The Business Case

For Construction Finance Technology

Land Gorilla, Inc

Introduction

The historic refinance boom of 2020 has come to an end. Black Knight reported in February 2021 that the potential refi candidates had reached their smallest number in a year.[1] And the recent MBA Mortgage Finance Forecast indicates refinance dropping over 80% by the end of 2021.[2] As refinance volume continues to drop, lenders will need to pivot their mortgage business to a purchase-centric strategy.

However, mortgage lenders are faced with a looming issue - there are not enough houses to satisfy the explosive demand in home buying. And this issue has the potential to significantly restrict any mortgage growth if lenders are not equipped to address it.

Home buyers are faced with the worst housing shortage in US history after a decade of not building. Freddie Mac recently reported a 4 million home deficit.[3] According to NAR, buyer competition intensified in February of 2021 with 4 offers for every home sold, compared to 2 or 3 last year.[4]

Homeownership is still an aspiration for many Americans, with millennials making up the largest segment of homebuyers in the country. The opportunity is strong for lenders who are offering any type of construction loan product.

Homebuilders are working to answer the growing problem, with builders reporting solid demand for single-family homes.[5] This is in addition to the renovation market holding a lot of power to improve America's housing stock, adapting homes to make them more appealing to shoppers. As it stands, the median age of the country's 139 million homes is approximately 37 years old with the Northwest holding homes that are approximately 58 years old.[6] In addition to aging inventory, the vast majority of buyers would like to change or upgrade at least one item in their home, even in a brand new house. This is all fueling the remodeling and renovation industry and is paving the way for more desirable homes.

Financing for construction and renovation projects are specifically set up to get shoppers into a home that fits their unique needs. By focusing on this, lenders can secure more business, not only helping borrowers but also helping their own bottom line. To profitably capture the growing need that's out there, lenders must make sure they are efficiently adapting their processes and products to fit the current market, maximizing their workflow.

In this white paper, learn how to seize this historic demand by focusing on scaling your construction finance programs, along with the importance of having the right tools in place to successfully capture this opportunity.

The Answer to Demand

The stage has been set for lenders to take advantage of a growing demand for newly constructed or renovated homes. Given the lack of available or habitable inventory, this is one of the main options lenders have to capture business.

However, the market hasn't been focused on renovation or construction loans. When everyone started to digitally transform the mortgage process, many lenders never prioritized improving their construction or renovation process. This means lenders are left to use inefficient and outdated spreadsheets to handle these loans. While this method might seem fine in the moment or for a small amount of loans, the process isn't built to help lenders maximize their output.

In addition, construction and renovation loans also are more complex and difficult to manage. With antiquated tools such as spreadsheets, lenders aren't exactly setting themselves up for success to capitalize on this business. As the market shifts, the process will have to as well.

While spreadsheets are the go-to tool for lenders, they come with hidden risks and costs. For starters, manual entry takes a lot of time and is error-prone. Additionally, no one can view the file in real-time besides the file owner, creating visibility issues for borrowers and builders. There's also no built-in tracking/risk monitoring or reporting.

It's important to have a platform that can offer these features in order to give greater transparency into the process, improve communication between involved parties and ensure the loan is being handled properly. Most notably, it allows lenders to confidently increase their pipeline.

A typical loan administrator can handle between 35 and 50 loans when using spreadsheets to manage construction and renovation loans. Looking at the monthly cost of labor using spreadsheets, if the average monthly loan volume is 300 and each employee makes $30 an hour, the labor would cost the company $45,000 per month if the administration team was working 5 hours per loan. It's a steep cost for so few loans.

There is an increase in new construction demand whether lenders are ready to handle the influx or not. At the time of this writing, new home construction starts increased 19.4% month to month, and 37% year over year, according to the U.S. Census Bureau and the Department of Housing and Urban Development (HUD).[7] Lenders seeing this rise coupled with the current housing crisis will see an opportunity ahead of them. An opportunity, if invested in, which could yield better results than ever before.

If lenders truly want to grow their business, they need to ask themselves if they're properly set up to meet this demand. Now's not the time to settle for the status quo when it comes to the loan process. It will come at a cost whether it's revenue, employees or customers.

