The Genesis of the VMC Industry

By Jeff Schurman

How did the vendor management industry get started? Like many questions surrounding the industry, it depends on how you define vendor management. For some, the roots of our business trace back to Lender's Service, Inc. (LSI), which opened its new national service center in Pittsburgh, Pennsylvania back in 1984. The NSC opened that summer, ushering in the vendor management company (VMC) era.

Had the term been coined a decade or so earlier than it was (in the '90s) surely what LSI did would have been seen as a "paradigm shift."

Ray Pronto, a vice-president at the time who would eventually go on to co-found ATM Corporation (Appraisal Title Management Corporation of America) with Fran Azur, once described the first national service center for me during a business trip. The building that housed the company had an odd design that seemed less concerned with optimal space utilization than the appearance of worth. The second floor housed the executive suites, complete with a large conference room, and later, a solar room complete with bar and pool table. The first floor housed a large air conditioned computer room, an expansive lobby, and a production area the size of perhaps two large conference rooms. As Pronto told the story to me, the production floor consisted of a line of folding tables and chairs, telephones, and map books and legal sized three-ring binders for tracking orders in the pipeline. More on the map books later.

Bob Murphy, the CEO of LSI, founded in 1967, came to the firm from Signal Finance Company, a regional consumer discount company (CDC) with offices in the Northeast and Mid-Atlantic regions. CDC's were comparable to today's subprime lenders. It was there that Murphy, a district manager, took notice of an up-and-coming auditor and manager by the name of Fran Azur. Several years later, Murphy brought Azur to LSI to help him to expand the business. His formula: win appraisal management business and then pick up clients' title and closing orders in states where LSI had branch operations.

It is Fran Azur who is regarded by many, including me, to be the Father of the National Service Center model for managing title, appraisal, and closing orders nationwide from a centralized processing facility. In the early 1980's, Azur started to re-think the brick and mortar strategy in place at the time. Up until then, LSI's strategy had been to open regional offices in cities in which its big clients had a presence. Regional offices grew to include Cleveland and Columbus, Ohio, Towson, Maryland, Richmond, Virginia, Merrillville, Indiana, and Pittsburgh, Penn. Interestingly, many of the executives who managed these regions played notable rolls in sprouting the next generation of VMCs. Those stories, I save for later.

Yet while Azur conceived the NSC model, arguably, it wasn't he who invented the vendor management industry; nor was it Bob Murphy. That distinction belongs to Bruce Felder, who in 1959 founded Legal Messenger Services, a small company in Cleveland, Ohio. But it didn't stay small for long. In fact, it grew very quickly. And it got a new name: Record Data, Inc.

The beginning of an era

It was a simple enough proposition. A real estate loan application was made, and if the credit report checked out, an appraisal order was placed with a VMC. A few days later, the appraiser called with a "verbal report." The hard copy appraisal followed.

The verbal report was just that, the appraiser calling in particulars about the subject: property address and a brief description of the neighborhood, site, subject property and comparables. And of course the one thing the branch manager really wanted: the market value. Verbal report in hand, the branch was authorized to make the loan, and if the value was high enough to up-sell the customer to a higher loan amount. Of course, the other sale would be insurance: life, household goods, and disability.

Certain characteristics pervaded CDC customers. Many had credit troubles, lots of debt, and a habit of making the rounds from one finance company to the next in pursuit of a debt consolidation loan. When the customer arrived at the CDC to refinance, one of the rituals was to obtain credit checks from other creditors, in many instances payoff quotes. This set off alarms at the competitor's office and it wasn't long before a representative of that CDC was on the phone soliciting the borrower as well. Therefore, speed was of the essence in getting the borrower to the closing table.

Vendor management companies became the go-to source for obtaining appraisals turned around quickly. Even now, some thirty-five years later, VMCs still maintain these very same turnaround times, much to the chagrin of local appraisers who simply don't see this need for speed.

