Innovators & ENTREPRENEURS

By Barbara Perino and Rebecca Walzak

In today's world of mortgage lending, one must find a way to survive. While some lenders dig in and wait for the worst to pass, with the regulations to be issued and the lawsuits to be settled, there are others that look forward to where the industry could or should be in the years ahead. These folks are often called innovators or entrepreneurs; many times being called both within a single conversation. But is an innovator also an entrepreneur? Can you be one but not the other? And which of these will provide the industry with a critical "shot in the arm" to get us over the malaise that festers within our midst today?

To find the answer to these questions, we talked to a number of entrepreneurs from the

An Entrepreneur tends to bite off a little more than he can chew hoping he can quickly learn how to chew it.

– Roy Ash

industry who have been successful in the past in bringing new ideas to fruition so that we could get their thoughts on the differences and similarities of being an entrepreneur and/or an innovator and how they differ if at all.

Among those we spoke with was Mr. Terry Wakefield, President and CEO of The Wakefield Company and a widely recognized entrepreneur in the mortgage lending industry. Among Mr. Wakefield's entrepreneurial achievements was participation in the issuance of the first ever RMBS in 1982. He was also the individual responsible for the creation of a single-site mortgage lending platform that provided access to mortgage financing for borrowers across the entire country. This platform eventually became Prudential Home Mortgage and restructured the basic business model for the industry.

A second interview was held with Dr. Michael Sklarz, President of Collateral Analytics and developer of the first automated valuation model for property evaluations. Dr. Sklarz has more than 25 years of professional experience in real estate research, analysis and real estate technology product development in the United States. During his tenure as the Director of Research at Prudential Locations, Inc., he helped pioneer the development of new analytic tools and databases to track and forecast the U.S. real estate market.

> "A passionate owner **with the discipline** and forethought would have invested in the right technology and modern equipment."

"Logic will take you from A to B. Imagination with take you everywhere" – Albert Einstein

When asked about the difference between innovators and entrepreneurs both individuals agreed that the world is full of people with new ideas, but an entrepreneur has a" passion" about it and is willing to take the risk to turn that idea into a market reality. For Dr Sklarz it "represents somewhat of a combination of being obsessed about something and, as the same time, very much enjoying doing it." However, passion is not enough. An entrepreneur must also have the ability to amass the resources to turn that innovative thought into a business entity and this is what separates the innovators from the entrepreneurs. Because the entrepreneur is undertaking the tasks necessary to commoditize their idea and make it available for everyone's use, they must recognize that their effort introduces some essential components that are necessary to make it happen.

The first of these components is of course raising capital. Without the financial resources to develop the idea into a marketable product, there can be no business. While many will put their own money into the project, every entrepreneur knows that finding these resources is key. It is not uncommon to find financial support more readily available if you have succeeded previously. One member of a small angel fund here in South Florida stated it very simply when she said "we know that if you have done this before and succeeded we have a much better chance of success again; and that's what we expect." Of course an entrepreneur must recognize that their investors and/or lenders are taking a big risk by supporting the development of a new idea. And that willingness to accept risk; especially the risk of failure and financial loss is one of the distinguishing benchmarks between the innovator and the entrepreneur. When discussing funding for these endeavors, Mr. Wakefield commented that "many supporters of entrepreneurs, lend based on your willingness to assume risk and accept that there will be risk associated with the endeavor."

Another source of funding may be found within an entrepreneur's current place of business. Intrapreneurs are found within an existing company and are defined by Webster's dictionary as "company executives who develop new enterprises within the company." For these individuals, funding may not be the struggle that shows up for independent entrepreneurs but the risks are just as great or greater. Mr. Wakefield noted that in his entrepreneurial drive to initiate a new lending platform, there were many within the organization that were intrapreneurs and were able to grasp the concept and execute the requirements to make it happen.

Of course, risk is one of the biggest factors in developing entrepreneurial ideas. Without a doubt, those taking on these opportunities must do so with the knowledge that the idea may fail or that risks they never imagined will play havoc on their opportunity. Even if the product is initially successful, external factors may ultimately decide the success or failure. However true entrepreneurs are willing to invest in their ideas and take risks with their own funds to see something they believe, become a reality.

There are of course other factors that contribute to the success and/or failure of an entrepreneurial adventure. Whatever ideas and/or focus of your venture it requires that entrepreneurs have a fairly deep knowledge about the subject matter. Mr. Wakefield for instance, spent 10 years learning about the mortgage business from top to bottom, origination to servicing, and it was this experience and knowledge that he drew on to build a new origination platform. Dr Sklarz echoed this as well as he noted that the mortgage business is very complex and without an understanding of what we do, how we do it and how the data we generate is used, the chance of success is minimized.

In addition to the idea, capital, knowledge and the willingness to accept risk, an entrepreneur must have the ability to execute against a plan. Despite the cartoons and sitcoms that show a bit of thought and effort before the idea "auto-magically" becomes a success, the reality is that it requires a lot of hard work, persistence and the ability to bounce back from any set-backs suffered. Without the passion for the idea and the optimism to overcome the problems that are sure to arise, the likelihood of reaching your goal is diminished.

