Matic Insurance - SVP Capital Markets at Caliber Home Loans

Interview conducted on December 07, 2022

Topics
Insurtech, Home Insurance, Cross-Selling, Customer Experience, Mortgage Industry, RESPA Regulations, Revenue Generation, Partnerships

Summary
A Tegus Client speaks with an expert from Caliber Home Loans about the regulatory and operational considerations of partnering with an insurtech player that distributes home insurance primarily through mortgage servicers and mortgage originators. They discuss the cross-selling capabilities, RESPA considerations, and different implications for partnerships between servicing and originators, and banks and nonbanks. The conversation also touches on revenue sources for mortgage companies, including cross-selling consumer products and customer retention through partnerships with fintech companies. The risks associated with selling home insurance to customers are also discussed, including the risk of violating RESPA regulations and considerations for loan modifications and forced-placed insurance situations. The expert notes that partnerships between lenders and home insurance brokers have been successful, but investing in technology can be a challenge when resources are tied up with loan origination and default management.

Expert Details
SVP Capital Markets at Caliber Home Loans, Inc. Expert has 20 years of experience in mortgage banking, is very familiar iwth Freedom Mortgage and Mr.Cooper, and can speak to RESPA extensively.

Current Senior Vice President of Capital Markets Ops at Caliber Home Loans.

The expert is a seasoned mortgage executive with 20+ years of experience in many areas of mortgage banking, including end-to-end servicing operations and systems, secondary marking and hedging, MSR, mortgage lending and processing, risk management, analytics, and program management. The Expert directed large programs and staff and big-scale transactions and project portfolios with multi-million dollar budgets of a strategic, enterprise-critical nature that have ensured the growth, and strengthened the competitive position of the organization. The Expert has experience with both performing and non-performing loans and as head of cap market ops, expert trades, buys and sell billions of dollars of mortgages in the secondary markets.

Expert is responsible for day-to-day margin management, competitive analysis, pricing analytics, transaction management, lock desk management, and bulk loan trading for a top mortgage banking company (~$80 Billion in annual originations through all 4 channels of originations, retail, consumer direct, wholesale and correspondent).

Expert has proven senior leadership credentials at some of the largest financial institutions (Citigroup, Fannie Mae, Bank of America).

Q: Do you have any experience with US mortgage origination and/or servicing compliance? If so, please elaborate on your experience in the field.
A: I have 20+ years of senior exec experience all in mortgage finance for both major banks and non-banks, and in roles covering mortgage lending, processing, post closing, servicing, capital markets, and risk management.

Q: Please indicate your familiarity (1-5, with 5 being the most familiar) with each of the following: OriginPoint, Quicken Loans, AmeriSave Home Mortgage, Homepoint, Freedom Mortgage, United Wholesale Mortgage, Mr.

Cooper, PennyMac.
A: OriginPoint (3), Quicken Loans (5), AmeriSave Home Mortgage (4), Homepoint (4), Freedom Mortgage (4), United Wholesale Mortgage (4), Mr. Cooper (5), PennyMac (4).

Q: Do you currently or have you previously worked for OriginPoint, Quicken Loans, AmeriSave Home Mortgage, Homepoint, Freedom Mortgage, United Wholesale Mortgage, Mr. Cooper, or PennyMac?
A: A: I have worked as Chief Risk Officer for MrCooper for 5 years. Other companies such as Quicken (Rocket) are current vendors or clients.

Q: Please indicate your familiarity (1-5, with 5 being the most familiar) with the Real Estate Settlement Procedures Act ("RESPA").
A: I would rate myself a 4 for RESPA.

Tegus Client

Hello, thank you so much for taking the time to meet with me today. So I'm currently looking at an insurtech player that distributes home insurance primarily through mortgage servicers and mortgage originators. And as part of that, there's some regulatory considerations primarily around RESPA, also some operational considerations and stuff like that.

So I thought it would be useful to speak with someone that has a lot of experience in this industry, mostly on servicing and originating side, how partnering with someone like this would be viewed and what the regulatory implications are, how those risks would be viewed effectively the distribution partners.

SVP Capital Markets at Caliber Home Loans

So we've been looking at some of the cross-selling capabilities also. I don't know if you've heard of the company by the name of Haven. But I think financial institutions, especially the banks are always looking for ways to increase fee income and whatnot.

