

Multi-Lender Mortgage Web Sites

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One of the major innovations spawned by the internet has been the entry of players from outside the mortgage banking industry who offer potential borrowers multiple lenders on one site. While the great majority of mortgage web sites are provided by individual lenders promoting their own products, multi-lender sites deployed by "outsiders" have an importance out of all proportion to their numbers.

To understand why, it is necessary to view the mortgage shopping process through the eyes of the consumer. For some months, I have had a nationally syndicated newspaper column backed up by a consumer-oriented mortgage web site (mtgprofessor.com) that invites users to tell me their problems. The problems in using the traditional distribution channels that they relate in case after case, provide the opportunities for the new multi-lender sites.

I hasten to add that not all multi-lender web sites are created equal. Section I distinguishes the three major types. Section II shows how one type of multi-lender site dominates the others, resolving a host of problems that many consumers encounter using the traditional channels. Section III discusses how and why major lenders deploying their own web sites have been left at the gate. Section IV considers how lenders with single-lender sites who intend to compete with the multi-lender sites need to modify both the technology deployed at their sites and their business strategies.

I. Types of Multi-Lender Web Sites

Broadly, multi-lender mortgage web sites fall into three categories, which I call "referral sites", "lead generation sites" and "shopping sites". Referral sites provide internet-based portals into the existing mortgage distribution system. Shopping sites provide a new type of mortgage distribution system that cuts loan officers out of the process. Lead-generation sites fall somewhere in-between.

Referral Sites: Referral sites direct potential borrowers to participating lenders, in some cases to hundreds of them. They could be called "lender list" sites. Lenders pay modest amounts to post their price information, along with telephone numbers or URLs of their own sites. The principal lure to the consumer is the price information, along with market data, market commentary, financial calculators, mortgage advice and other lures.

Referral sites provide a useful way for consumers to compile a list of lenders who are active in a given area. They don't help very much in making selections, however, because the price information is generic rather than transaction-specific. It is often out of date, furthermore, and it never includes loan-related fees other than points.

Consumers are not asked for personal financial information by the referral site. This doesn't happen until after they select and contact one or more of the lenders who are listed on the site. At that point they are shifted into conventional distribution channels, which means that they deal with loan officers just as they would if they had responded to an advertisement in conventional media.

Indeed, referral sites can be viewed as the internet equivalent of newspaper, TV or radio ads. Some of them, in fact, provide their price information to the other media.

Lead-Generation Sites: Lead-generation sites provide leads (potential borrowers) to lenders. Where referral sites provide information about lenders to consumers, with consumers contacting the lenders, lead-generation sites provide information about the consumers to the lenders, and the lenders contact the consumers.

Lead-generation sites collect personal financial information from consumers. This information is similar to the information collected by shopping sites (see below), but it is used very differently. Lead-generation sites send the information about the consumer to a set of lenders, and any or all of them may contact the consumer with loan solicitations. Shopping sites, in contrast, use the information to help consumers find the right loan and lender *on the site*, and deliver the information only to the lender selected by the consumer.

Lead-generation sites can be a time-saver for consumers with special needs, including those with significant credit problems or those looking for second mortgages. Since the responding lenders know all about the consumer when they call, these special needs presumably have been taken into account in the offers they make.

A major drawback is that borrowers must wait for lenders to get back with their offers, which may come at different times and may therefore not be comparable. Furthermore, consumers are not able to "try on" different loan types and terms before committing themselves to exactly what they want, as they can on shopping sites (see below). Consumers must also be willing to divulge their financial information to an unknown group of lenders. Lead-generation sites may solve these problems in time, but as they do so they will evolve into shopping sites.

Shopping Sites: Web shopping sites provide consumers with the on-line capacity to shop among multiple competing lenders on an "apples-to-apples" basis, to experiment with different loan types and terms, and to qualify and apply for any selected loan. Shopping sites cut traditional loan officers out of the process, and empower consumers to find their own "best-fit" mortgage and their own best deal.

Shopping sites, like lead-generation sites, ask consumers for personal financial information. The requested information, however, is not distributed until the consumer selects a lender, and then it goes only to that lender.

At this writing, there are only 4 shopping sites of consequence. Eloan.com, HomeAdvisor.com (Microsoft), HomeShark.com, and QuickenMortgage.com (Intuit). I anticipate several lead-generation sites will join their ranks within the year.

Multi-lender shopping sites are the ones to beat, for the reasons explained below.

II. Multi-Lender Shopping Sites and the Consumer

Fear of Being Ripped off: Of all the problems involved in shopping for a mortgage through conventional channels, the one that pops up in my mail-bag with the greatest frequency is fear of being ripped off. It is undeniable that less informed and less aggressive consumers often pay a premium over the posted price ("overage"). It is no consolation to them that better-equipped shoppers than themselves may have wrangled a discount from the posted price ("underage").

The shopping sites eliminate the fear of being ripped off by eliminating commissioned loan officers, and operating in the tradition of fixed-price merchandising. Less informed and less aggressive consumers pay no more than others.

