

Forget the Process— WHAT'S THE

— by RODNEY CAREY AND RONALD JASGUR —



Woodward Asset Capital
CEO Rodney Carey (left) and
President Ronald Jasgur (right)

PROBLEM?

They had a new idea for a company that would represent home sellers, not buyers. Now, they're making it happen.

Did you ever wish you had the freedom to do things the way you wanted to do them? To not be constrained by what the boss thinks, what the compliance department will allow or what the customer demands? ¶ This desire to run free in business can be intoxicating and is often the cause of passing hours dreaming during meetings and team events. But actually taking the leap can be one of the scariest things you will ever do. ¶ Since 2007, that's how we have been operating—and we've yielded some pretty incredible results along the way. We started with a business plan slightly more professional than a flow chart on the back of a napkin, and were excited to be entrepreneurs in a reshaping housing market. The next seven years would yield three directional changes and success in facets of the housing industry we never set out to have.

Liberating yourself from process opens avenues and generates ideas that otherwise would never surface.

Our business, Woodward Asset Capital, solves problems for our customers. Too often companies identify a problem that needs solving but only look for solutions within their standard operating procedure. Our strategy has always been to forget process and just find a solution.

We've all heard the phrase "start with the end and work backward," we live by that theme. Our corporate vision statement is: "We capitalize on opportunities others don't recognize." Accomplishing this vision can only be done when you don't concern yourself with what or how you do things but instead focus on the end result, the outcome, the success.

We think of ourselves as a real estate company first and foremost. We have a business-to-business (B-to-B) technology division that serves banks and institutional clients, and a business-to-consumer (B-to-C) brokerage division focused on consumers.

While that describes what we do today, it has nothing to do with how we got here or where we'll be in the future. At our core, we are an innovation company that has succeeded in several aspects of the residential real estate industry. The key to our success has not been in what we do, but rather how we do it.

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Getting inspiration from a crisis

Remember when the mortgage industry seized up? Lenders went out of business, programs vanished and housing values took the worst turn seen in at least a generation. That's what inspired us to do things differently. When everything falls apart, let's put it back together in a way that will keep it intact.

Like many other companies in 2007, we were in the market purchasing bulk packages of foreclosed bank properties with the intent to rehabilitate and resell. Those early days of the housing crisis were hectic, and the industry rode uncharted waters on how to handle the volume and workflow of distressed assets.

We created a small team with a diverse skill set to analyze lists of properties from banks and servicers with which we had relationships. It didn't take long to see our methods yield great results. We sold our inventory as fast as we could acquire it, often without any rehabilitation and usually at higher sale prices than the banks tried to fetch before selling the properties to us at a considerable discount.

Success usually gains attention, and by mid-2008 the banks we purchased properties from were beginning to notice our successful sales. It wasn't a secret; in fact, we believe our success was attributable to our being essentially an outsider to this part of the industry.

We had no preconceived ideas of how we should board, market or list properties. We weren't constrained by the separation of responsibilities of asset owner, asset manager or Realtor®. Because we acted as owner and agent, we were able to connect the two most motivated parties in the transaction—buyer and seller—making it so much easier to complete a transaction.

The true "aha moment" came when we realized that our success in selling properties occurred after we removed all the noise from the process.

It worked very well for us, but we knew the market would eventually recover and the opportunity to acquire assets had a definite expiration date. In order to grow the business (or even sustain it), we'd considered many plans, such as expanding into broader geographic markets or shifting toward a real estate-owned (REO)-to-rental strategy, but ultimately we felt that the best opportunity was to cannibalize our existing business by showing our banking vendors exactly how we were able to outperform their sales efforts.

The trusted relationships we had developed with the banks put us in a unique position to understand their shortcomings and assess the needs of every possible stakeholder in a distressed-asset sale. We were able to prove that there were glaring gaps in the REO sale processes that actually prevented them from knowing pertinent issues about their asset's marketability.

We were able to show them exactly what they were missing and why their existing systems and controls could never provide the information or tool sets to improve their performance. Most importantly, we were able to show them why they'd never need to do a bulk sale to folks like us ever again.

Looking back, it seems so simple—but at the time, it was revolutionary. And there were plenty of naysayers that never believed it could ever work.

