

Opinion Is the Mortgage Industry Obsolete?

By Ted Cornwell

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Servicing executives should be the ones leading the charge to transform the industry going forward. Image: Fotolia.



WE'RE HEARING if you think changes to the mortgage business in recent years have been jarring, you may want to fasten your seatbelt.

Globalization and demographic trends are likely to drive even more dramatic changes to the industry in the coming years, according to one controversial industry expert. And she thinks servicing executives should be the ones leading the charge to transform the industry going forward.

What's going to drive the evolution of the business?

Toni Moss, CEO of **AmeriCatalyst** and a related firm, **EuroCatalyst**, told me that an increasingly "neo-feudal" society, in which people change jobs and move more frequently with significantly less income security than in the past, may threaten the traditional, 30-year, fixed-rate mortgage. The shrinking of the middle class threatens the traditional U.S. mortgage industry, she told me.

"We need to consider the possibility that our industry is rapidly being rendered obsolete in its present form," she said.

That means that industry leaders are going to have to think big and reimagine what a sustainable housing finance system will look like in a globalized world, Moss said.

With income growth failing to keep up with rising prices, fewer households are able to own a home. And that means more and more people will rent rather than own their homes.

In the wake of the housing finance bust, Moss believes that mortgage servicing executives should play a greater role in the leadership of the housing finance business. That will require thought leaders from the servicing sector to push boundaries and test limits of how things have traditionally been done.

"The way that people in the industry view themselves is relatively powerless," Moss said. "When you treat servicers like the fat kid on the soccer team long enough, they learn to believe it, and their behavior follows."

She said servicers have a responsibility to acquire, distribute, protect and manage information. But they often don't really view themselves as being in the information services business. Transforming servicing into an effective information services business will require new technology and resources, she said.

"I think servicing is where you are going to see the most dramatic changes coming up, because servicers are so important—they actually pose a systemic risk to the economy."

One problem that emerged in the run up to the housing implosion was that all the people who had financial incentives to generate business were on the origination side of the industry.

"We incented the guys to give the money away. We did not incent or provide enough funding for the guys collecting the payment."

A big misperception about servicing is that it's the "back office" of the origination business, according to Moss. Servicing is actually the front office for borrowers and investors, she said. She hopes that compensation and investment will go toward strengthening the servicing side of the industry, though she said the prospects for that happening are dim within the existing structure of the industry. Instead, she said entrepreneurial firms, such as **Wingspan Portfolio Advisors**, that have ditched legacy systems and created new servicing technology are the ones that are likely to drive change.

With such outspoken views, you might be surprised to learn that Moss hosts an [annual conference](#) that routinely attracts more than 300 participants. Moss encourages participants at the invitational **AmeriCatalyst** confab to argue and debate. She wants mortgage servicing executives to quit playing follow the leader and learn to be leaders.

Leading topics likely to be addressed this year include the potential for sovereign defaults and what impact that would have on international cash flows (the U.S. mortgage industry has relied upon international investors to fund more than 50% of home loans in the past). New regulations and the ensuing constriction in credit, political chaos preventing real market reform, and the emergence of big data are among the other issues that will be on the table.

While bringing up controversial topics, ranging from global warming to economic globalization to cyber security, may not be the most marketable way to attract banking industry executives to a conference, Moss says that executives need to realize that to survive the macro-trends affecting business today they have to innovate. And she believes that cultivating industry thought leaders is needed to help companies survive in a changing world.

"There are a lot more intellectuals in this industry than I had thought," she said. "Once you get that process going, you really start to develop some real leaders."

The economic dislocation and economic fallout from the globalization of capital has no easy cure, she said. Businesses, jobs and the tax base are difficult to anchor to one place in a world where capital can move easily across borders. Moss, a former professional tennis player who has worked in 27 countries over the course of her business career, is in a unique position to observe and think about globalization.

"The most frightening thing is to know that at all levels of power, whether it's the **International Monetary Fund**, the **World Bank**, the **White House**, the **Federal Reserve** or central banks around the world, no one knows how to fix this."

Ted Cornwell has covered the mortgage markets since 1990. He is a former editor of both Mortgage Servicing News and Mortgage Technology.