So then at the same time, you also have RESPA considerations, to your point, in terms of consumer protection. So make sure that the consumer has enough choices and so forth. And I believe that some of the new ones that just came up from an insurance standpoint, there are quite a few of them, Matic and Covered and Answer Financial and whatnot. And they've linked up with a number of institutions, nonbank mostly, Freedom mortgage, Mr. Cooper and whatnot. But I think some banks as well, Truist and whatnot, I have not seen a lot of big banks jumping into the bandwagon, but you may know something that I don't know.

Tegus Client

So if you divide the potential partners, to your point, between services and originators, but also between banks and nonbanks, what are the different implications? So I guess, we can start with how would they generally view these sort of partnerships outside of any regulatory implications.

Are they large enough? Is it making, I don't know, $50 or $100 a year per customer per policy attractive enough? Is that something they bother with and then jump to regulatory implications, primarily RESPA, but any other regulatory stuff that's relevant as well and how they view that? And I think the answers will differ between servicing and originations and also between banks and nonbanks.

SVP Capital Markets at Caliber Home Loans

It's a complicated industry. A lot of players. The food chain is very long. And obviously, we have to look at it from the standpoint of originations, servicing to your point. Right now, we were looking basically at enhancing cross sale and having a linkage with the servicing system because once the customer becomes a client, we're looking not just at the insurance. Insurance is only one piece of it, but there are also opportunities to cross-sell car loans, the HELOC side of the house, home equity line credit, also auto loans. The "consumer finance products," in addition to insurance, and that's basically the cross-sell piece.

The issuance piece is more on the origination side, where if you have a potential borrower that is signing up, what are the capabilities for how do we help the borrower make the best decision from a cost standpoint. So I have a number of firms that we've seen. They basically sell themselves as being insurance premium comparison, looking at the capability to compare rates and premiums across multiple insurance company that offers the same insurance products for home insurance is what we're talking about.

Tegus Client

So if you leave the regulatory aspect aside for just a second, and I do want to spend most time on that, but just to start a bit broader, as you're currently at Caliber Home Loans.

SVP Capital Markets at Caliber Home Loans

Right, yes, which is sort of part of Newrez.

Tegus Client

And is that originations only or also servicing also?

SVP Capital Markets at Caliber Home Loans

It's both. I think it's number one of the top five in the country for both new origination standpoint. I think servicing is even bigger, $650 billion of servicing. But origination, between the two companies, I think before, back in 2021, it was close to $200 billion in terms of origination. Now since then, as you know, rates have come up, so the volumes have gone down quite a bit.

Tegus Client

So both from servicing and originations perspective, so as you look to monetize your customers more on both sides, to your point, insurance is just one of the ways you can do that. Where does it link? How important are these partnerships? And also what kind of partner do you look for?

Do you look for a large carrier that can potentially give you better economics, but then your customers' choice is limited to only what they offer? Or do you look for more of a broker proposition or maybe an aggregator? How do you view that space in terms of how it fits with all potential partnerships and then also within home insurance? What sort of proposition is best fit?

SVP Capital Markets at Caliber Home Loans

Yes. I think maybe more so from a bank standpoint and from a nonbank standpoint, although customer experience, and we are basically out of focus from the consumer standpoint is for us to make sure that they get the best customer experience, and they're very happy, so that we can get a score from a customer experience standpoint.

So from that standpoint, the key for a mortgage lender is basically to make that mortgage loan paid. The insurance is an important part of it, but it's not the only driver. There are other pieces related to title insurance. I don't think some of the companies that you mentioned about deal with title insurance, even though some of the principles may have started in the title insurance space.

And then, of course, the margin, the profitability of the loan itself, which we have to be concerned about right now when we are talking about rates going up because there's a lot of competition right now. The refinance pipeline has basically dried up. So we are looking for opportunities to build more relationships with the real estate broker business, so that we can get more referral for new home finance, basically, first-time home buyer or perhaps folks who are relocating, who are trading up and that kind of thing.

So the key, again, is on the lender side. A lot of the things that we are doing is basically to support for the part of the sale closing process to the extent that, for example, when I was at Cooper, which has a linkage with Matic, we're linking up with Matic, so that's part of the capability for Cooper, to basically provide another technological angle, if you will, to basically create a competitive advantage for Cooper, to offer a product offering, a mortgage fund offering that is better than, let's say, Newrez or Caliber or take-home mortgage, and that kind of thing.