Launching something really different

In January 2009, we launched OfferSubmission.com. It effectively bridged the gap between the bank and the street by giving buyers' agents an easy way to submit their offers directly to the bank or an outsourced asset manager. It put the bank first in line to know everything by allowing it to negotiate its sales directly with buyers' agents and then direct the appropriate downstream vendors to complete the transaction.

With improved line of sight, very quickly our customers saw vast improvements in key performance indicators (KPI) that directly affected their bottom lines, such as reduced days on market and improved net sales prices.

And if that weren't enough, our systems provide numerous support functions for Know Your Customer (KYC) initiatives and Consumer Financial Protection Bureau (CFPB) requirements that until today were time-consuming, inefficient manual processes. And of course, properties that had previously been headed for bulk sales or auction channels are sold at market value via the traditional two-agent method, negating the need for buyers like us.

Today our software-as-a-service (SaaS) division, Woodward Technologies, includes OfferSubmission.com, VerifiedShortSale.com and PurchasePipeline.com. Each tool was developed in conjunction with some of the largest players in the industry; collectively these programs are responsible for negotiating more than \$21 billion in real estate offers since January 2009, with more than 70,000 agents in all 50 states.

Broad-based adoption is one measure of success. Third-party validation is an even better measure. New York-based Standard & Poor's (S&P's) 2013 *Servicer Evaluation Report* statistics reveal that our largest customer, PNC Bank, outperforms its peers by selling REO at above-market value (see Figure 1). That's our icing on the cake.

As the technology side of our business grew and our systems were winning industry awards, the real estate investment side of our business suffered greatly. Without a steady flow of assets from the banks with which we were working to keep the pipeline full, it became increasingly difficult to source new inventory, keep rehabilitation crews working and keep employees engaged.

Forgetting about the process and looking at the problem isn't something we just talk about; it's something we do in our day-to-day operations.

At the end of 2013, we completed a reorganization that saw the elimination of 10 full-time positions; many of the people had been with the company since inception, including a founding partner. We tried to retrain and repurpose existing staff to take on new roles and responsibilities, but it wasn't always as successful as we hoped.

In the end, we were forced to make the difficult moves necessary to ensure continued success for the firm and the remaining staff.

Solving problems creates new opportunities

In March 2014, we finalized our acquisition of Homesource Realtors, our initial entree into the B-to-C market. We had worked with Homesource to market and sell our own inventory in the metro Detroit area, and saw this as an opportunity to integrate our technology platforms with traditional real estate sales. While this move was not part of our master plan, we knew it was the right opportunity when it presented itself.

In evaluating the brokerage business, we wanted to identify the most underserved section of the residential real estate market and see what we could do to improve on it.

It was clear there is no shortage of companies and initiatives funded by large venture-capital and private-equity

firms fighting to enhance the homebuyer's experience. Sites such as Trulia and Zillow help buyers become familiar with the market, and companies such as Redfin serve the buyer by compensating real estate agents based on customer satisfaction.

They are all great ideas that amount to a crowded side of the table—the buyer side of the transaction.

What piqued our interest was that there was virtually no company competing for the attention of the seller. Why not?

Our technology platforms improved the seller's experience for our institutional customers and allowed them to achieve market-making prices. Why couldn't we parlay that into an improved experience for individual sellers and their one-off home sales?

We know that selling a home is a people business, and a technology platform in and of itself wouldn't gain much traction. We did focus groups, conducted surveys, held discussions with recent home sellers and their agents in order to develop a superior seller experience. Our goal: to satisfy a seller financially, emotionally and in a timely manner.

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on the seller, we're
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differently, too.

Creating a solution just for home sellers

The result is SellerNation, a hybrid real estate model focused exclusively on the seller's needs that is one part traditional brokerage, one part technology company and one part auction.

There are some compelling value propositions thrown in to make it interesting, too. We give 5 percent of our revenues to local charities and offer 34-day listing agreements, and our commission rate is always 5 percent or less.

By focusing solely on the seller, we're able to market differently, too.

