

TECH TIPS:

If you launch a new mortgage banking operation, deploy the right technology and business model.

NEW LENDERS SHOULD NOTE

IN THE FACE OF THE MOST SERIOUS ECONOMIC CRISIS THIS NATION HAS FACED since the Great Depression, new mortgage lenders are still sprouting up, often on the ashes — and the hot technology — of subprime specialists that saw their market disappear. These new players are leaner, stronger companies vying with one another to offer borrowers the lowest cost and best service on a Fannie/Freddie/FHA loan.

A case in point is Go Financial Solutions, which started up in late 2007 using the technology that powered now-defunct wholesaler MILA Inc., notably its AccessPoint automated decisioning and loan management tool; and the Credex tool developed by MILA founder Layne Sapp that offered approved brokers a no-cost, online credit and loan application for their borrowers, including a trimerged mortgage credit report. Go Financial set out to be a “fully transparent lender,” said co-founder Joe Dahleen, showing prospective borrowers a personalized rate sheet that put the decision in the borrower’s hands. To eliminate steering, Go Financial elected to use salaried “product consultants,” rather than commission salespeople, so that pay would not be linked to interest rates and fees.

BY SCOTT KERSNAR

In the face of the most serious economic crisis this nation has faced since the Great Depression, new mortgage lenders are still sprouting up, often on the ashes — and the hot technology — of subprime specialists that saw their market disappear. These new players are leaner, stronger companies vying with one another to offer borrowers the lowest cost and best service on a Fannie/Freddie/FHA loan.

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them how to handle digital signatures.” To lower sales costs and reduce errors and compliance exposure, Go Financial automated as many steps as possible, had the sales process be governed by the results generated by the product-and-pricing engine, and handed everything off to the processing people as quickly as possible.

These days many experts say start-ups should leverage best-of-breed technology to minimize costly implementation cycles, reduce risks and maximize efficient customer service. Pursuing that strategy, before building out its own transaction-capable website, Go Financial launched with an a la mode site. The company picked the hosted version of Ellie Mae’s Encompass LOS system, and chose Optimal Blue as its product-and-pricing engine.

Coupled with using MISMO-compliant best-of-breed technology, said Mr. Dahleen, it is crucial for a start-up mortgage lender to go paperless from the outset, with no fudging by tech-averse employees.

“Never get a fax machine or copier. Be 100% paperless from day one. That’s

Capital Inc.

Vantium also acquired Plano, Texas-based Strategic Recovery Group, which will focus on asset recovery, while Go Financial provides specialty lending. Declining to relocate in Plano, Mr. Dahleen is now in search of his next venture — probably pursuing a similar business model, he said.

Scottsdale, Ariz.-based Lendability.com is another new online mortgage lender flying the colors of low cost and transparency. The company was founded by former Ditech senior executives Paulo La Greca and Brent Kirk, who serve as Lendability.com’s CEO and COO, respectively. Sporting what it sees as a great URL in Lendability.com, the company plans to be in all 50 states by next summer.

The pair left Ditech, said Mr. La Greca, “because we felt they were vacating a space that they once occupied” as a consumer-direct discount lender serving the needs of the consumer. “We saw the conversion rates dropping at Ditech,” said Mr. La Greca.

“That put some alarms out there. Either they were not attracting good borrowers or didn’t have the products to meet their needs.

“We helped build Ditech — which was short for Direct Technology — and we felt the need was still there,” he said. What they saw was a mortgage market dominated by big banks, with the smaller nimble players mostly casualties of the subprime collapse. “We felt this was the only opportunity we would have to be a start-up in this industry.”

Our front- and back-channel efforts to contact Ditech for comment were unsuccessful, though Ditech continued to be in operation at this writing.

One reason not to delay launching Lendability.com, said Mr. La Greca, is that they knew a lot of industry veterans would come aboard when other companies folded.

