ScratchThat Podcast Episode 24: Shop (Rates) 'Til You Drop

Emily: Hey, I'm Emily Chenevert, advocacy nerd, Peloton enthusiast, wife and mama to two and CEO of the Austin Board of REALTORS®. Every day real estate is changing, so we're taking it to the experts to unpack major topics that you need to know about to be successful in this business. Scratch what you think you know about this business and listen up for a fresh take on an old industry. Patrick Boyaggi is the co-founder and CEO of Own Up, an emerging mortgage originator and technology company laser focused on transparency and lending. Patrick forged a successful career as a senior VP responsible for residential lending at a top 50 national lender closing $11 billion in residential mortgages. He believes everyone should understand their mortgage and is passionate about his latest venture's ability to improve the future of home buying and financing. Own Up streamlines the origination process through improved technology, saving lenders money, which in turn can and should leave to improve terms for buyers. In addition to getting better insight into his business model. We talked all things lending and the impact the coronavirus has had on lending standards, mortgage rates, and the impact of recovery and stimulus bills of the legislative level. Listen up for an insider's take on what you and your clients can expect moving forward. Let's start by talking about Own Up. You are the CEO and co-founder of Own Up. Uh, where are you based? When did the company start and what do you do?

Patrick: Yeah. Well first, Emily, thanks for having me. It's a pleasure to be here. It is a tech enabled service that exists to make sure that every American gets a fair deal on their mortgage. And we started the company in 2016. We are based out of Boston. Since that time, we've worked with tens of thousands of customers to help, uh, them either seek financing for the purchase of the home or to refinance their existing mortgage.

Emily: How are you doing that? How are you increasing transparency in that negotiation process?

Patrick: What we do is we collect consumers information in the most efficient and least invasive manner. So, think no social security number, no hard credit inquiries. And yet once a consumer creates a profile, we are able to advise them exactly how they can maximize their whole financing experience. So, these are things like what lenders are most suitable for their particular needs, what loan products are best for their situation, and what are the exact closing costs and interest rates that they should expect to pay for their very specific scenario. And our customers get access to this data that is customized to their needs, free of charge, they get all this, and they get it in complete anonymity. So, we never sell their information to any third parties. We never share their information without their opting in. Um, and on top of that customized data, we pair that with personalized advice. So, every one of our consumers gets access to one of our licensed mortgage experts and they're there to serve as their copilot, to coach them through this transaction to make sure they have all their questions answered. Now that service again is entirely free to the consumer. And our objective is just to make sure that consumers know how to optimize their whole financing experience. On top of that, we've built our own proprietary marketplace of lenders. So, these are retail banks, credit unions, and mortgage companies, and we vetted all of them for service level standards and they all agree to our pricing condition. So, we ensure that our customers are at least going to get interest rates and terms that are better than the national average. So, you can't be guaranteed you're getting the best deal. Um, there's 26,000 lenders across the country. You never buy a stock at the absolute low and sell it at the absolute high. But what you can be assured of is that you will get that transparency. You will see multiple offers from vetted lenders, they will all be terms that are fair and that you will have somebody on your team to help coach you through the process. So that's how we bring transparency and, and um, a focus on customer service, but also ensuring that people are, are saving money.

Emily: So you’re working within a proprietary pool, meaning that you're not going to market at large when you're looking for loans for each of these customers, right? So, there's the potential to your point that you might still be cutting out another lender that would have a better offer. So, the customer has got to go in eyes wide open. Yeah?

Patrick: Of course. Yeah. I mean we’re; we've never articulated that our search functionality and that our matching technology is going to pair you with every lender that exists in the country,

Emily: Right, it’s not the MLS of lending, for instance or how we think about it,

Patrick: Exactly, nor do we want that candidly because we feel that it's important to find lenders that are local to your market. So, they may not be in your exact town, but they're likely in your region and they're going to use appraisers that sort of know those towns and they're going to know the different, um, elements that are associated with different state regulations. And you know, these are lenders that your real estate agent is going to know and have experience with and they have great customer service. We financially vet all of them for stability. And again, this concept of you are going to see all of the rates from the lenders that match to you. So, you are getting this search functionality and this sort of shopping embedded into the process. Um, and it's not just a traditional marketplace where you have to figure it all on your own. You know when you think about like Kayak you go there, and you can pick which airline you want to fly in. Figuring out what lender and understanding all the different nuances to this is really complex. So, we give you that personalized advice as well and you have that person that serves at your copilot and our home advisors stay with you throughout the entirety of the experience. So, we are not the lender, we pair you up with a lender, but we're fully integrated with our lenders. So, we know every step of the process where the loan is, making sure that meets all of the deadlines and you know, we'll interact with your real estate agent and make sure that we're all a part of this team to get you to a successful closing.

