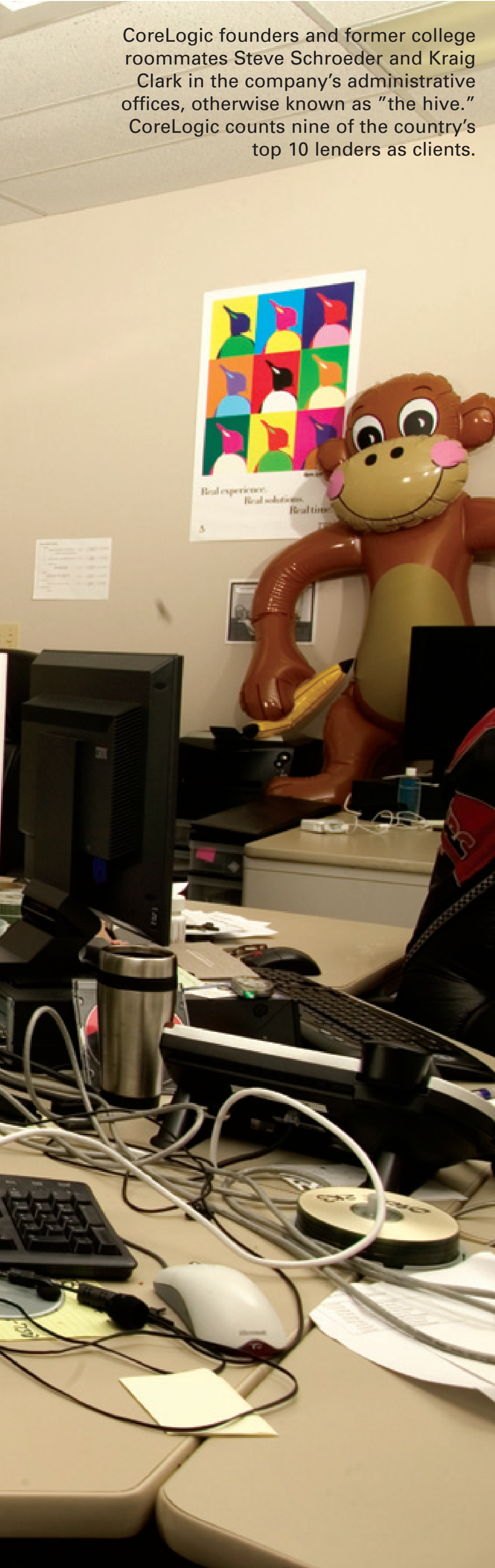
PHOTO: JAYSON CARPENTER



CoreLogic founders and former college roommates Steve Schroeder and Kraig Clark in the company's administrative offices, otherwise known as "the hive." CoreLogic counts nine of the country's top 10 lenders as clients.

A LOGICAL PROGRESSION

How CoreLogic became one of the fastest-growing private companies in America

by Rich Ehisen

Mortgage lenders are always searching for a more efficient and profitable way to get from Point A to Point B. To accomplish that goal, about a quarter of the entire loan industry is beating a path to the door of Sacramento-based CoreLogic, whose high-tech loan-valuation and fraud-assessment tools allow lenders to catch most bad or potentially fraudulent loans long before they become revenue-killing write-offs.

Those tools have also transformed CoreLogic from a two-person operation selling other people's products into one of the fastest-growing companies in the nation, a 170-employee juggernaut with approximately $65 million in annual revenue.

Don't feel alone if you haven't heard of these guys. Flying under the radar has been, by their own admission, part of their strategy. But since Inc. magazine last year ranked CoreLogic among its top 20 fastest-growing private companies

©OMSTOCK'S

in America for the second year in a row, CoreLogic, once content to be a big name on Wall Street while staying fairly anonymous at home, appears to be ready for its close-up.

Company co-founders Kraig Clark and Steve Schroeder readily admit that they weren't expecting to flip the mortgage-lending world on its head when they first opened up shop together as C&S Marketing in 1997 (the change to CoreLogic came in 2005).

