

SERVICING MANAGEMENT®

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Advances In Technology Will Be A Boon For Servicers

This year, commercial servicers will need to continue employing and refining sophisticated, Web-based tools.

BY DAWN GIBBS

In many aspects, 2005 was a year that no one could have fully predicted. The inevitable end of the refinance boom - which was initially projected for 2004 after record-breaking mortgage production levels in 2003 - showed true signs of fruition in 2005, with rising interest rates and a slowing in real estate construction and loan originations.

Compounding this, the worst hurricane season on record wreaked havoc on our entire nation, devastating people's lives, homes, commercial buildings, metropolitan and rural infrastructures, and entire industries.

But within these ominously stormy skies, there is some light to shine on us in 2006. While the economy took a hard hit from a cooling refinancing market and Mother Nature's fury, the subsequent reconstruction efforts will keep the economy's long-term potential growth rate between 3.25% and 3.5%, according to the Mortgage Bankers Association's (MBA) "Commercial Real Estate/Multifamily Finance Quarterly Data Book" for the third quarter of 2005.

The numbers show that while residential housing activity is slowing, commercial and multifamily mort-

gage bankers' loan originations increased 64% from the third quarter of 2004 to the third quarter of 2005 - a record high and positive forecast for 2006.

Also, Collier International's "2006 Real Estate Forecast" predicts that the office sector - along with the industrial and retail spaces - will continue to thrive, fueled by consumer spending, healthy job growth, expansion into new markets, a drop in vacancy levels and the revitalization of urban downtowns.

But in order to maximize success in 2006, the commercial mortgage industry and commercial mortgage servicers, in particular, must review technological steps taken in 2005 and plan for another year of automation, cost-cutting and increasing efficiencies.

New technology

From a technological standpoint, 2005 represented the year in which document imaging and data management tools became more widely used by commercial servicers. These proved to be effective solutions to help servicers greatly increase efficiencies throughout the importing, processing and exporting of loan information.

The MBA's "Commercial Technology Survey" - which polled commercial



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mortgage originators, lenders and servicers - reported that more than 78% of survey participants have started storing images of loan documents electronically, with nearly 90% of survey recipients categorizing themselves as "strong" when it comes to planning new technology initiatives.

On the whole, it was a successful 2005 for the entire commercial mortgage industry, including servicers. According to Doug Duncan, the MBA's chief economist and senior vice president of research and business development, "The commercial/multifamily mortgage market continues to be buoyed by modest long-term interest rates, improving property fundamentals and strong equity flows. The results across all property types have been record originations, increases in mortgage debt outstanding, near-record commercial mortgage backed securities issuances and increases in commercial banks' commercial and multifamily mortgage holdings."

Communication is key

Technology budgets for mortgage companies have been on the rise during the last few years, and for good reason - a strong technology investment can better assure a sound working environment and operational process.

Looking forward to 2006, those commercial mortgage lenders and servicers that succeed this year will master the use of the Internet to communicate and securely transfer information throughout all stages of the loan process. Last year, the focus was

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on imaging and management. This year, the attention will focus on information transfer.

According to the MBA survey, electronic communications increased in 2005 among originators, lenders, servicers, borrowers and investors. Technology providers and commercial servicers can point to an increase in document imaging and data management to count for the increase. A majority of servicers also reported electronically processing loan set-ups, boardings and property inspections.

Financial statements, however, were mainly paper-based, as were monthly payments made by borrowers. Swinging the pendulum back the other way, investor reporting and remittance was almost entirely electronic.

XML standards

Despite our electronic advances, there is still room for improvement. The Internet has not yet been tapped to its fullest potential in the commercial mortgage sector. The Mortgage Industry Standards Maintenance Organization (MISMO), which coordinates the development and maintenance of voluntary data standards for the mortgage industry through the use of extensible markup language (XML), is a leader in the directive to increase the use of electronic commerce.

MISMO, having already experi-

enced widespread utilization of its data standards in the residential market, is now in the introductory phase of delivering commercial specifications with the release of the Commercial Servicing Transfer Standards in the first quarter of 2006. MISMO has a formal alliance with the Commercial Mortgage Securities Association and active participation by the government-sponsored enterprises in all aspects of the standardization process.

Commercial lenders and vendors are eagerly anticipating the delivery of this standardized XML architecture. XML - the system for defining, validating and sharing data - enables the exchange of not only varying amounts of data, but also a variety of information, and has increasingly been used as a tool to securely transmit data or requests for information electronically via the Web.

By adopting standards such as those offered by MISMO and XML, commercial servicers can rely on receiving a commonly shared format for the electronic transfer of data to their business partners.

Once dedicated to electronic communication, commercial mortgage servicers can work from a more streamlined process. Data, preferably in a standardized form and regardless of proprietary software or Web interface, can be sent to any party

throughout the loan origination and servicing process. Originators, lenders, servicers and investors can all communicate without re-keying information or keeping track of or filing physical documents, thus working from a more accurate and timely loan process.

"Expectations & Market Realities in Real Estate: 2006," a report from Principal Real Estate Investors, Real Estate Research Corp. and Torto Wheaton Research, concludes that the office sector is recovering, retail continues to exhibit strong investment performance, industrial and apartments are improving gradually, and hotels may outperform the other property types over the next five years. If these projections come to pass, commercial mortgage professionals must better utilize the Internet and electronic documentation to keep up with borrower and industry needs.

Through the use of the Internet, fewer people are now required to be involved in the loan process, which can lead to increased efficiencies, fewer manual errors and higher levels of customer service and satisfaction. Last year, document imaging and data management were on the minds of commercial servicers. This year, servicers will be asked to put these learned lessons into practice through consistent Internet communication and MISMO/XML adoption. **SM**