Emily: So, to your point about kayak and the complexity of choosing a lender versus an airline. What kind of misconceptions do you think agents and consumers have, about, about those complexities, about how loans are or can be negotiated, how much wiggle room is there in the structures that are presented to consumers?

Patrick: It's a great question. I mean, first what I would say is that not every lender is right for every borrower and not every lender is right for every property type. You have your depository institutions like banks and credit unions that could handle more challenging borrower profiles or property types that can't be sold in the secondary market. And they can put those loans onto their balance sheet. And in some cases that is the lender that you need in order to see a successful, get to a successful outcome in a home purchase or refinance. Um, and then you have your non-bank lenders, the mortgage companies which are going to sell those loans in the secondary market depending on what relationships they have with the lenders that they sell those loans to. That can dictate sort of what is available to you, what products are available to you. Now with regards to the fee structure and sort of rates, you know, interest rates can vary across lenders by as much as 1%. So, you can walk down the street and see two lenders right next door to each other and on the same day with the exact same profile, the same property and one lender to charge you a full 1% more than another lender. If you think about the magnitude of that, it's pretty massive.

Emily: It's significant.

Patrick: Yeah. Then virtually any other sort of financial transaction you're going through, what's more is within the same lender, if different loan originators have different compensation structures, you could actually end up paying a higher rate just because you align yourself with one loan originator versus the other within the same organization. Okay. So there again, it's important for you to sort of know what's available to you. Now there's not as much flexibility as there was in terms of negotiations pre-Dodd-Frank, um, but there still is the opportunity for you to, to talk to your lender and to push for better terms. And a loan originator can go and get an exception from their manager and get approval to give you a lower rate if you need to. So that's one component. You know, we, we want to make very clear that you want to find a lender that you can trust and that will help you get the transaction to closing and that you have a good experience and that they're there for you. So that's one component of it and rate as another. But we just fundamentally do not believe that low rates and good service have to be mutually exclusive. I mean that is the power of technology.

Emily: Yeah, so, so it's interesting to hear you talk about the compensation schedules being different. Cause I think about the way that our realtors operate. Agents across the country build strong relationships with the affiliate partners that they feel comfortable with, that they know will take care of their clients in a way that meets their service level expectations, but also being in those relationships so steadily could be providing for, um, not having properly shopped the options for their client to some degree, um, and it could be resulting in higher expenses to them.

Patrick: For sure. I mean look, you build a very strong trustworthy relationship with your, your real estate agent, right? You pick them because you say, this is somebody that I'm going to spend, you know, in some cases could be like six months, you know, going out seeing houses, thinking about different strategies. And we always recommend to our customers that come through us that don't have an agent to find an agent that you can trust and that you can work with.

Emily: It should be like that.

Patrick: And it's true. I mean it's just this is too big a financial transaction to sort of try and go at it on your own. Umm, and we understand that real estate agents have lender relationships with people that they trust because they have seen that they will be there for the customer. They'll see the transaction through, and they've probably helped them through some pretty sticky situations in the past. And we don't, we would never say don't listen to your real estate agents' recommendations. In fact, the agents that we really value are those that say, Hey, here are a few people that you can go talk to and figure out who it is…

Emily: Right and that is the proper protocol for any agent to mitigate liability.

Patrick: Absolutely, and with us, what we found our agents really love about our service is that they can say, look, you have your traditional mortgage company, you have your traditional bank and here is a new way for you to go about home finance, which is a tech enabled service. They're going to help you to see multiple options if you want to just go to one place. This is sort of the best because they have a variety of lenders that are available to you. They're not wholesale lenders like a broker where you sort of lose control. They're retail lenders that are local to your marketplace and they'll be there with you throughout the entire transaction. And for us, when we talked to a customer, if they have another lender’s offer, we actually give them the ability to upload their loan estimate and do an apples to apples comparison. And one of our customer service philosophies is to do what's in the best interest of the consumer, even if it's not in the best interest for Own Up. So, if you have better terms from a lender that you trust, we will advise you to go with them. And some of our best reviews are from customers that said, I actually didn't even use Own Up or their marketplace. I just used them to help guide me through this transaction and give me the confidence that the decision I made was the right one. And that person serves as our best advocate and we get tons of customer referrals from them. So that's just the philosophy we take that I think is, it's ours. So, it's a little different. But, um, it's one that we really believe in.

