

Origination News

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Originators Should Think Long-Term in Buying Tech

By TIM LISTON

Mr. Liston, the president of the Middleburg, Ohio-based origination technology provider Associated Software Consultants has written an opinion piece on how he believes originators should go about investing in automation. His comments are presented as this month's Viewpoint.

IN THIS POST-REFI LANDSCAPE, the mortgage industry is flush with mortgage lenders eager to gain a competitive edge in the marketplace. To this end, lenders find themselves investing in technology that promises the “latest and greatest” solutions to help reduce workload, reduce errors during the origination and processing of new loans, speed up closings and improve profit margins.

There is no shortage of vendors that provide these solutions, and each of their systems has attractive benefits and features. The problem is not a lack of solutions for mortgage lenders to choose from. There are many systems that do a fine job originating, underwriting, processing and closing loans but as we all know, one of the biggest issues lenders face is finding a system that will not have to be replaced in just a few years because it has become too costly to keep up-to-date with changing business and technical requirements.

In order to select a system that will provide benefits for many years, perhaps even decades, lenders must understand why systems become obsolete and need to be replaced. The very nature of such clichés as “state-of-the-art” and “leading edge” suggest front-end mortgage systems go through a life cycle, that their ultimate

demise is pre-ordained and that any such system will ultimately require an expensive replacement.

So where does this leave lenders who wish to establish and maintain a competitive edge and are willing to make affordable investments in technology to do so? The answer rests on how wisely lenders

require a larger initial investment can be cheaper in the long run if they can be used for many, many years.

If you want your front-end system to be cost-effective in the long run, it needs to be extensible, or able to accommodate emerging future business requirements or computing technologies. In recent years, a number of “flexible” software solutions have been developed that offer mortgage lenders increased capacity to change the way they originate, underwrite, process and close loans. Formerly, with most front-end systems, many if not most changes to the business functionality required the system to be modified by a computer programmer. Such an approach is always fatal and greatly reduces the life span of such systems because additional changes can override existing customizations, corrupting the software and making it less capable in the long term.

In the ongoing evolution of mortgage systems, we are finally and thankfully well along the road to “functional extensibility.” Many vendors, but certainly not all, are now providing systems whose business functionality can be changed, without compromising the ability of the vendor to provide ongoing, routine enhancement.

Unfortunately, the developers of mort-

VIEWPOINT



“To be cost-effective in the long run, [a system] needs to be extensible.”

educate themselves on the available options that can provide them with the ability to gain that elusive competitive edge. Smart lenders know there are two elements to affordable technology — the extent of the initial investment and the number of years that technology will reap the anticipated benefits. Systems that are less expensive initially are certainly not affordable if they can only be counted on for a few years. Conversely, systems that

gage front-end systems seem ignorant of the fact that systems that provide the promised productivity benefits and remain cost-effective for years or even decades, need to offer more than just functional extensibility or flexibility. They also need to offer “technical extensibility,” the ability to permit their users to choose and change the components of the computing platform on which they run. Lenders interested in running a front-end system for many years, while minimizing the ongoing costs associated with the system should seek technology that permits them to choose and change operating systems such as Windows or Linux, and databases like MS-SQL, Oracle and perhaps even an open-source database like MySQL or Derby. If lenders do not have the ability to choose and change their computing environment, they can become the victim of “vendor lock-in.”

Like most everyone, software developers have to make a profit but in some cases, they seek to maximize their revenue too aggressively, much to the disadvantage of their customers.

Lenders are locked into their infrastructure once it is in place because of the high start-up costs, and the high cost of replacing such components should the need arise. Unfortunately, some of the vendors, including some of the world's most prominent software developers, use lock-in to their advantage by forcing unneeded upgrades, and by charging inordinate sums for maintenance and upgrades to your infrastructure.

This is one of the reasons that “open source” software has been garnering more attention in recent years. Open source software does not require the payment of initial license fees, sometimes required when users need technical support or the payment of fees for upgraded versions. Typically, users are not coerced into accepting upgraded versions of such software that may not be needed.

In the operating system realm, Linux is becoming the foremost alternative to Windows. Especially in Europe, where computer users are less tolerant of the tactics used by the best-known operating system supplier, Linux is gaining considerable attention. Even here in the United States, companies like Merrill Lynch have adopted Linux on a widespread basis and thousands of Merrill Lynch account executives use Linux workstations. In the database world, MySQL has gained a lot of attention, not just because it is open-source and can be obtained at a very low cost, but because it is a very robust and efficient database.

Let's face it. If lenders cannot change the operating system and database that powers their front-end system, they are at the mercy of the vendor that provides the software. That may not be as important in the short term, but in the long run, the ability to choose and change the components that comprise lenders' computing platforms could save larger lenders millions of dollars.

Software is not like electricity. Government regulators have historically permitted electric monopolies but have seen to it that the electric utilities do not use their monopoly power to capriciously raise rates. Unfortunately, in this country, the government has abdicated its obligation to see to it that software monopolists behave responsibly when setting fees and upgrades. Lenders protect themselves from abuse by understanding their alternatives and choosing the right technologies to meet their business goals.

Fortunately, a smattering of front-end systems developers now offer solutions that loosen the grip that providers of software infrastructure have on their customers. One programming language in particular, the Java language, enables software developers to design and develop systems that can run on a wide variety of operating systems and databases, without

any changes to the software. Systems written in Java permit users to run, for example, on Windows or Linux, or even on a combination of the two. Java-based systems will permit users to run on operating systems that have not even been developed yet. And that's the true premise of extensibility, the ability to be forward compatible with changing technical and business requirements that have yet to be known.

The database realm is not quite as critical because no one company has a database monopoly, and middleware technologies like ODBC and JDBC, if used by developers, can make switching databases a little less troublesome, at least when compared to switching operating systems, which in most instances is next to impossible without also switching application software.

Extensible front-end systems deliver tremendous value over time to users because they provide forward compatibility, which can make it possible to use a system for many years longer than might otherwise be possible. Especially when considering that such systems can give lenders access to the emerging opportunities in open-source software, why would any lender prefer a system that locks them into single, perhaps aging, computing platforms, or systems that are not flexible enough to help them adapt to changing business requirements?

The choice between oppressive, restrictive software and the type that enhances the experience via increased extensibility is an important issue for many lenders to consider as they continue to grow and progress. Every journey begins with one step, and the right step is the one that leads in the direction that offers the most benefits. In mortgage lending technology, this is an extensible system that allows you to take your software wherever you need and want it to be as your company evolves.