Executive Essay

Tips for Life After Refi

When the refi floods recede, lenders will clamor for old-fashioned purchase mortgages—the kind used to buy homes. Lenders will rediscover Realtors and focus on portfolio retention. But portfolio retention is hard: 93 percent of borrowers *don't* use their current lender when they finance their next home. Less than 7 percent of borrowers are retained. Only the funeral industry has a worse record for repeat business.

But the "real" retention statistic may be less than 3 percent, because most reported retention is accidental, with most borrowers coming back through unbranded wholesale channels. The following is what I have learned about purchase loan retention.

Attention! Loyalty programs don't work

Despite years of trying, lender loyalty programs have proved ineffective at bringing back borrowers. Consumers have no affinity for a vendor they touch every six years. Here's why. Writing a bank's name on a mortgage check each month is not an exercise in brand loyalty. Lenders have ceded control over to the retail channel. Borrowers can name their referring Realtor and their mortgage broker, but not their lender. Loans get bought and sold. Servicing mistakes like posting errors or tax payments are inevitable. Nearly every mortgage closing experience is an unpleasant one for borrowers. They remember only the pain. For all of these reasons, forget loyalty.

Demographic insights don't matter

Home-buying is driven by the passage of time and life events: marriage, children, promotions and retirement. Do you have any of these purchase-loan flag indicators in your database? No. Even if you had perfect information on borrower demographics, they are not actionable. The time window is too wide: People buy homes up to a year before (or after) the baby, retirement or promotion. This marketing target is too wide to be economical.

You can look to rates or home-equity to find refi prospects, but finding homebuyer prospects (purchase loan) is different. Purchase retention is low because it is hard.

Data append doesn't reveal purchase borrowers

Portfolio analytics and database appends can't ferret out elusive purchase borrowers. There is no flag in your call center, no clues in your servicing database and no insights in demographics that give you an actionable, timely indicator to identify which borrowers are ready to buy a home and borrow again.

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>
> — Steve Kropper

The call for a payoff number is too late; the borrower is already in the firm clutches of a mortgage broker. Simple data append to find "at-risk" borrowers is compelling, but fails. Credit alerts catch too few borrowers and have fatal privacy problems. The Holy Grail of matching multiple listing services' (MLS') for-sale listings against the portfolio catches buyers after they are under the influence of a Realtor—plus, it violates MLS rules.

Forget direct mail for purchase loans

The homebuyer is also a very narrow target. Consumers are receptive to purchase-loan solicitations for a scant three weeks during the home-buying cycle. And that window opens only briefly (three weeks) every six years. Before the window opens, they are happy owners hostile to mortgage solicitations. Thereafter, they are preoccupied with the home search. Three weeks later, they are wedded to a mortgage broker.

Here's the "narrow" problem by the numbers: Each month about 1 percent of your portfolio prepays as they finance a new home. If every eligible purchase borrower closed in response to your campaign, only 1 percent would close. However, real direct-mail campaigns typically only capture a small percentage of the eligible targets. A stellar campaign that closes 2 percent of the purchase prospects yields a 1 in 5,000 chance of retention. At $1 per envelope, each loan would cost $5,000. Smart direct-mail can work for home-equity loans, but not for purchase lending.

So what *does* work?

Interaction is the only salvation. The antidrug ads exhort: "Talk to your kids." The same is true with borrowers: Regular interaction is the only solution. It is why Realtors who make networking a diagnosable neurosis get for-sale listings and own the purchase buyer. You must find the borrower; he or she won't find you. You have to detect borrowers when they move into the "buy zone" and then solicit them.

Feet on the street are expensive, direct mail is ineffective and waiting by the phone is lonely. There is no substitute for interaction, but old-fashioned live interaction is too expensive.

Today's affordable interactive media are e-mail and the Internet. Low-cost online tools that get frequent use by hot-prospect borrowers can flag when they move into the buy zone and are at risk of purchase runoff. When consumers reach out for MLS listings, they may be disclosing that they are now in the buy zone. Get an MLS link on your Web site. Likewise, when borrowers research neighborhood "comps," they may be a hot prospect. Information that is essential to homebuying raises a potential red flag. The richer the interactive data on your Web site, the better your chances of identifying the purchase-loan prospect.

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Boston-based Domania Inc. satisfies public curiosity by using home-price data as bait plus click-stream analytics and response e-mail to attract and bring back borrowers each month. There is other content that works besides this home-price data, but steer clear of homeowner newsletters and other content that is received as spam.

Domania has spent $12 million to develop technology that finds elusive purchase-loan borrowers in the mortgage servicing portfolio, then delivers them to a bank's direct lending group. Domania's Portfolio Protect captures borrowers for the loan on their *next* home. Purchase-loan retention is not like the weather; it *can* be controlled.

Steve Kropper is the founder of Domania Inc., Boston (www.domaniainc.com), a financial and marketing services software company that provides innovative customer acquisition and retention products to banks, mortgage lenders and Realtors. He can be reached at kropper@domania.com.