Purchase Market-Perfect

— by WARREN LUTZ —

With new tools and a new technology development strategy, one company is helping lenders prepare for a resurging home purchase market.

There was a time when mortgage technology meant using a fax machine to send out rate sheets. Then there was a time when it meant using a personal computer. Then it meant using the Internet. Next came automated underwriting and online mortgage applications. ¶ Somewhere, right now, it's almost certain that someone is doing something that will redefine what mortgage technology means for future generations. ¶ Two dozen or so software developers in Appleton, Wisconsin, seem well on track, having spent the past year building things that lenders currently don't have—things like automated historical lock-change management and mortgage insurance (MI) pricing tools. ¶ What's unique about these people and their company—LoanSifter Inc., a provider of loan products and pricing tools—isn't just what they are doing. It's how and why they are doing it. ¶ "One of the things that sets us apart is we're not just a technology company," says Mark Coupland, LoanSifter's vice president of business development. "We're technology people."

Building the culture

To get a handle on how LoanSifter builds software requires a short lesson in software development methods. Don't worry—we'll try to make this as painless as possible.

Not too long ago, most software companies created products in a very sequential way. Like a typical manufacturing process, it was one step at a time, from conception, design, writing code, testing and the final release.

This is known as a "waterfall" model, because progress flows downward, top to bottom, until a project is finished. With this method, it could take as long as a year or two before a product was brought to market.

The new development method allows LoanSifter to put out consistent product releases every month.

When LoanSifter was founded in 2006, that's how the LoanSifter product and pricing engine was built. At that time, the company had three developers. Jason Miller was one of them.

"The waterfall method was very successful," says Miller, who is LoanSifter's vice president of information technology (IT). "But there were definitely a lot of bumps along the road. In the past, we had a lot of ideas but we didn't have a lot of background, and requirements would modify as we progressed down the waterfall. We knew the end goal, but how and when we got there was often unexpected."

Today, however, a growing number of software companies have left waterfall methods behind in favor of two newer methods: "agile" and "scrum." Rather than going from point A to point Z, each project is broken down into "sprints," with different teams working on project sprints concurrently. This generally allows companies to pursue several projects at the same time while affording greater flexibility to make adjustments along the way.

LoanSifter President Bruce Backer says the process is particularly powerful because the company can break projects into pieces, and release those pieces into the marketplace as they become available.

"We can get feedback from customers and then make changes and improvements," he explains. "It basically allows you to be much more responsive to the market, and your team likes it because they can immediately see the results of their work."

LoanSifter began making a full shift toward agile scrum when Rob Withers, the company's vice president of product development, joined in 2010. "I was a believer in agile development and a champion to move to the method in early 2011 while building out support for our loan officer compensation management tool," says Withers. "Our experiment with agile scrum allowed us to execute in an incredibly efficient and effective manner. The whole team was pleased with the experience."

Something else has changed with LoanSifter: its developer and product manager body count.

Since May 2012, the development team has grown from six to 20 software developers and from two to eight product/quality assurance team members. Another key add for the company was its new head of process improvement, Scott VandenElzen, who brought a wealth of agile software development experience.

While most software companies put out releases twice a year, the new development method allows LoanSifter to put out consistent product releases every month.

"We can have two or three full scrum teams at a time, and we can point them in any direction we like," says Withers.

"Bruce and LoanSifter as a company have proven time and time again that they'll reinvest heavily back into the company, through new employees and better infrastructure," adds Withers.

"The vast majority of our new hires during the last several years have been industry veterans with backgrounds in mortgage banking and product and pricing engine software and service. They've complemented our existing core team nicely."

He says, "The big transition we made was to become much more disciplined about product development. Today, we're seeing the fruits of that labor."

A stream of innovation

LoanSifter has taken its new development methodology and new staff, and created products that tackle some of the biggest sources of pain for its customers.

One common area of frustration is the rate lock. "Rates and product guidelines often change several times per day," Coupland says. "Because of this, lenders need a streamlined process to review rate-lock requests on a corporate level and get information back to borrowers quickly, but they also have to look back to all the information available the day of the original lock in order to make accurate changes to rates and fees throughout the loan process. Until recently, lenders had to do this manually—which slows everything down, adds overhead and increases the possibility of errors."

