PINE BROOK

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This Company Is About To Transform The $1.5 Trillion Mortgage Industry

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In its first year Better mortgage made over $525 million in loans, which is the largest amount by a fintech company in its first year post launch. Backed with more than $45M from investors like Goldman Sachs, Pine Brook and Kleiner Perkins, the company is on a mission is to eliminate the inefficiencies of the mortgage industry and bring transparency to a traditionally opaque and confusing process. In order to quickly penetrate the crowded mortgage market and re-engineer the home finance process from the ground up the company has acquired an established Silicon Valley-based mortgage lender that had originated over $4B in mortgages. Better is already active in 12 states today and rapidly expanding to ultimately provide mortgages in all 50 states.

Better Mortgage Founder and CEO Vishal Garg

Vishal Garg, the Founder and CEO of Better Mortgage, decided to launch the company after experiencing "the most painful process when trying to get a mortgage", which almost cost him his home. Garg is also the Founding Partner of 1/0 Capital, a credit and financial technology incubator where he has been a member of the founding team and currently serves as Chairman of Climb Credit, The Number, and Phoenix Holdings. Previously, he was co-head and Managing Partner of ARAM ABS Group ($6 B+ assets) and the Founder and President & CFO of MyRichUncle (2005 NASDAQ IPO), which he founded at the age of 21 and built into the fourth largest private student loan originator in the US.

I met with Garg to discuss about the mortgage market and his plans to change the way we buy homes:

Omri Barzilay: What's the story behind Better, how was it all started?

Vishal Garg: Better started after I was in the process of buying a house with my wife who was pregnant with our second child at the time. We experienced the most painful process when trying to get a mortgage and it cost us our house. From beginning to end, the whole ordeal was eight weeks -- and three of them were spent just trying to get pre-approved. My wife and I were young professionals and very qualified, but after all of that time, we were beaten by a competing buyer who was able to move more quickly with an all-cash offer. I realized then that the entire mortgage industry was outdated and inefficient, and if it was that bad for someone like me with access to capital, I couldn’t imagine how hard it might be for others.

Barzilay: Why have you decided to disrupt the space as a lender and not as a software provider?

Garg: Better’s mission is to empower the homebuyer through transparency, education and honest guidance. While our technology is the engine that makes all of this possible, our customer service and commitment to providing an end-to-end solution is what drives us. This means education and guidance on top of a streamlined application process.

The current process does not empower consumers. Most software vendors in the space make tools for the b2b constituents: the loan officers, the processors, the investors. We make software that directly empowers the consumer, delivering value across the entire experience from application to fully funded loan. We're a full stack solution.

Barzilay: You have acquired an established Silicon Valley-based mortgage lender to enter the market. Tell us about the transformation from a traditional to digital lender?

Garg: We acquired the bank in 2015 with the intention of moving everything to an online model. The biggest transformation was moving to a no-commission structure. We then launched Better.com and closed a $30 million funding round in early 2016. By moving to a digital model, we've increased the speed at which people can obtain mortgages, decreased the costs by removing friction, and leveled the playing field when it comes to home-buying.

Barzilay: How are you better than traditional lenders?

Garg: Better is the only mortgage company on the side of the customer. We are eliminating inefficiencies in the mortgage industry and bringing transparency to a traditionally confusing process. Incentive-based compensation programs in the mortgage space have been under scrutiny since the financial crisis - but they still exist today. In a mortgage broker or bank the loan officer may be earning as much as 1.5% of the loan amount in commissions. That translates into huge costs to the consumer, not just upfront, but potentially in an interest rate increase of 0.5%, which on a $500k mortgage is $2,500 per year.

Barzilay: How are you different than other players like Clara and LendingHome?

Garg: First, I want to be clear how much I like what both Clara and LendingHome are doing. This industry needs to innovate and the more smart companies there are trying to make that true, the better. We're different because our platform works like a matching engine, connecting potential homeowners with the mortgage products, institutional investors such as GSE's like Fannie Mae and insurance companies want to buy. Many of our competitors are introducing helpful tools to ease the application process, but we are the only company in the market offering an end-to-end solution that combines cutting edge technology to reduce the mortgage process time by half and the customer service that ensures our customers are getting the support they need to pick the right mortgage.

Barzilay: How do you incentivize your loan officer with the "$0 commission" policy?

Garg: Achieving our company mission serves us better than any commission could. Commission-based selling is one of the fundamental issues in the mortgage industry that we are solving for. Our loan officers aren't incentivized or pressured to sell these mortgages or advocate for a larger loan amount or a riskier product just to pad their pockets. Their mission is to help customers throughout the mortgage process while simultaneously de-risking one of the largest financial decisions they'll make in their lifetime.

Barzilay: You recently announced the "Better Price Guarantee." Through the program, you guarantees that it will beat any competitor's loan estimate by $1,000. If not, Better will give the borrower $1,000. How can you do that?

Garg: The Better Price Guarantee is a reflection of our confidence in our platform and our team. Also, we *want* consumers to comparison shop for mortgages. This is the biggest purchase many of our customers will make in their entire lifetimes - they should be emboldened to compare prices and be confident they're making the best financial decision. Our entire business model is geared towards getting the best mortgages for our customers. While other companies are tied to commissions, incentives and other fees, we have eliminated those costs entirely. But it really comes down to transparency. In our continuous effort to provide the best mortgages for customers, we invite them to find a competitor in the space who can beat our estimate.