

COVERSTORY

Technology Horror Stories

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Every lender has had a bad technology experience or two, but how those horror stories can be turned into happy endings is the real differentiator.

Harkening back to the Framework debacle that resulted in both Washington Mutual and Bank of America losing a lot of time and money because of a failed implementation, no lender needs this type of experience, especially given the current state of the market. Being agile is critical. To this end a lot of lenders have migrated to hosted software that is offered as a service and paid for on a transaction basis.

However, every lender has at one point or another had a bad technology implementation experience. Hopefully that lender has been successful in turning that around or scrapping it in time to launch a new project with better results. Some projects, like LOS implementations in mid-tier and top-tier lenders especially are bound to take some time though.

COVERSTORY

"Any time you talk about an LOS you're talking a long implementation," said Steve Daniels, director of national equity line of credit operations at Wachovia, Charlotte, N.C.

"Focus is key. There will always be things that come up so you need consistency in terms of requirements, testing, integration.

"Also, ensure that you have core players dedicated to the project. Re-evaluating your cost/benefit analysis as you go along is important, too. It's easy to lose sight over the course of a 12- to 18-month cycle and not know where you are.

"You also need to divide things up into phases. The ideal timeframe for an incremental release is every 10 to 12 weeks. Having a rigorous regression testing methodology is crucial. You need to test and re-test on a long project.

"Scope management and change control is one of the bigger challenges on a long project, too," noted Mr. Daniels.

"Ask yourself: How do I manage change control? What are your sign-offs? Who is part of the change control committee? Track how many change controls are both approved and denied, why they were denied, and what was the ultimate return on investment."

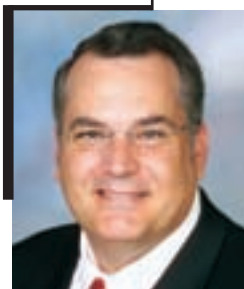
However, even the best planned, managed and tested projects meet with their fair share of snags.

"I've come into a few projects where they were six plus months late and over \$1 million over budget, and I was the one that was expected to turn them around," remembered Mr. Daniels.

"Don't be afraid to stop a project. Not all projects should continue. It's difficult to raise the flag and say this project can't be finished, but you shouldn't be afraid to do it in some cases.

"You also have to be honest. Don't sugar coat what's going on or be over dramatic either because the sky is not falling.

"Usually the whole project isn't failing, just parts of it. If you can isolate those parts you can work there first. Personal attacks should be left out of this. You need to foster teamwork in all areas. A lot



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Wachovia

of the time the successful groups are left alone, but if you bring some of those folks over to something that is failing it can be a real morale booster in some cases.

"Don't be afraid to swap out project members because having a fresh set of eyes and getting rid of the pride element can go a long way.

"If you're going to fail, fail fast. That may sound a bit funny, but instead of a slow death, you should dedicate that time to new projects," advised Mr. Daniels.

"You have to create a list of past assumptions going in and the reality of those assumptions. An example might be that initially you thought training should only be a half day, but now you've discovered that due to certain complexities training will take five full days.

"Also, consider taking areas that are failing and dividing them into smaller pieces that are easier to handle.

"Put a finite measure around all areas of concern like time, cost, effects, scope," advised Mr. Daniels. "If you can't measure it you can't manage it, and if you can't manage it you can't improve it.

"If you increase the reporting to daily reports that are all both honest and broad, you can get a better picture of what's going on.

"Roles and responsibilities should be clear and known to everyone. Don't make any assumptions about who owns what and who is responsible for something.

"If everybody is responsible then nobody is accountable. Accountability also has to be very clear.

"Lastly, ensure that you've got project management 101 in place. So, you need project plans, reporting, risk assessment, budget numbers, and change control processes," he said.

While failed implementations can result in a lot of finger pointing between the lender internally and externally at the vendor in question, it's important to keep a clear line of communication open with the vendor at all times. If the vendor isn't clear on what the lender wants and needs, the vendor can't be accountable. The vendor can't be expected to just know what a lender wants at all times.

"Knowing what I know being on the vendor side, I'd make sure I have a direct line into the decision makers at the vendor," reported Pete LeFebvre, executive vice president of loan origination software vendor Gallagher Financial Services' Brentwood, Tenn., operations center.

"You have to have frequent meetings with the vendor beyond just who you're working with in terms of the actual implementation. That takes confusion and potential miscommunication out of the mix.

"No. 2, depending on the size of your organization and the size of the implementation, you have to align IT and the business.

"A lot of things that can cause an implementation to drag on happen when there isn't clear alignment between IT and business. For example, there may be things going on that is just technology for its own sake.

"No. 3, the lender has to be clear about their expectations. If lenders aren't clear from the start you're sure to have a slow implementation," continued Mr. LeFebvre. "These tips apply to all lenders, it's just that a larger company will have a more clearly defined business group and IT group.

"Every technology has core out-of-the-box features that can be leveraged. The lender has to identify those features to see if there's an intersection with the business goals to get a quick win."

In fact, it was a total lack of alignment between lender and vendor that caused issues in an ongoing customer relationship management technology implementation at Sun Prairie, Wis.-based Fairway Independent Mortgage Corp.

