CRACKING THE CODE

HOW LEADING LENDERS ARE OVERCOMING THE MORTGAGE INDUSTRY'S

BORROWER RETENTION PROBLEM

Sales Boomerang

ABSTRACT

Mortgage lenders in the United States face some of the lowest customer retention rates of any major industry. The cost of such churn is significant; with just one in five borrowers returning to their original lender for a subsequent loan, lenders are squandering the majority of the billions of dollars a year spent on mortgage customer acquisition.

Still, some companies are beating the odds and posting borrower retention rates significantly higher than industry norms. To unlock the secret to their success, we conducted original research using 730 days of independent, third-party origination data. What we found was definitive and striking. What do 19 lenders — all of whom outperform peers with customer retention rates of 1.4 to 5.3 times the industry average — have in common?

Read on to find out.

LENDING'S BIG PROBLEM: **LOW BORROWER RETENTION**

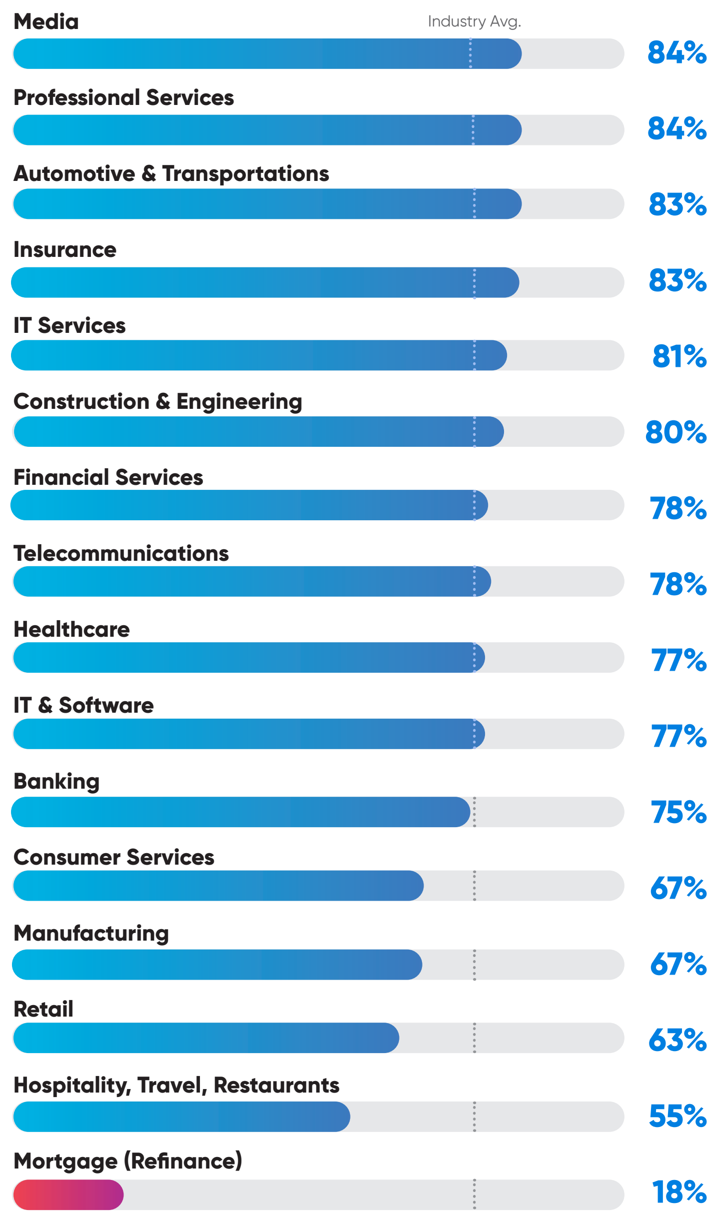
The American mortgage industry has one of the worst customer retention rates of any business sector.

On average, lenders hold on to fewer than 20% of past customers. That means four out of five mortgage customers will get their next loan from a different lender — and the numbers are only getting worse.

According to data published by Black Knight, average retention rates for refinances dropped to 18% in Q3 2020, down from 20% the previous quarter and 23% the year before. For cash-out refis, retention was even worse at just 12%.[1]

Just how bad is a customer retention rate of 12 to 18 percent? According to a 2018 benchmark study by Customer Gauge[2], average customer retention across more than a dozen industries ranging from retail to professional services is 75.5%. That's quadruple the borrower retention rate reported by Black Knight. Even hospitality, the worst-ranked industry in the study, enjoys three times as much repeat business (55%) as do mortgage bankers.

