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ASPs Troll For Big Catch On The Net

Their business is expected to double each year between now and 2004, growing from \$300 million in revenues last year to \$7.8 billion worldwide in 2004.

BY ROBERT SEGAL

It seems that every few months, a new model pops up to make the Internet more practical for business use. First, there were business-to-consumer sites (B2C), such as Yahoo and Amazon.com. The next wave was business-to-business (B2B), which included mortgage service providers like Pedestal and IMX Exchange. Now, we're hearing about application service providers (ASPs).

Just who is an ASP is open to interpretation, but they manage software, such as operating systems or e-mail, that connects to their clients over telephone or Internet lines.

An ASP offers businesses access to software over the Internet as an alternative to managing programs themselves. It develops and manages the software at a remote location, and the ASP model, according to experts, results from the convergence of outsourcing, network management and the growing reliability of the Web.

Though the business is growing rapidly, it remains largely obscure. According to a recent survey by the International Data Group (IDG) in Framingham, Mass., only 6% in a survey of 400 top U.S. corporate officers say they had detailed knowl-

edge of what ASPs do, and barely half have heard of them at all.

Despite this obscurity, IDG predicts ASP business will double each year between now and 2004, growing from \$300 million in revenues last year to \$7.8 billion worldwide in 2004. The Gartner Group has predicted a \$23 billion market by 2003.

Many believe mortgage lenders will become quite familiar with ASPs in the near future. As the Internet becomes an accepted means for communicating and transacting business, it will be a challenge to develop and maintain the required computer technology. Developing the systems in-house is both time-consuming and costly. For many, outsourcing to an ASP will be simpler, less risky and more economical.

According to James Jones, president of First Wellesley Consulting Group in Wellesley, Mass., firms operating in the ASP space for mortgage lending are focusing on two areas: the Internet and loan origination software. Of the two, he says, the Internet has received most of the attention.

Here, the ASP creates an online application that can be uplinked directly to the lender's loan origination software. For the consumer, it pro-

vides a one-stop shop for all mortgage-related activities. Other services provided by ASPs include Web hosting and design, and relationship management.

Excellent example

"The ASP model is an excellent example of how technology changes to meet the needs of lenders," Jones says. "It is similar to the service bureau concept. It makes a lot of sense for lenders because it allows them to acquire the product at a relatively inexpensive price."

He adds that the product would be much too costly for lenders, especially smaller ones, to afford on their own.

Sheila Plunkett, vice president of sales and marketing with Edina, Minn.-based Dexma, sees lenders growing more comfortable with the ASP concept.



PLUNKETT

"When you look at the complex communication environment, including links to credit bureaus and the GSEs, lenders are realizing the need to bring in

expertise from the outside.”

She notes three factors which will drive ASP growth.

Application support. The Internet, which now involves hosting, design, system integration and communication, is becoming more complex. Lenders are realizing the effectiveness of outsourcing some or all of those tasks. Benefits include reduced staffing, lower costs and less technology risk.

Security concerns. Because of firewalls needed to protect consumer information, lenders are finding it very expensive to develop infrastructure in-house.

Time to market. Lenders are finding the development time for software products to be too long if done in-house. By outsourcing, products can come on board much quicker. Lenders are also finding it “politically” expedient to outsource.

Supports core channels

First Union uses Xpede.Mortgage of Oakland, Calif., to support three core mortgage channels via the Internet. The bank offers mortgages directly to consumers, provides loan officers with personal Web pages and lets wholesale brokers submit applications on behalf of their customers. The Xpede piece is part of the bank’s legacy systems, automating paper-based parts of the origination process.

According to a TowerGroup brief authored by Richard Beidl, First Union struggled with technology choices and was determined to find a software solution that would deliver the best service to its customers. First Union wanted a “customer-centric” approach to its mortgage lending, Beidl notes, and a major thrust was to enable a wider lending perspective which would lead to an enhanced customer relationship.

Beidl says vendors traditionally developed software that supported a “product-centric” view of the customer, which limited vendor solutions to single-product capabilities. First Union reported significant improvements in its online strategy after only six months of operations. In addition, closing times speeded up dramatically.

Dain Ehring, chairman and founder of San Mateo, Calif.- based Dorado.com, says its ASP model fo-



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focuses on the top 150 mortgage originators because they have the technology infrastructure and expertise necessary to integrate the software with its internal systems. Ehring says banks are finally realizing that taking an application is not enough. The product needs to have a face. He says consumers often get half-way through an online application only to abort the process. It’s necessary to contact them and say, “I noticed that you didn’t finish the application. Can I help you complete the process?” Ehring says, stressing the importance of this high-tech and high-touch approach.

Most ASP vendors cite financial relationship management as a key component of their strategy. Using information captured online and placed in a database, the lender may offer personalized financial advice and match it with available programs. All of this can be done while the lender is competing for point-of-sale space.

Lenders benefit from automated processes in several ways. The elimination of paper-dominated processes and streamlined underwriting decisions shortens the loan origination process and keeps users engaged during an online session. The improved processing efficiencies result in abbreviated sales cycles and translate into significant cost savings. These capabilities also boost retention rates.

LionInc.com of Renton, Wash., which introduced its ASP solution last year, provides it as a stand-alone, or integrated with its back office system. According to Paul Eckert, vice president, many times the back office system is not Web-enabled, and companies are choosing his product for production as well. LionInc.com started out by providing rate search capabilities for mortgage brokers and has branched out into various software fields as brokers’ needs have changed.

Vendor Claims Big Cost Savings

According to the Mortgage Bankers Association, the average lender loses \$850 per loan in mortgage origination (which is recovered in servicing or when the loan servicing rights are sold).

