PRINCETON MORTGAGE

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Princeton Mortgage's Rich Weidel on how small shops can still compete with Rocket and UWM
Plus booms, busts, and falling into the pool

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Rich Weidel, the CEO of family-owned and operated lender **Princeton Mortgage**, was scared. He saw the big competitors only getting bigger. He wondered how a smaller retail-and-wholesale shop could possibly compete with the likes of **Rocket Companies**, with massive budgets for technology and an ability to scale and expand margins. But he ran the numbers, and says he was surprised at what he found.

Weidel, who took over in 2018, sat down with HousingWire for a lengthy interview that spanned everything from competing with the big boys, to differentiators and equalizers in mortgage tech, to the benefit of being multi-channel, to the boom-and-bust cycles in mortgage, to adapting on the fly during a pandemic.

Here's the interview, which has been edited for length and clarity:

HW: In the mortgage space, there are a lot of IPOs about to happen. As a smaller firm, what does this mean for you?

Rich Weidel: So I hold these things kind of loosely, but when I read Quicken's or loanDepot's materials, or about **UWM** going public, the general pitch is technology. And that scares me because those large companies have much larger budgets for technology. So then one wonders, can a little guy like us succeed or is the cake baked? Is this futile? Should we give up and accept that the market is going to consolidate? We'll never do it. Or do we need to go raise a couple of hundred million dollars?

So I really dug into that question and I'm putting my money where my mouth is, cause we have to decide, is this worthwhile? Can we grow? If technology is truly a differentiator, I believe that you'd see that play out in two areas: a higher per-person productivity or a lower cost per funded loan. And if you accomplish either of those two things, you get a flywheel and you take off because you can either make more money to reinvest or make the same amount of money with much lower rates and you dominate the whole market.

{When Quicken went public] it was Christmas morning for us because we get all the data. After reviewing it and surveying employees and others close to the company you could summarize, Quicken has spent more money than probably anybody else on their technology development.

How do you think that translates to their labor costs? Presumably Quicken has a lower labor cost per funded loan. So I analyzed it. We just went to their financials and found their labor line, their total compensation, and divide it by funded loan.

I just got the MBA report for independent mortgage bankers, the average for the last three years – I had to check it five times, cause it didn't make sense to me. Quicken was 182 to the average for IMBs, which was 184. Quicken and all other IMBs have the same exact labor costs.

So I was like, that's strange. Then I pulled the MBA reports for the last couple of years. They do their profitability reports each year. And you'd also say that technology should do two things: The cost per funded loan should decrease over time across the entire set, and larger companies should have a lower cost per funded loan than smaller companies because they're spending more money on technology. It doesn't play out.

There's no differentiation for cost per funded loan based on the size of the company. And the cost per funded loan has been trending up for the last 10 years. Now, conventional wisdom on that is labor or cost per funded loan is going up because of TRID and all the compliance stuff that happened in like '13 and '14.

So we've got six or seven years of data now that it should have trended back down and it has not. The conclusion that we draw is that actually technology is not the great differentiator, but it's actually the great equalizer. And the reason that Princeton Mortgage can come in and grow market share so quickly is because we are able to utilize technology to deliver similar results to the largest companies out there. And that's what still makes this a wide open playing field. So what is the differentiator? We've got our other views on that, but, that's a separate question.

HousingWire: Rich, can you talk to me about how Princeton Mortgage has grown over the last few years?

Rich Weidel: It's been around since 1983, plopped along as a local regional conservative bank for the first 35 years, then its business model kind of ran a cycle.

We had some partnerships that ended in January of 2018, we went all the way down to just a shell of a company where we had, I think, five or six employees. And we did $2.3 million in originations in January of 2018. At that moment, I joined the company, my family's company, and could either shut it down, try to sell it as a shell company, or make a go for it.

I had some real opinions at that point about the opportunity in residential mortgage, I was very excited about it. So we embarked on a growth strategy that was a dream at first and now has turned into a success. So we went from $2.3 million and a few people in January of 2018, to last month, we did $196 million.