Tegus Client

So if I heard you correctly, customer experience is the most important, and part of the customer experience is having a choice of different policies, different carriers. And obviously, economics are important as well. You want to make some money out of it as well.

SVP Capital Markets at Caliber Home Loans

Well, at least breakeven. So to the extent that we're not losing money, and we are leveraging the platform that the insurance company or the insurance broker or the folks like Covered and Answer Financial and so on, and Matic are providing. And again, the mortgage industry is also moving quite rapidly. You know that there are a number of folks, the fintech, have gone into mortgage finance, or at least try to support the mortgage industry using technology, Blend being one, but Maxwell being another one.

They are all developing loan origination platform, servicing platform to support the industry. And at the same time, some of them are also actually trying to become mortgage lenders themselves. So the market is very dynamic. But again, from the standpoint of the mortgage company to the extent that there are tools and partners out there who are available to support the technology and provide the API to link up with our technology platform, so that we can make it better, cheaper, faster for the borrower, we offer it actually.

Because I think that provides borrowers with better options, and then it provides also the hooks and links that makes the relationship between the borrower and the lender even stronger for cross-sell, not just on the home insurance side, but also auto sale, consumer products, whatnot.

Tegus Client

And how does the conversation differ between origination and servicing businesses? So for example, when you were at Mr. Cooper and you did the deal with Matic, so was it mostly on the servicing side or originations? Or what determines the order? Is it just a relationship where it happens first? Or is it easier to do on one side versus the other?

SVP Capital Markets at Caliber Home Loans

No, I think it's basically part of the process. So when you look at home insurance, it happens pretty early on. So it falls in the origination side of the house. The cross-sale for other products, like auto sale and home equity and so on, it happens later after the borrower has become a customer or near the end. Before closing on a mortgage, you basically ask the borrower if he or she would like to get a home equity or a credit card.

So that happens at the end, and so that's more on the post-closing servicing side. But if you're talking specifically about home insurance, then it happens a little early on, on the origination side because that's when the borrower has to decide, "Okay, I have to get home insurance. I want to get a home insurance through Allstate to Travelers and so forth, and that has to be done early on, so that we can escrow the home insurance money for our borrowers who choose to have those premiums escrowed over time.

Tegus Client

So that's a good place to switch over to the regulatory side. Now so if you are a lender and you're considering a partnership with the home insurance partner and again, we're looking at home insurance specifically right now, so these other partnerships that are less relevant, auto finance or whatever. So you're looking at a home insurance partner and, let's say, you like their proposition.

Let's say, it's broker-type proposition. You give your customers what they want. But then obviously, you have RESPA and other regulatory concerns. And from what we understand, they differ on originations and on servicing. It's less relevant on servicing side except for, I think, loan modifications. And then on the origination side, it's obviously very relevant because it's part of the whole settlement process and kickbacks that can occur.

SVP Capital Markets at Caliber Home Loans

Yes, before fees and stuff like that.

Tegus Client

So how is that viewed? And again, we can apply a different lens on servicing versus originations. And also I think banks will probably be more conservative than nonbanks when it comes to anything regulations related.

SVP Capital Markets at Caliber Home Loans

I think the deal for banks and nonbanks are the same as it relates to RESPA because, right now, the CFPB, the Consumer Financial Protection Bureau, they regulate both banks and nonbanks. So when I was at a major bank, Citibank, we were regulated by the CFPB from a consumer finance standpoint. At Cooper, at Newrez, at Caliber, it's a main thing. We're regulated also by the CFPB.

So they come in, and they have a manual that they go through in order and the checklist, and they do a very comprehensive exam that lasts from two days to weeks, so a very painful process. And they pay a lot of attention to making sure that we're not getting any referral fees and any kickbacks from the insurance company for referrals. So the banks and the nonbanks now are looking at RESPA exactly the same way. We get the same training.

It's not like, okay, banks and nonbanks are not regulated by CFPB. Therefore, we cannot get withdrawal fees. We cannot get those kickbacks, like what happened in the past. Same thing with forced-placed insurance. There is a RESPA. They pay particularly a very strong attention on the forced-placed insurance because I think, in the past, especially on the servicing side, there have been possible misinterpretation and maybe misuse of the law.

