

Mortgagebot's Marvelous New Venture

BY MARY MCGARITY



Consumers have a new tool to comparison-shop for mortgages online. Mortgagebot's Mortgage Marvel puts consumers in the driver's seat as they shop for prime mortgage offerings.

What if shopping for a mortgage were as easy as purchasing airline tickets online, say, on Orbitz.com or Travelocity.com? ● That's the thinking behind a new Web site introduced in October by Mortgagebot LLC, an online origination technology provider based in Mequon, Wisconsin. ● With Mortgage Marvel[®] (www.mortgagemarvel.com), any consumer is able to compare mortgage prices and products across more than 250 lenders, choose a lender and apply online, says Scott Happ, president and chief executive officer of Mortgagebot. ● Happ says Mortgage Marvel differs from some better-known online mortgage aggregators because consumers select their preferred lender from a comprehensive and lengthy comparison table of loan products. "Mortgage Marvel neither sells nor even provides mortgage leads to any lenders," Happ notes. "That's because the Web site collects absolutely no personal information; it simply provides potential borrowers with a detailed mortgage comparison table, and they can decide—at their convenience—which lender or lenders they want to contact." ● In contrast, popular mortgage aggregators such as Charlotte, North Carolina-based LendingTree LLC or Santa Monica, California-based LowerMyBills Inc. collect a good deal of consumer information upfront. They then collect a fee for distributing consumer leads to a select group of participating lenders.

ILLUSTRATION BY OTTO STEININGER

Happ adds that borrowers who use a mortgage aggregator are matched with a only a small selection of lenders, whereas Mortgage Marvel displays a wide selection of loan products from all of the participating lenders that do business in the borrower's geographical area.

"We're turning the traditional mortgage comparison model upside down, and putting the consumer in the driver's seat," says Dan Welbaum, chief marketing officer with Mortgagebot.

Up-to-the minute and accurate quotes on interest rates and fees also set Mortgage Marvel apart, Happ says.

So far, 250 of Mortgagebot's 750 lender clients have signed

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on to the Mortgage Marvel network. That means a potential borrower comparing rates and fees on Mortgage Marvel's site receives accurate pricing information from any of the 250 institutions that lend in that particular borrower's market location. Potential borrowers can select a lender and instantly move to the lender's web site to apply for a mortgage and lock in an interest rate.

The nationwide network of lenders that use Mortgagebot's core technology, PowerSite®, and the resulting data collected, made the creation of a consumer-friendly mortgage comparison Web site possible, Happ says.

"We realized as we collected all the data and posted our system for each of those 750 institutions, there was a real opportunity. We could leverage the data not just for a single lender Web site, but we could create a portal where consumers could do their mortgage shopping in a single space and get information from multiple lenders at the same time," Happ says.

Consumers are assured that the rates on the Mortgage Marvel site are accurate, because Mortgagebot creates the rate and fee comparisons from the actual loan product databases of the hundreds of mortgage lenders that use the PowerSite system, he adds.

POS technology for a modest investment

Mortgage Marvel is just the latest offering from Mortgagebot. The company's core business is providing point-of-sale (POS) technology to financial institutions to support direct-to-consumer online lending. The technology is Web-based in a completely hosted environment.

Over the years, the company's focus has widened to support other lending channels, such as bank branches and mortgage call centers, Happ says.

Along with Sue Baker, Happ founded Mortgagebot in 1997

while both worked at Marshall & Ilsley Corporation, a financial services corporation headquartered in Milwaukee.

During his tenure with Marshall & Ilsley Corporation, Happ was president of M&I Mortgage Corporation, Milwaukee, a retail loan originator with a network of 230 branch offices. Baker, who now serves as Mortgagebot's senior vice president and chief product officer, was responsible for mortgage sales and training, including technology design, for M&I Mortgage.

The genesis of Mortgagebot stemmed from the desire to make mortgage loans outside of M&I Mortgage's footprint in Wisconsin, Happ says.

"We decided to build a Web site with the intent to make loans online outside of Wisconsin. We built it pretty early in the Internet days, and it was probably one of the first Web sites built by people [in the mortgage business]," Happ says.

Mortgagebot was the name given to the original Web site at M&I. "Mortgagebot seemed kind of catchy, and nobody else had taken it," he says.

Though the site was initially designed to originate loans for M&I, Happ began receiving inquiries from banks and credit unions about Mortgagebot. "Other lenders were interested in adding that

same kind of functionality to their Web sites," he recalls.

Mortgagebot was re-architected so that other lenders could use the system to make loans through their own Web sites, Happ says. "We're an application service provider [ASP], meaning all of the sites we now host for other lenders are actually handled in a centralized system," he says.