"We have a customer relationship management product that some branches had been using with great success that we were looking to implement across the enterprise," noted Brad DeBroux, a branch manager at Fairway.

"We were looking for a longer-term CRM program. After almost a year of providing the vendor with our needs, there were items needed that we felt comfortable the vendor would come through

on, but after a lot of time we found that was not the case. We weren't getting the results that we expected.

"We learned that on our end, we didn't understand what the vendor needed. The vendor came to us and said they needed a list of our needs and expectations and we approached that request from our understanding of what that meant to us as a lender.

"We told them what we wanted the end result to be, but we later found out that the vendor wanted us to specify the process as it goes forward in that they wanted us to define how it would work. We didn't know how it would work, we just knew what we wanted as an end result, though, which caused a disconnect to happen between us and our vendor.

"So, lenders need to get a scope of service from the vendor so they have a clear understanding of what exactly the expectations are and what they can expect to receive from the vendor.

"If we had that upfront we could have saved a year in development. As we offer these products and services out it wasn't much different then when we rolled out our new loan origination software.

"We want to provide the end user with a set of expectations, too, going forward. The user needs to know what they can expect and what's expected of them. With the CRM vendor, their database was viable and up to date and a lot of our branches were not prepared. We had to make sure the branches have a valid database, the necessary equipment to run the program, etc."

Lenders also need to curb their enthusiasm about what is being touted as the latest technology tool. Being realistic about what to invest in and what to avoid is a key skill that upper management at lending institutions need to add to their expertise.

There are common terms that lenders should be aware of like Web services, service-oriented architecture, XML, MISMO, etc. But the lender must also realize that these terms are often used as buzzwords by vendors, too. Doing due diligence and asking pointed questions is important. Making the



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Services

COVERSTORY

vendor prove their claims is a key skill that most lenders need to incorporate upfront, before choosing a technology solution.

"From someone who gets excited when seeing new technology, I'd say the biggest mistake is not determining the value to the end user," noted A.W. Pickel III, president at LeaderOne Financial, Lenexa, Kan.

"I may like the new BlackBerry Pearl, but my wife won't use it because she likes her BlackBerry. Sometimes you'll have a president like me that really gets involved in the technology and can see all the benefits, but the loan officer says, 'We don't need this.' If the value to the end user isn't apparent it will be a long haul.

"If you're in the middle of a long installation I'd back up and re-analyze. I'd run the new system on one server and the old system on a second server. This way you can review new systems constantly to keep up with what's in the market.

"I run several systems concurrently because I'm always looking at new technology applications. Also, when I decide to pull the switch I know the value because I've been running loans on the new system for quite some time now.

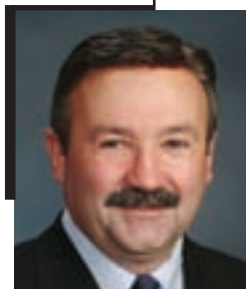
"As far as actual technology implementation goes, if you're struggling you have to scale back, get everyone on the same page and evaluate where you're going to use this new piece of technology," cautioned Mr. Pickel.

"For example, if I'm bringing in a pricing engine you need actual demonstrations, instructional videos that can be placed on the user's desktop just in case the end user forgets the training, etc. The end user just wants to do their job, do it well, and they don't want distractions."

And when it comes down to it, the principles of software implementation haven't changed much.

However, what has changed is that lenders need to get the most out of every implementation, given the state of the market.

"The principles of implementation today are not different as compared to six months or a year ago,"



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LeaderOne Financial

added Jordan Brown, chief executive officer at investment banking and consulting company MarketWise Advisors, Ponte Vedra Beach, Fla.

MarketWise Advisors was founded in 2005 to provide the mortgage industry with a full-service investment banking and consulting advisory firm. As a boutique investment banking firm, MarketWise provides transactional assistance to financial institutions and service providers in the real estate industry. Advisory services include operational consulting, risk management, company valuation, private placement and M&A transaction execution. The company has seen many positive and not-so-positive implementations.

"Picking up incremental return is crucial in any long-term technology implementation," noted Mr. Brown. "Lenders also need to leverage Web services because we're in a volatile market so integration is very important right now.

"Also, moving to a variable cost structure to be able to increase and decrease your FTEs at will is going to be needed to get incremental return on investment.

"Those companies that have effectively created offshore captives or have outsourced loan processing and servicing will have a competitive edge in a declining market like this one because they have the technical infrastructure in place to scale up very quickly when things come back.

"The concept of outsourcing processing, underwriting, closing, post-closing and servicing is a clear winner.

"Ultimately, this market will also be a catalyst for e-mortgage adoption," predicted Mr. Brown.

What happens to companies that are currently implementing technology today with no clear e-mortgage strategy for the future? "For those that have already invested with the long-term goal of going toward the e-mortgage, they'll get there quicker and if you have not yet started to invest in the e-mortgage you'll be very behind over the next three to five years," answered Mr. Brown.

"If you don't get started, you're going to miss the boat," he cautioned. **MT**