

DENVER BUSINESS JOURNAL

VOL. 56, NO. 20

DECEMBER 3-9, 2004

FINANCE

Granite Loan Management proving to be rock-solid

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DENVER BUSINESS JOURNAL

Ah, complexity. Tackle it and handle it, and rewards may flow.

Such has been the case with Granite Loan Management, which has been helping lenders make and manage mainly residential construction loans nationwide.

Centennial-based Granite has grown its revenue 20 percent to 30 percent a year since 1998, and expects to facilitate the closing of \$1 billion of construction loans this year, generating close to \$6 million in revenue for itself, President William Cobb said.

About 80 percent of its business is helping lenders with residential construction loans for new homes or rehabs, and 20 percent is in small commercial loans, an area it entered about three years ago and hopes to build to 50 percent of its business in five years.

Next year, Granite may increase revenue by 30 percent or more, Cobb said. That's mainly because it has signed one deal that launches in January with Riverwoods, Ill.-based Morgan Stanley Dean Witter Credit Corp., and it is negotiating deals with other potentially big clients. One of its bigger existing clients is JP Morgan Chase.

Its number of employees has grown from the three it had seven years ago to 60 today, and the company expects to add 10 more in the next year.

George Taylor, president and CEO of Denver-based Premier Bank, said his bank turned to Granite because its construction loan volume — 20 or so in the past year — didn't justify the dedication of a full-time lending officer for that highly complex area. And Granite brought the expertise and economies of scale that made outsourcing



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William Cobb, president, and Penny Roach, executive vice president, of Granite Loan Management Inc.

attractive, he said.

"The projects they've managed have done very well," Taylor said. "We're very satisfied with the service they've provided." Last summer, Granite made a cash acquisition of Chicago-based ConstructSure, now called Granite Construction Inspections, for between \$300,000 and \$400,000. The new unit provides opportunity for growth not only through inspections for loans involving Granite Loan Management, but also for

outside lenders who need inspections performed for their construction loans.

In the next year, Granite may look at another acquisition in the inspection arena to gain greater scale in that business, Cobb said.

ConstructSure brought the advantage of a base of inspectors across the country as well as Web-based software that enables inspectors — who work on a contract basis — to receive orders from the Web site and

upload their comments and photographs to the same site.

The inspections are performed when a "draw request" is made by the contractor from the lender. Typically, on a loan of under \$200,000, there might be five draws in six months. With larger homes or commercial projects, there might be as many as 15 draws in 12 months.

Granite just finished managing a loan on a \$20 million home in Colorado, for instance, and its commercial projects might entail loans up to \$25 million.

At another of Granite's Web sites — called the online draw-status Web site — lenders, borrowers and general contractors can access information such as photographs of the status of construction, amount of money disbursed and percentage of the project completed.

Keeping the percent of the money paid out by the lender close to the percent of the contract completed helps ensure against a contractor walking off the job with, say, 80 percent of the money when only 40 percent of the contract is finished.

SELLING POINTS AND COMPETITION

A couple of major factors about Granite make it attractive to lenders, which can range from community banks and credit unions to national banks and large mortgage companies, said Penny Roach, executive vice president of business development.

One big one is the lender's avoidance of a fixed cost through handling construction loans in-house. By turning to Granite, a

lender's costs become variable, so it can better match its costs to the number of loans closed. Granite is paid a percentage of each loan closed.

Another advantage is Granite's software, which includes not only the newly enhanced ConstructSure program and the online draw-status capability, but also Granite's proprietary risk-management software.

That software brings two big pluses.

- It plugs in the laws from all 50 states on mechanic's liens — which are claims against a property that can be made by subcontractors when the general contractor hasn't paid them. About 30 states, including Colorado, have roughly the same law on those liens, while the other 20 are all over the board, Roach said. The software enables a lender who has loaned in only a small region to more easily expand to other regions.

- In addition, the software has a cost-estimate component tied to comparable construction in the same zip code. It enables Granite to see if the general contractor has likely underbid the project. If so, the lender may ask the borrower to borrow more for a contingency fund.

Before a loan closes, Granite performs the project review and contractor acceptance, and after it closes, Granite arranges for the inspections and disbursements, monitoring the progress of the project.

On the residential side, the company doesn't have a lot of competition, Roach said, stressing it's usually local and comes in the form of title companies offering

disbursement services but not managing to the construction budget.

On the commercial side, fund-control companies offer competition, but typically on large projects, so Granite is targeting small projects where it thinks it'll have less competition, according to Cobb.

But Premier Bank's Taylor said competition is plentiful for outsourced loan management on small commercial construction projects.

All of Premier's 20 commercial construction loans this year are 75 percent guaranteed by the Small Business Administration, he said.

He added he's talked about loan services with San Antonio-based FAS Construction Management Inc., which works with SBA lenders. And he's talked with LM Consultants, which has an office in Denver, as well as another local firm about the same services.

Outsourcing construction loan management is just part of a trend of outsourcing by banks, particularly small ones, Taylor said. Premier outsources its data processing, regulatory compliance checks, lending on homes, credit cards, and life, property and casualty insurance, he said. And Premier is talking to vendors about providing investment services through outsourcing, he said.

Because of its expertise, efficiencies, and variable costs, Granite thinks it can take advantage of that outsourcing trend among banks.

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