**MORTGAGE BANKING MARKET SURVEY** 

for

### SADDLEBROOK CORPORATION

PRESENTATION

January 23, 1989

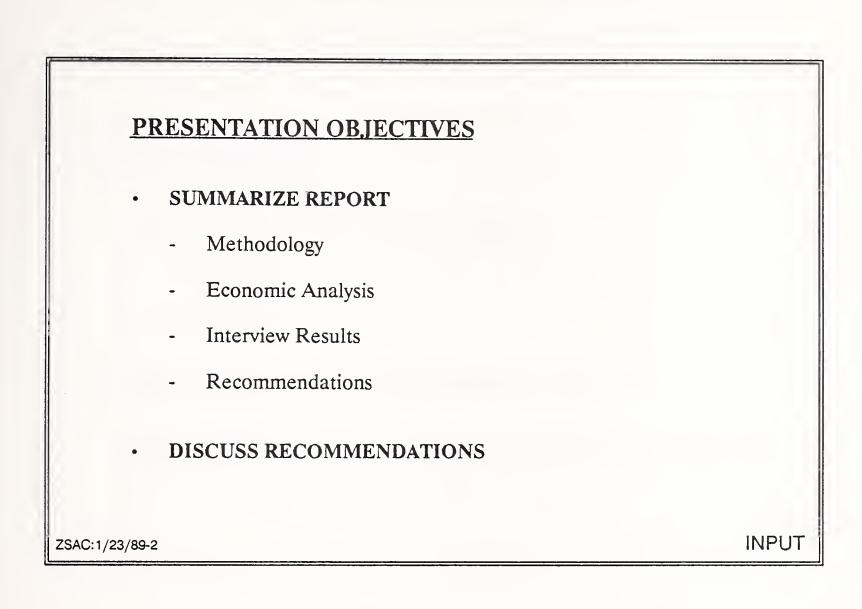
ZSAC:1/23/89-1

NOTES: ZSAC 1989 NORMAN LITELL

MORTGAGE BANKING SURVEY -- Presentation Notes: January 23, 1989



https://archive.org/details/mortgagebankingmunse



# STUDY OBJECTIVES **IDENTIFY SIGNIFICANT MARKET TRENDS** Mortgages and Mortgage Lending Institutions -Mortgage System Vendors **EVALUATE COMPETITIVE POSITION OF SYSTEM M RECOMMEND CHANGES IN SYSTEM M MARKETING APPROACH** ZSAC:1/23/89-3

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### STUDY APPROACH

- ATTEND MBA CONVENTION (San Francisco)
  - Evaluate competitors' offerings
  - Compare SYSTEM M with other vendor packages
- INTERVIEW COMPETITIVE VENDORS
- INTERVIEW CURRENT/POTENTIAL CLIENTS
- RESEARCH ECONOMIC ISSUES
- DEVELOP ANALYSIS AND RECOMMENDATIONS

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### ZERO-BASED ANALYSIS

- MINIMAL BACKGROUND ON SADDLEBROOK/SYSTEM M
  - System documentation
  - Demo at MBA convention

### • OBJECTIVES

- Assess the marketplace
- Recommend best way to compete
- Assume *de novo* system and marketing approach

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| VENI          | DORS INTERVIEWED          |   |                     |
|---------------|---------------------------|---|---------------------|
| -             | Data Link                 | - | Lomas               |
|               | Eastern Software          | - | SLIMS               |
|               | FICS                      | - | Software Devel Corp |
| -             | FIserv                    | - | SSI                 |
| -             | IRMS                      |   |                     |
| VENI          | DORS DECLINING INTERVIEWS |   |                     |
| -             | Fannie Mae                | - | Mortgage Flex       |
| -             | Interlinq                 | - | Prof Info Mgmt      |
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| SUMMARY OF FINDINGS - 1 (Mortgage Market) |
|---|
| SIGNIFICANT OVERCAPACITY IN INDUSTRY      |
| FINANCIAL SITUATION CANNOT IMPROVE        |
| - Loan/value ratios at historic high      |
| - Interest rates at/near historic lows    |
| DEMOGRAPHICS ARE UNFAVORABLE              |
| - End of baby boom generation             |
| - Family formation decreasing/delayed     |
|   |

