It was a summer day in the late ’3os when Winston Churchill, refuted as the savior of the Western world from the advance of Nazi Germany, excused himself from lunch in order to attend to an urgent matter. Having dined on a generous lunch accompanied by the necessary bottle of champagne, Churchill left his guests at a circular dining table overlooking the vast expanse of lawn behind his country home, Chartwell, and hurried upstairs. What was awaiting him would, arguably, enable him to lead the cause of freedom when such leadership was most needed.

Churchill was late for his afternoon nap. He adhered to an unorthodox schedule: rising early to read and attend to correspondence, enjoying an extended lunch with a vast variety of guests, then napping only to rise again for an afternoon of recreational activity followed by an even more extravagant evening. Following dinner, Churchill would work late into the night while others slept—dictating to an aide until the early hours of the morning. While unusual, Churchill maintained this schedule rigorously. He did so because he knew the intrinsic benefit gleaned from leading an unconventional day. More to the point, Churchill’s day revolved around learning from others (via his guests and reading), thinking (throughout the day but especially during his relaxed, recreational time), and then disciplining that thought into writing. It gave him the gift of reasoned and independent thought.

So why was Churchill’s mid-afternoon nap critical to the entire civilized world? Well, during the late 1930s, Churchill, just an everyday member of Parliament, refused to tow the government’s line on Nazi Germany. While British Prime Minister Neville Chamberlain declared “peace in our time” after signing a pact with Hitler, Churchill was railing against such accommodation and arguing for greater preparation to defend against the Nazi threat. On May 10, 1940—with Germany invading France—Churchill was called by the king to form a government in defense of the nation.

Despite Germany’s substantial military and technological superiority, Churchill was prepared for the task at hand. Why? Because this clear-headed (and well-rested) thinker had been reflecting on it in the right way for years. And so independent and innovative thought won out over technology, but it was—neither the first time nor the last.

Contemplation vs. Innovation

In default servicing today, we are faced with a wide array of technology. The pages of this magazine are filled with various acronym-laden programs or devices that promise to help lenders and servicers do their job better. But what is it that we’re doing? It is important to recognize that technology does not improve anything on its own.
By taking a cue from Winston Churchill’s innovative thought processes and harnessing the tech tools that are there for the taking, the ailing default industry can—and will—regroup and recover.
Rather, it can greatly assist a different approach in thinking. This is why the Internet was largely underutilized until two guys at Stanford decided to make all the world’s information accessible via Google. It is why computers were accepted as corporate machines until innovators like Bill Gates and Steve Jobs decided to put one in every home. This is also why automobiles were viewed as a rarity until Henry Ford decided to build them on a massive scale during America’s Industrial Revolution. In each instance, evolution of thought was necessary to lend technology relevance.

In the ’50s, parents were afraid to let their children play outside in the heat for fear of catching polio. Men drove to work in cars without seatbelts (or airbags for that matter). Families got their news from the newspaper or radio. And if you wanted to buy or sell a home, you called your local real estate agent for guidance through that confusing, opaque experience. People did the same thing to buy or sell stocks, airline tickets, or insurance. Time has witnessed the evolution of all these experiences into more efficient, less risky endeavors—safety one. The buying and selling of real estate has gone essentially unchanged in at least the last 50 years. Technology has aided the information side: online search capabilities, consumer valuation systems like Zillow, and convenient access to public records via the Internet just to name a few. But is that technology aiding in an inefficient, nontransparent process?

Bucking the System

So what? This system has “worked” for decades. Just because we’re in a down cycle doesn’t mean we should throw the baby out with the bath water. Right? If you hear most industry groups, this is the message they deliver. We’ll just ride it out, look forward to the upturn, pin the blame on one group or another, and learn nothing. We’ll pull through this, just hang on.

While trade groups think this sounds like gospel, more of the same doesn’t sound so good to the family that lost its home because of a prolonged illness or the loss of a job. Nor does it sound good to the millions of Americans living in over-mortgaged real estate with no chance of selling it at a profit through the dominant speculative disposition system anytime soon. Nor should it sound good to the investors who own those mortgages.

Foreclosure rates will continue to climb. The national economy has been stalled by the bursting of the housing bubble. Investors are looking elsewhere for their capital to grow, and as that capital flows elsewhere whatever liquidity the U.S. real estate market enjoyed is going with it. Congressional regulation looks more and more palatable to our friends on Capitol Hill. The need for new thinking is evident.

Pursuing the Big Picture

As was the case with the British Parliament pre-Churchill, our leaders may be too mired in the details to think about the big picture—or, perhaps, too afraid. When you spend your days trying to value an ever-increasing pool of REO properties and wrangling a herd of agents to sell them, the latest AVM technology might seem pretty exciting. Pondering whether or not that technology is aiding a speculative disposition process may not be on your list of things to do. But we utilize technology to make our current endeavors more efficient and effective, not to question the underlying premise behind those endeavors.

A larger issue is whether the industry has the courage to point that technology in the right direction. The real estate market is seen much like the larger economy it services: as a massive, uncontrollable force that we should hope to ride in good times and ride out in bad. The notion of reforming the disposition platform for the industry is not even on the radar to most. The enormity of the task at hand delays our daily consideration to tasks more mundane.

Tapping into Technology

But what good is innovation if it merely helps us do the wrong things better? What about technology that helps us to move in a new direction, one with less risk and more win-win solutions? Surprisingly, that technology is out there right now, in areas seen as remote from default servicing by those who would just as soon continue with business as usual. A prime example is the S&P Housing Futures and Options program, designed by MacroMarkets economist and Yale professor Robert Shiller. The program has seen tremendous growth since its inception nearly two years ago. Utilization of this program allows individuals or companies to hedge against the fluctuation in price within a given housing market. While that may sound abstract initially, it affords the opportunity for home equity insurance—essentially an insurance program that protects homeowners against decreases in the value of their property. Imagine what this would do for our foreclosure rate, for short sales, and for real estate liquidity in general. Yet this type of innovation must be equipped for it to have that transformative effect.

As that example illustrates, better technology isn’t what’s needed. The necessary tools are out there right now, waiting to be utilized. What is needed is independent thought and, just as—if not more—importantly, leadership. Faced with a significant adversary in our unwieldy real estate market, the American public (not to mention foreign investors) is looking to the experts, to those who spend their days working in this industry and are presumed to be thinking about it. Will the industry do as Churchill did and demonstrate our worthiness of that trust, or will we do as his predecessors did and satisfy ourselves with short-term machinations that serve more to give us political cover and make us feel good about all the “progress” we made than to correct long-term problems? Of one thing we can be sure: If anyone is to offer innovative solutions to the housing market’s woes, they must come from our industry. We are the ones entrusted with responsibility and stewardship over this sector of the economy, and it is in our own best interest to make the necessary changes that will ensure the market’s long-term health and well-being.

If we do as Churchill did—talk with those outside the industry echo chamber, reflect on what must be done, and then focus our efforts—the real estate value proposition can and will be rescued. Technology will only help us if we’re pointed in the right direction.