Emily: I think it's a smart one. When I think about the way that I see, the, our industry at large moving, it is moving towards that kind of transparency because consumers demand it so, you're willing to proactively accommodate them with that expectation. But those who are not will not survive long-term because you can't continue to play smoke and mirrors with the service that you provide or the fee structure that you offer. Consumers have kind of caught up to that game.

Patrick: Absolutely. I mean w-we could not agree more with you on that. Transparency. Interest alignment. Those things are demanded by the generation of consumers today. They've come to expect it. It is no longer a nice to have. And I alluded to this earlier, you know technology has really helped to facilitate the ability to combine better financial outcomes or low interest rates in our case and wonderful service. It's not an either or anymore. It sort of has to be both. You know, if you are transparent with the consumer about how you're compensated and what you'll do to earn that, people don't question the fee. They question when they're uncertain about the fee and what value they're getting, and is it commensurate with the value you're providing? As long as it is you, you just don't hear people complain about it. You know, they understand that the service provider does this for a living and that the market has dictated that these are the fees. It's just if you're not going to live up to that expectation, they’re, they're going to get upset about it.

Emily: Or if you can't define the expectation, it's, I mean, it's as simple as that. Just tell me exactly what I'm getting for what I'm paying, and my sense is that what we have learned is that's not a demographic specific desire that's an every consumer desire. Now, it was driven by those who adopted technology more readily for a long time, but everybody expects that now. We can thank of Amazon for that.

Patrick: Well, just be forthright. If you're honest with yourself about what it is you do and the fee that you charge and you're, you're candid with your consumer, that that's what you do. And as I said, you can justify it to yourselves and you should, there should be no shame in trying to hide something like that. It's, it's when you're sort of like, as you said earlier, it's for like, you're, you're, the smoke and mirrors is where people, their guard comes up and if they're cynical or they're scared, they will leave and you'll lose it.

Emily: So let’s change gears a little bit, obviously, uh, lending standards are changing pretty rapidly in the environment that we're in, especially given the economic impact of job loss and just the economy at large, how are you seeing your pool of lenders change in terms of the requirements that they've established? What other changes are they making with COVID-19? Just what are you seeing on the ground?

Patrick: Sure. Yeah. This is a really important question to answer, uh, for, for borrowers. I think it's important that we remember that len-lending is fundamentally an evaluation of risk. Okay. Lower the credit score, the less money down, the less money a borrower has in revert reserves or the more unique property. Those are, those are perceived to be higher risks. And in an environment of uncertainty, like the one we are in, the natural behavior is to tighten the credit standards to tighten that box and to want to lend to the profiles that are perceived to be less risky. And that's true for a lender that's going to put a loan on their balance sheet and have to live with that performance. And it's true of a lender that's going to sell the loan in the secondary market because if you're selling it, you one need to be assured that it gets purchased and if it does get purchased and it doesn't perform in the beginning stages, that loan can be pushed back onto the lender. So, I think what we're seeing is that lenders are open for business. They certainly want to originate loans. Um, the majority of business right now is refinanced transactions because of the interest rate environment. But they certainly want to be financing purchases. So, but th-th- the credit standards are going to tighten it and I think you just need to be aware of that. So if you are one of those borrowers that is not perceived to be sort of a prime borrower, it's going to be all the more important that you find a lender that is right for you and that you do go and search, um, and talk to a number of lenders and get comfortable with that lender and have the certainty that they understand your profile from the very beginning and the properties that you're looking at so that you can go into a transaction like buying a home with confidence and that your realtor will now know who it is or what properties you should be looking at and the expectations that you'll secure financing if you're a prime borrower, it's sort of full ahead. I just don't think there's that much changing. In fact, in some ways it's easier because there's some less restrictive appraisal requirements in the States where previously you couldn't do virtual closings. You're allowed to do those things now. So, you know, those are the things where we're seeing on the ground.