This list of questions helps lenders see how their current processes work and spotlights the areas that need improvement:

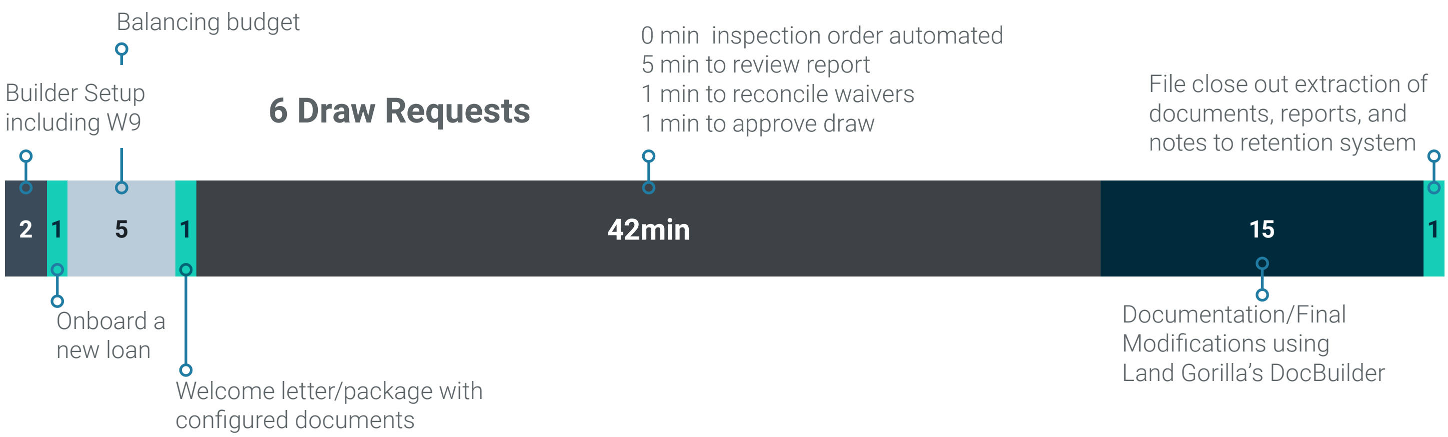
1. How much time is spent processing each draw request?
2. Can the company handle an influx in construction and renovation loans?
3. What is the impact of the current process on borrowers/builders?
4. How could greater efficiencies in draw management impact the bottom line?
5. What is getting in the way of a more efficient draw process?
6. If the process was smoother, would the company want to take advantage of the growing opportunity in construction and renovation loans?

The Modern Structure

Total Time to Manage a Loan

CLM **67min**

Spreadsheets **295min**



Construction and renovation loans need to be as safe and efficient as all the other loan products out there, despite taking a backseat the last few years. Managing a growing volume of these loans will be more complicated if lenders are not prepared with the right tools and processes, which is where Land Gorilla's forward-thinking technology comes in.

Land Gorilla pioneered a new way forward for construction and renovation lending, giving lenders and key stakeholders confidence with better transparency and process efficiency they need for successful project completion. Land Gorilla's Construction Loan Manager (CLM) can help lenders increase efficiencies five fold, a huge boost given the pending uptick in demand.

The software creates a fast, safe, and efficient loan process to properly address how complicated these loans can be. It's made to handle the moving pieces and hidden risks that come with these loans, so lenders can manage their physical, financial, and legal interests.

Monthly Cost Savings to Manage Loan Pipeline with Land Gorilla:

78% Savings

	Avg. Monthly Loan Volume	Adjusted FTE	Hours Per Loan	Monthly Cost of labor
Spreadsheets	300	30/hr	5	$45,000
CLM	300	30/hr	1.1	$9,900

The Modern Structure

Unlike spreadsheets, the CLM minimizes risk and supports business decisions with industry best practices. At the same time, it maximizes efficiencies by optimizing loan management capabilities without increasing labor costs. In the example above, it takes that $45,000 labor cost to the company and slashes it 78% by streamlining processes and managing construction loans faster with smart automation and tracking tools. The CLM can cut the number of hours it takes per loan to 1.1, dropping the cost of labor to $9,900.

These efficiencies are made possible through an advanced and secure digital experience for all stakeholders. They can access data in real-time to maintain the health of the construction and renovation loan performance, decreasing risk with greater accuracy and checkpoints.