In a little bit less than a three-year period, we've gone from $2 million to $200 million, which puts us really at the top of the growth charts, particularly considering we didn't do any acquisitions, we didn't raise money. We've done it ourselves through edge execution and kind of building a differentiated business model.

HW: Rich, you operate in both retail and wholesale channels. Is one easier to operate than the other, or they're just very distinct businesses?

Rich Weidel: Wholesale is an easier business model to grow into and shrink and respond to market dynamics, whereas retail is a higher overhead stickier, a more fixed-cost model. That's both harder to get to grow and harder to shrink if the market turns against it.

HW: So then, why do you retail? Is it just more reliable in terms of the amount of volume you can produce? What's the advantage in retail in your view?

Rich Weidel: The advantage of retail, from my perspective, is the ability to have optionality. I think that we should all be very clear in understanding where we are in a market cycle. If you look back over a 30-year time period, what's clear throughout is that everything changes and it's sometimes favorable to grow retail. Sometimes it's favorable to grow wholesale. Sometimes it's favorable to grow call centers.

I think having that sort of differentiated anti-fragile business model, where we're already in residential mortgages, is an advantage for the company, for our consumers and kind of having a viable business in the long run. I don't see that they're mutually exclusive. I think you can do both and do both well and benefit the whole system that way.

HW: Have you grown both segments of the business equally since the time that you were processing two-and-a-half million or so to nearly 200 million?

Rich Weidel: Wholesale is larger from a production standpoint, so we found more opportunity to grow within the broker channel that we did within the retail channel, and I think reflective of the dynamics over the last couple of years, the resurgence in the broker channel and being a participant in that.

HW: Can you talk to me a little bit more about how you work with brokers? I'm curious how you get yourself in front of a broker who probably already has four or five options, products that they know very well. You're a little bit newer in this space – how do you make a favorable impression on them?

Rich Weidel: The question is… really, how do you differentiate inside of a crowded field as a newcomer? We thought a lot about that as we were getting going because who WE were. We didn't have a brand, we didn't have technology or the people. And what we have found is that the wholesale channel is even more commoditized than the retail channel. There is perfect price competition – brokers can know exactly what the rates are that they're getting and they have an array of options. And there's very low switching costs from a broker's perspective. So, to maintain a broker relationship, you've got to have service and price, obviously.

And so you could be the low-cost provider in wholesale, which is already wholesale, already a lower-cost model. That's a tough place to be. You wonder whether or not you're earning proper risk adjusted returns and you might have catastrophic events if you're not. What we looked at is that brokers want a consistent process, consistent results, which we define as consistently requiring less effort on their behalf.

That's what we've built our whole model about. And so, fair rates and a consistent process, brokers can have a reliable and dependable experience in working with us. Brokers, they work with us, they test us and then they wind up sending their entire pipeline to us for that dependability factor. And then, how do you deliver that? There's a whole different conversation if you'd like to dig into that.

HW: Can you talk more about pricing?

Rich Weidel: Our commitment on pricing is we have a floor for our margin that we will not go below because then we can't make money. We have a floor that no matter what, we won't go below, but then our pricing strategy is, we obviously can use margin to stem or increase production, but more broadly, what we decided is that we want to have a very fair price.

We're able to see how everybody else is pricing and we want to make sure that we are in the average of the top three through eight lenders each day. So [with regard to] our pricing strategies, our brokers know they're going to be consistent. We're going to be right in that pack. And I say three, because there's always only one or two outliers that, you know, maybe they didn't get enough locks last week so they're trying to buy some market share, right. We've come out and said, 'We're going to consistently be within the top three through eight.' So that takes the price off the table for us because we're offering a fair price all the time.

I think other lenders change their prices a lot more than we do from what it seems. And maybe that's a good strategy. It's not the strategy we've taken. We offer a fair price, which is a competitive price. And how can you measure our performance? We measure our performance by gaining market share. And we gained substantial market share in the last couple of years… I went out to clean my pool this morning and I fell in! I've walked around the pool a hundred times and I fell in this time! And it's such a good reminder of like, we all stumble and get things wrong.

