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How Technology is Impacting Both the Real Estate and Mortgage Sectors

White Paper by John Guzzo, Managing Director

Introduction

Historically the real estate and mortgage sectors have been somewhat slow when it comes to technology innovation. However, there has been a rapid shift during the past few years to meet regulatory compliance policies and to streamline the roles of real estate and mortgage professionals. According to data from CB Insights, more than $1.4 billion is expected to be invested in real estate technology startups in 2015, compared to $1 billion in 2014 and $438 million in 2013.[1]

There are five key trends that are currently impacting both the real estate and mortgage sectors: (1) additional compliance expense for vendors; (2) a constricted mortgage market; (3) the convergence of real estate and mortgage technology; (4) acquisition or creation of products; and (5) acquisition or organic growth of customers.

Additional Compliance Expense for Vendors

One of the most recent regulations coming into effect is TILA-RESPA Integrated Disclosure (TRID). It is also sometimes referred to as the "Know Before You Owe" rule. Under TRID home buyers will use two new forms that aim to provide a more detailed amount of the loan, as well as additional time to review the associated costs of the mortgage.[2] Although one of the goals is to promote accuracy and transparency, this could result in a delayed closing process if the required paperwork is not managed properly. Moreover lenders have to be concerned with increased operational costs.

Looking back at some other regulations, Title XIV of the Dodd-Frank Act is specifically targeted to mortgage originators. Among several provisions, it authorizes the Consumer Financial Protection Bureau (CFPB) to more stringently enforce the Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA). With these regulations, lenders are faced with meeting extra minimum standards before issuing residential mortgage loans, including those that are deemed to be high cost. They are likewise tasked with making a "reasonable and good faith determination" that the borrower has the ability to repay the loan prior to issuance. This could play a role in originators seeking more integrated end-to-end offerings from technology vendors in order to help ensure compliance and streamline the originations process.

Constricted Mortgage Market

With a strong correlation between real estate valuations and consumer confidence, rising homes prices have helped increase consumer confidence and facilitated growth in the secondary market, including vendors serving that sector. Long-term interest rates remain at historic lows, so even as lending terms continue to be favorable in this sellers market, borrowers will likely encounter higher prices in the future once the Federal Reserve decides to act.[3]

Meanwhile, given that demand continues to outpace supply in many areas, mortgage originators are looking for tools to shorten processing times, better manage sales leads and bolster customer retention rates when dealing with repeat homeowners.

Convergence of Real Estate and Mortgage Technology

Mortgage technology vendors and outsourcers offering solutions that provide better quality control, promote process efficiencies, facilitate borrower communication and improve regulatory compliance are the ones most in demand by investors and acquirers. We are also witnessing acquirers enter into M&A transactions in order to acquire products to round-out their solutions suite, and also to acquire customers and market share.

As investors and acquirers take a long-term perspective in assessing acquisition opportunities, it has become clear that the market views these solutions as fulfilling a more permanent need in the industry. There are several significant drivers impacting the evolution of mortgage technology. This includes restoring consumer confidence, decreasing the volume of delinquent loans, stabilizing the debt markets and adhering to new regulatory guidelines.

At the same time, real estate agents need to be interpreters, not just facilitators or intermediaries, since consumers have wide access to a broad array of information sources. For instance relevant data can be accessed from mobile applications, technology-enabled brokerages, and various open data initiatives.[4]

Consumers therefore are buying the experience and knowledge offered by an agent as opposed to seeking help with answering items on a checklist. Agents must also effectively manage multiple relationships, whether it's with mortgage appraisers, mortgage financers, settlement companies, title agents, or technology vendors.[5]

Acquisition of Products

Well known market participants such as Fidelity National Financial, Zillow, CoreLogic, Altisource, Ellie Mae, and LenderLive have made notable acquisitions in the real estate and mortgage sectors over the past several years. Examples of high profile transactions, along with their enterprise values when disclosed, include:

- Fidelity National Financial's acquisition of Lender Processing Services, a provider of technology, services, data, and analytics to the real estate and mortgage sectors, for $3.9 billion in 2013

- Zillow's acquisition of its main competitor Trulia, a real estate website used by home buyers, sellers and renters, for $3.0 billion in 2014

