



Neal
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a little about...

Neal St. Anthony has been a reporter and columnist at the Star Tribune for nearly 20 years. He writes about Twin Cities businesses, issues and business people three times weekly in the On Business column and other articles.

Neal St. Anthony: Dexma shows that good things come to dot-coms that wait

Neal St. Anthony, Star Tribune

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More proof that not all dot-coms are dot-bombs.

Edina-based **Dexma Inc.**, a profitable, fast-growing provider of Internet-delivered loan-underwriting software, is leasing space for additional computer servers from **Net Perceptions**, a waning, money-losing Web company whose wounded shareholders are pressuring it to sell or liquidate while there's still cash in the till.

Unlike Net Perceptions and other boom-to-bust Internet plays, Dexma's veteran management team turned down millions from venture capitalists and investment bankers in 1999 and 2000.

They decided to wait until they could prove to themselves and their clients -- some of the largest mortgage lenders in the country -- that they had a product that worked and could generate revenue.

"We didn't take the bait," said Dexma President **Steve Mase**, 52, one of three founders of the eight-year-old firm. "The venture capitalists and investment bankers advised us to 'Go as fast as you can, raise money, get the first-mover advantage.'

"We chose not to go that route. We were just starting to figure out how the Internet would change the mortgage industry. It would have been impossible for us to drive revenue or meet their kinds of financial expectations."

Instead, the founders, took the time to develop a portfolio of products that have been embraced in the marketplace.

The result? Another profitable year, with revenue approaching \$13 million from what is expected to be 100 employees by year's end. (Employees and the three founders own more than 80 percent of the company.)

In short, rather than just raise money, Dexma's brass decided to see whether they could deliver a product that could make some first.

"Probably the most unusual thing about Dexma, besides its name, is that it still exists today," said a recent piece in **Mortgage Banking**, a trade magazine for the real estate finance industry. "Dexma toils in the narrow industrial niche of mortgage technology, a veritable cemetery of high-tech ambition."

Dexma's roots are traced to a breakfast meeting in 1995 over pancakes at Perkins. Dining were Steve Mase and his brother, **Bill Mase**, 49, and a couple of friends. They were contemplating the budding Internet.

"After flogging software for 20 years, we knew the Internet was going to change things," said Steve Mase, an irreverent mathematician and MBA out of the University of Minnesota. Steve already was a big-company veteran who had

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started and sold small financial-software firms to the likes of **Knight Ridder** and **Cargill Financial**.

"We just didn't know where or how. For one thing, we knew that we weren't going to be sending software around on little compact discs anymore."

It was clear that the Internet -- by linking consumers, brokers and mortgage providers -- could greatly simplify and expedite the weeks-long mortgage-making process. Bill Mase, a mortgage industry veteran who was headed to Florida to work on a related project for Alltel, decided not to take the job.

The Mase boys soon recruited **Gretchen Etzel** as chief technical officer and the third founder of Dexma. Etzel, a veteran of **Andersen Consulting** and several mortgage companies, helped win a couple of small contracts focused on delivering an online underwriting-software product for mortgage brokers.

What, you ask, does Dexma mean?

Steve Mase, a bear of a man with a handlebar mustache who favors shorts and Hawaiian shirts over suits, with a wink says it's derived from a Greek phrase that roughly translates into "god from a machine."

The founders decided that an inspirational name would help propel them toward superior execution.

Alas, the first product -- an Internet program aimed at mortgage wholesalers -- was invented in 1996 in a garage. Not one was sold.

Dexma had more luck with a couple of retail-loan platforms, the first of which was developed for Dallas-based **First Horizon Home Loan** in 1997.

That led to an unannounced visit by **RBMG Inc.**, a big wholesale mortgage lender, which collaborated on a successful online service-delivery platform developed by Dexma for mortgage brokers.

The huge **Federal National Mortgage Association**, or Fannie Mae, approached Dexma in 2000, looking to expedite its loan-underwriting process for issuers of government-insured mortgages. Its big competitor, **Freddie Mac**, already had an online-powered product.

"We Web-enabled their underwriting engine and put a Fannie Mae brand on it," Etzel recalled. "They looked to us for speed to market."

"We put the first pilot customers through within 60 days for mortgage brokers and mortgage lenders. We hosted the sites for about two years, and then we transitioned it to their own hosting facility."

Impressed, Fannie Mae made a \$5 million investment in Dexma in 2001, in return for 17 percent ownership interest in the company.

The capital and its relationship with Fannie Mae added critical credibility for Dexma, helped it hire key employees, develop better and faster products and attract new clients.

Today, one in eight loans made in the country is run through Dexma-powered retail or wholesale mortgage software offered by more than 70 client companies,

including Fannie Mae, **National City Mortgage**, **U.S. Bank Home Mortgage**, **Colonial National** and **SunTrust Mortgage**.

This spring, Dexma launched its consolidated Dexma Lending Suite that combines its consumer and wholesale Web-underwriting engines -- with links to appraisal, title and insurance services -- as well as case-file connections to Fannie Mae, a huge secondary-market buyer of mortgage loans.

Dexma has resisted sale inquiries from deep-pocketed suitors so far.

"There's a lot of investment bankers out there with some extra time on their hands," quipped **Nick Kozlak**, Dexma's chief financial officer and vice president of business development.

Competitors include huge **Wells Fargo Mortgage** and other giants that use their own in-house mortgage underwriting systems.

The next challenge will be automating the fragmented, loan-processing work that often takes weeks between underwriting approval and a closing.

"That's virgin territory -- how to convert a 60-day process to one that can be closed in an afternoon," said Steve Mase, his office encased by whiteboard walls, littered with scribbled flow charts and business models.

"If you can walk into an auto dealer and buy the largest BMW, and within a couple days get a loan and drive away a \$100,000 car, or whatever it costs, why does it take 60 days to get a house?"

If Mase & Co. can significantly automate the loan-fulfillment process for clients, Dexma's value will rise to the point where an acquirer may pay the kind of price that will send Mase and his Hawaiian-shirt portfolio to the beach for a long time.

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