One of the truisms in vendor management is that no one who ever came into the industry did so to fulfill a lifetime dream. They started out aspiring to do something else – law, customer service, journalism – before fate and opportunity brought them here, often to Pittsburgh. Most had no clue about what the industry was prior to the first job interview. Even preparing for that initial interview was difficult due to the utter lack of publicly available information. Even today, careers in vendor management are often born of happenstance. This was certainly the case for a young student from Cleveland Heights, Ohio.

Bruce Felder was attending John Carroll University in pursuit of a dual major – business and law – when he envisioned a new industry. This was in the late 1950's and Felder was enrolled in a program at John Carroll that allowed students to earn a Bachelor of Science degree upon completion of Law School. In order to pay the tuition, Felder had a side job searching title records in Cuyahoga County, Ohio. His decision to quit law school and search records full-time was the genesis for what would eventually become a \$3.5 billion industry employing over 10,000 people.

When Felder landed a part-time job working afternoons in the Office of the Cuyahoga County Clerk of Courts, he didn't realize at the time that his life was about to take a turn in

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a new direction. His job was to review legal filings dropped off at the courthouse by local attorneys, and enter information into the public docket. Some of his friends from law school landed part-time jobs in local banks and finance companies. Several upperclassmen translated these part-time gigs into full-time positions upon graduation. Knowing that Felder worked in the Clerk's office they'd often call him to check if there were mortgages, tax liens, judgments, or other encumbrances on record against their customers or collateral. Felder refused to accept money for these look-ups because he was on the county payroll at the time. He did them as favors for friends.

It wasn't long though before Felder realized there was a business opportunity there. So on May 1, 1959, Felder quit his job with the County Clerk and opened a one-man-and-his-wife operation called Legal Messenger Service.

The early years

Friends in the banking and consumer finance industry tipped Felder off to a persistent obstacle to obtaining title searches: title insurance agents. For one thing, they were expensive, charging what Felder described as an arm and a leg for searches. Moreover, they often viewed consumer finance companies to be second-rate citizens of the banking industry. Felder likened the prevailing view of the consumer finance industry back then as being just a step or two above the loan-shark industry. Besides, banks in the 1950's and early 1960's were where the action was when it came to mortgage lending.

By law, banks had the corner on first-lien mortgages; home improvement loans, too. They'd hold the first mortgage on a piece of property and make a home improvement loan on the assumption the property value would rise sufficiently to cover the additional monies lent. Small loan companies couldn't compete for first mortgages and were locked out of second mortgages as well. They were limited by law to securing loans with cars, furnishings, and personal belongings, all of which depreciated faster than real estate and had more risk. Real estate was an appreciable asset. "First in time, first in right," Felder called it.

Executives discovered over time and through audits of numerous chargedoff loans that small loan office personnel were not necessarily title or valuation experts. Many didn't know how to evaluate a report or where to find critical information.

But beyond the legal constraints of the day, title agents had purely economic reasons to steer clear of this segment of the industry. Prior to passage of secondary mortgage acts in Ohio, Pennsylvania and Maryland in 1963, consumer finance companies could only lend up to \$5,000. Given the choice between doing title work on an \$80,000 mortgage loan from a savings and loan customer and a \$5,000 loan from a consumer finance customer, it made sense for title agents to put the less profitable CFC work on the bottom of the pile, often for weeks on end. By the time the title agency got around to processing the property report or title search the customer was long gone.

Naturally, title agents then as now preferred to conduct full title searches rather than the low-cost current owner searches that were popular among consumer finance companies. They saw current owner searches as undermining their ability to earn a living. What they didn't see was an even greater threat to their bottom line. Bruce Felder saw it. Here is what Felder told me in an interview a few years ago:

"Historically, title loss claims came mostly from inaccurate courthouse records. Order-entry errors, encroachments omitted by a surveyor and property line disputes accounted for claims. Title loss claims didn't typically arise between the last owner and the owner in title at the time of the search. This created an opportunity for us; offering to insure title but only searching (public records) back to the last owner or purchase-money mortgage."