Becoming a technology company

Eventually, Mortgagebot evolved to become a company focused exclusively on providing its software to mortgage lenders. "We switched out of lending and focused solely on providing this online mortgage lending system to banks and credit unions," Happ says.

In 2001, Happ led a successful management buy-out of Mortgagebot.

The company's chief technology, PowerSite, is designed for "self-serve borrowers" who prefer to apply online, Happ says. "Generally, our starting point with a [lender client] is to open up their Internet channel. Most lenders have at least a segment of customers who prefer to do business online, if they're given the choice," he says.

PowerSite allows any user to produce a "perfect" application that integrates seamlessly with just about any loan origination system (LOS), Happ says. The solution adapts to each client's product offerings, pricing structure and fee schedule.

Mortgagebot has spent a good deal of time and money to integrate its software with nearly all the major loan origination systems (LOSes) in the market today, according to Rick Allen, Mortgagebot's director of strategic initiatives.

"That's critical for a lender looking for a solution for the self-serve borrower. Lenders need a solution that works with their LOS. We have partnerships with all the leading loan origination systems," Allen says.

A smart system

Happ likens Mortgagebot's PowerSite to TurboTax®, the popular tax preparation software produced by Intuit Inc., Mountain View, California. "They are both smart systems. With TurboTax, Intuit has taken the nasty IRS 1040 form and made filing taxes a very friendly process for the individual," Happ says.

"We took the nasty mortgage form—the [Uniform Residential Loan Application] 1003 form—and created a very friendly, intuitive, interactive mortgage application process," he says. PowerSite "allows a consumer to submit a perfect application,"

Mortgagebot's 750 lender-clients include **banks, thrifts** and **credit unions**.

Happ adds.

Mortgagebot's software essentially performs the functions of a loan officer, according to Happ. "A loan officer tells you what products you qualify for [and] the price of those products, including the interest rate and points. If you are interested in applying, the loan officer takes the application. Our system performs all those functions—loan eligibility, pricing and taking the application," he says.

Mortgagebot's system also can give loan approvals, he adds. "Just like a loan officer, Mortgagebot locks in the interest rate and collects an application deposit," Happ says.

Who are the lenders?

Mortgagebot's 750 lender-clients include banks, thrifts and credit unions. "We're able to serve small, medium and large lenders. We have 35 of the largest 100 banks. We have 44 of the top 100 credit unions, but we also have an equal number of clients with a relatively small asset size," Happ says.

Half of Mortgagebot's clients have assets of less than \$500 million, and half have assets of more than \$500 million, Happ notes. Among the company's larger bank clients are New York-based Citibank and Providence, Rhode Island-based Citizens Bank. The Pentagon Federal Credit Union, Alexandria, Virginia, is one of Mortgagebot's biggest credit union clients, according to Happ.

Mortgagebot's implementation fees are reasonable, Happ says. "The entry fees for our platform are pretty modest—it's under \$10,000 to implement our solution," he says.

The fees can remain modest because Mortgagebot has designed its system so that the company doesn't have to write any new code when implementing a solution for a new client. "We simply have to configure different parameters to shape the system to that client's needs," Happ says.

Mortgagebot charges a monthly maintenance fee, which ranges from \$1,500 to \$3,000, Happ says. After clients reach a certain threshold, there are some additional transaction charges, he says.

"We make more money when our customers do more volume, so we try to keep our upfront fees low and our monthly fees modest. That way, our interests are aligned with our clients. We win when they win," he adds.

Power users

Mortgagebot executives observed over the years that lender clients were also using its software for another segment of business—customers who walk into a bank branch or credit union and inquire about a mortgage loan. "Typically, those consumers interact with a personal banker. Personal bankers are usually generalists, and might not have the expertise necessary to [originate a mortgage loan]," Happ says.

Having the personal banker take the consumer's name and contact information to pass along to a loan officer is risky, Happ says, "because that consumer can walk out the door and go across the street for a mortgage."

Happ saw that at many clients, personal bankers, loan officers and call center personnel were using PowerSite for point-of-sale originations. So Mortgagebot took a cue from their clients and built a more sophisticated version of PowerSite for loan officers or other lending staff, Happ says.

The result is Mortgagebot PowerSite® Pro, a point-of-sale solution for mortgage professionals introduced by Mortgagebot in 2006. "It's a version of our system that has some additional functionality that a real sophisticated user—such as a loan officer—would need," Happ says.

PowerSite Pro is a rich Internet application (RIA), meaning it delivers the speed and functionality typically seen in a desktop application, yet it is delivered over the Web and accessed via a browser.

The rollout of PowerSite Pro marked an important shift for Mortgagebot, Happ notes. "It moved us from providing the technology for the direct-to-consumer channel to providing the support for the entire sales front line, whether they are consumers directly or loan officers working with the consumers," he says.

