

Leveling The Playing Field With SaaS Technology

Smaller lending operations can take on the big guys with a high-tech tool.

By Bill Mitchell

In the financial services world, today's David may be causing Goliath a few restless nights. Community banking is widely regarded as an increasingly important business segment by financial experts, and with good reason. As the large banking segment contracts, consumers are feeling the pinch, not only in obtaining credit, but in the qualities that attracted them to community banks in the first place.



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That brand of personal service is something the mega-banks are trying hard to replicate. But it apparently isn't playing terribly well in Peoria - or in other towns that have branches of the large, money-center banks on the street corner. When you walk in, a branch manager may greet you and shake your hand, but you know he really works for the big boys in New York, San Francisco or Charlotte, N.C.

Despite the challenges being faced by community banks, this is one area where they really have a leg up on their large competitors. Size matters, but not in the way it used to; in many cases, smaller is better, at least in the eyes of many consumers.

Technology is rapidly coming into play here on behalf of the smaller institutions. For starters, the Internet

has increased the reach and capabilities of community banks by sparing borrowers trips to the branch with online banking. Marketing outreach programs are automated to the point where a single person at a desk at the community bank can easily reach out electronically via e-mail with offers and updates that look as professional as those from the big-box bank.

But lending is where the most exciting action is for community banks - the place where the scale may truly tip in favor of smaller leading entities. The edge for community banks may lie in software as a service (SaaS).

SaaS changes everything for smaller lenders. As recently as five years ago, sophisticated lending technology was out of reach for companies where mortgages were not the principal line of business. Large mortgage banks and depository institutions, with their large information technology departments, were far more content with building rather than buying systems.

It was not the least bit unusual at major banks to spend \$50 million to \$100 million developing lending platforms, and even enhancements were typically reverse-engineered to the specifications of the mortgage lending unit. They would see or hear of desirable features available at a competitor or become aware of a new enhancement from a soft-

ware integrator, and that started the internal initiative with the time-honored statement of work process.

IT departments, highly protective of their turf, understandably preferred to create the capabilities internally, even if a more cost-effective solution was available from a third party. This was especially noticeable when automated underwriting and rules engines came on the scene in a big way in the 1990s. Even if purchased from a third party, the resulting module was highly customized - an effort that was often very onerous to incorporate into the enterprise platform.

The other trend at the time was the flurry of acquisitions that were taking place, resulting in an often-conflicting array of legacy systems. In one famous example, a huge mortgage banking organization spent a rumored \$100 million to bring eight legacy systems together - and abandoned the effort after less than a year. In those days, and up to fairly recently, sophisticated mortgage technology was simply deemed too expensive for just about anyone but the largest companies.

Inside SaaS

SaaS is a simple concept. In the old software-purchase scenario, a company would pay a significant price for the software, and then pay a consulting and implementation fee over the course of months while the software was installed on the buyer's own servers. This meant working with data

centers on disaster recovery and other infrastructure matters, as well as having (and paying) experts to keep all the hardware maintained.

Additionally, there were cost escalators based on user numbers and volume, so “ownership” of the software tended to involve a semi-permanent financial relationship with the provider. Software updates meant new installations and constant attention. For companies without large IT departments, this was still a multimillion-dollar scenario, but a necessary one to keep up with the big boys.

SaaS, on the other hand, centralizes all of the infrastructure with the vendor instead of replicating it dozens of times among the clients. The provider handles all the service issues, maintenance, updates and hardware. Costs are minimized, keeping vendor prices low, and the users access the software using secure Internet connections.

The platform is available 24/7, and

SAS 70 Type II audits offer assurance regarding stability and sound maintenance practices. Service interruptions are extremely rare.

Research and development expenses are distributed across entire client bases in the SaaS scenario, reducing cost pressures for vendors. Workarounds, with internally built, non-customer-facing systems at even the largest mortgage companies, simply don't fly with providers wanting to appeal to a broad audience of smaller, very demanding loan departments.

At the same time, developers of end-to-end systems have been readily able to keep up with (and often surpass) the functionality of “best of breed” component providers, so lenders no longer have to worry about bolting modules together to utilize up-to-date technology.

The modern SaaS platforms are also highly flexible, making integrations with preferred components a fairly quick and simple task.

For example, if a particular product eligibility and pricing engine is desired by the lender, it is a case of simple integration. Some SaaS providers include closing documents at no charge, but any number of loan document vendors can be linked in as well so that loan departments can continue to operate with their own procedures, instead of adapting to an inflexible system.

There are other innovations available with SaaS-delivered platforms, including built-in electronic document management (EDM). With EDM, lenders can become paperless almost overnight, with a remarkable lift in fixed costs, efficiency gains and a green hue from the lack of paper required for printing.

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