- CoreLogic's acquisition of Marshall & Swift/Boeckh (MSB), a residential and commercial property valuation solutions company; and DataQuick, a supplier of real estate data, analytics and business solutions to mortgage originators and servicers, investors, real estate professionals and the public sector from Decision Insight Information Group for $661 million in 2013

- Altisource Portfolio Solutions' acquisition of RentRange, which offers rental home data and information to the financial services and real estate sectors; and Investability, an online residential real estate search and acquisition platform, in 2015. Altisource also acquired Mortgage Builder Software, a mortgage loan origination and servicing systems software company, in 2014

- Ellie Mae's acquisition of Mortgage Returns, a customer relationship management (CRM) and market automations solutions company, in 2015; and AllRegs, a provider of education and training, loan product, and guideline data and analytics to the mortgage sector, in 2014 (note that Berkery Noyes represented AllRegs)

- LenderLive's acquisition of Walz Group, a provider of regulatory compliance, document fulfillment, and certified mail solutions, in 2015

Acquisition of Customers

New database technologies are improving the ability of debt servicers to assemble disparate pieces of information about consumers, making it easier and more cost-efficient to locate and contact them. Mortgage servicers are also experiencing greater demand for more targeted and frequent borrower communication, including email, text messaging and more complex print/mail offerings. Innovations have aided lenders and debt servicers in the ability to obtain, store and transfer data about consumers and their debts. When licensing technology or subscribing to third-party technology is not an option, outsourcing business processes has become a viable solution and growing trend.

Conclusion

Each of the trends discussed above are leading to both innovation and consolidation in the market. The real estate and mortgage sectors are still highly fragmented, and further consolidation over the next several years is inevitable.

Many industry participants will seek economies of scale, critical mass and need to have additional product offerings to enhance their competitive advantage. Lenders, vendors, and servicers will continue to embrace tactical acquisitions to shore up product lines, capture customers, increase market share, and ensure they are prepared for the next wave of mortgage originations.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries. The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

About John Guzzo

John Guzzo is a managing director in the Financial Technology Group at Berkery Noyes. He has worked on over 80 M&A transactions during his career, representing more than $3 billion in value. John is a Certified Public Accountant, holds Series 7 and 63 Licenses, and received his MBA from Columbia Business School. He has successfully closed numerous M&A transactions in the mortgage and real estate technology services sectors.

Footnotes

[1] Grant, Peter. "Real Estate Tech's Two-Edged Boom." The Wall Street Journal. 18 October 2015. http://www.wsj.com/articles/real-estate-techs-two-edged-boom-1445212395

[2] Kelley, Dewey. "Will TRID Compliance Cost Consumers?" Mortgage Orb. October 2015. http://www.mortgageorb.com/issues/SME1510/FEAT_03_Will-TRID-Compliance-Cost-Consumers_.html

[3] Kelly, Hugh. "Emerging Trends in Real Estate." PwC and the Urban Land Institute. September 2015. http://www.pwc.com/us/en/asset-management/real-estate/

[4] Guttman, Josh. "The Impending Opportunity in Real Estate Technology." Tech Crunch. 10 February 2015. http://techcrunch.com/2015/02/10/the-impending opportunity-in-real-estate-technology/emerging-trends-in-real-estate-2016.html

[5] Wallace, Lorne, Welsh Lon, & Murray, Steve. Game Changers: The Unfounded Fears and Future Prosperity of the Residential Real Estate Industry. REAL Trends, Inc. and Your Castle Real State. pp 8-15. 2014. Print.

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HAS BEEN ACQUIRED BY
MCS MORTGAGE CONTRACTING SERVICES
A PORTFOLIO COMPANY OF
TDR Capital

COGENT ROAD
HAS BEEN ACQUIRED BY
CHRONOS SOLUTIONS

REAL MATTERS solidifi
HAS ACQUIRED
SOUTHWEST Financial Services, Ltd.

ALLREGS
HAS BEEN ACQUIRED BY
EllieMae

Venture
HAS BEEN ACQUIRED BY
Taylor

MortgageCadence Enterprise Lending Solutions
HAS BEEN ACQUIRED BY
MONITOR CLIPPER PARTNERS

SourceTechnologies
A PORTFOLIO COMPANY OF
LIBERTY PARTNERS
HAS BEEN ACQUIRED BY
StoneCalibre

Bankers Systems Inc.
A BUSINESS OF
WoltersKluwer
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