

## **Ehring: Transparency, Security Key for Mortgage Market Return**

**Murray, Michael**

*(In part two of this interview, **Dain Ehring**, CEO and founder of **Dorado**, San Mateo, Calif., discusses opportunities for technology to enhance efficiency, transparency and security in the mortgage industry as production returns).*

**MBA TECH NEWSLINK:** *As the mortgage industry—residential and commercial real estate—tries to get back on its feet, where do you see industry technology moving in the next couple of years? We've had a mini-refinance boom, but do you see technologies moving more to the back end of the process or in the front end?*

**DAIN EHRING:** I think there is a paradigm shift. I think it is going to be **Mortgage 2.0**. The way banks were done in the past is no longer going to work. The three things in my mind that went wrong were a lack of automation or a lot of manual processes—a lot of errors, a lot of ways to easily get into the system and easy to commit fraud, there is a lack of transparency and there is an interdependence among a bunch of other companies to get that loan done. The businesses have got to have automation.

I still go to a lot of lenders and they are passing manila folders around. Even if they have a system in place or not, they are storing those manila folders in a big box downstairs. That is going to go away.

So, automation, data transparency and then the network, which is integrating and diaching together. Just like **SAP** [Newtown Square, Pa.], did to **Enterprise Resource Planning**. Just like what **SABRE** [Southlake, Texas], did to airline reservation—ordering and feeding transformation to the industry. You have to.

**TECH NEWSLINK:** *Some people will say—for example, with subprime—there were automated underwriting systems for subprime lending but vendors would say they could provide the systems. That's all they would do and [lenders] have to provide information and business rules and so forth. Vendors would say it is up to the company or the lender to use automation in the proper way. What do you say to that?*

**EHRING:** There was a case where this person said it was automation that actually led to the subprime crisis. This is where I will disagree, and I'll tell you why. When I say automation—digitization—I mean that I can't have data transparency unless I have that data. The information in terms of not just the loan application but the decisions made on that—the rules I'm taking on it, the supporting evidence that goes against that, the tests, in terms of high cost tests and fraud detection—all the information has to be data, and it has to reside with that loan file.

That is what I mean by digitization. It's not just automating the decision itself, like desktop or automated underwriting. I'm talking about a complete digitization, a complete end-to-end digitization of the whole flow of the loan at every stage of that loan.

**TECH NEWSLINK:** *Are you talking about paperless mortgages or an eMortgage?*

**EHRING:** I'll say an eMortgage. We need to differentiate between an eMortgage and a paperless mortgage. A lot of people think about that, and they say they are just going to scan in their documents. That doesn't help because unless they can index that and research [the docs] at any time—that's what you want to do, you want to get them to transparency. I think it's one out of every 100 loans checked for quality, and lenders want to know every single loan has been checked. You want to segment and resegment different loan pools because the securities market has to pick back up. For it to pick back up in a good way, that market needs to have transparency on that loan information.

**TECH NEWSLINK:** *It sounds like you're saying current conditions almost force the industry to move into an emortgage environment.*

**EHRING:** I think I have to say that. Yes. If you're not 'digitized'—technically, to me, eMortgage means electronic signatures and so forth and it's not electronic signatures and evaluating that's so important. It's digitizing the information, the decisions and pricing that go along with making the decision to underwrite and fulfill that loan. That's what needs to go with that loan file. That needs to be data, not Post-It notes.

**TECH NEWSLINK:** *Does it also help prevent fraud or increase security—sometimes even from a person who works in the office handling the mortgage?*

**EHRING:** 100 million percent. As soon as I digitize this, then I can protect against fraud, I can protect my privacy, I can protect against mistakes. Not every single loan officer is going to like this. Some people like to [make apps] their own way, but [lenders] can't put rigor against it and can't protect the bank as well as the investor until it's digitized.

This person said automated underwriting, automation, led to the subprime crisis. Well, automated underwriting is just an algorithm. That's not what I'm talking about. You have to digitize the whole process, not just automated underwriting. If they provided transparency to the whole process, I don't think the subprime crisis would have happened.

**TECH NEWSLINK:** *All that being said, what's Dorado's strategy moving forward and your own game plan for the next two or three years?*

**EHRING:** We are going to absolutely leverage our SaaS model to our advantage. We are going to gain new customers. Our value proposition is all about cost reduction. We are spending a lot of money on reducing the time it takes to get our product up—that means developer tools, tools to help extend [the model] and getting it into the cloud. That means how fast we can get our products up and, at the same time, allow for that accessibility. We are also going to continue building up the network. We are going international. We are doing this domestically and internationally.

**TECH NEWSLINK:** *The word 'cloud' is being used a lot these days, such as 'cloud storage.' Is this also a trend?*

**EHRING:** When I say the platform is on the Internet, that means the platform becomes the cloud. That means that the Internet becomes a resource and banks need to solve for controlling that resource, customization, sensibility and robustness. Those are the things we are solving for them.

**TECH NEWSLINK:** *You've worked for large technology companies like IBM and Sun Microsystems. In the current economic environment, some companies modify strategies to adapt to more industries and expand outside their original markets. Are you seeing this in the mortgage industry? How do you go up against an IBM?*

**EHRING:** We are not just taking our software and trying to make it SaaS. Everything about our software is Internet-based, Internet-driven and then SaaS. IBM is more about of a professional license model and then wrapping professional services around it. IBM looks at this market as an opportunity to get IT services and business process outsourcing, BPO, and they have a technology platform that allows them to do that. They are looking for big, huge projects.

We can come in with a very small capital outlay to a per-closed loan basis and get that customer up very fast, a lot cheaper without a lot of customization. IBM wants the customization. Me, I don't want the customization.

**TECH NEWSLINK:** *Has Dorado looked outside of the mortgage industry to anything like the insurance industry?*

**EHRING:** Our platform is relevant for insurance, like PC [property and casualty] insurance, life insurance as well as maybe health insurance. Consumer lending, student lending, small business lending—these are the places we are taking our technology.

**TECH NEWSLINK:** *Do you think that it is necessary in today's mortgage technology world to be nimble and diversified and expand outside into other industries?*

**EHRING:** There are two pieces to your question. Because you are selling into a different type of company—retail banks—your software, if you are going to have a great business model, your software is going to be relevant for other business line channels in that financial services company.

But, at the same, because of the paradigm shift and the transformation that we are seeing, we are not running away from this industry. Actually, I focused everything on this industry, and we are not selling anything outside of the mortgage industry right now because I think this is a real big opportunity.

Two years ago, when I was talking about it in front of all of our employees, I told them about insurance and where we were going. Right now, I actually have everyone focused on this industry because of the opportunity at stake. I'm not running away from this market. I'm actually getting very laser-focused in it.

You have to be diverse but, right now, this is a great opportunity. Companies running away from it are going to miss a great opportunity. Maybe because I've been in the Silicon Valley for so long, you see these paradigm shifts come and go and here's a paradigm shift that's going to happen in the mortgage industry. You only get a couple of these things in your lifetime. You better take advantage of it. It's a great opportunity.