

Software Provider Smooths Topsy-Turvy Mortgage Lending Process

BANKING: Automated Systems Have Safeguards to Help Prevent Risky Loans

By MIKE ALLEN

Rob Katz recalled working at a now defunct mortgage bank about a decade ago, talking about subprime lending.

Katz, then the chief technology officer at Monument Mortgage in San Ramon, said he questioned why the company would want to make loans to borrowers with depressed credit scores and for loan sizes that exceeded the value of the house.

"We were told that as long as the borrower makes three payments (on the mortgage) that it's not our problem," Katz said.

As long as the loans performed for that brief period of time, the bank didn't care because the investors buying the loans didn't care either, he said.

The following year in 2001, Monument began making mortgages to riskier borrowers with even lower credit scores, and that's when Katz decided it was time to go.

He ended up joining Del Mar DataTrac Inc., a San Diego provider of customized software to smaller community banks and private mortgage banks, as its executive vice president. Since 2008, following a one-year absence from the company, Katz has been DMD's president.

Celebrating its 20th year in business, DMD is on track to reach \$15 million in revenue this year, up from \$10 million last year. It should exceed \$30 million by 2013, says **Jeb Spencer**, managing partner of TVC Capital LLC, a local private equity firm that re-acquired DMD in 2008.



Jeb Spencer

"We were fortunate to sell the company at the peak of the mortgage industry bubble (in 2005 to Fiserv Inc.) and equally fortunate to buy it back at the bottom of the market (in 2008) with the confidence that the market would come back," Spencer said.

Detailed Electronic Records

DMD's software automates the mortgage ending process from the first application to the sale of the loan so that mortgage brokers, bankers and the buyers of the mortgages all have an electronic record of all the details of the transaction, said Katz.

The solution eliminates the need for copying, scanning and sending documents to the various parties that slows down the ending process, he said.

The main thing that DMD's software does is that it forces a lender's staffers to strictly adhere to its operating policies covering underwriting and closing. For example, when a borrower is required to provide proof of income, the software doesn't permit moving forward in the process until that step is accomplished, Katz said.

Of course, certain steps such as proof of income were ignored as the housing bubble was in full bloom earlier in the decade. While DMD's software might have prevented some of the subprime mess, Katz said lenders had, and still have, the ability to configure the software to fit their own corporate policies.

One of the largest buyers of mortgages made by the smaller mortgage banks served by DMD was **Countrywide Financial Corp.**, which held massive numbers of

defaulting subprime mortgages when it was acquired by **Bank of America** in 2008.

Katz said larger banks such as **BofA**, **Wells Fargo Bank** and **Citibank** all have their own automated mortgage software systems. But DMD's systems have a good hold on the smaller lending market. He estimated that from 1999 to 2010, the systems were involved in \$2 trillion of all mortgage loans advanced, or about 7 percent of all the mortgages for that period.

Financial Crisis Brought Failures

As the financial crisis spawned by the tsunami of defaulting mortgages unfolded, many of the small mortgage banks that were clients of DMD failed. "About 30 percent of our clients went out of business when the subprime market collapsed," said Katz.

By 2008, many small mortgage banks couldn't find the warehouse credit lines to make loans because many of those major providers went down as well, he said.

Of course, the mortgage lending environment has been dramatically altered because of the crisis, and getting a loan since then is difficult, even for borrowers with pristine credit histories.

Plaza Home Mortgage Inc., a San Diego mortgage bank founded in 2001, said it's used DMD's software since the beginning. "It's the best one that has everything we need to run our business accurately," said **Bob Gerardi**, Plaza's information technology manager. "It ensures that the loans are entered properly and accurately so that when it comes to selling the loans there aren't any problems."

DEL MAR DATATRAC INC.

President: Rob Katz.

Revenue: \$10 million in 2010; projected \$15 million in 2011.

No. of local employees: 42 of the total 60.

Investors: TVC Capital.

Headquarters: Sorrento Valley.

Year founded: 1991.

Company description: Maker and provider of loan automation software for small mortgage lenders, community banks and credit unions.



Rob Katz