“A lot of our staff has 15 years in the business,” he said. Like Go Financial,

SaaS is where the industry is going long term. It is a better delivery mechanism. This is the right platform.

—Mark Phlieger, Avista Solutions



elected to use salaried “product consultants,” rather than commission salespeople, so that pay would not be linked to interest rates and fees.

The objective was to reduce the sales process “from first contact to loan commitment and appraisal order” to hours instead of days, and to close the mortgage in days instead of weeks.

“Never let the salespeople touch the LOS,” said Mr. Dahleen. “It takes too much time to train them to handle compliance. It’s too difficult to teach

mandatory,” he said. To accommodate that paperless strategy, Go Financial picked Capsilon for vaulting and SigniaDocs to provide an e-signing room.

After first raising its start-up money from American Residential Equities in Florida, Go Financial Solutions found itself still hampered by the liquidity crunch. Its search of a bigger partner led to its Fall 2008 acquisition by former WMC Mortgage CEO Amy Brandt’s private-equity firm, Vantium

Lendability launched with best-of-breed technology, including the Web-based Encompass LOS to support a paperless process with secure e-mail and integrated title, doc prep and other services.

He called Encompass "top of the line," stating, "the reporting engine works great." He said Lendability felt no need to build out an LOS as expensive as the IBM/Palisades system at Ditech.

Also like Go Financial, Lendability.com "loan advisers" don't price anything, and the fees "are the same for everybody." For handheld devices, Lendability can text rates to consumers on a daily, weekly or even monthly basis.

"They come to us for a discount. We're more like a Costco: You know you are getting a good deal.

"We are getting 100% feedback that our site is user friendly," he said. "You can e-mail results to yourself, print them for yourself. We try to talk in normal language to the consumer. If we can do a deal, we will. If we can't, we'll tell you."

Lendability.com wants to build its reputation — and traffic — by leaving visitors "in a better position than when they came," Mr. La Greca said. With credit-impaired borrowers, "We want to take consumers and put them in a better spot, by personalization, taking extra time with the to clean up their credit, then try to close."

To put the initial focus on borrower self-service, Lendability boasts a state-of-the-art calculator system on its site. In the initial phase of the loan inquiry, said Mr. La Greca.

"We are trusting borrowers to give us an accurate picture of their credit history." Lendability uses NYLX as its product-and-pricing engine, choosing NYLX because that vendor was willing to work with them to create "a tool of transparency" by reconfiguring the PPE from in-house tool into a consumer-direct tool.

DOs and DON'Ts for Start-up Mortgage Lenders

Lendability's Paul La Greca offers some DOs and DON'Ts for mortgage lenders starting up in the current lending environment:

DO know your market. "Have some forecasting on market conditions. We knew the market was headed down."

DO double your estimated expenses and cut your profits in half for the first six months in your pro forma. "If it still makes sense, that's a pro forma you can follow."

DO partner with title companies and appraisers on the basis of what was going to give the customer the best deal. "If they believe you will give them volume, give price breaks to a high volume lender because you believe you will make your money over the long term."

DON'T sign on the bottom line with the first vendors you meet for a product or relationship. "Look at two or three others."

DON'T spend cash if you don't have to. "Cash is key in this financial market."

"We let the consumer see the NYLX results themselves, then they can contact us. We put the salesperson behind our rates and fees. We know the consumer is going to shop us. We want them to shop with information."

So far Lendability is not bragging about loan volumes. "We are showing some progress. It might not be as quick a deal as we would like. While, the whole industry is working with limited products these days, he said "there are still products out there for 'make sense' customers. There are still a lot of customers out there who didn't use their house as a checking account."

While we have seen one wholesale mortgage lender after another vanish over the past year, United Residential Lending LLC, Scottsdale, recently launched a new wholesale operation (www.urlending.com).

Though he did not give out any figures on the cost of the new platform, URL national sales manager Shane O'Dell said, "A wholesale platform used to be expensive, but today technology has to be competitively priced." The company uses Del Mar DataTrac as its system of record in the back office and Del Mar InTrac as its point-of-sale tool "to generate disclosures."