More than 300 clients have signed up for PowerSite Pro, and its revenues now account for roughly 10 percent of Mortgagebot's business, Happ says.

Moving into the consumer space

The introduction of Mortgage Marvel adds a new element to Mortgagebot's business focus—a consumer-oriented Web site, Happ notes. "Where we were more of a B2B [business-to-business] marketing company, this is very much now a direct-to-consumer [B2C] marketing effort," he says.

Happ adds, "Even though it's more consumer-focused, it's still [designed] with the business customer in mind. If Mort-

gage Marvel works, it will be good for the lenders' business."

Through Mortgage Marvel, Mortgagebot hopes to attract consumers who may not start with a lender Web site, but begin instead with a search engine, says Allen. The two models now available for online mortgage shopping—loan aggregation Web sites and rate portals—don't offer an ideal consumer experience, according to Allen.

Loan aggregation Web sites collect about 70 percent of a loan application and sell that qualified borrower information to four or five lending institutions that match up with the loan the borrower wants. Borrowers can't choose which lenders call on them, and don't get the instant gratification of rate and fee comparison-shopping, Allen notes.

"It's kind of backward, from our perspective. Consumers have to provide all this data, and then the [lead aggregator] chooses some lenders to contact the consumer," Allen says.

The Mortgage Marvel site requires consumers to provide only three pieces of information: the loan amount, the purchase price of the property and the property ZIP code. The consumer is then presented with an accurate comparison of lender rates and fees. "It's totally transparent, and the consumer gets to choose who they want to do business with," Allen says.

Good comparison-shopping models

Rate portals such as Bankrate.com, North Palm Beach, Florida, are an alternative to shopping on the loan aggregation Web sites, Allen says. "BankRate has a very successful model. They have comparison shopping across several different financial products, including CDs [certificates of deposit], checking and savings accounts," Allen says.

From an outside perspective, Mortgage Marvel offers a similar service, he adds. The consumer "enters a few pieces of data and gets rate information across multiple lenders," Allen says.

What sets Mortgage Marvel apart is Mortgagebot's access to lender data, its integration of the data and its intense focus on the consumer experience, he notes.

Often the pricing offered by rate portals can be two to three days old, while the rates and fees quoted by Mortgage Marvel are real-time, Allen says.

And rate portal Web sites typically make their profits from pop-up and banner advertisements, Allen says. "Those sites want people to click on ads, so they present as many ads as they can. It gets a little distracting for the consumer."

Mortgage Marvel will not have any outside advertising on its site, Happ says. "We have a successful core business, so we're not going to run ads to generate revenue on Mortgage Marvel," he says.

The consumer's credit is not taken into consideration by Mortgage Marvel, Happ says. Mortgagebot's clients are, by and large, prime mortgage lenders, and the new Web site is targeted toward prime market borrowers.

"The system assumes the potential borrower has good credit," Happ says. "In the prime market, there are a number of

transactional elements that may cause pricing variances. Those are all built into the personalized pricing that you get into Mortgage Marvel," he says.

Not everyone who applies for a loan through Mortgage Marvel will be eligible, Happ notes. "But for those who qualify for a [conventional] loan, the pricing is accurate."

Or, as Mortgagebot advises consumers in its marketing literature: "You may wonder how Mortgage Marvel can provide truly accurate quotes without knowing anything about you. The fact is, in most cases lenders don't need personal data to provide a mortgage quote. For most borrowers, mortgage rates and fees are determined by transaction-related factors such as loan amount, loan-to-value [LTV] ratio and occupancy

Mortgagebot will **target prime borrowers** through **paid search** as well as its approach to search engine optimization, Allen says.

type—not by credit score. Mortgage Marvel takes advantage of this."

Mortgagebot's clients are largely prime mortgage lenders, Allen says. "We don't ask them about credit because then you get into crossing the boundary of asking about personal information. Some sites will do a self-assessment of personal credit. To me, that's of questionable value. You can't rely on it. If they can qualify for prime credit, it's not going to matter anyhow," Allen says.

Have lenders expressed any concern that they would be getting borrowers they don't want through Mortgage Marvel? "There was a little bit of concern," Happ says. "Historically, we saw that concern when we started offering the Web solution. We kind of overcame that, and now the quality of the borrowers our lenders typically get is actually of a high level," he says. "I think there's still a willingness to try it. We're in the middle of a pretty big experiment. Time will tell whether the borrower that is attracted to the Mortgage Marvel site is of a higher or lesser quality than the typical customer [that Mortgagebot's lender clients] serve."

