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BY JOSH RUSSELL

WITH HABITO, DANIEL HEGARTY IS USING AI TO IMPROVE THE MORTGAGE APPLICATION PROCESS AND END THE INDUSTRY'S DEPENDENCE ON PAPER-BASED PROCESSES





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**NO-ONE KNOWS BETTER THAN DANIEL HEGARTY**, the founder and CEO of Habito, how painful applying for a mortgage can be. “When I first applied for mine, one of the big, call-centre-based brokers submitted my application to the bank with three names on it: mine, my wife’s and my wife’s again,” he says. “It was rejected on the grounds that they thought I was a bigamist.” And sadly this was only the beginning of the debacle: after ten days, the form was finally resubmitted with just two names on – both of which were his wife’s. While the broker eventually managed to successfully send off an error-free application and secure Hegarty a mortgage, this experience stuck with him. “It highlighted to me how disempowering and frightening getting a mortgage can be and also just how dependent on manual processes the industry is,” he says.

Reaching out to other brokers and mortgage suppliers, Hegarty began to see how pervasive this problem was. “It was a really byzantine process,” he says. “There was nothing: no APIs, no web services, no digital interfaces, just bits of paper, faxes, people copying data from forms.” And having spent many years as head of decision sciences at Wonga, Hegarty knew that – when it comes to financial services – data and machine learning had the edge over their fallible, fleshy ►

counterparts. “Humans are not necessarily the best at following the rules and copying data from one place to another but machines are” he says. “So we started mapping out algorithms and processes that could remove some of that human error.”

Having hit on the idea that would form the heart of Habito, Hegarty knew he needed to raise some capital if he was to build these algorithms into a functioning startup. Fortunately two serial entrepreneurs he’d worked with previously were all too happy to oblige. “They gave us the first \$200,000 to work this notion up into a sensible prototype, which we did,” says Hegarty. But this was just the beginning: soon the startup was drawing down a \$2.2m seed round led by Mosaic Ventures that included investors such as Taavet Hinrikus, co-founder and CEO of TransferWise, Samir Desai, co-founder and CEO of Funding Circle, and Yuri Milner, the high-profile investor who backed Facebook, Twitter and Spotify. For a flourishing fintech brand, having this kind of experience at the board level was perhaps as valuable as the funds themselves. “More important than the capital is having really great people who have actually built businesses and can give you practical advice on what you need to do,” he says.

But even with the help of experienced fintech entrepreneurs, Habito still had a major hurdle to overcome: ensuring the startup passed muster with the Financial Conduct Authority (FCA). “The FCA is allowed six months to respond to your application and we didn’t hear anything for five,” he says. “When you’re a startup and you’ve already raised some seed capital, it’s pretty terrifying knowing there’s this binary event in the future that could wipe you out.” Hegarty needn’t have worried however. Not only did the FCA soon authorise the startup but it came to play a pivotal role in helping it to develop, inviting it to join its innovation hub and guiding the development of its

service ahead of time. “They recognise that it’s not very productive to just turn up three years after the business has launched and say ‘oh no, you can’t do it that way’,” he says. “If they can provide input during the creative process, it’s much easier for businesses to build it once and build it right.”

And this support and insight proved invaluable in helping Habito streamline the mortgage application process. “We created somewhere consumers could explore the entire mortgage market online, weigh up their options and make a real-time application,” Hegarty says. Once users have supplied a few initial details, they will be passed on to the startup’s digital mortgage advisor, a chatbot that will assess their life circumstances and suggest the best product to meet their needs. Then its proprietary algorithm will find and aggregate the best deals on the market, focusing on the overall lifetime value of the mortgages rather than the additional bells and whistles many lenders attach to them. “We’re not trying to find you the lowest introductory rate or the biggest cashback offer,” he says. “We include all of the discounts, all of the fees and look at the true cost over the life of the mortgage.”

However, Habito doesn’t just help those looking to buy somewhere new: its product is also designed to help the many homeowners who already have a mortgage and are starting to feel like the honeymoon

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is over. “One in four mortgage holders have been moved onto a standard variable rate, which is often double what the introductory rate is,” says Hegarty. “These two million customers are paying on average an extra £3,000 in interest annually completely unnecessarily.” Aiming to save UK homeowners from having to pay their banks an additional £6bn every year, Habito has also created a pain-free mortgage switching solution that can quickly tell users whether they could be paying less. “With four fields, we can give you a pretty good guess about whether you’re overpaying or not,” Hegarty says. “And if you are, we can help you switch within 20 or 30 minutes.”

By removing much of the friction from the process, Habito helps ease some of the anxiety that applying for a mortgage can engender. “Because it’s in relation to your home, mortgages are an emotive subject,” says Hegarty. “They are relatively complicated and quite large financial commitments so they make people feel very nervous and intimidated.” In light of this, rather than focusing on financial savings when communicating to consumers, Hegarty made a conscious decision to concentrate on how Habito could demystify the traditionally opaque mortgage process. “That was a big focus in our marketing messaging,” he says. “We initially pushed that out via digital channels like Google and Facebook and then had a lot of success with our Tube and bus campaign.”

And while Habito has proven a hit with consumers, perhaps more surprising is

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how the industry has responded, with mortgage providers embracing the startup with open arms. “They’ve been very positive,” Hegarty says. “They’ve given us good guidance on what we can do to make their lives easier, be a better provider and what’s important in terms of the customer.” And despite the fact that there has been pushback from the odd broker wary of their niche being disrupted, many are recognising that an infusion of fresh blood in the industry will just encourage everyone to up their games. “There’s a general recognition that perhaps the best customer outcomes weren’t being reached and change had to come,” says Hegarty.

To meet the interest it’s receiving from homeowners and financial institutions, Habito is scaling rapidly. “When we raised our seed round, it was me and a few others at a kitchen table in my house,” he says. “We now have 30 people evenly split between engineers, analysts, in-house mortgage brokers, marketing and admin.” On top of this, in January this year Habito announced that it had just closed a £5.5m series A; alongside Mosaic and the startup’s seed investors, the round was led by Ribbit Capital, the leading Silicon Valley fintech investor. “We were over the moon when they signalled they would like to invest,” Hegarty says.

Habito has this capital earmarked for some pretty ambitious plans. Not content with securing real-time approvals and smoother mortgage switching, the startup is now looking to automate the process even further. “Effectively, we’ll monitor the market for you every day for the rest of your mortgage-holding life,” Hegarty explains. “All you need to do is fill in the application once: from then on we’ll recheck it every day and let you know as soon as there’s a cost saving to be made.” So far from having to worry about their brokers cloning cohabitees, Habito is now making mortgages something homeowners can simply set and forget. “They can apply once and that will be their last mortgage application ever,” he concludes. ✕