To get to the bottom of this vexing problem, we must first examine the factors contributing to the mortgage industry's dismally low customer retention rate.



[1] National Mortgage News, December 2020

[2] Customer Gauge, June 2018

BACKGROUND

WHAT IS CUSTOMER RETENTION?

A company's **customer retention rate** is a measure of its repeat business. A first-time customer who returns to make additional purchases has been retained.

The inverse of retention is attrition, sometimes called customer turnover or **churn**. Companies measure customer retention and attrition over different timeframes.

For example, a coffee shop or gas station may hope to see customers return within days or weeks, whereas a tax preparer may only expect to see customers quarterly or annually. In the mortgage industry, lenders often wait years for a borrower to become ready for his or her next loan. For this reason, lenders typically measure customer retention over a period of three years or more and focus on "active borrowers" – in other words, just those customers who are looking for a new mortgage.

WHY IS RETENTION SO LOW IN THE MORTGAGE INDUSTRY?

Buying a home is one of the most significant financial decisions a person can make.

With all the pressures involved – saving up for a down payment, picking the right house, packing up belongings and so on – it can be hard to find the time to shop for a lender, too. Instead, homebuyers – especially first-time homebuyers – tend to lean on their real estate agent to recommend a reliable local lender. These community-based loan officers and brokers provide valuable services such as guiding homebuyers through the loan process and leveraging connections with local Realtors, title agents and other professionals to ensure deals close on time. So why don't consumers return to them the next time they need a loan?

According to the Federal Housing Finance Administration (FHFA), the lifespan of the average mortgage is between three and five years[3]. That's a long horizon over which lenders have found it difficult to build customer loyalty. Since originators can't afford to sit on their hands for three to five years, they naturally occupy themselves with new customer acquisition – often forgetting to keep in touch with existing customers along the way. Meanwhile, long mortgage buying cycles give competitors countless opportunities to poach those unattended customers.

These competitors include a growing number of direct-to-consumer lenders who have zeroed in on refi prospects as particularly ripe marketing targets. Since refis are streamlined transactions when compared to purchase loans, consumers don't need as much hand-holding and are generally more willing to consider a lender with whom they have no prior relationship. Moreover, consumers can take their time with a refi – and more time means more opportunities for competitors to make an impression with a well-placed ad or well-timed call.

THE HIGH COST OF CUSTOMER CHURN

A company's **cost of customer acquisition (CAC)** is the amount it spends introducing new customers to its products and services.

CAC is calculated by dividing a company's total acquisition costs by the number of new customers gained over a set period. In the mortgage industry, typical acquisition costs include purchased leads, marketing, and advertising, including technology and payroll expenses associated with these business areas.

Lenders have wildly different budgets and take a variety of approaches to customer acquisition, making it difficult to pinpoint the industry's average CAC. However, we know that mortgage lenders collectively spend billions of dollars a year on marketing and advertising. Quicken Loans, the nation's largest lender, has been known to spend as much as $902 million on marketing in a single year[4].

Most lenders also supplement their pipelines with purchased leads. In fact, according to Outbound Engine's survey of more than 140 loan officers, purchased leads are the number-one item LOs spend more than $500 a month on[5]. While the cost of a lead varies (for example, exclusive leads cost more), Fast Company estimates that lenders spend an average of $350 to $750 per purchased lead, a figure that's been corroborated by online lender Sofi[6]. Advisory services firm Richey May clocked the per-lead cost at a heftier $800 to $1,200 per loan[7].

The higher a company's CAC, the more revenue it must extract from each customer to realize a return on its investment. By earning repeat business, lenders derive greater **lifetime value** per customer and reduce their average cost per funded loan. Conversely, every borrower lost to a competitor increases a lender's cost per funded loan and diminishes lifetime customer value.

[3] Milliman, September 2020
[4] Inside Mortgage Finance, July 2020
[5] Outbound Engine, April 2017
[6] Fast Company, March 2018
[7] National Mortgage News, January 2018
[8] Invesp, 2019

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AVERAGE NUMBER OF MORTGAGE RELATED TRANSACTIONS IN A BORROWERS LIFE

2010	**1ST PURCHASE**
2013	**CASH-OUT REFI**
2018	**2ND PURCHASE**
2020	**RATE & TERM REFI**
2025	**HELOC**
2029	**3RD PURCHASE**
2033	**INVESTMENT PROPERTY**
2040	**CASH-OUT REFI**
2042	**SUMMER HOME PURCHASE**
2048	**CASHOUT REFI**
2051	**REVERSE MORTGAGE**

Experts contend that acquiring a new customer costs five times more than retaining an existing one. The probability of selling to an existing customer with whom you've already built trust is 60-70%, whereas the probability of selling to a new prospect is just 5-20%[8]. All told, Insight Squared estimates that by reducing churn by just 5%, companies can see a surge in profits of up to 125%[9].

