



# The Case of Peggy O'Keefe and Financial

In February 2007, MORTECH LLC declared in a note to its research sponsors, "It is official: The industry is going through yet another retrenchment. Volatility in loan production is nothing new, and downsizing to fit a lower transaction flow is business as usual in the mortgage industry. A number of lenders (many of which are sub-prime lenders) have been or now are on the market to be sold. The impact of another industry recession will be profound on lenders and technology vendors alike."

Our concern is as much about how industry conditions affect the supply of technology and technology-based services as they alter the lives of lenders. We generally believe that smaller vendors are certain to have a more difficult time making a go of it in an industry downturn. So what better way to test that belief than to interview someone who is enduring the trials of a recession? At the Mortgage Bankers Association's (MBA's) National Technology in Mortgage Banking Conference in Las Vegas in March, we talked to Peggy O'Keefe about her business and how her company is managing during difficult times.

Peggy O'Keefe is founder and president of Financial Forms and Services Inc. (FFSI), Cedar, Michigan—*brrr*. O'Keefe started the company in 1993. The business got its start when she was contracted to build out a large lender's electronic forms library. From there, FFSI has developed dozens of customized form inventories. O'Keefe describes customer relationships as unique. She says her company's approach to the market is consultative rather than product-driven.

Coming out of Michigan State University, O'Keefe's first job as an internal bank auditor was far from entrepreneurial. After 10 years of broad banking exposure, she joined a large forms vendor specializing in mortgage forms as the compliance officer. There, she gained expertise in eForms technology. She saw a need for customized design and compliance services, and that's when she formed Financial Forms and Services.

O'Keefe and FFSI anticipate a future very different from the past environment in which the company has operated. I asked how she and the company were facing the rapid technology and structural changes occurring within the mortgage industry.

**Q:** *How would you describe your company's outlook for the next 12 months?*

**A:** Our outlook is generally positive. We are already experiencing moderate growth; this was delightfully unexpected, considering the difficult market conditions.

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**Q:** *What accounts for your optimism in such an uncertain time?*

**A:** We expect most of this growth through licensing revenues. We license use of our documents through loan origination system [LOS] partners such as MortgageBuilder Software [Inc., Southfield, Michigan]. LOS vendors distribute for us to community lenders and small to midsized mortgage bankers.

**Q:** *What about other lines of business?*

**A:** Aside from licensing, lenders contract with us for very specific projects. Our project work is building out internal, compliant document libraries for large lenders or LOS vendors.

I am less optimistic about growth in our project work, which started to drop off in late 2007. Projects require lenders to make a significant investment. During a down cycle, lenders opt for more modest, variable licensing expense.

**Q:** *Clearly, you are expecting mixed results in the near term. What, then, will be your primary management focus*

# Forms and Services Inc.

over the next year?

**A:** To survive—even thrive—under uncertainty. As a small company, we have concentrated our efforts on the immediate needs and desires of our clients to provide the stability we have needed to maintain moderate growth over the last 15 years. This year's primary focus will be on continuous value improvement of our existing forms library, our licensing product.

Value is provided in two lots. The first way is expanding the basic library. The second is in assisting clients with our compliance expertise.

**Q:** *The weight of change will pose challenges to all the vendors in the mortgage industry. As you look around, what in particular do you consider to be the greatest near-term challenge to your company?*

**A:** We have to serve our current customers who are committed to PCL [printer command language]. We continue to invest in our PCL-formatted library. At the same time, we are converting our libraries to Adobe® PDF [Portable Document Format]. Currently we can only provide PDF on demand. We would like to have a complete library at the ready.

**Q:** *As they respond to a difficult operating environment in the coming year, what do you see as the most important operational goal for your average customer?*

**A:** For our average customer, the most important technological objective is increased efficiency and greater flexibility. Operationally, we see urgency in maintaining compliance. Compliance grows in importance when customers venture into newer geographical areas and FHA/VA [Federal Housing Adminis-

tration/Department of Veterans Affairs] lending.

**Q:** *How do your customers handle loan disclosures at origination? Do they employ electronic signatures? Outsource through a document-preparation contractor? Submit through their Web site? Use e-mail for disclosures? Still send out a printed package of disclosures?*

**A:** Most clients still use paper-based initial loan disclosures produced from their LOS systems, but some deliver via e-mail and, to a lesser extent, through their Web sites. I hope our clients are not using doc-preparation contractors instead of our disclosures.

**Q:** *That's interesting. While the current recession in technology spending and the transfer of MISMO® activities from the MBA to MERS may slow down progress, we had been predicting 50 percent of lenders will be eMortgage-ready by year-end 2010. I wonder, are they using an electronic paper-imaging and document-management systems? How are they using the technology?*

**A:** We have seen our LOS partners incorporate EDM [electronic document management] into their systems and using it for delivery, primarily for delivery of closing packages to title companies, but also increasing in its use for processing and underwriting functions.

**Q:** *I am going to assume that your customers depend heavily on their application software vendors. When do you think that your average customers will be able to process a paperless mortgage routinely in their operations?*

**A:** Mortgage lenders can be very slow adapters, despite the wishes of those of us on the technical side lauding its bene-

fits. However, we do see a lot of evidence that frontline originators are weaning themselves from their dependence on paper and giving up their beloved fax machines in favor of e-mail attachments. The back rooms are more comfortable adopting document-management technologies. We believe that one day soon, all the dots will connect and the paperless dream will be fulfilled.

**Q:** *Finally, let me push the point a little bit. Are your customers engaged in eCommerce? For instance, do you see a significant proportion of their total single-family loan applications being received through the Internet?*

**A:** Our customers are adopting eCommerce. And the trend is growing as community lenders build their Web-based presence.

So to sum up the vendor perspective that O'Keefe represents: The work is difficult, as even smaller vendors have to maintain their existing product line, keep track of industry changes and invest in new versions of their product. O'Keefe would tell you that maintaining partnerships is a primary determinant of her success. She works with the understanding that her products do not stand alone. In her case, she works hand-in-glove with and distributes her libraries through LOS vendors. Her ability to change with the times and to succeed is partly determined by the success of her partnerships. While independent, O'Keefe does not face the future alone.

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