Mortgagebot will target prime borrowers through paid search as well as its approach to search engine optimization (SEO), Allen says. "It's one of those things we have to play out and see if it works, for both the consumer and the lender. The lender doesn't want to have to process 50 applications to get one transaction, because the credit quality is low [on the other applicants]. And consumers don't want to waste [their] time applying for a mortgage they don't qualify for. It will be interesting," he says.

Mortgage Marvel makes a few other basic assumptions for

the initial consumer search, Allen says. “We assume it’s a purchase loan on a single-family residence, and that it’s a 30-year fixed-rate loan. We start with some assumptions just to give them some rates,” he says.

Consumers have the option of performing an advanced search, in which the type of loan and the loan terms can be changed, he adds.

How it works

Mortgage Marvel starts by presenting its results ranked by annual percentage rate (APR), although the user can sort the results by other factors, Allen says. “If someone is more sensitive to upfront costs, they can sort on closing costs. If the amount of the monthly payment is the most important [factor], they can sort by that. They have flexibility,” he says.

Consumers are also able to search by a specific lender in the system, he notes. Users can refine their search to look for loan pricing on an investment property, rather than single-family, according to Allen.

Mortgagebot has sought to make its Mortgage Marvel Web site “fully transparent,” Allen says. “Especially with all the criticism the industry has gotten for the subprime debacle and the lack of disclosure, we think providing disclosures right upfront is very important,” he says.

Users are automatically provided with disclosures on adjustable-rate mortgages (ARMs) not typically provided on other mortgage shopping sites, he says.

Mortgage Marvel presents a complete list of all the closing costs “down to the penny,” Allen adds. “With a reasonable degree of certainty, the consumer can actually know at an itemized level what their closing costs will be,” he says.

Mortgage Marvel offers a good deal of informational and educational content for prospective borrowers, too, Allen notes. The site features news, commentary from four columnists, a glossary and frequently asked questions (FAQs), he says.

The final element of the Mortgage Marvel site is the application link, Allen says. “Our ultimate hope is that people will get comfortable with doing the application online and will move to the lender’s Web site. It’s a sort of handoff to the lender,” he says.

Mortgagebot rolled out Mortgage Marvel to the lending industry in October. The Web site was voted “Best of Show” by industry executives and members of the press during the Finovate 2007 Conference in New York in early October, which highlights new innovations in the banking and financial services industry. Attendees at the conference, sponsored by NetBanker, an online finance and banking blog based in Seattle, cast their votes for the best technology solution among those that were demonstrated at the annual show.

Attracting consumers

Attracting consumers to the Web site will be critical to the success of Mortgage Marvel, Happ acknowledges. “We’ve had terrific receptivity from our [lender] clients. Now our attention

will turn almost entirely to finding ways of driving the consumer [to the Mortgage Marvel Web site],” Happ says.

The company is focused on a media and public relations campaign targeted at consumers—admittedly a tougher audience to reach than the lending industry, Allen says.

“Our hope is to take a shot at it and see where we can get some traction. We have a good consumer-focus story, so we hope that will resonate with some of the [mainstream media],” he says.

Mortgagebot has an active paid-search campaign running on Google™, and recently engaged an outside company to help with managing its paid-search program across all the major search engines, Happ says. The company, The Search Agency, is a Santa Monica, California-based search engine marketing (SEM) and search engine optimization firm.

The company is seeking to optimize its site for organic search results through SEO by focusing on certain keywords, Happ says. “Early results are promising,” he says. For example, a recent search of the words “mortgage rate comparisons” on Yahoo!® showed Mortgage Marvel appearing in the second organic position, Happ says.

Business is good

While much of the mortgage lending industry is struggling right now, Mortgagebot is in a growth mode, Happ says. “Our business is growing, and our customer base is growing,” he says.

In fact, 2007 has been a record year for Mortgagebot in terms of the number of new bank clients it’s taken on, Happ says. The company added 88 banks through the first nine months of this year, he says.

Why the increase in business? “We sell to the one segment of the market that has for the most part not been adversely impacted by this meltdown—depository institutions or financial institutions with their own money [to lend],” Happ says. Fewer than 3 percent of Mortgagebot’s clients are something other than a bank, thrift or credit union, he says.

“Our lender [clients] are prime lenders. Some of our clients may have dabbled in [subprime lending] a little bit, but for the most part they operate in the prime sector,” Happ says.

A big increase in Mortgagebot’s sales and marketing staff also helped the company gain new clients, Happ notes. Mortgagebot’s sales and marketing team has grown from five people to 20 over the last two years, he says.

Providing point-of-sale technology to lenders “is a bit of a unique niche,” Happ says. “We’re very focused on making sure our clients are successful,” he says.

And even though Mortgage Marvel is designed with consumers in mind, the Web site has the potential to be very prosperous for lender clients, Happ says. “That’s what Mortgage Marvel is all about—helping our clients compete in this new age.” **MB**

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