So forced-placed insurance is also very profitable. But I think that, for the most part, has been eliminated. So we look at the linkages with Matic, Covered and CitiFinancial and so forth, some of the insurance companies, more from the standpoint of technology and competitive advantage in the overall scheme of getting the borrower to sign up with us, Cooper and Caliber and so forth and not as a profit center. Meaning not as a revenue generation item.

Tegus Client

You're talking about forced-placed insurance specifically or broader home insurance?

SVP Capital Markets at Caliber Home Loans

Broader trend. Not the whole of forced placed. In the past, forced placed used to be a very large generator of revenue for us, but it's no longer the case for the last few years.

Tegus Client

So forced-placed insurance, I think some people got in trouble 20 years ago. And now that there is no kickbacks on that, there are no commissions ever being paid down to lenders.

SVP Capital Markets at Caliber Home Loans

That is correct, yes.

Tegus Client

But on just regular home insurance, where it's not forced, then you don't have any such restrictions.

SVP Capital Markets at Caliber Home Loans

Yes, let me put this is way. It's not explicitly prohibited, but if you look at the way the language in RESPA is written, it's something that we want to stay away fast. And this is why I'm saying, overall, for our insurance products, it is not something that we look at as being a large revenue generation piece.

Tegus Client

And again, is that from an originations perspective or servicing? Because as we understand, there's minimal risk by impact on servicing.

SVP Capital Markets at Caliber Home Loans

That is correct, yes. So on the servicing side, to the extent that you have cross-sell opportunities for credit card, for auto loans, and so forth, yes, it is something that happens on the servicing side, as I had mentioned before there's less restriction there, and there's definitely more opportunities as a revenue item.

Tegus Client

And on originations, I guess, where you can end up is it seems like if there's anything done, any sort of commission share or any other kind of kickback done as part of the original transaction, so whether it's doing it or right after, that would definitely be covered by RESPA. But then you have the question of, well, what happens with the renewal next year?

Is that treated as a completely separate policy that had to be renewed? And then are you then okay to get a commission share on that? Or what's the view on that thing? Or would you just take a view that you don't want to be involved in any sort of commission share with anything originations related?

SVP Capital Markets at Caliber Home Loans

It's kind of the latter from the standpoint, and again, I cannot speak for the industry at large because to that extent, it all depends on how the larger guys versus the smaller guys. But from the larger mortgagor or mortgagee standpoint, we don't look at it as the insurance of the major revenue item for Cooper, for example, or for Newrez.

Tegus Client

So what would be major revenue items with regards to these partnerships, so additional revenues? Is the ending being insurance? Any partnership that you can do. So any additional revenues, yes.

SVP Capital Markets at Caliber Home Loans

So there are two things. I think the cross-sell that I mentioned earlier from the consumer product standpoint, whether it's being able to cross-sell a car loan or a credit card loan, a home equity line credit loan, that kind of thing, yes, so that's a good revenue source.

And the other piece that is related to the partnerships with some of the feedback firms would be the customer retention. The cost to original loan is very high. And especially if you look into the fact that there are servicing attached to it, and there's what we call the MSR, the mortgage servicing rights, which is capitalized on the balance sheet. A lot of mortgage banking, basically, the reason for being a mortgage banker is basically for the mortgage servicing.

We make it easy, yes. We make loans. We have a little bit of interest income. But basically, we don't keep the loans on the balance sheet. We sell the loans to the second marketing agency. We sell the loans to the private investor. We just basically just get the loans off the book to keep the balance sheet very light.

But we create servicing rights, which are valuable. So the servicing rights is basically something that is very dependent on interest rates. So if interest dropped, the borrower prepaid the loans, and therefore, we would lose the servicing investment. So the mortgage banks, whether it's nonbank or a bank, pay a lot of attention to keeping the borrowers and to hopefully pursue this for as long as possible throughout the interest rate cycle.

And then if interest rates drop and the loan gets refinanced, hopefully, we would be the one who would be coming out with the solicitation for the borrowers to keep the loans with us. So hopefully, we can refinance their loans before the competitor comes in and basically take off borrowers away from us by refinancing the borrower's loan, which are currently with us.

So there's a lot of attention in terms of working with fintech companies such as Blend on the customer retention side. So there was a lot of modeling and a lot of analytics that are being done as well as the customer on the procurement side in order to retain and to refinance the borrower.