This process is both arduous and time-consuming, especially in an environment where rates and transaction circumstances can change throughout any given day, Coupland says. So LoanSifter came up with a way to do three things automatically: retrieve historical pricing and eligibility factors for any loan and borrower combination, calculate the cost of changing the lock, and submit the request to a lender's secondary department.

This year, the company released its automated lock-change management system enabling mortgage bankers to automatically reprice these loans from within the LoanSifter platform. Since then, LoanSifter has seen more than 100 customers (out of 150 who had lock desk management capabilities) use the new feature. When a secondary manager approves the request, the lender's loan origination system (LOS) is instantly updated and the loan officer is notified—and can let the borrower know—that the lock change was approved. It represents a huge surge forward for accuracy, compliance, efficiency and speed in the mortgage process.

The idea was spearheaded by Withers, a longtime developer in the product and pricing engine industry.

"When I came to LoanSifter, one my early conversations with management involved how important it was to deliver value to the market," Withers says. "Lock-change management and historical pricing had been on my mind for the past 10 years. Improving those functions was easily among my top three goals for our company."

By 2011, Withers had begun research into the idea. But the project really didn't get off the ground until Coupland joined the company in 2012.

A former secondary marketing executive for Bank of America and Guaranteed Rate, Coupland instinctively knew the lock-change tool would have value for LoanSifter customers.

He also knew that smart lenders would be thinking of ways to "grease the skids" for a higher interest-rate environment by increasing efficiency and accuracy while reducing costs. LoanSifter's lock change and historical pricing tool does both.

"It really makes the process faster and more accurate, and it gives our clients and their auditors more visibility and assurance on pricing," Coupland says.

LoanSifter began the development process with a series of questions for mortgage banking clients, and then worked with different lenders during the development cycle to gather varying data points and not rely too heavily on any single lender and its business practices. The result is a flexible yet intuitive solution for a diverse set of mortgage lenders that call LoanSifter their product and pricing engine.

Coupland instinctively knew the lock-change tool would have value for LoanSifter customers.

PMI best execution

Prior to releasing the lock-change management project, LoanSifter had already created another way for lenders to save time when it came to pricing a key piece of most mortgage transactions—best-execution private mortgage insurance (PMI).

Years ago, Backer, the company's president, realized that the majority of borrowers whose loans were being priced through the LoanSifter engine may also need mortgage insurance. His idea: Why not provide both at the same time?

"It's like booking a trip on an online travel site like Kayak or Expedia®," Backer says. "You can buy plane tickets but then you can also reserve a hotel or rent a car, all from one spot, without having to visit other websites or picking up the phone."

During the mortgage transaction, lenders typically give borrowers an approximation of what mortgage insurance will cost and what their payments will be. But if LoanSifter was fed data from the mortgage insurers themselves, Backer knew the LoanSifter engine could deliver a far more accurate picture—and in less time.

"It was a natural extension," he says. "We were already aggregating data from lenders. Why not do it with MI companies instead of forcing our customers to go somewhere else?"

LoanSifter began approaching mortgage insurance companies several years ago, but they were not very enthusiastic about the idea. To some insurers, the prospect of being compared and shopped against competitors seemed too risky. But then two years ago, one insurer said yes and it wasn't long until others jumped on board. No one wanted to be left out.

Today, Essent Guaranty, Radian Group, MGIC and United Guaranty Corporation are all part of the Best Execution MI Pricing Platform, which resides within the LoanSifter platform.

Whenever a loan scenario exceeds 80 percent loan-to-value ratio (LTV), the Best Execution MI Pricing Platform kicks into gear, letting users check and compare mortgage insurance quotes from multiple providers from within LoanSifter.

Corey Dubnoff, president of Parsippany, New Jersey–based American Financial Resources Inc., a mortgage lender and LoanSifter customer, says the engine gives his company fast responses to customer inquiries.

"It does three things for us," says Dubnoff. "It lets us check mortgage insurance rates and respond to customers quickly; it helps streamline our overall pricing process; and it helps us stay compliant, since the MI tool is compliant with MISMO® standards. LoanSifter is the only company that has this tool." Coupland notes that other providers claim to have MI pricing and eligibility tools, but they are only from one or two insurers—not four.