| NOTES: | SOS GROWTH CAME FROM  |
|--------|---|
|        | - EQUATI TAKEOUTS (NEW PRODUCT)<br>- REFINANCING (LOWER INTEREST RATES) |
|        | - NET NEW HOUSEHOLD FORMATIONS  |
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|     | SI     | JMI    | MARY OF FINDINGS - 2 (Financial Institutions)            |       |
|-----|--------|--------|--|-------|
|     | •      | SI     | GNIFICANT CONSOLIDATION OCCURRING                        |       |
|     |        | -      | Deregulation spurring acquisitions across state borders  |       |
|     |        | -      | Deregulation allowing combination of coml banks and S&Ls |       |
|     |        | -      | Ailing thrifts being merged                              |       |
|     | •      | M      | ORTGAGE INDUSTRY BECOMING POLARIZED                      |       |
|     |        | -      | Many small/medium sized originators                      |       |
|     |        | -      | Few large servicers                                      |       |
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### **SUMMARY OF FINDINGS - 3** (System Vendor Implications)

• FEWER TARGETS AVAILABLE --> INCREASED COMPETITION

### • MID-SIZED TARGETS UNDER INCREASING COST PRESSURES

- Competition due to overcapacity
- Efficiencies of scale of large servicing organizations
- Low overhead of small origination organizations

### LOW BARRIERS TO ENTRY/EXIT FOR SMALL "BOUTIQUE" FIRMS

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| Low   | ENTRY/EXIT B   | ARRIERS PROVIDE                        | OPPORTUNITY<br>NEW/OSENTEDNITE                                  |
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|       | Low<br>FOR     | LOW ENTRY/EXIT B<br>FOR LOW COST SYSTE | LOW ENTRY/EXIT BARRIERS PROVIDE<br>FOR LOW COST SYSTEM SALES TO |

### SUMMARY OF FINDINGS - 4A (User Survey)

### PRIMARY BENEFITS SOUGHT

- Operational cost reduction
- Improved control of operations and portfolio

### • MOST IMPORTANT FEATURE IS SYSTEM FLEXIBILITY

- Adding new products/modifying existing products
- Adding/modifying operational structure (# of branches, etc)
- MIS reporting

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### <u>SUMMARY OF FINDINGS - 4B</u> (User Survey)

### • USERS GENERALLY UNHAPPY WITH VENDOR PRESALE SUPPORT

- "Superficial, if not incompetent"
- Vendors have conflict of interest in supporting planning/analysis

### • USERS <u>VERY</u> UNHAPPY WITH VENDOR OPERATIONAL SUPPORT

- <u>Availability</u> lack of 24 hour/7 day coverage
- <u>Response time</u> problems not resolved in reasonable time frame
- <u>*Quality*</u> support staff lack knowledge of both application and system

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### <u>SUMMARY OF FINDINGS - 4C</u> (User Survey)

### SPECIFIC VENDOR CHARACTERISTICS EXTREMELY IMPORTANT

- Knowledge of industry and application
- Stability/commitment to industry
- Large customer base (users do not want to be guinea pigs)

### **KEY DECISION-MAKING CRITERIA**

- *Functionality* does the system meet current <u>and future</u> needs
- <u>Cost</u> is it cost-justified

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### <u>SUMMARY OF FINDINGS - 4D</u> (User Survey)

### • SPECIFIC APPROACH TO PRICING DESIRED BY USERS

- <u>Unbundled</u> price support/services separately from system license
- <u>Modular</u> price system based on installed capabilities
- *Fixed* no change in price with change in amount of work processed

### USERS ALSO WANT COPY OF SOURCE CODE

- Protection against vendor abandoning system
- Modify system/solve system problems if vendor is unresponsive

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### <u>SUMMARY OF FINDINGS - 4E</u> (Saddlebrook Evaluation)

• SAMPLE MAY BE BIASED (Interview targets selected by Saddlebrook)

### • STRONG POINTS

- Stability/length of time in business
- Knowledge of industry
- Capabilities/flexibility of system
- Dedication to user support

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## SUMMARY OF FINDINGS - 4F (Saddlebrook Evaluation)

