

The Ultimate Enterprise for Loan Trading

The Internet has truly revolutionized many aspects of business. New solutions come to being that previously never existed. While they are just coming out of the gates, Ultraprise has the potential to create a new and innovative solution for the mortgage industry. It is a trading room for pools of non-conforming loans. It will act as sort of a securities exchange for volumes of sub-prime or jumbo loans.

Traditionally, such pools of loans were traded by middlemen who would match sellers of these loans with buyers. Such middlemen today are inefficient in that pricing is both labor intensive and mostly a manual process. The middlemen would shop the loan pool among potential buyers. Ultraprise allows many buyers to review the loan pools via the Internet. Buyers could review a significant number of loan level data – up to 170 fields for each loan. This information is available in a spreadsheet for buyers to easily analyze. Further, once a loan pool is sold, Ultraprise goes the added step of automating the movement of the data from the seller to the buyer.

Moving such data is not an easy thing to do. It involves developing import and export programs to and from a wide variety of systems from dozens of companies. Sellers typically hold this information within their Loan Origination Systems and the buyers typically want to move the data into their Loan Servicing Systems. Helping move this data electronically and over the Internet will add tremendous value to all parties. Re-keying this loan information alone can cost as much as the roughly \$60 per loan they charge for this service.

In addition, unlike IMX, it is not a double blind auction. In the case of Ultraprise, both the buyers and sellers know who each other are. This is very important when trading pools because of the need for trust among the buyer and the seller. They could become the E-Bay (the highly successful Internet trading system) of the mortgage industry for such loan pools. One admirable trait is that they know who they are and aren't. Ultraprise is not trying to cover many areas of the industry. They wish to only do this function and do it well. This startup is well funded with a top management team. Despite all the millions they've raised in venture capital, you'll see them vigorously go after their market with a rifle shot rather than a shotgun approach.

From the perspective of the originator, Ultraprise will be mostly behind the scenes. Yet their impact will likely be seen in better pricing for the originator and better liquidity for the industry. Watch this company in the months to come.

IMX is somewhat similar in their mission to become a major industry loan trading system. However, it's solution is substantially different. Where Ultraprise trades in pools, IMX trades on a loan by loan basis. Further, IMX works between the mortgage broker and the wholesaler and thus, would not be a competitor to Ultraprise. IMX has been around for several years and has had almost \$50 million in funding to date. They are operating well below their projections and have been through a few CEO's already. Despite their problems, their solution still shows a lot of promise. They've traded over a billion dollars in loans to date and have recently accomplished a major coup - they've landed a pilot with Freddie Mac for the use of Loan Prospector.

IMX plans to add Loan Prospector decisions to their loan-bidding environment. This could be a boost to their technology side, which is already quite strong. What they need from here is better usage from existing users, more acceptances from major wholesalers and some good marketing partnerships to help bring their solution to market. Most of the major wholesalers have flatly refused to participate for fear of "legitimizing the bidding

room solution”. It’s argued that if someone like Countrywide were to sign up with IMX, it would likely force the industry to convert to a bidding environment. If that happens, it would further squeeze the already thin margins the wholesale industry sees today.

IMX and some mortgage technologists would argue that most loans from mortgage brokers will eventually be placed in a bidding room and that the wholesalers are just postponing the inevitable by not joining today. One thing is for sure is that if IMX can dramatically increase their volume, the large wholesalers will be forced to join or they will miss out on a large volume of business. This game of cat and mouse appears to pit the wholesalers ability to stall the inevitable against IMX’s ability to raise funds to keep their bidding room operational.

We should know in the next year or so whether IMX and Ultraprise would change the industry. It’s a big challenge and there’s a lot at stake. It’s these sorts of technology developments that keep the industry exciting and forces us all to never stop learning about our business.