Lender Better Mortgage Gets New Kleiner Perkins Funding Valuing Firm at $220 Million

Online real estate lender's valuation doubles from its last fundraising round

By
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Better Mortgage CEO Vishal Garg said that no loan buyer has asked the company to repurchase a mortgage because it didn't meet their standards. *PHOTO: JESSE WINTER*

Online real estate lender Better Mortgage Inc. said Thursday that it has raised new money from Kleiner Perkins Caufield & Byers in a deal that values the company at $220 million.

The equity fundraising, which doubles the company's valuation from its last round, included both the venture-capital firm and existing investors Goldman Sachs Group Inc. and Pine Brook Partners. With the new funds totaling $15 million, Better Mortgage will expand a nascent program of offering homeowners a guaranteed interest rate within 20 minutes of filling out an online application, said Chief Executive Vishal Garg.

Better's fundraising round comes after a tough 2016 for financial-technology startups focused on lending. Venture-capital investment into the sector fell 75% from $3.2 billion raised in 2015, and money managers cooled on purchasing loans the companies made, forcing them to scale back.

"You can't grow fintech companies the same way you can grow a Snapchat user base," said Mr. Garg.

Startups involved in real estate, however, are gaining ground with venture capitalists. Open Door Labs, Inc., an online marketplace for home sellers, raised $210 million last fall, and LendingHome Corp, an online lender catering to house flippers, is working to close a $100 million funding round, The Wall Street Journal previously reported.

Better Mortgage's fundraising is small by comparison, a reflection in part of the fact that its an earlier stage company. Since its January 2016 launch, Better Mortgage has funded more than $500 million in home loans and expects to fund as much as $1.5 billion this year. The new round valued the company at twice the level of the $110 million valuation Better Mortgage attained last summer, Mr. Garg said.

The New York startup's algorithms automatically match the attributes of different borrowers and their properties to the criteria of 20 large buyers of home loans, including banks like Wells Fargo & Co. and government-backed mortgage giant Fannie Mae.

The company's tech chief, Erik Bernhardsson, developed the technology that matches up home buyers and mortgage investors after spending years building the software behind the music recommendation engine at Spotify AB. Mr. Garg said that no loan buyer has asked the company to repurchase a mortgage because it didn't meet their standards.

Rising mortgage rates and a shrinking inventory of homes for sale could be a challenge in 2017, however. Mortgage volume is expected to fall 17% to $1.56 trillion this year because of less refinancing activity, according to the Mortgage Bankers Association.

Noah Knauf, general partner at Kleiner Perkins, said that the opportunity for Better Mortgage to offer a better customer experience will be a bigger determinant of their success than yearly fluctuations in demand for refinancing. Mortgages are “one of the most labor-heavy, least digitized, Byzantine corners of financial services,” he said.

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