

Promoting Your Industry So You Don't Have To

by Jeff Schurman

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The recent downturn in the subprime mortgage sector and the growing concerns about the real estate finance industry has made me a popular guy amongst the media. What's the state of the vendor management industry, prospects for employment, volume loss across the local and national landscape? The underlying question seems to be whether the vendor management industry is descending below the relevancy quotient and heading toward extinction. In this article, I will share the Top 5 media queries, along with my usual responses.

How has the downturn impacted order volumes?

From what I'm hearing, order volumes are down between -15% and -40% across the vendor management spectrum. True, this is a wide range, and indicates that some are holding their own while others are gasping for air. I attribute this to the fact that different companies serve different segments of the mortgage industry. Those that tied their success to the subprime industry generally fall into the -40% category, while those with a more diverse book of business (a healthy mix of prime, subprime, HELOC, refinance, Foreclosure/REO) tend to fall nearer to the -15% mark. Employment is off by about the same -15% to -40%.

Ok, so they're holding their own. But what about the business closings we're hearing about?

The trade news has been full of reports about vendor management companies closing their doors. Acculink, Timberlink, EFS, and a few others closed. Others, like Secolink, have had a change of majority ownership. Surely, they say, this means that the industry is a dinosaur. Not necessarily. With the exception of EFS, all three of the companies noted above, and most other recent closures, are affiliated business arrangements. This is significant as for the most part, AfBAs have little tangible assets to sell, making closure the tidiest option.

In an AfBA, vendor management companies like ATM or ValueAmerica partner with say an Option One Mortgage, Key Bank, or another lender to manage acquisition of back-office settlement services. The VMC brings to the arrangement the fee panel, the technology, the workforce, and the facilities, while the lender brings a steady flow of orders. When it becomes time to sell, the AfBA really has little to offer a potential buyer. It doesn't own the fee panel, it doesn't own technology that can be sold, and it can't bring the buyer a diverse book of client business. So there really isn't much that can be sold. So they close.

What about EFS, which was an independently owned and operated VMC?

EFS is different. According to media accounts, EFS got into trouble last year when it lost several big client accounts, including Countrywide Financial Corporation, the nation's largest lender. Everything I've heard from their competitors has been that EFS had always been a worthy competitor and was often a finalist in RFP (Request for Proposal) competitions. In fact, they were a founding member of TAVMA and contributed as much to our success as any organization. They simply didn't have the financial ability to weather an extended downturn.

The local media reported that in 2005, EFS grossed about \$65 million and employed about 500 people; in 2006, they grossed \$45 million and employed around 350 people. When they closed they were down to about 100 people. My back-of-the-napkin calculations tell me that at 100 people EFS was probably on track to gross around \$15 million in 2007. Then they closed the doors. If my calculations are correct (I believe they're in the ballpark), EFS' volume had declined over 60 percent since 2005. A decline like that is hard for any labor-intensive business to survive.

What this tells me is that the VMCs whose volume is off 15 percent or so should be fine. Those nearing the 40 percent mark should also be fine if the race to cut costs and pick up new (conforming) business. However, if EFS is any kind of guide, those suffering more than a 50 percent decline in business ought to be worried about now.

So who are the most likely candidates to close?

Overall, I think it is fair to say that settlement services companies of all types that have failed fall into one of three classifications: Those that catered to subprime and ALT-A lenders; those that jumped into the business at the height of the real estate bubble but without a deep customer base to sustain them as the market turned south; and those with affiliated business arrangements in which a single large client shuttered and left them with zero orders and lots of overhead.

I get calls all the time from appraisal, title, and closing vendors seeking to be on my fee panel. Looking beyond the obvious fact that as a trade association TAVMA does not maintain any fee panels and has no orders to offer, what does this say about the marketing expertise in the post-boom era of the late 2000's? Marketing is much more than mass emailing potential clients or cold calling trade association managers. Given the competition for a declining pool of mortgage transactions, I see a need for new and better marketing plans among those in our industry.

Is vendor management a dinosaur?

This is my all-time favorite question. Asking it gives me a bully pulpit and every right to carry on about the virtues of the vendor management value proposition.

I am a huge believer in the vendor management business model. As administrators of networks of certified and licensed appraisers, abstractors, closing agents, and others, VMCs acquire and deliver settlement services on behalf of mortgage lending institutions. They recruit, qualify, verify licensure, negotiate fee and service level expectations, and perform administrative duties

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like order entry and assignment, tracking and statusing, pre-delivery quality control, and preliminary and hard copy report delivery. In addition, it involves ongoing quality control, accounts payable and receivable, market value dispute resolution, warranty administration, and record retention. I see the continued growth and influence of the vendor management industry to be inevitable over the next 10 years. So, no, the industry is not a dinosaur.

What is happening, I believe, is that the ownership of the vendor management company is changing, from independent entrepreneur as owner-operator, to title insurance company as owner-operator. Over the last decade eight or more of the largest VMCs have been purchased by one of the major underwriters. And yet these new owners will continue building the industry where the entrepreneurs left off. No, the industry is not a dinosaur. But is TAVMA?

The last few years have been difficult, as more and more member companies have been bought out and founding leaders of the association have moved on to the next big things in their lives. What I've noticed is that the passion and commitment of the founders is not uniformly shared by the next generation and the generation after that. Therefore, it is our big challenge and great opportunity to continue to promote the vendor management and settlement services industry and present the positions of our members to government, media, users and vendor groups. But to make our great dream of being to this industry what the MBA is to mortgage bankers come true we need our current members to renew their memberships, and those on the fence about joining to get off the fence and join.

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