Xpede claims ASP solutions provide big cost savings and make mortgage origination more profitable. The larger lenders can typically recover the investment within the first few months and then be profitable with online origination.

The key savings categories include:

Processing Costs: The streamlined and re-engineered business processes should save at least \$250 per originated loan based on conservative estimates. At \$250 savings per loan, with 1,000 loans closed per month, savings amount to \$3 million per annum.

Direct Consumer Channel: As consumers apply for loans online, lenders no longer have to pay broker or loan officer commissions. These savings can amount to about 50 basis points, or \$500 per a \$100,000 loan.

Hedging Costs: By reducing the loan closing period from weeks to days, lenders can hedge interest rate risk for shorter times. If this hedging period is reduced from 30 to 10 days, and the risk reduction saves 10 basis points per month, this translates into \$1.2 million of savings per year for a lender with \$100 million monthly volume.

Customer Support Savings: Since the decision time is greatly reduced, customer support costs can be minimized. This savings can add up to \$300 per loan. **SME**

The fees for the ASP module vary with the system integration involved and the number of users. “There are no monthly fees,” says Eckert.

Eckert says the secondary marketing department must be much more involved. “They must be integrated to e-commerce,” he asserts, and well-versed

in technology. Daily tasks include uploading rate sheet information to the system and delivering the product and pricing matrix to the vendor.

Tim Anderson of HomeAdvisor says ASPs must be viewed as a service bureau model. For the model to be viable, he says, the ASP must offer reliability and the bandwidth to deliver its product over the Internet.

"Successful ASPs will need three things:

- scalability,
- value, and
- integration.

The vendors that offer it need to be able to integrate into the lender's operation to make it work. And, enough services must be provided to make it worthwhile for the lender to use.

"Lenders," Anderson says, "want the vendors to provide a total solution.

"HomeAdvisor is offering an ASP solution that provides secondary marketing tools over the Internet. It took the traditional back office product and made it available to lenders that wanted it through the Internet.

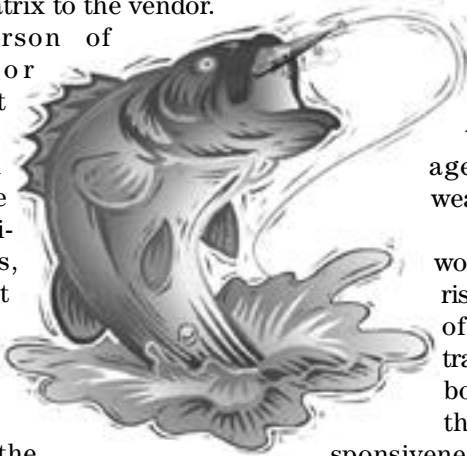
"It's given the lending community pervasive access. And as they realize more utility, it lowers costs," Anderson says.

"We think lenders want more services to justify getting the software," he explains. "When the loan gets entered, you get underwriting approvals, rate locks and title orders. This way, you get more services with just one path."

Key characteristics

The key characteristics of an ASP include reliability, scalability, flexibility and security.

While reviewing proposals from ASP vendors, it is important to consider how the firm delivers in each of these areas.



Reliability . Check out the reliability of the data center, network, customer support system, and process for product updates. The data center needs to operate safely on a 24/7 basis, and be able to withstand power outages and catastrophic weather conditions.

Make sure the network architecture is not at risk from any single point of failure and the data traffic doesn't suffer from bottlenecks that plague the public network. Responsiveness and quality of customer service is key.

Scalability . As we all know, lending volumes fluctuate greatly, depending on the level of interest rates. Internet businesses must also be able to ramp up production in a short time period. The ability to add users to the system without hurting performance or requiring additional hardware is important.

Flexibility . Customizing and personalizing the system without major investments in programming is also important.

Security . Customer confidentiality is on the front burner these days, especially in light of recent regulations regarding consumer privacy. Mortgage applications contain a substantial amount of personal financial information, which is data that must be safeguarded.

Fire walls are needed to protect the network from attack, either from within or by outside hackers. Ask your prospective ASP about its policies and procedures for security, and get a copy of its most recent audit.

"ASPs will be successful if they can deliver performance. The concept is sound," Jones says. "The ASPs have made a big bet. They're depending on the success of their business model and are counting on lenders putting a lot of their loans through the Internet."

Lenders are accustomed to paying service bureaus a front-loaded license fee and an annual maintenance fee, according to Jones. The ASP approach differs dramatically. In most

cases, lenders pay for usage on a per-application basis.

Developing software applications for the Internet is extremely expensive, and the ASPs will need a lot of business coming their way to make their bet pay off. **SME**

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ASPs In State Of Flux

Industry experts agree the application service provider (ASP) market is in a state of flux. What's in store for ASPs is open to debate, with future predictions running the gamut.

Gartner Group analyst Rita Terdiman thinks consolidation is around the corner. At a conference sponsored by her firm in Orlando, Fla., last year, Terdiman said 60% of existing ASPs will fail by the second half of 2001, and there will likely be only about 20 big ones by 2004.

Bill Leake, president of Journyx, an ASP delivering workforce management solutions, predicts that specialization will be a key in the ASP market.

He says the use of ASPs is gaining acceptance, primarily in small business and mid-market environments, but the marketplace must continue to evolve in order to attain mainstream adoption. The challenge facing the industry is to achieve adoption and loyalty by delivering solutions that solve real business problems.

The marketplace, he says, is in the midst of its first shakeout, whereby the most successful ASPs are horizontal aggregators offering a host of solutions to the entire market.

"The successful solutions will allow small companies to scale their operations more quickly and efficiently," Leake says, "whereas large companies will be able to make their resources more accessible to employees, customers and partners." **SME**