HW: But at the same time, there are so many variables that you cannot account for, and maybe someday they will have a game changing technology? Like, you'd be operating on the iPhone 9 and suddenly they're on the 13. That's the story of technology, right? Pretty much everyone can catch up within a certain span of time. But if they make that one huge leap, you could be screwed.

Rich Weidel: The technology bust was in like, what, 1999, right? So this isn't new. We've got at least 20 years of living in "technology's a differentiator and disruptor." I would expect that by now, with technology, you would see a differentiation in the results.

So 20 years of technology and disruption, 20 years of technology providers promising a reduced cost, a higher ROI, a higher productivity, blah, blah, blah, blah….Every company out there saying, 'come work for us…because we've got better technology.' But then when you translate, get down to look at the basic KPIs, the cost per funded loan per person, productivity and profits, it doesn't translate to any differentiation between companies based on technology.

The promises of technology have not translated into results. And what I mean by that is when AUS launched, underwriters were supposed to disappear. But underwriters make more money than they've ever made before, right? The popular press at the time and most leaders were predicting it was the death of the underwriter. Well, the opposite has happened. Whereas if you look across the industry right now, underwriters are the most in-demand piece of the puzzle and their earnings are higher than they've ever been.

We had a call with LinkedIn the other dayand they were showing us underwriting is the most sought-after job on LinkedIn right now in the entire United States. So the opposite of what was predicted is happening.

HW: Why is that?

Rich Weidel: Well, one, I think if you have more answers than questions, you're fooling yourself, or at least I'm fooling myself. Here's why I think technology is an equalizer, not a differentiator, in our industry. The differentiator then is the combination of people, process and technology and the boring work of workflows and process improvements and managing the market cycle.

If you go and look at this industry, it's wild – mortgages, the mortgage rate, and the 10-year treasury yield have a 0.98 correlation. It's as close to a perfect correlation as you can get. Our industry also has huge variability in cyclicality, within profits. And the profits are tied to what's going on with mortgage rates, which are completely tied to the amount of refinance business. And so I think the area to differentiate in is: Can you have fewer, better people, driving better decisions to manage the market cycles? That's the hard, unsexy work of the mortgage industry where you can have Quicken, for example, lost 54 million in Q2 last year, to make $3.4 billion in Q2 this year. I mean, we experienced it in wholesale last year.

It was hard, we weren't making money and it was like, what's wrong with us? And it didn't make any sense to me. And I remember hearing stories about how UWM and Quicken have economies of scale that allowed them to make money on lower margins than we can. So I was really wondering, can we grow in this channel? Quicken and UWM have better economies of scale that allow them to have a lower revenue margin and make money on it.

I didn't even want to look at Quicken's financials because if that had been the answer, then it would have been the nail in the coffin for us. There's a management note that their wholesale margin was 40 basis points in Q2 last year, and they lost $50 million. And there was a little note that said management executed a strategy to increase the margin. And then it was 2.1 in the most recent quarter. And I was like, 'Thank God.' So two things on this that would have scared me: if their margin had actually been 100 or 110 and last quarter, to '19, then there would be no hope for somebody like Princeton Mortgage because we could only get 50.

If Quicken actually would have been able to get better margins that have better execution strategy, the flywheel would go, but they were at 40 and lost money. Now they're at 2.1 and making money. And so what that tells me is actually regardless of size, we all are playing by the same rules. When Quicken couldn't make money, nobody else could make money. When Quicken can make a bunch of money, we can make a bunch of money. So there's a wide-open playing field.

I keep hearing things like, 'Oh, there's going to be consolidation.' And that these guys, they can tap the equity markets and they can do all of these things. The results aren't showing that. And if you go back and look at the data, Quicken's financials reveal that they're playing by the same exact rules of the universe that we're playing by, and then it comes down to execution, being nimble. Are you able to manage the market cycle? Somebody like us right now, one of our competitive advantages is that we can move a lot faster on opportunities or changes in the market than a huge behemoth, like **Wells** or Quicken or UWM can. And I see that as an advantage for us, and we're all playing by the same rules, thankfully.