When you look at some of the success that Rocket or Quicken have had in 2020 and 2021, during the pandemic, when wage was so low is because they have a lot of automated with their own technology, with the help of other outside fintech firms to refinance the loans. And the capability and the success of being able to refinance loans would be feeding into the consumer direct channel, the telemarketing of keeping the borrowers as part of the servicing portfolio.

So it's basically the analytics, all of the hooks and links on the website, the customer outreach, basically, the key is to be able to keep the borrowers and to keep the direct-to-consumer machine working. That's one of the large profit models and profitability engines of the mortgage companies.

Tegus Client

I guess, you can think of it as a revenue generator, and it doesn't sound like it's such an important revenue generator in the grand scheme of things, or something that involves customer retention, i.e., improved customer experience and engagement, how do stack up to a partnership with one of these guys? Is it seen as more of a retention helper or a revenue generator?

SVP Capital Markets at Caliber Home Loans

I think it's more of a retention helper. It's more of the customer relationship, customer experience more so than a revenue generator.

Tegus Client

Do you have internal data? You don't have to share the data, but does the data exist that says if these guys also have home insurance with us or with our partner that helps retain them as mortgage customers as well? Or is that just kind of a generally accepted sort of reality?

SVP Capital Markets at Caliber Home Loans

I think there the data is there. So you could do the analytics to basically take out a sample, "Okay, this is a sample of loans where we don't have CARA, we don't have Matic," and another sample of customers with Matic. And then you have to normalize it for the same product, same coupon and so on, the same geography and do the analytics to see what the delta is. But I don't have that data with me right now because that was some time back.

Tegus Client

No, I'm not asking exactly. But I mean, you would look at that sort of data?

SVP Capital Markets at Caliber Home Loans

Yes, absolutely.

Tegus Client

So this is what I'm hearing overall. And it's kind of an interesting picture. So you basically have a partner that any revenues you get from them are nice. Obviously, any extra revenue is always welcome, but that's not the main driver. The main driver is that if the partner gives the customer what they want with home insurance, it helps you retain customers.

But you have this challenge of you can primarily target your customers, sell them this additional home insurance, which helps you retain them, once they are your servicing customers, by which point they probably already have home insurance, and you're now trying to convince them to switch, which is possible, but it's probably much lower success rate than they would be at origination because in origination, they have to get a new insurance.

And obviously, that's the best time to approach them. But at origination, you have the RESPA problem and you can't really sell it to them. Or if you do sell it to them, then you don't make any money from it. So it's an interesting puzzle. And the best place where you can catch these customers is great from customer retention perspective because, then, you sell them home insurance then, and you're going to keep them for many years.

But then you don't make any money on those customers because they were sold at the time of origination. Or if you sell a year later when they're servicing customers, then there are no RESPA considerations, but the likelihood of selling to them is lower. And therefore, the impact on retention is lower as well. So it's just kind of different set of dynamics.

SVP Capital Markets at Caliber Home Loans

It is. That's why we don't consider it as being a large origination top line for us. So it becomes more of an accommodation or a strategic deal with the borrower, good consumer experience, customer experience, borrower experience and also borrower education. I think with the linkage, borrower it helps strengthen the relationship between the mortgage lender and the borrower.

So basically, if the borrower is educated and it knows about the capability to do the comparison, and it's just a click of a button on the Cooper site, for example, you can go in there and you can see Matic there and you can click on it. It takes you to the calculator, and you can compare. And borrowers would do that if they know that the capability is there. They would do it all day long. I myself do it every year to make sure if it makes sense or not. So the borrower would have to make the conscious choice of doing it as part of their personal finance exercise that they go through regularly.

Tegus Client

So let's say this example that you've been using, so Mr. Cooper and Matic, presumably, that relationship for the reasons you just mentioned on servicing side, not in origination. So let's say they wanted to expand it to originations, and they did it with this model where they don't get paid commissions on year one because that's clearly prohibited by RESPA, but then they get paid commissions from year two.

What's the risk there? So let's say, the regulator decides to take an unfavorable view of that. And to your point, if you want to stay conservative, then you don't do that. But let's say you want to push it and say, "Well, it's a renewal. It's not the main policy." But the regulators says, "Well, it's related to the original transaction, and you're making money from it, therefore." So what happens then? Do they just stop that? Or would you get fined? Would it be a big fine? It's a bit of a gray zone. You're not clearly violating the law, but it could be seen that you are. So yes, how big is the risk?