Ready for the purchase market

One of the more interesting aspects about the projects LoanSifter has been focused on for the past year is that they are perfectly suited for a surging purchase market and the particular challenges originators are facing with today's rising rate environment.

For example, home prices have been appreciating in many U.S. markets, which is contributing to a pickup in housing sales as owners who were underwater can now sell without taking a loss. Meanwhile, rates are volatile and rising, which means consumers are going to be shopping, locking and re-locking rates as lenders try to fit borrowers into an array of products at the most competitive rates possible.

The switch from a refinance-heavy market to a purchase market also means a pickup in mortgage insurance activity, which LoanSifter has conveniently placed at the fingertips of tens of thousands of mortgage professionals. And the private mortgage insurance industry itself, which sustained major blows when the equity drained out of the housing market, has reinvented itself in recent years. This development fits in well with the government's efforts to reduce the role being played by the Federal Housing Administration (FHA) program.

And yet, LoanSifter officials admit there was no conscientious effort to time the release of these tools for the peak summer home-buying season. However, they did believe the purchase market would eventually return and rates would not remain at record lows forever. LoanSifter realized that whenever the market did change, its solutions would have much greater value.

For instance, Coupland knew that in a purchase market, lenders would want to compare and buy mortgage insurance online, making LoanSifter's integration with mortgage insurance companies to offer mortgage insurance pricing very timely.

"When you have lots of new buyers coming back into the housing market—especially with the FHA pulling [back] from the market—you're going to need mortgage insurance," Coupland says. "What we've done is simply make mortgage insurance pricing more accessible."

Other new tools

And yet, these aren't the only tools to result from LoanSifter's new development team and agile scrum method. In May, LoanSifter integrated its eOriginations™ product and pricing solution with Fannie Mae's Desktop Underwriter®.

Now users can access Desktop Underwriter from within the LoanSifter platform and make informed decisions on virtually every facet of a loan, from the automated underwriting results to integrated credit reporting, mortgage insurance, product eligibility and pricing—all without ever leaving LoanSifter.

In June, LoanSifter leveraged intelligence from its 170 wholesale and correspondent investors to create the *Investor Competitive Landscape Report*. Investors that "opt in" to the report can compare and review their price position and rank among each other to help spur more aggressive competitive pricing and rates for originators. While the report is still new, LoanSifter has already seen several large investors sign up, while many more have inquired about using the report as an upgrade to their current strategy.

According to the company, this information in the report helps investors "see what their clients see," so they can analyze and fine-tune their pricing strategy as well as track their competitive position over time. (The data of lenders and investors who do not opt in to the report is kept anonymous.)

The new products and integrations have fueled LoanSifter's steady growth. As of October 2013, the company has experienced 29 straight quarters of revenue growth, with no outside investments.

Today the company has more than 1,000 clients and 35,000 total users.

Beyond accuracy, efficiency, compliance and process integration, one of LoanSifter's initial core differentiators in the marketplace has been to develop technology that helps drive business and production for mortgage lenders.

With the recent development of its historical pricing and rate-lock change tools and Best Execution MI Pricing Platform, in addition to its existing framework of consumer-facing lead-generation and marketing tools, LoanSifter is poised for a record year in 2013 in revenue, net income and total clients.

Because of its new development resources, LoanSifter can work on not just one major initiative at a time but a series of them. In Coupland's words, the company's goal is "to stay one, two or hopefully three steps ahead of the market and put everyone else on defense."

While working in the mortgage lending industry, Coupland has seen how companies that constantly position themselves for sale or outside investment may skimp on new development or better service. With its consistent growth since inception, however, LoanSifter continually reinvests revenue to maintain an increasing scale of the right development that fuels even faster growth.

"We've seen companies with changes in leadership where they lose their edge for innovation," says Coupland. "We specifically talk about how we never want to become like that."

With technology needs in the mortgage business constantly changing, LoanSifter will always work to not just keep pace with change, but to remain a few steps ahead, he adds.

So far, Coupland's instincts have been spot-on. "We can't always be right," Coupland says, "but we've been very fortunate in anticipating the needs of the market." MB

Warren Lutz is a writer based in Concord, California, and senior account manager with Strategic Vantage. He can be reached at warrenlutz@strategicvantage.com.