the future of mortgage lending will include SMART Docs technology, it will be the next generation of consumers that drive demand for e-mortgages.

In the end this demand will increase gradually over the next decade, but will not obviate the need to invest in ways to continue to manage paper more efficiently. Web services, BPM and enterprise document management will all play a role in helping mortgage lenders automate business processes and ultimately the entire mortgage transition to the electronic dotted line.

### THE NEXT FRONTIER: IT'S ALL ABOUT DATA

Those looking out beyond the current re-architecting challenges are starting to see another tremendous opportunity in

the mortgage industry. There is an ever-widening realization that the control of data, data integrity, the manipulation and leveraging of data and the management of data is where the industry 'rubber' will ultimately meet the road.

Ultimately using data to better understand customer needs and anticipate how they will evolve over a lifetime will create the kind of market power only dreamed about today.

As someone said at a recent conference, "When you talk about data verification, you're talking about correctness. When you talk about data validation, you're talking about truth."

For example, when you go to a website and change your password, the system often requires you to enter the new password twice to verify it is correct. Verification can be done on a micro basis, with a field-by-field comparison, or on a macro basis where groups of data are analyzed vis à vis other groups.

Alternatively, validation is the process of trying to obtain proof that the sensibility of the data you have is trustworthy, such as using an AVM to help validate that a human appraisal is accurate.

Technology will be used in increasingly

more sophisticated ways to manage these verification/validation processes. Data providers will utilize more advanced pre-processing technology, and literally certify data accuracy.

Also, new data streams will be sliced, diced and compared with current sources and emerging data sources will use various data mining techniques to literally create data from data. Rules engines and artificial intelligence, combined with relational databases and powerful analytics, will create new insights that will impact business and operational strategy, product offerings and one-to-one marketing initiatives.

#### BETWEEN NOW AND THEN

As business and IT executives envision the advantages of new technology, the sense of urgency in the mortgage industry is building.

Everyone is anxious to make rapid progress and take advantage of new capabilities, functionality, data insights, cost reductions and productivity improvements before their competitors do.

In that sense, speed is essential. But speed without solid planning and skilled execution can really cause any mortgage

company to fall miserably behind.

Arguably the most critical aspect of managing the technology transition is having a strong change management process, and an iterative development approach such as the Rational Unified Process.

The stronger the process and the organizational commitment to use that process, the better the outcome will be in the end.

Some institutions are also leapfrogging the development curve by acquiring companies that have successfully implemented new technologies.

As long as an acquisition strategy is accompanied by the ability to rapidly assimilate purchased technology to strengthen core competencies, companies can accelerate their momentum without losing ground in other areas.

The next few years ahead of us will be absolutely critical in the evolution of technology in the mortgage industry.

If you truly look out to what lies ahead, it promises to be a remarkable time of change. **MT**

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