Difficulties in Comparison Shopping :-Comparison shopping for a mortgage in conventional channels is difficult and tricky. Price quotations are often inaccurate, occasionally ambiguous, sometimes obsolete, and almost always incomplete:

- Consumers are usually quoted generic rather than transaction-specific prices, which means that they are subject to later adjustment when the details of the deal emerge.
- The rate lock period to which a price quotation applies is sometimes not specified.
- A consumer who shops lender X on Monday and lender Y on Tuesday may discover that lender X's price from Monday no longer applies.
- Lenders typically quote rates and points, delaying disclosure of other loan-related fees.
- Consumers are rarely quoted negative points except when they are bundled in some kind of "no cost" deal where the exact amount is concealed.

A major objective of shopping sites is to provide effective "apples to-apples shopping". Prices are fully adjusted for the specifics of each transaction, including the lock period, they are current at all times, all fees and charges are clearly shown, and negative point/high rate combinations are disclosed upfront.

The volatility characteristic of the mortgage market today forces shoppers to repeat the process many times before they lock. This is extremely costly in shopping conventional channels, but not costly at all in shopping the internet shopping sites, because making comparisons on-line is so easy.

Poor Support On Tough Decisions: Consumers are frequently confused over a wide range of issues, such as:

- The best rate/point combination.
- How much to put down.
- Whether to take an FRM or an ARM.
- Whether to borrow for 15 or 30 years.
- Whether to lock or float.
- Whether it pays to refinance.
- Whether to take a second mortgage or pay mortgage insurance.

Many loan officers do not handle these questions adequately. They are selected primarily for their sales skills, and high turnover rates discourage investment in training. The dominant thrust is toward getting to and completing the application as quickly as possible, and time spent answering questions is lost money.

Web-based mortgage shopping sites replace loan officers with the on-line capacity to take applications, and with tools to educate borrowers and help them make the tough decisions. While they still have a long way to go, it is clear that shopping sites see education as central to their role. I should add that referral sites and lead generation sites also provide educational materials and decision tools.

Of course, many borrowers are not yet computer literate, and even among those that are, many look for the "human touch". The touch they look for, however, is one that is both expert and disinterested, which most loan officers are not. I anticipate that a new breed of counselor will emerge who will be both, guiding consumers through the shopping sites and charging for their time.

III. Single-Lender Sites

I recently compared what consumers are being offered by major web-based mortgage shopping networks, with what they are being offered on the internet by 10 of the largest and most visible lenders in the country. The general conclusion from this comparison is that the lenders have been left at the gate.

- Only 4 of the 10 lenders provided timely price information.
- None showed the lock period to which the quotations applied.
- None provided information on fees other than points.
- None offered negative point quotes.
- None provided settlement cost information.
- Only 3 lenders provided a prequalification routine.
- Only 2 lenders took an application on-line.
- Six of the lenders had a refinance break-even calculator that leaves the loan balance out of the calculation, providing highly misleading results.

In one sense, this is surprising. One of the major challenges to any web site is to attract potential customers to the site. All the lenders whose sites I looked at have name visibility and a sizeable existing customer base, which gives them a very substantial advantage over all of the shopping and lead-generation sites except those of Microsoft and Intuit. The investment by a web site required to establish name visibility dwarfs the cost of development.

On the other hand, one should not be surprised that firms with major investments in an existing distribution system are not eager to deploy a new system that may undercut it. It is clear from their sites that lenders are viewing them as support for their existing delivery systems. It is as if stagecoach manufacturers at the dawn of the internal combustion engine, trying to avoid writing off their investment in horses, elected to use the new engines to heat their coaches. The prospects for success are about the same.

IV. It Is Not Too Late

Major lenders need to acknowledge the following simple propositions:

- The internet shopping sites developed by outside players meet the needs of borrowers better than the existing distribution system.
- To contain the shift of power that will result from the growth of these sites, the lenders must develop sites of their own that compete on the terms laid down by the new players: meeting the needs of consumers.

Once they stop practicing denial, lenders have two things going for them in this competition. First, they have name visibility and customers for other services, a point made earlier. They can entice such customers to their mortgage sites through a variety of marketing stratagems. Second, they can deploy quickly using technology developed largely for their competitors. Out-of-the-box

sites are available on a private label basis from GHR Systems, Inc, First Mortgage Network and others.

Lenders who want to design their own site from scratch can markedly reduce the time and effort required by licensing GHR's PremierWare, a set of functional software modules covering pricing, qualification, document preparation, closing costs, and so on. PremierWare cuts site development time by 70-80% by eliminating the need to program the complex analytics that a high-powered site requires. With PremierWare, site development requires only designing the screens and connecting the hooks to the relevant PremierWare functions.

V. Concluding Comment

The major hurdle for lenders is not technology but accepting the strategic premise that a successful site is one that meets consumer needs. This premise dictates that, e.g., lock periods and loan-related fees be disclosed, negative point loans be offered, refinance calculators take account of the loan balance in calculating "break-even", and so on. Unless lenders accept this premise in designing their sites, they will gradually but inevitably lose market share to the multi-lender shopping sites