The company also offers brokers a direct link to a new Loan-Score pricing engine. Mr. O'Dell said they chose Loan-Score because of its interface with DataTrac. In the next phase, he said, URL is adding the Loan-Score AUS system as well to provide automated prequalification.

After roll-out to approximately 35 preferred URL brokers as a test group, as of December 2008 "any approved broker that wants to sign up" can have access to the AU system.

Mr. Odell disagrees with prognostications that wholesale lending may disappear.

"Obviously, there has been a contraction in the wholesale space and there are fewer players, but our view is that it's going to come back. We've been doing wholesale for four months now," he said, "and the quality of submissions has picked up. The guidelines are clearer now, there is less junk coming through the door, and pull-through rates have picked up."

He predicted that the bigger players will return to wholesale "either by trying to do it internally or by buying a company such as ours."

However, he acknowledged that compliance and fraud detection are

serious issues in wholesale mortgage lending today.

"You absolutely have to be careful with broker-originated business," Mr. O'Dell said. United Residential follows up on DO/DU red flags, runs a CoreLogic report on every loan "that mirrors what the investor is doing," and does a pre-funding interview with each borrower. In addition, he said United Residential also runs a MERS report to catch submissions to mul-

underwriter's time."

He said other new wholesalers using Loan-Score's broker portal — specifically West One Mortgage, Tarzana, Calif.; Nations Direct Mortgage, Irvine, Calif.; and Stearns Lending Inc., Santa Ana, Calif. — were doing the same. Other Loan-Score customers are re-entering wholesale as well, he noted.

"The people coming back into the market are upper echelon," he said. "They understand, looking back, what

The critical factor for new wholesalers is to get the credit score scrubbed and get the DU decision as early as possible.

—Jon McGuire, Loan-Score Decisioning



tiple investors.

"We are cutting off one broker even as we speak," he said.

"United Residential built out their wholesale platform before they started funding loans," said Loan-Score CTO Jon McGuire.

"The critical factors for new wholesalers is to get the credit score scrubbed and get the DU decision as early as possible before wasting the

they did wrong."

Not all new wholesale operations are pursuing a best-of-breed strategy. American Partners Bank, the new wholesale arm of Waterfield Bank, picked an end-to-end system.

American Partners executive vice president Ben Smith, who heads the new entity, said the bank is converting from Fiserv to Metavante for its core banking and mortgage lending

technology "because the board heavily favored having one system instead of two."

In addition to using Metavante's broker portal and Internet-only platform, the new entity will use that vendor's LOS system for all channels. He said everything is "on target so far" to complete the project from first proposal to finish in six months.

Having first looked at best-of-breed solutions for mortgage as well as banking technology, "We didn't feel, with a few exceptions, that we sacrificed any major functionality," he said. "There could have been a bell or whistle we wished for that we didn't get. Overall, Metavante has been competitive in price and functionality."

He agreed with Metavante's Cy Brinn that the broker channel "has been diminished," but said, "We still feel there is value in selected third-party relationships." To monitor and safeguard those relationships, he said American Partners is turning to the best-of-breed compliance and anti-fraud providers. "We use the usual suspects to protect ourselves."

Another thing for new lenders to consider is how the technology will be deployed. The Software as a Service model where the technology is hosted by the vendor allows for a faster implementation and less overhead for a new lender that is probably more concerned with the business of lending vs. having to pay for hardware, a huge IT department, firewalls, etc.

Avista Solutions, for one, offers an enterprise LOS on a SaaS basis and sees the migration away from licensing technology in house in favor of SaaS as the wave of the future.

"SaaS is where the industry is going in the long term," said Mark Phlieger, CEO and co-Founder of Avista. "It is a better delivery mechanism. This is the right platform for the market because you need rapid access. It's also more agile, offers rapid implementation and it's ondemand." **MT**

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