Emily: Lending really is, it's a risk assessment. That makes perfect sense. Everybody's aware of that and you, you've talked a little bit in a recent blog about the increased risk associated with the work of the CARES Act and I've sort of thought about that in the context of what I recall from the down payment assistance programs in ‘09 where the housing market sustained at-at a higher level much longer because we were getting this infusion of federal relief and then we saw this huge dip just delayed because that money ran dry. What is the context of your concern around the CARES Act money and how does it impact the housing market overall?

Patrick: I want to start with, I think the federal government responded very swiftly to the systemic crisis, right, that caught the vast majority of us off guard. And I think what happened is that they learned from the great recession that when you recognize that this is a systemic crisis that you can't delay. And so, what they did is they responded hastily to ensure there was liquidity and that there was more certainty and stability in markets. And in that sense, they, they did a wonderful job. I think the one thing to just be fully aware of is if you're going to respond so quickly with a program that is so massive, we need to expect that there are going to be some unintended consequences and that we are not going to recognize some of these until a later period of time. So, what I wrote about in that blog was just no, there are 20 million, more than 20 million people who are unemployed right now and the forbearance program, it was a wonderful thing to install because what that did is it, it gave people relief. It created some stability here and that was the right thing to do for people who are unable to make their payments. But you know, at the end of this six months or 12 months, if it's needed for people, there may still be a large percentage of these people who are unemployed, and they are going to be required to start making their payments again. I mean this is not like, hey payments just go away. They're going to be required to do that. And what that could mean is if they are unable to and they haven't done anything between now and then to sort of sell their home or sort of like handle the situation, we could see a situation, where, where people can't make payments and if property values depreciate over this period of time, there could be some borrowers who are underwater and then we're in a situation that's not dissimilar to what we saw in sort of 2008 through 2010 which is I can't make my payments. If I sell my place, I have to somehow come up with more money. The best thing for me to do is just walk away and we just need to be conscious of that and to be preparing to understand what are the signals that that could be coming. Cause if it does for us in the housing industry that has real ramifications.

Emily: Do you think that there are more sustainable options the FED could or should consider as they continue to navigate how to provide the care that people do need? I mean there's a practical reality, right? A third of the country potentially is out of work and will be for a very long time. And I think we have more understanding now of the extent of what we're looking at over the long game. So, what should they be doing that, that, doesn't just push the problem, you know, push the buck down a lane, but does address those implications that we might not want?

Patrick: Uh, that's a really challenging question. I'm not sure

Emily: Can you just solve all our problems?

Patrick: I’m not sure I have public policy expertise. Yeah. Just from my vantage point, right now is this question, which is they've done a wonderful job of creating unemployment benefits and, and that that's rightly so because so many people were either let go or furloughed for no reason other than this, this pandemic. But those benefits now while they're there, they're wonderful and they should be you. You question whether or not somebody should actually want to get off of those and go back to work when they're also dealing with the challenges of not having any childcare at home. I have three boys; my wife and I are trying to navigate this and it's incredibly challenging. And so, you know, how do we encourage people to get back to work and how to, how do we navigate all of that? So, I think that's something that we're going to need to work through. I tend to believe that, you know, if you put the money in the hands directly of consumers, that that is sort of like the best way to ensure that you're reaching the people that need it most. But I think it's a much bigger question and I'm certainly not the expert for that, but we'll have to wait and see.

Emily: The reality is we're all in an unprecedented environment and we're figuring out how to navigate. We do have this sort of interesting perspective on this issue because we saw what happened with the stimulus dollars in the last housing crash. Now of course I talk about that as being completely different because that was a housing led disaster. Whereas this is a completely different environment. Consumer competence in housing hasn't changed. It's not like they lack a want to drive the housing market, it's just there are environmental factors that make that difficult.