Technology enables a much faster and safer draw process. In addition to saving on touch-time and labor costs, decreasing draw times can result in more accrued interest income for lenders.

Take for example, the CLM enables a lender to decrease their draw time from 9 days to 3 days. Over the life of a $350,000 construction project at a 4% interest rate, this reduction of 6 days per draw equates to an additional $213 in revenue per loan just in earned interest income. With a large volume of loans, in this example interest income could equate to over 200% gain in additional pipeline revenue.

Loan Information	
Loan Amount	**$325,000.00**
Advanced at Close	**$25,000.00**
Draw Amounts	**$54,1666.67**
Total Number of Draws	**6**
Interest Rate	**4.00%**

	Spreadsheets	Land Gorilla
Processing Time (calendar days)	9	3
Disbursement Amount	**$25,000.00**	**$79.166.67**
Daily Accural	**$2.74**	**$8.68**
Interest Accrued @ Draw 1	**$16.44**	**$52.05**

Days Eliminated per Draw	**6**
Additional Revenue per Draw	**$35.61**
Additional Revenue per Loan	**$213.66**

The Total Cost of Ownership

Some lenders are hesitant to scale their renovation and construction lending products because of how innately complicated they can be. Although the demand makes it seem like a smart business move, they view the loans as too risky and tend to steer clear of growing it too much.

The reality is that it is an even greater risk to their business not to offer renovation and construction loans. If they want to increase their bottom line, beat out the competition, and retain customers and employees, they are going to have to look into different ways to grow their business through products like these since the inventory crisis isn't changing anytime soon.

To prepare for a growing portfolio, lenders can choose to strategically position their company for success by opting for SaaS. It provides lenders with a cost-saving option, allowing them to reap the benefits of partnering with a technology company that is in the business with them, giving lenders access to rapid innovation and the most cutting-edge product available. This results in continuous improvement in efficiency, risk mitigation and customer experience.

This is in addition to having access to a Cloud Ecosystem, with APIs to enable integrations with other platforms. Lenders don't have to rely on their own IT department to innovate a new product or continuously make new updates since they'll always have the latest software. In turn, it also reduces IT costs, alleviating unnecessary infrastructure and operational responsibilities.

Beyond the revolutionary technology, software is also a game-changer for employees. A loan administrator can manage a significantly larger amount of construction loans using SaaS over spreadsheets or home-grown systems, which is where the 78% cost savings that were mentioned earlier come into play.

Utilizing technology to scale serves as a great way to retain staff and recruit more employees. Remember that the inventory crisis is a national crisis, meaning everyone in the industry is dealing with it. By offering the potential for a steady and reliable flow of business through renovation and construction loans, lenders will be able to retain their employees. Studies also show that the best ways to hire top talent and retain talent is to offer a competitive pricing model and product growth strategy.[8] Employees will value the robust offerings of construction and renovation programs, giving them a competitive edge and more dynamic product offerings to fit any need consumers have.

Equipped for Growth

Experience-Driven Innovation

When it comes to managing safe, fast, and profitable construction loans, experience matters. At Land Gorilla, we use our own software to manage construction loans every day. As a result, we innovate dramatically faster than our competition, while creating construction lending solutions that actually work in the real world.

Loan Control

Configurable workflows and reporting tailored to the lender's unique needs

Quick Pay

Fast, flawless draws, minimizing the back and forth to pay stakeholders faster

Connected Brand

A seamless, branded customer connection that drives customer loyalty

To request a demo, visit landgorilla.com or call 855-887-3800

Market indicators show now is the time to make moves into renovation and construction lending. Millennial home ownership demand is set to rise, and there's barely any affordable housing options for them. With so many potential homebuyers on the sideline, lenders can have a direct impact at scale on fixing this by taking a look at their systems and processes now. Outdated and inefficient spreadsheets can't sustain this growth, and instead, they'll create more problems and costs for lenders.

It's time the industry stopped defining renovation and construction loans as too complex and difficult to process. Land Gorilla's Construction Loan Manager drastically reduces risks, streamlines the process, and increases the bottom line, putting the power back into the lender's hands to capture this growing opportunity.

Sources

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