

Q/A with Keven Smith of Mortgage Builder Software

MBA NewsLink recently spoke with **Keven Smith**, president and CEO of **Mortgage Builder Software**, Southfield, Mich. He is responsible for setting the strategic direction of the company as well as managing the day-to-day operations. Smith also develops vendor and customer partnerships, oversees technical product management activities, customer support and client relations. He is a member of the **Mortgage Bankers Association's Residential Technology Providers Forum** and serves on the Technology Committee of the **Michigan Mortgage Lenders Association**.

MBA NEWSLINK: What factors drove client demand for Software-as-a-Service from traditional vendor/client relationships?

KEVEN SMITH: Several factors prompted clients to look at the SaaS business model. Cost, implementation time, convenience in working with updates and new features are but a few. The greatest of these, of course, is cost. It wasn't that long ago that bringing technology to the enterprise was a very big affair: big contracts, big consulting and implementation fees and a big commitment on the part of the client. Depending on the vendor, adopting a new LOS could run from \$100,000 to several millions of dollars.

With SaaS, many of the factors that led to high costs are eliminated by virtue of having the application and the support hosted by the vendor, so clients are spared the logistics and hassle. The client accesses the software via the Internet and using the same equipment already found on desktops in the enterprise.

SaaS means the client is paying by the transaction, and with some vendors, only for loans that close. When we have a software update, there is no need to install it on servers at the client's office and perform testing and other maintenance, because we do it all at our location. There is no service interruption and no costs associated with software improvements like many purchased scenarios.

NEWSLINK: Some say SaaS is "too good to be true." Is it?

SMITH: It depends on your expectations. If you expect SaaS to bring in loans, close them without hitches and make them pay on time every month, you're bound to be disappointed. If, on the other hand, you are expecting up to date software that rivals anything deployed by the mega-lenders and prefer to pay by the loan instead of by subscription (as in an ASP model) or in a lump sum purchase contract, you won't be disappointed.

Of course, it also depends on which SaaS vendor you choose. SaaS is a deployment and pricing method, not an application; so simply because something is offered in a SaaS model does not mean it is inherently superior. Lenders need to evaluate each offering on its functionality, not just its delivery method.

NEWSLINK: What will prevent SaaS from being the next Betamax, i.e., what factors, if any, threaten to make SaaS obsolete?

SMITH: SaaS makes a lot of sense when loan volumes are unpredictable because you are only paying for what you use. If loan volumes were to increase and remain high for an extended period, lenders may feel that purchased software makes more sense because they can get their cost per unit down by virtue of economies of scale.

Some vendors, including Mortgage Builder, offer their software in all three business models, so if the environment

changes, clients can change with it. If volume is lower and less predictable, SaaS makes a lot of sense. As it increases, the ASP (application service provider) model may be the way to go, since it typically charges a flat subscription fee. In high volume periods, it may be cheaper to purchase the software package.

Keep in mind that for some companies, SaaS may always make sense. Smaller and mid-tier companies are good examples. They may never want to spend the upfront dollars for an installed software and will simply be more comfortable with the variable cost model offered by SaaS. As mentioned, some LOS vendors are only charging for loans that close, meaning that these lenders will never have to worry about paying for this essential tool on loans that fall out. It is a great way to keep as many costs as possible variable.

Betamax became obsolete because it didn't compete well as a hardware alternative, although broadcasters still use it because of its superior quality. SaaS doesn't have many issues that threaten obsolescence other than the prospect of huge loan volume. Even if that happens, SaaS may well remain the alternative of choice for those companies that don't want to pay up front for their software and also become responsible for its "care and feeding."

NEWSLINK: What are the differences among typical software models?

SMITH: It is easy to become confused with all the jargon flying around. The traditional software model is where the client purchases the software for a lump sum and it is installed on the client's own servers. They have people to maintain it and updates are sent periodically by the vendor to be installed by the lender's employees on their own hardware. There is often (but not always) a consulting or "professional services" contract that accompanies the purchase whereby the vendor sends people to the lender's site to help with the installation and transition to the new platform.

The second typical model is the "application service provider," or ASP. In this model, the software is housed by the vendor and accessed by the client using the Internet. There is usually a flat fee by user per month, a subscription that stays the same no matter how many loans are run through the system. This model saves all the hassle and expense of the installed version, but is a constant expense that neither goes up with volume nor down during slow periods.

The Software as a Service model is the alternative to the first two, where the software resides with the vendor, so the client avoids all the expense and manpower required to keep it running. Unlike ASP, however, the client pays by the loan rather than a flat fee by user. SaaS is essentially a pricing alternative, and one that makes a great deal of sense in periods of slow or unpredictable loan volume.

NEWSLINK: There has been a lot of discussion lately about the exposure lenders incur by having their technology hosted by a vendor rather than doing it themselves. Is there any real danger for lenders in having their information held for them by a vendor?

SMITH: Only if the vendor is unreliable and without a track record. Most vendors are an open book in the sense that they invite inspection of their data centers by lenders' technology people to get them comfortable with disaster recovery plans and redundancies that are in place to protect confidential information. Service interruptions are a natural concern and vendors are typically eager to share their safeguards with potential clients.

I would be more concerned with in-house technology hosting, in many cases. Smaller lenders may lack the data storage sophistication of large companies, and servers may be located in environments that aren't temperature controlled and protected from hazards that exist in office buildings. What, for example, happens if a fire starts, the sprinklers go off, and the server room is not protected? It is not a trivial expense to create the right environment, nor is it a trivial expense to keep hardware at the state of the art.

Server efficiency has advanced just as rapidly as other technologies, and needs to be updated. We are constantly upgrading our hardware with the latest and fastest servers available, but I can't speak for the majority of lenders hosting their purchased software systems. It's our business, and our professionals have decades of experience in keeping data safe and service levels at their peak.