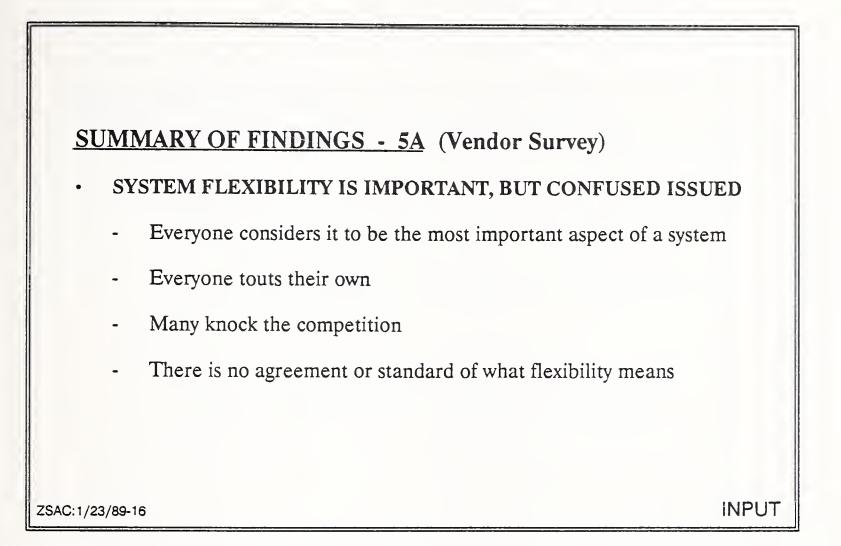
SAMPLE MAY BE BIASED (Interview targets selected by Saddlebrook)

### WEAK POINTS

- Cost
- Look/feel is "old"
- Poor throughput/performance of PDP-based systems
- Lack of IBM-compatibility
- Difficulties of operating in a distributed (multi-branch) environment

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# SUMMARY OF FINDINGS - 5B (Vendor Survey) TWO DIFFERENT KINDS OF FLEXIBILITY IMPORTANT TO USERS *Operational*ability to change screen layouts, data entry prompts, etc ability to add/change products/branches/staff assignments, etc MISE ability to add/change queries, reports, etc ability to add/change sorts/classifications of database

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### <u>SUMMARY OF FINDINGS - 5C</u> (Vendor Survey)

### MOST IMPRESSIVE SYSTEMS AT MBA HAD COMMON FEATURES

- Convenient-looking laptop origination systems
- Full-screen tabular data entry
- Laser printing of forms

### SUCH FEATURES HAVE STRONG IMPACT AT DEMOS

- "Grabber" interface generates positive impression
- "Old-looking" system inconsistent with claims of modernity/flexibility

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## <u>SUMMARY OF FINDINGS - 5D</u> (Vendor Survey)

### • **POSITIONING DEMONSTRATES MARKET COMPETITIVENESS**

- High-end/Premium position adopted by half the vendors
- <u>Moderate/low cost solution</u> pitched by 2/3
- Half of Premium vendors also pitch low cost

#### STRONG PRICE COMPETITION

- Several firms admit "buying into the market"
- Others attempting to maintain market share by cutting price

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# SUMMARY OF FINDINGS - 5E (Vendor Survey)

### MOST VENDORS' PRICING MATCHES USER PREFERENCES

- <u>Unbundled</u>
- <u>Modular</u>
- <u>Fixed</u>

#### **TWO BASIC AREAS WHERE USAGE-BASED PRICING PREVAILS**

- Service bureaus price on a <u>per transaction</u> basis
- Some vendors charge on a <u>per terminal</u> or <u>per processor</u> basis

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# SUMMARY OF FINDINGS - 5F (Vendor Survey)

### MOST VENDORS GROWING INSTALLED BASE AT 10-15% PER YEAR

- New vendors growing more rapidly
- Vendors focussing on very large users growing more slowly

### • TOO MANY VENDORS CHASING TOP END OF MARKET

- 7 out of 9 vendors included top tier in their target market
- Only 50% indicated any interest in small/medium sized firms