SVP Capital Markets at Caliber Home Loans

So basically, two things would happen. From a regulator standpoint, you could get a cease and desists. They could basically write a finding, and then they basically say, "You have to stop the practice right away." They could also push it to enforcement, and you can end up with a fine, what they call an MRA, management required action.

So you have to come up with action plan. You have to come up with a way to remediate the finding from the agency. So that's basically a risk and we take this very seriously. So you have to take that and make sure that the attorneys are involved and so forth, if it comes to that point.

Tegus Client

So could you also get fines?

SVP Capital Markets at Caliber Home Loans

Yes, possibly. It's not written, but automatically that you will be fined, but it's possible the CFPB, when it comes to applying those regulations, they have a pretty wide mandate to protect the borrowers. Now the flip side of the CFPB is that, lately, I think it came from the Supreme Court that the CFPB, their funding mechanism may not have been constitutional.

This is a relatively new development. So the law says, they can enforce RESPA. But if they don't have the funding to hire examiners and so forth, it's possible that they had shrunk. So that is still the political thing that is still hanging out there on the CFPB side. So I don't know what the scope of their examination will be for next year, whether they're going to be looking at this item in particular.

Tegus Client

And what about on servicing side? On servicing side, obviously, RESPA isn't as much of a factor. But our understanding is that it is a factor when it comes to loan modifications. So any time a loan is in default, or I guess there's an interest rate change or whatever, then even though that's relatively rare, you still have to be in compliance, obviously. So you have to have a process for it. And you can't just say that just because something is rare, you can ignore it. So how is that going?

SVP Capital Markets at Caliber Home Loans

So on the modification side, it's considered basically from a processing standpoint, fulfillment standpoint, almost like a new loan. So it would be considered the same way as an origination side. So again, here on a modification side, we have to basically just bifurcate it and make sure that, again, we're not running afoul of any RESPA regulation when it comes to loan modification.

Tegus Client

So basically, you just have to track those loans. And as long as they are in modification status, you treat them as a new loan, which means that, unless you have an origination partnership as well with the home insurance agency, then you just wouldn't target those customers. You can't target modification customers, so it just becomes a side effect.

SVP Capital Markets at Caliber Home Loans

Yes, correct.

Tegus Client

And then what about the customers that are in more of that forced insurance thing, the forced placed. So I think, if I remember correctly, the way forced place works for some reason, they lose their insurance, whether it's because of default or the insurer pulled out of state or whatever. Then they're given a period to find another insurance. If they're unable to do it, then one of these force-placed insurance providers steps in and provides it.

And I guess, from your perspective, as the lender, I'm guessing you probably want to get them off that as quickly as possible and get them to a proper insurer. So you would see a partnership with a home insurance broker as beneficial to customer experience, the amount of cash flow they have, everything.

SVP Capital Markets at Caliber Home Loans

Yes, absolutely. Previously, forced-placed insurance has been very expensive for the borrower and created a lot of revenues for the servicer, But since then, I guess, for the sake of the borrowers, things have become more palatable and more fair to the borrower.

Tegus Client

And are there any RESPA considerations with regards to forced-placed insurance situations? Is it treated as just the existing servicing loan that you can sell to? Or is it more like originations where RESPA is relevant?

SVP Capital Markets at Caliber Home Loans

I think it's not like origination. It's within the servicing space, but it's basically something that has become the focus in the past. And we're no longer allowed to engage. At least from internally in the company, we're no longer allowed to have this type of relationships. I don't believe that it's specifically spelled out in RESPA, though.

Tegus Client

So my understanding was that if you have a force-placed insurance partner or provider or whatever, someone that you refer the customers to and they've lost their insurance, you're not allowed to financially benefit from that relationship. I think that's right. But if ever the relationship is someone like Matic or Covered, and they just get regular insurance, instead of forced placed or they get off forced placed to switch to regular insurance, then you can benefit in those.

SVP Capital Markets at Caliber Home Loans
That is correct.

Tegus Client
So really the big question here is around originations, and that's a bit of a gray zone. It seems to be pretty big on servicing, clear benefits to you, the lender. You can make an extra bit of money on that's nice as well. But really, the main benefit is on customer retention. And on origination, it sounds like you would love to be able to sell home insurance at origination because, a, you would get better success rates and, therefore, more revenues and better retention, but there are RESPA considerations, so that makes it tricky.

