PINE BROOK

Vida Homeloans – A New Life in the Specialist Lending Sector

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Joanne Atkin spoke to David Tweedy and Guy Batchelor from Vida Homeloans about the new lender which aspires to be a £5 billion business within five years

It's been eight months since Vida Homeloans launched its specialist lending proposition into the mortgage market and already it is getting £100 million in applications a month.

I met up with David Tweedy, chief executive officer of Vida Homeloans, and Guy Batchelor, sales and marketing director in The Shard where Vida has a small London office – its head office is in Staines but more about that later.

David and Guy last worked together at Platform Homeloans until Guy left in 2006. But they are back together now and both are enthusiastic about their new specialist lending venture. In fact, Guy says he's never had so much fun in his life: "I wake up every morning and can't wait to get into the office, even though it's 65 miles from where I live."

Vida means life in Spanish but how did the lender start up and breathe new life into the mortgage market?

At the beginning

A new lender needs funding so this is where Pine Brook comes in. Pine Brook is a New York based private equity fund that focuses only on two sectors – financial services and natural energy – but it is more like venture capitalist as it focuses on start-ups, providing early stage working capital and is all about building up businesses.

Since 2008 Pine Brook has been taking advantage of what it calls 'strategic dislocation' in the financial services markets.

David explains: "In the specialist lending space there is clearly a market for customers who are excluded by the mainstream banks and lenders. From 2008 to 2010 it became very difficult to get funding but since then the banks have been really focussed on four issues.

"Number one is dealing with legacy and mis-selling so their focus was on rebuilding consumer trust. Second is replenishing their capital and third is coping with legacy technology and systems issues. Fourth is operational simplicity; the banks don't want complexity of processes and want to reduce costs so all this leads to customers not being served in the market.

"There are two lenders of scale in specialist lending– Precise Mortgages and Kent Reliance. Pine Brook's analysis suggested there was sufficient capacity for more capital to come into the market and compete with them.

"Pine Brook needed a team to set up and run the business and I was approached. I was working at Target Group and wanted to get back into lending so I put together a team which comprised of four direct reports. They are chief operating officer Lesley Sewell who has 25 years' experience at Northern Rock and the Post Office; Guy Batchelor is the sales and marketing director who has worked at Platform, Lehman Brothers and Countrywide; the chief risk officer is Jeremy Russ who was at Beacon, Stroud & Swindon and Skipton; the chief financial officer is David Basra who was at Citibank.

"We came together as a team with very diverse backgrounds in terms of our skills and capabilities but also the size and nature of the organisations we had all worked for. We formed in May 2015 with the team meeting in hotels and squatting in Pine Brook's lawyer's office."

Guy says: "We were a fully blown start-up, literally five people and a pencil."

David continues: "We needed to get Pine Brook's investment approval for the equity needed to set up a standalone business. You can't get the funding without the equity nor can you build a business without equity as it costs a lot of money to build a business. That process was completed in September 2015.

"By the time we got through that first hurdle of getting Pine Brook's commitment there were eight or nine of us. No one got paid because we didn't have a company and we had no investment.

"Once we got the Pine Brook investment we set up the corporate entity which sits above Vida Homeloans, called Belmont Green, in October 2015 and really started building the business."

Five work streams

There were five key work streams. The first was getting FCA approval.

Number two was building the operational capability – technology, people, training, policies processes, the manuals, everything you need to run the business.

Number three was funding, which David acknowledges is not an easy challenge for a start-up: "The funding we are getting is very different to some of our competitors. Fleet Mortgages and The Mortgage Lender, for example, get funding through forward flow agreements, they don't actually own the assets on their own balance sheet and take the risk. The assets are ours and sit on our balance sheet and we have a warehouse facility from two banks.

Guy explains: "Pine Brook put the equity in – similar to a deposit on a residential mortgage. The equity is being used for two purposes – to fund the working capital and to fund the first part of the loan before the banks lend to us."

The fourth work stream is the sales and marketing, proposition and product definition, distribution, compliance and regulation.

The fifth piece is working with the equity provider, understanding their requirements as it is their money and they are an important stakeholder.

David points out the business was designed and built for scale. It launched on 5 October 2016, with three introducers as a pilot and fully launched late November when distribution was widened. Vida is now running at around £100 million of applications a month and approaching 100 staff.

David says: “We have a lot of respect for all of our competition. There are two very big players in the market – Precise Mortgages and OneSavings Bank – and right now if they look in their rear view mirror we are a small pimple in the corner. But in four years’ time we want to be taking a big part in the rear view mirror. They started way ahead of us and are much more diversified. In the long run we would like to build our balance sheet up to £5 billion, which is roughly where they are now.

“We are starting out how they did with owner occupier and buy-to-let mortgages and we will look at other ways of diversifying our business.”

People and head office

Vida’s head office is in Staines, just west of London. Staines was chosen partly because of a relationship Pine Brook had with a company based there who gave Vida free offices right back at the start.
David explains: “Once we had more people we couldn’t squat in Pine Brook’s lawyer’s office in Egham anymore, which happens to be geographically half way between where Guy lives and where Lesley lives and I live not far from there too.

“We did some analysis of the M25 corridor and found that most importantly Staines has a really good, diversified talent pool with good transport links into London. There have been a number of mortgage companies based not far from there – Mortgage Trust, The Mortgage Corporation, Kensington, GE, GMAC, Fleet. We want people to come from diverse backgrounds with a lot of experience. We can also recruit people who live in London.

Guy adds: “We have a good range of people and the DNA is widespread – from Northern Rock, Kensington, GMAC, Halifax, Santander – which is really refreshing as we are doing something familiar but very different. The great thing with a start-up is that you can pick and choose your people and we did some pretty detailed interviews, analysis and headhunting.”