"Business opportunities are like buses, there's always another one coming." – Richard Branson

And one other factor must be considered: luck. Any entrepreneur needs to find just the right idea at just the right time for the innovative idea to be able to take root and grow. Bringing great ideas to the market at the wrong time can and likely will cause them to fail. Another factor that can't be controlled is the external issues at play. Mr. Wakefield, when commenting on one of his initiatives, stated that if the industry does not understand or is focused away from your idea, it is likely that influencers that see the idea as a threat can be a determining factor in whether or not you succeed. As he stated about one of his less successful entrepreneurial initiatives, "the loan officers saw this development as depriving them of their commissions, so it had to go." The same problem has surfaced numerous times in the past. Connie Wilson, the entrepreneur who developed the idea for automating fraud analysis, also ran into this problem as the industry was very slow in accepting the idea that fraud was a problem in mortgage lending. This hesitation to accept new ideas is not unique to this industry because change is difficult. But innovative ideas such as automating the QC process and scoring a lender's origination and/or servicing

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process are ideas that will boost the willingness for private investors to come back into the market and so must be accepted and implemented.

There is no doubt that the entrepreneurial focus we have discussed in this article have developed into significant advances for the industry. The individuals involved were fortunate enough to have had either financial assistance or were able to develop ideas slowly enough to build a financial base from which they could move forward. But where are the opportunities for capital investments?

There are other options to look for when trying to find investments:

Take the easiest route first- Many times we forget about the people that are most familiar to us; Friends and Family. Most Angel Investors or Venture Capitalists will suggest going to friends and family for needed funds before asking an angel investor for help, especially first time entrepreneurs. Depending on the amount of funds needed, these individuals may be willing to contribute towards your dream as an investment rather than putting it a hedge fund or other savings plan. However, you should make sure that they are aware of all the risks associated with the business to avoid hard feelings if things don't work out as planned.

Finding common interests- If you find that you must turn to outside sources for funding, it is important to realize that all funds and venture capitalists are not the same. Just like any other business, they typically have business areas that are of interest to them. A fund may be technology focused and looking for new ideas and start-ups in that arena. Others may be focused on just women-owned businesses or particular geographical areas. Look for funds that have an interest in your business focus.

Leveraging information- Today there are numerous ways to make contact with angel funds and/or venture capitalists. If your business is a local company that will bring jobs and tax revenue to the community, a good place to start is by contacting local business organizations. They will most likely have someone you can contact or give you a reference for individuals that invest in start-ups. Today there are also investment clubs or groups in many cities around the country. The individuals who attend these club meetings are typically interested in identifying as many different opportunities as they can and then following up if they have any interest.

Your local banker can also be a source of investment opportunities, particularly if your bank offers "wealth management" services. Many times employees will be knowledgeable about entities that you can contact or will give you the name of someone to call. Keep in mind that many of these local organizations have limitations on the size of their investment so you may want to ask about that before getting too involved.

Another source of information is the internet. The world-wide web has provided every potential business owner with the opportunity to find investors around the world. You can search on "venture capitalists" or "investment clubs" or even "angel investors" to find those that are actively seeking opportunities. When contacted they will typically screen you to determine if your business is of interest to them before asking about the details. If there is interest they may require you to travel to them, so be prepared to spend some money finding money.

Finally, there are organizations that focus on bringing investors and business owners together. To do this they will hold conferences where investors and those looking for investments can meet. You will have to pay for attending these types of meetings and if you want to give a presentation on your business opportunity to the entire group, there is typically an extra charge for that.

What we don't know however, is how many other ideas and entrepreneurs there are in the mortgage industry that could make change as significant as those mentioned above. If only there was a way for them to get the financial assistance and support they need and to believe in their idea strongly enough to do something about it.

We do know however, that in other industries this support often comes by way of an investment fund or a senior management volunteer group or some combination of both. Other industries have these, such as funds that focus on technology or healthcare. Yet there are none for mortgage lending or even consumer lending. And, quite frankly it is not that there is no money to be invested. With the number of individuals who became wealthy during the subprime boom years of 2003-2007, there should be more than enough available and willing to fund some of the entrepreneurs that have ideas worth pursuing. Why a fund can't be established for this very purpose by individuals who are concerned about health of the industry is a mystery. It could be organized and supported by any number of groups. In fact the MBA has done this exact thing before with the development of MERS and its support of the MISMO data standards.

The bottom line is this; there are innovative ideas and entrepreneurs within our industry whose ideas can advance the mortgage banking platform. Our progress is dependent on finding new ways to do what we do, to do it better and in a way that is more conscious of what the borrower and investor really expect of us. ❖

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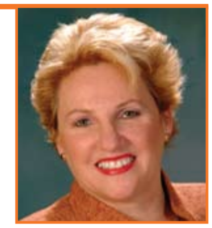

rjbWalzak Consulting, Inc. was founded and is led by Rebecca Walzak, a leader in operational risk management programs in all areas of the consumer lending industry. In addition to consulting experience in mortgage banking, student lending and other types of consumer lending, she has hands on practical experience in these organizations as well having held numerous positions from top to bottom of the consumer lending industry over the past 25 years.