Former college roommates at Sacramento State, the gregarious Schroeder and the more taciturn Clark had long talked about starting a business together. After graduating, they each took jobs in the real world, Schroeder as a foreclosure analyst with the state and Clark as an accountant at OEA Aerospace. Other jobs followed for both, but they never lost their entrepreneurial ambition or their desire to strike out as partners.

"Our biggest risk was time," Clark says. "We talked about that early on. 'If we fail, we go back to work. No big deal, right?' We would lose a year or two, maybe be a little bit in debt. Our perception of the whole risk profile was really just the time factor."

"When you're two guys who don't have a lot of financial resources, you ask, what is the value proposition you have for the marketplace?" recalls Schroeder. "What we really could do was sell."

Fair enough, but sell what? They didn't have a product of their own, so they went to the next best option: selling someone else's products.

"A lot of small technology firms build some incredible technology but don't know how to get it to market," Schroeder says. "So the two of us started taking these companies' products, matching them to various industry needs, and selling them out to the marketplace."

For almost three years they sold mostly automated valuation models, which lenders used to calculate value on specific properties. They were successful enough, but they eventually realized that what most of their customers really needed was something nobody had for sale.

"Our vendors had all kinds of different products, but nothing that looked like what we saw as being the gap," says Schroeder. "So that's when we actually said, 'Let's start building tools of our own and filling some of these holes that we can't find anybody else to fill.' "

As Schroeder and Clark saw it, the primary hole in the lending market was a lack of good information. Specifically, lenders and institutional real estate investors were often making decisions based on only a handful of evaluation criteria, hardly enough in Schroeder and Clark's view to make the best possible lending decisions.

Worse, this information deficit made it particularly challenging for lenders to ward off mortgage fraud, which the FBI asserts makes up 20 percent of all fraud in the United States. In 2005, for instance, the feds say mort-

kraig clark

BORN May 22, 1968 in Walnut Creek.

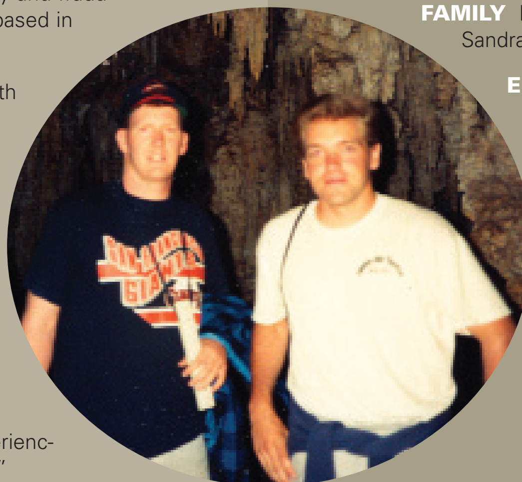
JOB COO and co-founder of CoreLogic, a leading provider of automated valuation technology and fraud-detection tools. The company is based in Sacramento.

FAMILY Lives in Sacramento with his wife, Louise-Claire.

EDUCATION Bachelor of Arts in accounting from Sacramento State. In the process of completing an MBA with an emphasis in accounting, also at CSUS.

WORK ETHIC "Entrepreneurship is really a fun experience that you can't gain any way other than by doing it.".

LIFE ETHIC "Learning and experiencing a lot of different things is fun."



steve schroeder

BORN Feb. 7, 1969 in Lodi.

JOB CEO and co-founder of CoreLogic.

FAMILY Lives in Sacramento with his wife, Sandra, and daughter, Sicily.

EDUCATION Bachelor of Arts in marketing, Bachelor of Science in psychology, and a Master of Business degree in marketing from Sacramento State.

WORK ETHIC "There's no way to learn until you try."

LIFE ETHIC "You're doing well if you're 60 percent right and 40 percent wrong."

gage fraud cost lenders more than a billion dollars in losses, a figure some industry players scoff at.