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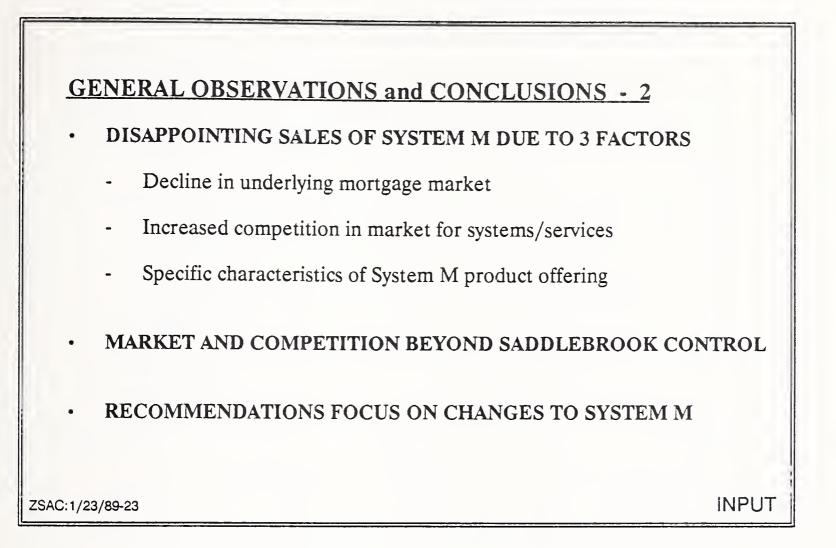
## **GENERAL OBSERVATIONS and CONCLUSIONS - 1**

- MORTGAGE INDUSTRY OUTLOOK GENERALLY WEAK
- INCREASING COMPETITION AMONG SYSTEM/SERVICE VENDORS
- INCREASING VARIETY/COMPLEXITY OF MORTGAGE PRODUCTS
- INTELLIGENT WORKSTATIONS EMERGING AS A STANDARD
- USERS' CONCERNS GROWING
  - Increasing dependence on systems to process workload
  - Cost pressures/industry overcapacity

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| <b>RECOMMEND</b> | ATIONS - | 1 |
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| •         | • 6 AREAS ADDRESSED |                        |       |
|-----------|---------------------|------------------------|-------|
|           | -                   | <u>Product</u>         |       |
|           | -                   | <u>Service/support</u> |       |
|           | -                   | <u>Positioning</u>     |       |
|           | -                   | <u>Pricing</u>         |       |
|           | -                   | <u>Promotion</u>       |       |
|           | -                   | <u>Target Markets</u>  |       |
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## **RECOMMENDATIONS - 2**

- PRODUCT RECOMMENDATIONS FOCUS ON LONG-TERM
- OTHER RECOMMENDATIONS CAN BE IMPLEMENTED AT ONCE

#### • TWO DISTINCT REASONS FOR RECOMMENDATIONS

- Match competition (generates no competitive advantage)
- Differentiate Saddlebrook (build competitive advantage)

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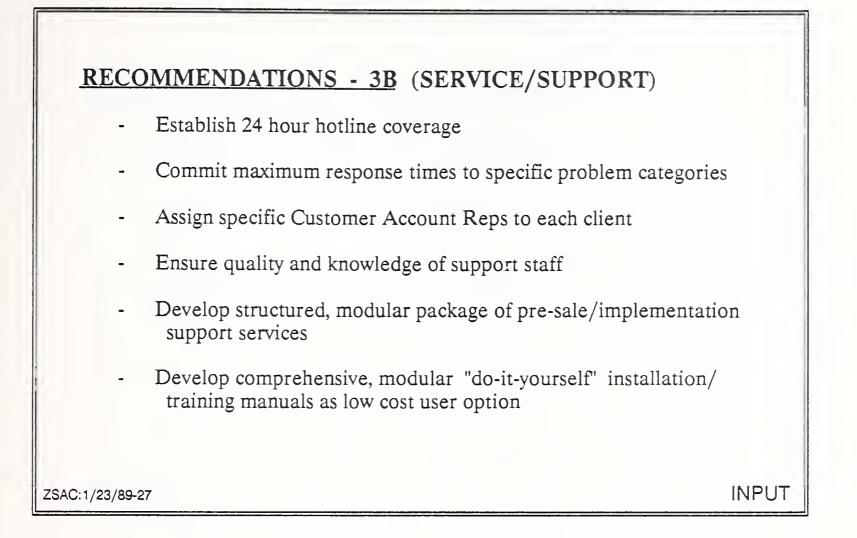
# **RECOMMENDATIONS - 3A** (PRODUCT)

- Consider rewriting in IBM-compatible mode
- Base upgrades/rewrites on 4GL/database system
- Minimize custom system code
- Consider Pick- or Unix-based approach
- Rewrite data entry using full-screen, table-oriented approach
- Provide laser forms generation capability

