

## **Framing the Vendor Management Value Proposition**

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For over 30 years, the vendor management industry has provided title insurance and settlement services to mortgage lenders. What started out as a channel for consumer finance companies to obtain property reports, lien searches, and appraisals after the National Second Mortgage Act passed in the late 70's, has blossomed into a 3 billion dollar industry spanning all fifty states.

Today, vendor management companies (VMCs) dominate the national market when it comes to supplying title, appraisal and other settlement services to the national mortgage finance industry. Operating out of large, regional or national processing centers, they manage large networks of independent third-party vendors. These vendors include title searchers, appraisers, closing attorneys, signing services, notaries and others.

The VMC business model works like this: A vendor management company (VMC) contracts with independent third-party service providers to facilitate the back-office title, appraisal, and closing production needed to close a real estate mortgage loan<sup>[1]</sup>. They identify, screen and supervise a network of fee appraisers, title abstractors, closing agents and other real estate service providers.

Many VMCs provide electronic interfaces with numerous portals to streamline order processing. They acquire the raw real-estate information and core services, and using some of the most advanced order management and fulfillment technology in operation today, package and deliver the final product to the client. TAVMA represents this market.

At TAVMA, we are passionate about the work our members and the industry perform and promote the vendor management industry to media, user groups, and government. While no two communications or selling situations are the same they all have one thing in common. They all speak to, and frame, the industry's value proposition. This article, the first in a series on the topic, will provide an overview of the value proposition.

### **It Starts with a Definition**

I've written before about the importance of a definition of terms to clear communication. Do a Google search and you'll see about as many definitions of the term '*value proposition*' as there are companies that claim to have one. My personal favorite comes not from Google, or even Wikipedia, but from Geoffrey Moore, the marketing guru of the dot.com era.

In his book, *Crossing the Chasm*, Moore contends that a value proposition has three components: The product itself, the target customer, and the target application. When taken together they make up, as he puts it, "something one can sell." And, he says, there are three abstract sources of a must-have value proposition: 1) It enables a previously unavailable strategic capability that provides a dramatic competitive advantage in an area of prime operational focus; 2) It radically improves productivity in an already well-understood critical success factor; or, 3) It visibly, verifiably, and significantly reduces current total overall operating costs." [\[2\]](#)

I don't see a requirement in this definition that the company or product add value by turning a profit. Moore was after all writing in the heady dot.com days in the late '90s,. Therefore, I'll add this as the fourth must-have.

I'll also offer up a simpler definition that goes to the very heart of vendor management. This one not only pre-dates the dot.com era by a decade or so, it's so familiar as to become the mantra of a whole generation of vendor managers. Better, Faster, Cheaper.

### **Better, Faster, Cheaper**

By now the phrase Better, Faster, Cheaper has become synonymous with the vendor management industry. I first heard it when I was working in the risk management department at LSI back in the early 1990's. At the time, early-generation order management and fulfillment technologies were just overtaking fax machines as the delivery method of choice. As the technology continued to expand the Better, Faster, Cheaper took on a new and much more profound meaning. Moreover, it aligns almost exactly to Moore's definition.

Where Moore's definition refers to *enabling strategic advantage* as a source of value, substitute "Better". Where Moore cites *radical improvement in productivity*, plug in "Faster". And, where he promises *reduced operating costs*, think "Cheaper". Add to this "*Turn a Profit*" and we get a model definition of the term value proposition.

### **Better**

What does it mean to be better? To some it means that the quality of a product or service delivered meets guidelines or is superior to the competition. Others may describe it as being a more enjoyable or less stressing alternative. Still others might describe it as being a product or service offering more options, more choices, more quality, or more quantity, more convenience. In the vendor management arena, it is this last view that tends to be the most aligned to the meaning assigned to the term "Better".

What makes vendor management a better solution for mortgage lenders? We posed this question to some long-time industry leaders and TAVMA members. Here's what they said.

"VMCs are subject matter experts that lenders rely on for compliance and operational advice," said Don Blanchard, EVP and Deputy General Counsel at Countrywide Home Loans. "Appraisal management firms and title managers each have specific knowledge of the federal and state rules that apply to their businesses. Lenders have come to expect their VMCs, as their partners, to

provide solid advice about particular compliance issues. This is a real added value to most lenders, allowing them to focus on their core business while the VMC attends to the settlement service issues."

One current example of how a VMC can mitigate lender risk is the debate surrounding client pressure on real estate appraisers. In a highly publicized case, Ameriquest agreed to settle charges by several States Attorneys General that the company illegally pressured real estate appraisers to report inflated value conclusions. The Ameriquest settlement turned heads in the lending industry by making it clear that there are penalties for inappropriately pressuring appraisers.

In a related matter, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration, weighed in by issuing a joint statement affirming (for the third time) that loan originators and service providers are to remain at arms-length. Both instances illustrate the value that vendor management companies bring to the table to assure the integrity and quality of the settlement process.