"I would say that a billion dollars in losses due to mortgage fraud is very, very low," says attorney Gilles Attia, who has advised a number of investment and financial institutions in the Sacramento region. "Those are just the cases being reported, because the last thing lenders want people to hear about is rampant fraud in the lending industry. The reality is that fraud is a huge, huge problem."

To help lenders mitigate those losses, in 2000 Schroeder and Clark began building databases that contained critical information on virtually every property in the United States. It was a very time- and labor-intensive project. It was also in the days right after the tech collapse, when venture capital was hard to come by.

Without the financial resources to buy just what they needed, they had to cull most of the data from a variety of public and private sources, buying only what they could not acquire through their painstaking efforts.

"I think last year was the first time that we had actually heard the term *bootstraps*," Schroeder says. "We were at an event with a lot of venture capital people and business people from Sacramento who were like, 'Wow! You bootstrapped it.' And we were thinking, 'What the heck is everybody talking about?' Obviously we learned that it's fairly rare for a business of our size to start without venture capital."

In the end, their databases were key to the development of software and other valuation tools that allow mortgage lenders and secondary marketplace investors to apply hundreds of criteria to each loan assessment, making it much easier for them to accurately and quickly identify loans with high fraud potential.

Even when their system doesn't identify fraud, it can point out loans that are simply poor bets by comparing the property's sale price to both its current appraisal and to the rest of the market. It can also account for peripheral elements that could affect the property's legitimate value in that specific market.

"When the market gets a little soft, certain properties actually get a lot softer than others," Schroeder explains. "Not every property experiences the same patterns, even if it's within five city blocks of each other. We may analyze several hundred pieces of information simultaneously on any one particular property and then analyze the relationships between those pieces of information.

> "A lot of venture capital people were like, 'Wow, you bootstrapped it.' And we were thinking, 'What the heck is everybody talking about?'"
>
> *— Steve Schroeder, CEO, CoreLogic*

"For example, is it on a railroad track and is that railroad track still live? Is it an abandoned railroad track? How old is the house? We determine the impact of all these different types of variables."

Although the potential was certainly there to save lenders significant dollars by avoiding bad loans and bad loan brokers, Schroeder concedes that lenders didn't trip all over themselves to sign up.

"The industry was initially very skeptical," he says. "I think all industries are skeptical about new products because they've been sold a lot of lines over time. Everybody always has the silver bullet, and people are always saying, 'Oh, we can do everything for you; it's the perfect solution.'

"I think we as consumers, all of us, get very jaded to anybody who says, 'We've got the real answer to the question.' So we never really went in saying that. We always went in saying, 'Let us just prove it to you. Let us demonstrate the return on investment for this process.' "

The demonstrations clearly made an impression. Schroeder notes that once potential clients saw with their own eyes what CoreLogic's suite of tools could do, they were ready to drop the "potential" part pretty fast.

"Everything we do basically translates into dollars for the lender," says Schroeder. "They can do smarter business and have better performance of their loans in the marketplace as a whole by using these types of techniques effectively. They save money because they can do a lot more business with less people."

By 2002, the company had grown to five employees and the skeptics were diminishing. Within a year, Schroeder and Clark's 80-hour workweeks began to pay even greater dividends, and the two men were able to add a dozen more people. Staff was soon up to 44, with company revenues corresponding in kind — $5 million in 2001, $17 million in 2002 and $44 million in 2003.

Along the way, Schroeder and Clark acquired nine of the top 10 lenders in the country as clients, and more than 80 percent of the top 200 lenders. That translates to CoreLogic evaluating around 50,000 loan transactions each day. Attia says the reason for such an overwhelming response is simple: "Their products work."

In many ways, CoreLogic's methodology mirrors the kind of statistical revolution that has recently taken over Major League Baseball.

For years, stat geeks swore up and down that the standard way of evaluating a player's ability was wrong. Scouts, general managers and team owners, they said, were far too quick to look at a player's physical makeup — size, speed, throwing arm, etc. — and make the presumption that those elements alone made him worth a big

©OMSTOCK'S

fiscal investment, often in the millions of dollars.