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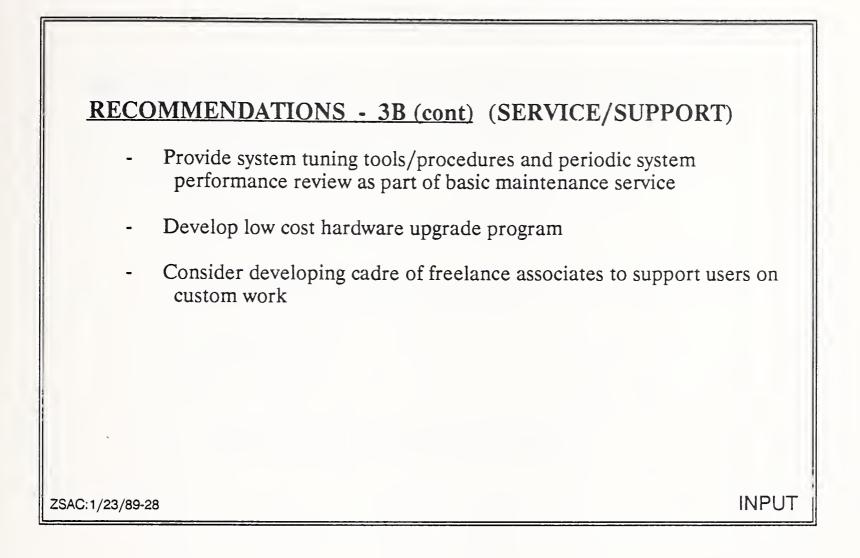
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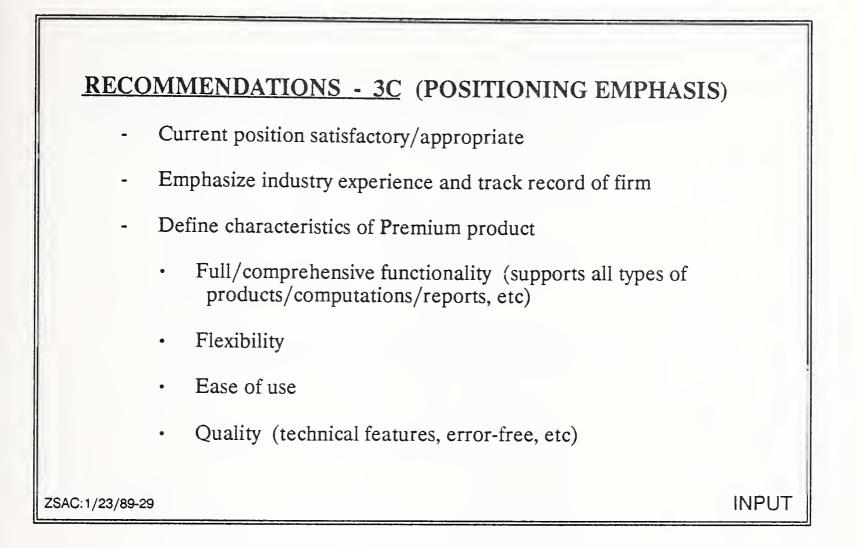
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# **RECOMMENDATIONS - 3D** (PRICING)

- Establish at Mid + level
- Unbundle services
- Modularize by installed functional capability
- Freeze license fees at time of sale
- Base initial license fees partially on business profile
- Emphasize "good value for your money"

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## **RECOMMENDATIONS - 3E** (PROMOTION)

- Continue current advertisements in trade press
- Continue and upgrade trade show demos
- Encourage and aggressively pursue customer referrals
- Consider building a promotional package around MBA manual "Chosing a Loan Production System"

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# **RECOMMENDATIONS - 3F** (TARGET MARKETS)

- Reduce focus on top tier
- Increase focus on middle and lower tier
- Emphasize S&L/thrift, mortgage bank and credit union markets
- Reduce emphasis on commercial banks

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NOTES:



# EXPECTED SALES RATES

• INDUSTRY AVERAGE IS 10-15% PER YEAR NEW INSTALLATIONS

### • SADDLEBROOK SHOULD ACHIEVE AT LEAST THIS RATE

- System M has good reputation
- Saddlebrook has good reputation
- Changes in marketing profile can provide competitive advantage

### BIGGEST QUESTION MARK IS IMPACT OF SYSTEM REWRITE

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