Customer segments

Before launching, Vida talked to brokers and customers and analysed what cases brokers were finding difficult to place. When Vida was designing its proposition it held both buy-to-let and residential focus groups with customers who have had difficulty in getting a mortgage.

David continues: “We see ourselves as a modern mortgage lender – it’s not just about technology, it’s about understanding the customer segments in the UK. It’s not about adverse credit, we don’t allow much adverse credit, it’s about the special circumstances that make it difficult for people to get a mortgage. That can be anything ranging from unusual incomes, self-employed, family circumstances may have changed and the banks don’t have the time and capability to deal with the story. They may be expats living overseas who want to purchase a buy-to-let in the UK. We have lent to a lot of first-time buyers and underserved sectors of the market.”

Guy says: “One of our top priorities is when more than two people are buying together as we take up to four incomes. In our purchase business 40% is first-time buyers and a large proportion of that is two people buying together. And it’s not just friends buying together, it’s siblings, parents and children, professionals.

“We lend to people with low credit scores, not because they are adverse but because they just have no or little credit information. We also found gifted deposits were a problem but that is a great market for us.

“On the buy-to-let side, we have found people who are prepared to take on a property with a low yield but they will see capital appreciation on that property. They need some form of top-up on top of the income calculation so we came up with a ‘top-up mortgage’, extra earned income they could use towards the buy-to-let.

David adds: “We found that contractors are very underserved, freelancers, zero contract workers – the banks just reject them. Someone might have been on zero hours contact for two years but are earning £30,000 a year so why shouldn’t they be able to get a mortgage?”

Intermediaries

Vida Homeloans is an intermediary-only lender and around 70% of all mortgages now go through a broker. David says that whilst Vida understands the needs of the end customers so it can design products, it is also key to the firm’s success to satisfy the intermediaries.

He says: “We have a very collaborative approach with the brokers and put them at the heart of everything we do.”

Guy spent a lot of time with a very large mortgage club, five or six brokers and a packager who helped Vida build its proposition.

“We tried to take the best bit of every lender out there and put that into our model,” says Guy.
“Intermediaries count for something like 90% of buy-to-let lending and the specialist sector I would say probably accounts for 100%.

“The great thing about mortgage intermediaries is that they are very good problem solvers for consumers and come up with different options. Whilst the sourcing systems are not particularly strong on specialist lending, what we have found is that a lot of brokers really understand specialist lending.

“We decided to promote our business as more of a criteria driven lender. We are not a particularly strong rate player but we promote outcomes for customers through the criteria we offer.”

Technology

One of the biggest problems for established lenders is legacy systems but Vida does not have that issue. Vida chose BancTec as its technology provider and bought an off the shelf package. It then worked with the software house to enhance the systems, improve their capabilities and meet specific requirements that were particular to Vida.

The technology has been built with the intermediary in mind adding in tools they will need, like a maximum loan calculator which David says is very slick and easy to use, as is the decision in principle process. It is the only stage of the process where the computer might say no but Vida's reject rate for DIP is very low, 3 or 4% and on buy-to-let it's about 15%.

David explains: "The key point is that at DIP stage we are sifting out customers who don't fit the published criteria. For example, if a customer wants a 95% loan-to-value, we don't do that so there is no point in proceeding. If they want loan-to-income of seven times – again we don't do that or if they are bankrupt, or if they have missed payments in the last six months. All those cases that don't fit the quantifiable elements of our criteria are sifted out. We have skilled underwriters with many years of experience. Each case is looked at individually on its merits, facts and data.

"The key things for us is that the customer is going to get a good outcome and can afford the loan. We want evidence that their lifestyle and the way they manage their personal finances is consistent with good, responsible people. That way we can be comfortable with what we are lending knowing that the borrowers have the ability and willingness to pay back the loan. We use technology to automate but the underwriting is done by people, not by machines."

Guy adds: "Technology has come on a lot. When we put the business together we said, we will not have a post room, we will do everything through technology. The only thing we have to post out is offer packs. The client gets an electronic copy but we have to send a solicitor's pack out but that is out of our control." Post completion loan servicing is outsourced to Computershare Loan Services in Skipton and Vida has links into ULS Technology for its legal conveyancing panel, while the valuation panel is managed by esurv. It also has links to the credit referencing agencies and all the usual ancillary firms for other services such as fraud detection.

Regulation

Vida Homeloans was the biggest non-bank application to the Financial Conduct Authority (FCA) in the lending sector last year. So the regulator was very focussed on its application because ultimately Vida will be lending to tens of thousands of customers.

Vida does not need a banking licence from the Prudential Regulatory Authority (PRA) because it doesn't take retail deposits as it is completely wholesale funded. There are pros and cons to this. The advantage is that Vida doesn't have the same capital adequacy rules as lenders who have a banking licence. The disadvantage is that it doesn't have retail deposits, which are cheaper and more flexible than bank loans – banks charge more and they impose their own covenants.

Although Vida Homeloans is not regulated by the PRA it is mindful of the regulator's rules and principles, particularly on buy-to-let. Vida does conform to the PRA rules because the FCA expects authorised lenders to follow suit.

Strategy

Being a lender offering owner occupied and buy-to-let loans is core to Vida's strategy. David says it gives them an advantage when it comes to creating enterprise value particularly when lending goes through cycles. If buy-to-let goes down then Vida can do owner occupier lending and vice versa. The split is currently around 60% buy-to-let and 40% residential but it has altered over the past six months.
Vida does not offer second charge mortgages at the moment but is looking into it.

"Another thing Vida has benefited from is that the market is extremely busy especially in specialist lending. Guy says: "Some of the service delivery times with some lenders have really gone downhill so we've been able to step in and win some business on the back of service."