Patrick: For sure, and it's going to be really interesting to see, you know, there is never been a time or an event in recent history where our living situation, our daily living situation has changed so dramatically. And for some that is just being in your house and saying, okay, I'm finally going to do all the remodeling work and repainting and all of that. And for others it's fundamentally changing the way they perceive their living situation. And you know, we may see people move out of cities and move to suburbs or you know, people may say, look, this house is just too big for me at this point in time. Like I got to do that. And I think there's gonna continue to be demand from buyers and therefore that should hopefully make it different than ‘08 through 2010 in a sense that there is still demand and therefore you can put properties or supply online and actually see it consumed. It will be different for sure. But but that's my hope because that that brings some price stability and it helps our industry. I think the biggest concern I have out of all of this is, is, more of a humanitarian concern, which is just I think the divide between the haves and the have nots is, is, the chasm is widening and that's because what we should be doing is working to, to, shrink the divide and make, as I stated earlier, you know the concept of tightening credit standards and things of that nature, that that again means like who are homeowners and, and, do give benefits to homeowners. Well now you're just sort of benefiting the affluent and the people in that situation, so there's a lot here. As a person who enjoys history, this is going to be something that we look back on and there's going to be a lot to learn from it.

Emily: I agree. Let's wrap up with an easy one. Can you tell me what will happen with the interest rates the rest of the year? What does your crystal ball say?

Patrick: Yeah, I'm happy to give my opinion on it. I will start with this caveat, which I always do because I do get this question a lot, which is if I certainly knew what interest rates were going to do, this would not be my job. A hedge fund where I predicted the future of interest rates and I made a lot of money and all that sort of stuff. But with all that said, I do study it a lot and obviously pay very close attention to it. So, I think that the overwhelming consensus is that interest rates for the remainder of this year are going to remain near historic lows. I mean that was sort of the consensus prior to COVID-19 and there was a belief that rates, the FED would not raise rates for the rest of this year. We've since dropped rates, and therefore I think the expectation is that rates will remain low throughout the remainder of this year and they're going to remain low on a relative basis all the way through 2021. So, that is a good thing for our industry in the sense that consumers now have more buying power and the tradeoff between buying and renting can actually end up favoring buying, so a lot of people who are renting should, you know, give serious consideration to, do I want to be throwing, quote unquote, throwing money away on rent every month or do I want to make this investment and buy this home? And especially when you start to think about the tax advantages of the mortgage interest deduction and things of that nature. So, in that sense it's, it's one of the tailwinds that should help our industry.

Emily: I think you're absolutely right. I mean that's what we're hearing locally and that's good news for agents and great news for consumers. We're going to wrap up with a rapid-fire round of questions and then I'll leave you be, what's your favorite book?

Patrick: This is a tough one in part because I'm an avid reader, so I did say earlier, I really enjoy history books. Um, and one of my favorite characters in history is Abraham Lincoln. So, I'll go with Team of Rivals.

Emily: Oh that's a good one. Uh, when you can travel again, what city do you most want to go back to?

Patrick: That's a great question. Um, it's not necessarily sort of my, it's one of my favorite cities, but not necessarily my favorite, but my parents live in Bradenton, Florida, so, you know, not being able to see them, especially with, you know, our young boys. I think being able to get down there and see my parents will be the first place I would, I would want to travel to

Emily: That, that sounds like a good idea. What's your best piece of advice you've ever received?

Patrick: I'm not certain I can narrow in on the best, but one that I think we have lived by at Own Up and that I think is an important one is just because you can do something doesn't mean that you should.

Emily: I like that. And what are you doing more now of, uh, now that you're quarantining, that you're going to keep doing more of after?

Patrick: Well, these are fun. Um, it's, uh, you know, look, this has been challenging certainly, but as I stated earlier, I have three young boys all under the age of seven and we have eaten breakfast, lunch, and dinner together virtually every night. And you know, there, there's just, you lose sight of how important that is, I think for the joy a parent gets out of it and the important, importance of that to your kids. So, you know, that is something that I know will be hard to mimic, certainly because there's so many demands that we, we all have. But I think it, it should refocus all of our attention on, on what's really important in our lives.

Emily: I think that, I think that's so true. I have two little boys, so I'm a boy mom. Like you're a boy dad. And I think there were a lot of moments I was missing that I didn't know I was missing before. It's bittersweet but it's sweet to have those moments now. So that's a good place to stop. Thank you so much, Patrick, for your time today. I really appreciate you being on the Scratch That podcast.

Patrick: It was my pleasure. Thanks a lot Emily.

Emily: Thanks for tuning in. Like what you hear? Let's continue this conversation. Give us some love by leaving us a review on iTunes and let your friends know about the show by sharing this episode on social media. You can also follow along and tag me @emchenevert, that's emchenevert. Until next time.