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WebEquity on course to carve out 30 percent of banking market share

by Michelle Leach

The forerunner to WebEquity Solutions went dark in January 2008. There were no big announcements that the Glenwood, Iowa, company had been purchased by a private equity fund. The company's new leadership stayed mum about its moving to Downtown Omaha. In those nine months, though, the firm that specializes in lending-related software was stirring behind the scenes — building up business.

When it emerged that fall in new quarters in Downtown Omaha, the firm had a new name and a new look that transitioned it from a more regional player to a national leader, according to CEO Doug McGregor, who indicated the company's customer base has grown 57 percent since that time to more than 620 financial institutions — of the likes of Great Western Bank, U.S. Bank and Capital One.

"We're growing 30 to 40 percent per year," McGregor said. "Forty percent of Nebraska banks use WebEquity and we would like to get the other 60 percent.

"In three to five years we want to be up around 1,400 or 1,500 customers."

These numbers would represent roughly 20 to 30 percent of the banking community for the firm that has grown by providing software to make the process of identifying and tracking credit-worthy borrowers throughout the life of the loan easier and more effective, according to information provided by McGregor.

"We estimated that 40 to 70 percent of the market was using Microsoft Excel as their primary credit-worthiness tool," McGregor recalled, during the process of identifying the need for such software in the market. "We were dead wrong."

In fact, McGregor said of the more than 200 new banks that were brought on in a matter of two years, 98 percent were still using Excel to determine credit-worthiness for often complicated lending arrangements.

According to McGregor, this outmoded system opened organizations up to errors and security breaches as files were scattered and only specific individuals knew how to properly oversee this system.

He indicated that status quo reigned up until the point when the debacle in mortgage lending started to trickle down to other areas of lending.

Because we are so nimble we can add complex credit capability beyond what the company already had and can

adjust to the regulations we see coming down," McGregor said.

By "nimble," according to McGregor, the firm releases updates to existing software at least four times a year. He hopes to double that figure.

"When we make a release ... [we] send out an e-mail that says, 'We are adding these features. Would you like training? Do you want us to turn it on for you?'" McGregor said.

These updates are completely configurable to the existing software arrangement of said client. In addition, McGregor said, there are no additional fees associated with the upgrades, as WebEquity is a subscription service — which also represents a significant change as the company, prior to 2008, ran off of a licensing model.

WebEquity Solutions

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Address: 1314 Douglas St., Suite 1000, Omaha 68102

Founded: 1985 as Credit Refinance Consultants in Glenwood, Iowa

Services: on-demand lending and risk management software and training (vs.

"traditional" manual, paper, resource-intensive systems)

Goals: Grow to upwards of 200 employees and upwards of 30 percent of bank-lending software market by 2015.

Website: www.webequitysolutions.com

"There was a big upfront fee," McGregor explained. "We took down the large upfront fee and spread it out over time — we make more money in the long run and the customer gets in early at a much lower price and expense."

When the company first made the switch, McGregor said, it was running at 39 percent recurring revenue. Now it is running around 75 percent recurring revenue, with the hopes of WebEquity achieving 90 percent of its total revenue in the "recurring" category.

That 90 percent you can count on every year," McGregor said. "The banks love it. Buyers love it. We're able to weather the financial storm and not lay off people, and grow and stay ahead of the competition."

The firm has also grown by investing in R&D. The most recent results of its R&D effort are what's called the Risk Management Dashboard.

We make claims that it's the first pre-approval and post-approval stress-test tools for banks," McGregor said.

According to McGregor, only a handful of organizations utilize the necessary data to determine the credit-worthiness of a borrower and, taken

together, all borrowers. In turn, he noted, bank leadership only has a superficial view of where they're sitting with regard to risk — Who isn't making a payment? Where are the problem geographies/branches?

"And why not stress-test the economics of it before doing a loan than after the fact when a payment hasn't been made?" McGregor said, also referring to the importance of following up on the account throughout the life of the loan. "Instead of waiting for an annual review, you can stress-test at any given time." McGregor used the example of a president who knows the market is diving. He can zoom in on that specific market and access all accounts to clearly see who's falling behind.

This is a picture of a bank's entire loan portfolio, which they have never seen before," McGregor said.

One can see the status of each loan: those that are approved or declined, for example. One can see how specific loans stack up to risk rating model, which utilizes a scale of one to eight — the higher the number, the higher the risk.

One can also search by just about any parameter imaginable, including by branch, loan officer or the type of loan. These tools used to bring formerly disparate data together are utilized as action drivers by organizational leadership, McGregor indicated.

For example, a bank president may identify accounts that have moved up the risk scale, and contact his or her loan officer and chief credit officer, asking them to pull files surrounding these accounts and stay on top of how these borrowers are faring. That way, according to McGregor, resources are deployed effectively — toward the accounts that may become problems in the future if they are not properly addressed.

WebEquity unknowingly became involved with addressing outdated language regarding state laws when it applied for Nebraska Advantage incentives, for which the firm was initially denied. Why? Because according to state law, the incentive only applied to those companies that delivered software via U.S. mail. WebEquity software is delivered virtually via the Internet.

"They didn't have a technologist to craft the wording," McGregor said. To assure no other tech companies



CEO Doug McGregor ... Loan management software provider picks up 10 to 12 new clients a month.

would encounter this, McGregor and his team worked with professionals with the Nebraska Department of Revenue to educate them on this new age of software delivery. Eventually, McGregor helped to rewrite the legislation — LB 918. It passed 49-0. WebEquity was awarded the incentives.

In addition, the governor later caught wind of just how involved the firm was in driving these legislative changes, and met with McGregor and other WebEquity executives last month.

Aside from being a regional and national driver, the company's business has spread to Australia and England — the latter is a private equity fund, which represents a growth area for the firm.

Right now, it's focusing on acquiring companies in the banking market, but is open to private lenders in the future.

Attention to the needs of the banking community comes down to seemingly minuscule details, which were implemented when the firm "went dark" in 2008. "Our entryway is designed around the psychology of a banker," McGregor said.

He noted that the lobby conveys a clean, structured appearance. In addition, televisions were outfitted in the hallway leading to the meeting room. All are tuned to financial channels.

"We want them to get the feeling that our ear is close to the ground," McGregor said. "They don't know who we are when they come in the door, but by the time they get in the room, they feel more comfortable we can deliver to them the product they want."

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