SVP Capital Markets at Caliber Home Loans
Yes, that is correct. That's a good way to summarize it.

Tegus Client
We focused on RESPA, obviously. But are there other major regulatory concerns with regards to these partnerships that you've come across or RESPA is really the main thing?

SVP Capital Markets at Caliber Home Loans
Yes, I think it's really the main thing. So RESPA is like Reg X. I think Reg Z from TILA. Sometimes, these are integrated, so TILA, truth in lending. I think, ultimately, all of the things that we just discussed, once the borrower decides to sign up with the Allstate or Travelers for home insurance, then it gets disclosed. The insurance premium gets escrowed gets disclosed in the CD, the closing disclosure, based on the new Tweed regulations, that passed, what, about a couple of years ago.

So I think it's pretty straightforward. So the only thing we have to worry about is the deferral, and I don't like this term, kick back. But the deferral fees that came from the ancillary partners, especially if the company is part of the same firm or an affiliated company.

Tegus Client
When you consider these partnerships, and I know insurance ecosystem is not as clear cut as just dividing it between carriers and brokers, and I guess, the third category would be these aggregators that are not regulated.

But I kind of get why you would go with something like Matic or Covered over an Allstate or State Farm because they give you a broader selection. And I get why you would go with them over some of these non-agents, the aggregators, because a better customer experience. What I don't understand is each of these big carriers, or most of them, also have in-house agencies. So why not go with them?

Couldn't they offer the same thing, the access to 40, 50 different carriers? But obviously, whatever goes to them, there's more pie to be shared. And then whatever goes through the agency to other carriers, it's the same as with someone who's just purely an agent. Have you looked into those relationships as well? Do they tend to be competitive? Or is their agency just completely overshadowed by the business they're trying to push out directly from their own balance sheet?

SVP Capital Markets at Caliber Home Loans
Well, so two things. Some of these companies who actually compete with Matic and Covered, like Answer Financial, it's interesting. They are part of Allstate. So they are a separate company, but they are owned by Allstate.

Answer Financial is part of Allstate. So you kind of think, okay, it's a separate company maybe, but how do they keep the Chinese war between the two companies? Would they be biased when they recommend Allstate? So that's one thing that we have to think about. And then the other thing is also the agents, to your point, if I talk to the Allstate agent as a borrower, they would basically biased towards Allstate, of course, or Travelers and whatnot.

So the best way for the borrower to basically just talk to an insurance broker. So the borrower can shop themselves by going on the website or calling different agents and preparing my own spec sheet to compare. Or I can go to an insurance broker to the same extent that I can go to a mortgage broker and have them shop my loan to Bank of America, to Citi, to Cooper or to Caliber and so forth.

I can do that with an insurance broker as well. And I've done it, but it involves my dealing with another company and picking up a phone call, following up and so on. So if I am a borrower and I can simply go into Matic and click on it and get the quotes automatically online, it makes it cheaper, faster, easier for me to choose. It's just a matter of convenience for the consumer or for the borrower that I'm looking for.

Tegus Client
I guess, one area where there is an implication from that is, people always have to think about exit prospects, i.e., who's going to buy this company one day. And if you look at brokers, then you would say, "Okay, fine. They can grow to a side, obviously, with the IPO. Fine, that's always one track."

But then you ideally want to have a set of strategic buyers. For the reasons you just mentioned the large insurance carriers, they have a ton of cash who could easily buy them, probably are not the best fit then because then you end up with this conflict of interest, which damages the proposition, vis-a-vis partners like you.

Then you have maybe some of the specialists, like maybe mortgage insurance, title insurance specialists or LTI. Maybe you have some other vendors, to mortgage lenders, the mortgage servicers. How do you view that? So for example, I know people like Black Knight or CoreLogic, how would it make sense to fit something like this with one of those? Or how would you view that?

SVP Capital Markets at Caliber Home Loans
I think it would make a lot of sense for some of the companies. I think you know that Black Knight is part of ICE now. So there's a lot of consolidation there as well. So ICE, which basically owns the New York Stock Exchange, they have announced maybe several months ago, maybe a year ago, that we were acquiring Black Knight.