This observation would later prove to be a competitive differentiator between vendor management companies and traditional title agencies. Whereas title agents routinely conducted a 60-year title search, VMCs, with underwriter approval, often searched as far back as the last owner of record or institutional lender. The significant volume of title policies that VMCs generated prompted most underwriters to assume the risk that the prior policy did not miss a cloud in the chain of title.

Felder attributed his observation of this title loss characteristic on his experience in the bowels of a county recorders office. He told me that he didn't believe his competitors to the east (in Pittsburgh) would have figured this out on their own because they, unlike him, weren't "title guys" as he described himself. They were salesmen.

From the first day in business, Felder said, Legal Messenger Service was on a roll.

Record Data

The demands on Felder's time were beginning to stack up. He needed to be out of town visiting clients and opening new offices. He switched to taking night classes that began at 6:00 PM. However, he'd succumb to the long hours by falling asleep at his desk. Realizing he couldn't continue to do it all he had to decide what he really wanted to do. So he quit law school and launched what would become Record Data Incorporated (RDI), the first vendor management company. Twenty-nine years later, with 83 offices in 40 states, TRW made an unsolicited offer to buy the company.

From 1959 to 1963, Felder cultivated his small business. During those years, he created a way to franchise offices in Ohio, thus enabling the company to minimize the need for employees. As RDI expanded beyond Ohio the franchisee concept was phased out in favor of company-owned branches processing title orders, and later appraisals. Also beginning to evolve was the consumer finance industry that RDI served.

Traditionally, title and appraisal orders were managed in-house by local branch managers at such companies as The Associates Finance, Beneficial Finance, Dial, and others. Executives discovered over time and through audits of numerous charged-off loans that small loan office personnel were not necessarily title or valuation experts. Many didn't know how to evaluate a report or where to find critical information.

Record Data addressed this need by creating educational programs and an operations guide to teach loan officers the ins and outs of title and appraisal. They created standardized report formats and held seminars consisting of line-by-line descriptions of the information within data fields. Moreover, they taught loan officers about the meaning and legal significance of such things as quit claim and warranty deeds. RDI's objective was to enable managers across the United States to read and understand the "same" reports no matter where they were.

The end of the road

Record Data always had a good relationship with the big conglomerate TRW. They'd have booths next to each other at industry conferences. And they talked. Routinely someone from TRW would approach Bruce Felder with an "If you ever decide to sell let me know…" pitch. TRW was interested in making a buy. But someone else beat them to it.

Out of nowhere a West Coast outfit called to arrange a visit to Cleveland with the intent to offer Felder a deal for Record Data. They'd been buying up title companies recently and learned from a mutual acquaintance that RDI was doing a lot of business. Within days, a small private jet touched down at the local airport with 3-4 well dressed executives carrying expensive leather brief cases. The deal fell apart when the offer consisted of a lot more stock than cash. Felder smiled when he told me he had worked "too hard to wake up in the morning to find out (they) made the wrong decision about some other company" they bought out.

Soon after, Felder mentioned the suitor to a friend at TRW. His contact wanted to talk. As Felder told the story:

"I kid you not. They came in and asked 'what do you value the company?' I put my forefinger in the air like this (as if to test the wind direction). We always knew where we were within 30-days… we really ran a tight ship as far as operating expenses. We always knew what our NOI was. They said fine, we have a deal. I said 'all cash?' They said 'all cash.' Within a few days we had a letter of agreement. Within 2 weeks they completed the due diligence. It closed. I'd wake up in the morning and slap myself to see if it was really happening."

The acquisition of Record Data Incorporated closed in 1985. ❍

From the beginning, the Vendor Management Industry brought a new set of tools to the lender.

This article is an excerpt from Jeff Schurman's upcoming book on the genesis of the vendor management industry. Anyone with experience in this industry that would like to share their memories for this project should contact Jeff directly at jeff@tavma.org to arrange for an interview.