Sometimes the deal worked out, but far more often those players never developed into the players the team was paying for. They were the baseball version of a fraudulent loan, promising vastly more than they had the ability to deliver.

But a few years ago, teams like the Oakland Athletics began ignoring conventional wisdom. With MLB revenue heavily weighted toward big-market teams in New York, Boston and Los Angeles, small-revenue teams like Oakland turned to in-depth statistical analysis to determine which players to invest in.

They wanted to know not just about a player's surface attributes, but also about his historical performance under a varying set of conditions. That meant analyzing a whole host of statistics in order to determine a legitimate, verifiable pattern of behavior. In that way, management could predict with a fair amount of certainty what they could expect from a player and adjust their financial investment accordingly.

The results have been stunning. The Athletics franchise, once a poor-sister doormat to the rest of the league, is now consistently one of the better teams in the game, and with a payroll far less than half of most of the big revenue generators. Perhaps even more interesting, the wave has caught on among some of the more affluent franchises as well. Schroeder says none of this surprises him.

"The problem with our human ability to evaluate patterns is that we're very thin in how many dimensions we can look at," he says. "We can maybe look at two, maybe three dimensions at best. Looking at that fourth dimension is beyond the ability of 98 percent of all the people in the U.S."

CoreLogic's almost surreal pace came back to earth a bit in 2005, but the company still maintained double-digit growth.

"From 2001 to 2003, our growth was in the thousand percent category, but when you're going from $17 million to $44 million, several hundred percent growth is much easier to maintain than when you go from $40 [million]-something to plus $60 million. Once we hit the $40 million mark, we've been growing at about 25 to 30 percent per year," Schroeder says.

With the bulk of the industry's major players already in the fold, one might presume that CoreLogic would ease off the pedal and enjoy their success. That presumption would be very wrong.

Clark and Schroeder have added training, education and appraisal services to their offerings, and they are also steaming full speed ahead with a new generation of risk-management tools they claim will be "industry-changing."

> "You never know how much you didn't know until you look back. Next year I'm sure I'll go, 'Wow, last year I was naïve.' "
>
> *— Kraig Clark, COO, CoreLogic*

The company also took in $50 million in venture capital in 2004, which Schroeder says will allow him and Clark to "expand what we were capable of dealing with and go from there."

That emphasis on moving the industry's thinking forward was also the motivation for the name change in 2005. Clark and Schroeder wanted the name to reflect CoreLogic's evolving role as a provider of comprehensive collateral risk management rather than just loan valuation. More importantly, they wanted the name to reflect that the company had become, in the words of CoreLogic spokesperson Pete Kreiser, "essential to our customers' processes."

With their solid cash position and reliable stable of top-flight clients, there has also been speculation that an IPO could be in the future, or perhaps a suitor looking to buy them outright.

Sacramento State business professor Dennis Tootelian — who had Schroeder as a student — says the latter idea is not likely.

"My fear is that rather than being bought out, lenders will just develop their own systems rather than using CoreLogic," Tootelian says. "Many of the large financial institutions have the resources to do that, which means CoreLogic must have a superior product that is keeping them from wanting to build their own system."

But Attia says the high cost of building those databases makes it highly unlikely anyone will try to duplicate what CoreLogic has done.

"It is so much more economical to pay CoreLogic a few million a year to produce these reports than it would be to spend probably $100 million trying to replicate what they do," he says.

Clark and Schroeder are not saying much about specific plans, although their successful growth and the influx of VC money clearly gives them options they didn't have in 1997. Clark, however, notes that the experience they have now may be as valuable as all of the money and attention combined.

"The experience that you gain by doing something like this, it's incredible," he says. "You never exactly know how much you didn't know before until you look back, three or four years ago, and you're going, 'Wow, I was naïve.' Next year I'm sure I'll go, 'Wow, last year I was naïve.' "

"What we can do now with the resources that we have could be phenomenal, given that we got to here with very little," adds Schroeder. "What we accomplished was done with very few people. Now that we have the resources, we can actually have a lot more talent, a lot more energy and a lot more people focused on what to do next, so from our point of view, we're just beginning." ©