It's a pretty big deal because it's like $12 billion. I don't know if the deal has closed yet because they are going through an antitrust review. Because ICE and Black Knight, they basically deal with information and deal with platforms and systems. ICE is basically the owner or the developer. They acquired Encompass, which is a loan origination system, very large market share, over 50% of market share for loan origination.

And Black Knight own probably 20% to 30% market share. So there are some antitrust concerns there. But between ICE and Black Knight, this would be an arrow in the quiver, so that they can enhance their capability, kind of a one-stop shop, I would say. So it would fit this feature here. It would fit under the different offerings in ICE or Black Knight, I think that would be the exit strategy that you're talking about because it's part of their solutions.

Tegus Client
And what about some of these insurance specialists like LPI or mortgages? Would they be a fit or not really? I guess, lender-placed insurance or forced-placed insurance, so the people like a surety or proctor.

SVP Capital Markets at Caliber Home Loans
Yes. I mean, it's to the extent that some of these firms they are all fintech firms, and they're relatively small, so there's a lot of room for maturity and for consolidation later. So yes, it definitely would be another prompt for some of these firms to acquire themselves or be acquired by a larger ones, going all the way to be acquired by the biggest of them, which is the ICE or the Black Knight.

Tegus Client
Insurance carriers probably wouldn't be the best fit because, again, they increase.

SVP Capital Markets at Caliber Home Loans
Exactly, I think there is an inherent conflict there that would limit them from their credibility standpoint in the marketplace.

Tegus Client
So it sounds like you've been part of some of these partnerships before between lenders and home insurance brokers. How have they gone? Are they working out pretty well? Are they sort of effort well spent from a lender's perspective?

SVP Capital Markets at Caliber Home Loans
Yes. From a lender's perspective, the relationship with Cooper and Matic has been excellent, and it's basically working out well. I think we've gone through the list of insurance company-owned versus independent. So yes, it's an integral part of the offerings for Cooper.

I hope that, actually, more companies such as competing lenders with Coopers would be adopting some of these tools and make it more available to the borrowers because, I think, it does bring value-add to the borrowers to be able to compare and shop rates and stuff like that. It's not just good for regulatory purposes, but it's also good for consumer relationship. And then it's also good for the borrower himself or herself.

Tegus Client
Are you doing something similar at Caliber? Or no?

SVP Capital Markets at Caliber Home Loans
Well, we've looked at something similar at Caliber, yes. So now, we are basically just too consumed with the integration with Newrez. And we are also going through a period of retrenchment right now. I've been telling the folks here.

This is the time to actually think about things strategically and invest in technology and so forth. So we've been using the time and using the resources and the capacity to think about the longer term as opposed to trying to close a loan, like what we did in 2021 and 2022.

Tegus Client
I guess, that's probably the biggest challenge for these guys like Matic and Covered is that the proposition, it sounds like, makes sense for everyone if this RESPA risk originations is managed. But it's just a matter of where do you fit on the priority list of a million different things a lender needs to do. Does this make on the top 10?

SVP Capital Markets at Caliber Home Loans
Yes, that is correct. So again, this is kind of a conundrum because when we, as an originator, in a busy year between 2020, 2021, we were so tied up from a resource standpoint to be able to close the loans, and we're hiring left and right. And then we don't have time to invest in technology as much.

And then now towards the end of 2022, maybe 2023, when the volume has subsided, then maybe the profitability had shrunk. Margin has collapsed. We're not as profitable before. So that's a priority standpoint, where does all of the investment in technology fit and who's going to do it and so forth. So yes, we're between a rock and a hard place.

Tegus Client
But then you're busy dealing with defaults. Or you will be?

SVP Capital Markets at Caliber Home Loans
Well, yes, in 2023, that could be right. 2023, with the rates going up, you could have default. Actually, during the pandemic there was a lot of loans that were put in forbearance. Now the forbearance has been lifted, so we are seeing a little bit of a rise in default. It's not as bad because borrowers have a lot of equity right now.

So it's not like 10 years ago during the credit crisis, where borrowers were underwater. So they would do strategic default. They walk, and they would be default on purpose. But here, folks are very careful, and they don't want to lose their home because there's so much equity in the house for them. So if anything, they're going to lose a car, instead of losing their home. And 10 years ago, that was kind of the reverse.

Tegus Client

Awesome. Thank you so much for chatting. Really appreciate it.
