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Mortgage Lender Touts Automated Process

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A startup mortgage lender is making a case to whole-loan buyers that its receivables are particularly suited for securitization.
Better Mortgage's pitch is based on the fact that its origination costs average $1,100 per account, versus $7,700 for a bank. The reason: It has digitized all phases of the process, including applications, compliance checks and due-diligence reviews.

In essence, Better Mortgage is promising to pass on some of its savings to loan buyers — meaning they could reap more arbitrage gains should they package the receivables into mortgage-backed bonds at prevailing yields. Such a strategy might appeal, say, to a non-bank operation that uses securitization as an exit strategy rather than holding its accounts as investments.

It's unclear if any Better Mortgage loans have wound up in securitization pools so far.

That said, its loan buyers employ a mix of funding tactics. The New York firm already claims to be working with a group that accounts for 70% of secondary-market mortgage purchases, including Fannie Mae, J.P. Morgan, PennyMac and Wells Fargo. It also started selling loans to Nationwide Mutual last week, marking its first deal with an insurer.

More buyers are said to be coming on board, with each handling its own servicing functions. For those that plan to securitize, Better Mortgage is touting an ability to generate a range of loans on request, including accounts that don't meet the Consumer Financial Protection Bureau's "qualified-mortgage" standards.

Better Mortgage was launched in January 2016 by former My Rich Uncle executive Vishal Garg and by yearend had sold $520 million of mortgages — mostly refinancings of existing loans. It is on pace for $1.2 billion of sales this year, including those that finance new home purchases.

When it comes to borrowers, Better Mortgage contends that its reduced costs translate to interest rates that are 50 bp lower than average. For a 30-year fixed-rate jumbo loan, for example, it was charging an average of less than 3.9% in February.

The lender argues that its system works because it can eliminate loan officers, leaving its computers to receive daily quotes from mortgage buyers and then quickly originate and close the accounts. It then holds the receivables in a warehouse line for up to 15 days before passing them on to the purchasers.

But some outsiders question whether the technology can do everything Better Mortgage claims. For example, the data collection and subsequent reviews involved in mortgage origination could prove difficult to automate. One loan buyer added that delays in documentation are inevitable, especially for inexperienced borrowers. "There is an inherent risk to changing the clunky, arduous process," he said. "A lot of it is compliance, which has become the nature of the business."

To that end, Andrew Pollock of mortgage-review firm Clayton Holdings pointed to an ability among technology-enabled originators to extract data directly from borrowers' bank accounts — offering easier access to documents while cutting down on fraud. "The human element is the highest cost, so if you reduce reliance on that you win," Pollock said. "By the same token, if you increase volume you can spread the cost over more loans. The institution that can do both will win."

For its part, Better Mortgage insists that reducing human interaction can minimize delays and ease borrower aggravation. The message appeared to resonate at a mortgage-finance conference Goldman Sachs hosted at its New York headquarters on March 8.

Indeed, one attendee said the most important subjects of the gathering stemmed from presentations by Better Mortgage's Garg and rival Rocket Mortgage, the online brand of Quicken Loans. "They can sell loans to individual investors or to banks that want to securitize," the source said. "Not only are the costs of origination low, the time from commitment to closing is very short, something like two weeks."

Better Mortgage has been funding itself in part with backing from equity investors including Goldman and Kleiner Perkins. It expects to turn a profit in the coming months.

Garg has been involved in a number of ventures over the years. He is best known in securitization circles as a co-founder of My Rich Uncle, an education lender that completed two asset-backed bond deals totaling $340.9 million before shutting down.