HW: Can we go back to competing on technology in wholesale? If Mat Ishbia, for example, is saying, we now have all these tools, we have this new end-to-end platform on this app, we have all this stuff for you as an LO to be more efficient, to do more volume. Does this change the dynamics as they exist now?

Rich Weidel: In our experience, UWM has more and better technology bells and whistles than Princeton wholesale does. We're gaining ground on them every day from that perspective. But they certainly do. Yet over the last two years, we have grown faster in market share in the wholesale space than UWM has. And we compete against them every single time. So I'm not taking anything away from them by saying that, and they were playing in different ball fields in terms of size, for sure. But what our experience has been is that we are absolutely able to go out there and grow our business substantially year over year against them.

HW: What is your general take on all of these companies now signaling that they're going to go public? It's a $16.1 billion valuation for UWM, Loan Depot, potentially IPO'ing at as much as $15 billion, Quicken is valued at $45 billion. What do you make of all this?

Rich Weidel: I think it's very opportunistic and it makes a ton of sense that if you're a huge company, to take advantage of the biggest earnings that we've ever had in the history of the mortgage industry to tap the equity markets and take some cash off the table. I don't know that it means more or less than that. We haven't seen the public markets be kind to mortgage companies in the past. We've had cycles where mortgage companies go public when they're really profitable. And then it doesn't go well – I'm not predicting any doom or gloom for these guys – but I think it's a financial decision to go public and I don't see how it changes the landscape for, you know, those who are running companies in the mortgage industry. I mean, we've got other public mortgage companies that it doesn't matter.

HW: How have you managed the physical side of the business during the pandemic? You do have some branch locations, right?

Rich Weidel: When we started the company I drew a 45-minute's circle around our corporate office and said, 'I'm going to hire from there so people can drive in,' and the talent pool was relatively limited. So I made the choice three years ago to say, we will more or less hire the best person we can find wherever they are. And so we went strategically three years ago under that model that led us to Pittsburgh. It led us to Charleston. We were already running multi-sites virtually, and then this hit. We didn't miss a beat.

I had a lot of fear around it — culture, relationships. It's been less damaging than I had expected. And so I think we adapted pretty well to it. We're at a point now where we've invited people that would like to, if they want to come to the office, they may, but we're still fully remote. I have a six-month old, so I've been working from home for six months and it's been fine. I think it's been much less disruptive than I would've expected, but I think because we'd already been running somewhat remote and multi-site, it kind of didn't change on the balance.

HW: Are you guys doing much more in the refi than you are in purchase at this point?

Rich Weidel: We're about 55% refi, 45% purchase. We've really been pushing to drive the purchase up again, not knowing when the refi boom's going to end. We would rather make less money today but be in a position to not get caught with our pants down when the refis disappear. So it is a strategic decision to say we're going to continue to push on the purchase piece for the longevity of the business.

HW: Are there a lot of companies that are going to be caught with their pants down when this ends in the end of next year or 2022?

Rich Weidel: I think people have a short-term memory and it's easy to delude myself to think that we're better, smarter and that we can outperform market cycles. We always ground ourselves back into it, after a period of robust mortgage originations like this, it drops off and it hurts and it's a big problem.

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If you just look at it, [mortgage lenders] did $2.2 trillion last year in originations. They're predicting $3 trillion this year and they're predicting $2.2 trillion again next year, because they're expecting refis to tail off in the second half of next year.

History will teach us when that happens, we'll have a 25% over capacity in the industry. Margins will collapse. And we'll go through just like right now – here's a great staffing boom, there's going to be the great unstaffing boom. Now at Princeton, we would really like to not be a hire-fire shop.

We're really trying to navigate this market cycle in a way where we preserve jobs through that. But also we can't – nobody can – afford to not be profitable in this business. All of the data would show that when you drop that amount of business, the profitability collapses in the industry.