We've been holding "coffee hours" at local coffee shops to meet homeowners considering an eventual sale. Even as a technology innovator, we know that a person-to-person connection is so important. You just can't automate business entirely; people need to be heard, and they need to feel important. They need to connect to a living, breathing individual who actually cares.

The B-to-C arena takes a different finesse and approach than the B-to-B world, obviously. We've spent the first half of this year clarifying our message and marketing campaigns for SellerNation. The plan is to complete proof-of-concept here in Southeastern Michigan before expanding into other markets across the country. In 2015 we expect to open additional offices in Grand Rapids, Michigan; Cleveland; and West Palm Beach, Florida.

It's been an exciting year and the progress in launching a new brand is on track. In only a few months, we've seen listings begin to come in and we recently partnered with a local mortgage lender to offer financing. The balance of 2014 will be spent integrating the processes and adding agents.

So far we are on track with our goals, but we've had a few setbacks along the way, as happens when you're launching a new concept. We've pulled back on some of the initial value propositions we wanted to have and also witnessed how quickly the agent community passes judgment on real estate companies that attempt to modify industry cornerstones like commissions. No matter how well we strategize and plan,

FIGURE 1

SERVICER RANKINGS

Servicer Name	Average Gross REO Sale to Market Value
PNC Bank	104.00%
Green Tree Servicing	102.28%
Select Portfolio Servicing (SPS)	102.00%
JPMorgan Chase Bank	100.00%*
PHH Mortgage Corporation	99.97%
Wells Fargo Home Mortgage	95.40%
Bank of America NA	95.00%**
Nationstar Mortgage	95.00%
CitiMortgage Inc.	92.50%
Ocwen Loan Servicing	90.69%*

SOURCE: Woodward Asset Capital (data based on 2013 Standard & Poor's Service Evaluation Reports)

*Estimated by adding 10% expense factor to net sale/market value reported

**Average for properties in prime portfolios

there are always unintended consequences or unforeseen situations to work out.

One of the most challenging aspects of our day is to balance the efforts of working on our existing business while keeping an eye on the horizon. Because we have nurtured a culture of innovation, everyone here is constantly evaluating what our customers and staff do for ways to improve or expand our value propositions. It's a time-consuming process and probably one of the reasons most companies don't do it consistently or well.

It's probably the No. 1 reason most new businesses never see their fifth anniversary.

The old cliché that it takes money to make money couldn't be more true. There's a price to trying new ideas or experimenting with approaches, and we keep remembering that nobody hits home runs all the time.

When we started out, we did most of our strategy and planning among the partners behind closed doors. Our small group came to a consensus quickly and we focused on what we thought the environment should look like once our solutions were implemented. Where we fell short was gaining a 360-degree understanding of the environment our customers were facing and how difficult it was to motivate their employees to embrace change, even when the change would make their workdays easier and their results so much greater.

Today we try to invite as much input as possible. Identifying the necessary stakeholders, understanding the constraints and desired outcomes allows us to get a more successful plan in place because it has acceptance, or at least understanding, from each key participant. It certainly makes the planning

stage a longer process, but it yields clearer results, fewer failures and, in the long run, saves money.

Seven years ago, probably neither of us would have imagined this company being where it is today. We started out buying distressed properties and today we have a company that supports both a B-to-B technology platform and a growing B-to-C service business. We landed in a great place because of our willingness to attack and solve difficult problems in unique ways, and because we're never happy to hear, "It's always been done that way." Our team is always open to considering the best outcomes and adjusting our environment to accommodate success. Neither of us can imagine being anywhere else. We love coming to work, we love the people we interact with, we love the creativity in the way we work and the challenge to figure out puzzles and build solutions.

We say that our business capitalizes on opportunities others don't recognize.

You don't seek to innovate; you fall into it. You talk about something, you wonder why it doesn't work the way you think it should, you explore and turn things over, try this, try that, succeed, fail, pivot and start again each day. And then something works—bigger than you ever hoped. **MB**

Rodney Carey, chief executive officer, and **Ronald Jasgur**, president, are co-owners of Woodward Asset Capital in Southfield, Michigan. Woodward Asset Capital (www.getwoodward.com) is parent company to OfferSubmission.com, VerifiedShortSale.com and SellerNation.com. For more information, visit www.woodwardassetcapital.com.

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