DC

DALLAS CAPITAL

SUCCESSSTORIES

FIRST FRANKLIN

Nationwide direct mortgage lender

Bill Dallas' candid case study
of a company transformed
by Dallas Capital

OVERVIEW

With a measly $10,000 in savings, I founded First Franklin with my brother Steve in the basement of a restored Victorian home at 743a Franklin Street in Santa Clara, California. Interest rates were in the high teens and home prices were falling into a nasty recession. The Dallas boys were just smart enough to ignore macroeconomics and focus on the opportunity of building an independent mortgage finance company.

OPPORTUNITY…THINK BIG AND ACT SMALL

My competitors were big banks that had billions in capital and ruled the earth like dinosaurs. I found opportunity through two insights: 1) When rates are low, banks will take over and take market share. 2) When rates rise and purchase business is all that is left, banks leave the business to us Lilliputians. As a result, I became a contrarian grower, pushing to expand when the industry leaders were not.

Small opportunities are often the beginnings of great enterprises and we were fortunate to start in a downturn when competitors were either sitting tight or folding up. This put us in position for the real estate boom of the mid to late 1980s.

CHALLENGES

The biggest challenge in the mortgage business is its cyclicality. Booms are followed by busts and markets are hyper-local and not national. Add to that the classic difficulties for growing businesses in all industries: access to capital and adequate cash flow. Then there was the challenge that rested solely with me: “the founder’s trap.” Owners left to their own devices can drive a small business right into victory lane or over a cliff

WHAT WORKED...AND DIDN’T

Worked: Aggressive financial Management

Big ideas often require twice as much time, money, and effort as you think. Given the family nature of our business, we were long on loyalty and flexibility and short on control. We did a lot of early things wrong but we bootstrapped our early development and used duct tape and hard work to overcome our shortcomings. GIVE SOME EXAMPLES OF YOUR BOOTSTRAP FINANCING AND CASH FLOW MAXIMIZATION. This went a long way to address capital and cash flow issues.

Worked: Teambuilding to offset weaknesses

We had the humility to bring in a seasoned board of advisors and experts in lending, per the need for teambuilding as I previously mentioned. We built a small, very tight family of managing directors, and were focused everyday on our number one customer, the employee. Most importantly, we proved we could attract borrowers, assuage Realtors, and please capital market agencies and investors.

Worked: Starting niche before going mainstream

I started FF as a niche lender specializing in hard money purchase loans. We morphed into "mainstream" over time. An important early move was becoming a secondary funding source for the loans banks wouldn't touch.

Didn't: Delays in changing structure and compensation

Although we eventually brought in great teams, we should have done it sooner and aligned structure and compensation sooner. People do what they are compensated to do, so the sooner you focus their efforts the faster you will build value. Mortgage folks are production hounds, which is admirable but must be managed to make sure they are selling the right products to the customers and maintaining relationships. It is important to manage for profit not production.

Didn't: Failure to build consumer brand

On the marketing side, we air-balled branding and customer retention. A brand is important to consumers. Our brand mattered to brokers. I should've taken it to Main Street sooner, invested in it, and made it a household name.

BIGGEST LESSON(S) LEARNED

It starts with a vision. Ours was to build a nationwide mortgage company. The bad times at the beginning of the decade actually provided the opportunity, compelling competitors to hold back, giving us a fighting chance. This only works if you are in a cyclical business that will rebound based on current research and historic examples. (Going "all in" with the buggy whip industry in 1903 is not what I'm talking about.) It also only works if you have plenty of discipline and humility, scarce qualities to begin with, let alone at a startup.

WRAP-UP

In 1994, we sold 85% of First Franklin to DLJMerchant Banking (Credit Suisse today) for close to $50 million, exceeding our wildest dreams. Two years later, DLJMB asked me find a buyer to take the business off their hands because profits and value had waned. But the people hadn't! We bought the business back for pennies on the dollar and sold it to Bank of America for $230 million two years later…and again to National City Bank a year after that for 50% more than BofA paid.

BILL'S TAKEAWAYS

Be a contrarian. Expand when competitors are hunkered down. Find the niches they ignore.

Know the difference between an industry in cyclical downturn, an unproven industry, and a dead industry.

Rebel startups still need sound financial management and the humility to tap outside experts.

Develop structure and compensation as you expand. Don't be afraid to "grow up."

Don't ignore your branding because you're too busy conquering the world.