As a third-party intermediary, the VMC curbs inappropriate client pressure to report only favorable property or borrower characteristics, or to suppress information that might impede the salability of a loan. When a loan officer contacts an appraiser to attempt to influence the valuation, the appraiser is trained to refer the caller to the VMC area manager. If the client can provide supporting information like additional home sales or additional property data, the VMC acts as the go-between for the lender and appraiser. This fits well with the regulatory agency's intent to keep the originator and appraiser at arms-length. And it adds value by protecting the integrity of the appraisal process. Thus, the lender avoids the worry, bad publicity, and fines that some agencies have doled out in the last few years.

Other qualitative benefits in the *Better* category include:

- Pre/post delivery quality control
- Monitoring service levels
- Superior reporting capabilities
- Better pipeline management
- Electronic document delivery and retention

Perhaps the largest single benefit to lenders and title underwriters is that the vendor manager controls the escrow accounts and check disbursements. This task responsibility mitigates exposure to what has become the source of the largest title losses, defalcations, embezzlement, and violations of closing protection letter instructions.

## **Faster**

Today, most VMCs utilize proprietary or commercially available Web-Based technology applications to speed the process even more. This commitment to technology has translated into

real-time information available to the lender on the status of each loan thereby speeding the process, closing the gap between application, closing, and funding.

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"When a lender uses a VMC and its technology platform it receives a uniform process with predictable service levels, quicker turn times and fulfillment," said Ed Krug, title industry veteran and attorney at Springer, Bush, and Perry. "All this translates into greater and more profitable servicing portfolios for lenders with far fewer risks inherent in portfolio management."

Kathleen Krol, EVP of Title Operations at Nationwide Appraisal and Title Services, Inc., agreed. "A VMC offers process consistency and understanding of lenders' needs, allowing the quality control process to become an added value," Krol said. "Not only does the quality control process validate the integrity of the products and services, it also eliminates time consuming rejections caused by data provided outside the scope of the underwriting criteria."

This eliminates unnecessary time delays that requests for additional information would create and reduces dissatisfaction that a borrower may experience due to lack of understanding of the loan process.

### **Cheaper**

VMCs have traditionally been able to drive down turnaround times associated with the settlement process, as well as the cost. They also enable the vendors who do work for the VMC industry, abstractors, signing agents, notaries, appraisers and others to manage workflows. The combined savings of cycle time and process efficiencies ultimately benefits the consumer, who can close their loan faster and at a competitive rate.

"Vendor management companies eliminate the need for the lender to manage individual vendors," said Nationwide's Kathleen Krol. "VMCs monitor suppliers' license status, E&O certifications, and performance of functions that can vary from state-to-state. The centralized management of third-party vendors offers lenders dual benefits of consistency in the goods and services, and an impartial approach to managing these services while still focusing on the originators' need for superior quality and service."

Vendor management benefits not only the largest lenders but smaller lenders as well. There is a perception among some lenders that they may be too small for a VMC to bring value to their current workflows. However, this is not the case.

These are the exact lenders that would benefit most from partnering with a VMC," said an industry source. "The single source of ordering, vendor management and technological efficiencies gained on every transaction can easily allow the lender move into additional markets

without having to add staff to manage the vendor portion of the transaction. The lender can save money while growing the business using the vendor management industry."

VMCs offer additional cost saving benefits. For instance, they relieve lenders of certain fixed costs and many of the duplicative tasks otherwise done by loan processors and in-house vendor management personnel. They help lenders to better manage staffing and the natural ebb and flow of loans working through the pipeline. VMCs offer more efficient loan production, service acquisition, customer service, closings and disbursement operations. All of which result in bottom line savings to the lender and consumer.

## **Conclusion**

The Better, Faster, Cheaper value proposition is evident in all functional aspects of the vendor management business model, from order management and quality control, to legal and accounting, reporting, and regulatory compliance.

Arguably, VMCs embody Geoffrey Moore's definition of a must-have value proposition. They enabling strategic advantage, radically improve productivity, and reduce operating costs. And, while the dot.com boom fizzled out in less then a decade costing billions of lost investment dollars, the VMC industry will continue to help mortgage lenders and service providers realize their growth and all-important profitability goals for a long time to come.

In future articles, we will break down the value propositions even further to illustrate how vendor management companies benefit lenders, homebuyers and sellers, and the service providers who make their living servicing an ever changing mortgage industry.

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Some VMCs, in addition to mortgage origination title, appraisal, flood reporting, credit reporting and closing management, provide foreclosure/asset disposition, review appraisal, and other services.

[2] Moore, Geoffrey A. *Crossing the Chasm*. HarperBusiness, a division of HarperCollins Publishers. New York, 1991. P. 102-103.