THE MISSED OPPORTUNITY IS MASSIVE

The average American consumer will take up to 11 mortgage loans in their lifetime.

(a number that accounts not only for purchase and refinance transactions on a primary residence, but also home-equity loans, investment properties, second homes, and so forth). At this very moment, nearly 20 million Americans are strong candidates for a financially advantageous refinance loan. Each of these refis is an opportunity to capture repeat business — or lose out to a competitor.

When asked about their mortgage experience, 68%[10] to 73%[11] of customers say they would return to their original lender or broker for a future loan, but that's not what happens in practice. Instead, research tells us that borrowers treat each mortgage loan as a unique event, and 77%[12] move forward with the first originator they speak to at the time they need a loan[12] — whether that's the same LO who helped them buy their first home, someone new they found online, or a competitor who opportunistically approached the borrower at just the right moment.

In short, mortgage lending's borrower retention problem stems not from shoddy customer service, but from poor follow-through and bad timing that leaves the door wide open for consumers to consider any one of a dozen companies vying for their business at any given moment.

[9] Entrepreneur, March 2019
[10] London School of Economics, May 2019
[11] Deloitte, April 2016
[12] Consumer Financial Protection Bureau, January 2015

SOLUTION

A FEW LUCKY LENDERS HAVE CRACKED THE CODE

The good news is that select mortgage lenders are beating the odds and posting borrower retention rates significantly higher than industry norms.

In its August 2020 S-1 filing, Quicken Loans' parent company reported overall client retention levels of 63% in 2019[13], and in a September 2020 press release, Guild Mortgage announced its recapture rate of 58.9% through Q2 of that year[14].

What makes these lenders so successful at retaining customers? Is it simply their magnitude (both rank among the nation's top ten nonbank lenders), or could lenders of any size improve customer retention by approaching the problem more strategically? That's what we set out to determine.

HYPOTHESIS

Lenders that invest in a proven borrower retention strategy like Sales Boomerang significantly improve their customer retention rate.

Sales Boomerang scours mortgage lenders' customer databases for missed loan opportunities. By collating and analyzing numerous sources of borrower intelligence — including credit history, property listings, consumer debt load, loan payment history, accumulated home equity and major life events — Sales Boomerang helps lenders identify exactly when a past customer is ready for a loan again. In many cases, Sales Boomerang identifies opportunities before the borrower is even aware they are a candidate for a loan and, before they have a chance to shop with a competitor. But in the event that a borrower has already taken an action that puts retention at risk — for example, listed their home for sale or applied with another lender — Sales Boomerang notifies the original LO within hours.

According to independent public records data, Sales Boomerang customers enjoy an average three-year retention rate of 59.33% for refinances, which is more than triple the industry average published by Black Knight. But is this higher performance really attributable to Sales Boomerang? To test the hypothesis, we needed to look at how lenders' borrower retention changes after implementing Sales Boomerang.

[13] Rocket Companies, August 2020

[14] Guild Mortgage, September 2020

WHAT IS A BORROWER INTELLIGENCE AND RETENTION STRATEGY?

Average Lender	Sales Boomerang Lender
18% average borrower retention (refi)	**59.33% average borrower retention (refi)**
48-hour average time to respond	**LOs alerted in minutes when a customer is ready for a loan**
1/3 of signals overlooked	**Signals identified in approximately 13.5% of past customers per rolling 3-month period**
LOs must proactively search for opportunities using multiple logins and tools that require training	**Timely alerts delivered straight to LOs' inboxes and CRM so LOs work efficiently**
No meaningful way to prioritize opportunities	**Highest priority/ probability alerts automatically prioritized**
80% of all signals never have a meaningful conversation with a sales professional	**LOs prompted to call, text, and email every signal**
CRM targeting audience segments of limited relevance	**CRM targeting specific customers based on loan readiness**
High cost of acquiring a loan (up to $1200 + marketing and sales)	**Low cost of acquiring a loan ($299)**
Missed volume opportunities	**20-40% higher volume**

METHODOLOGY

Using independent data public records data, we examined 730 days of refinance transaction history across 19 mortgage lenders that recently implemented Sales Boomerang's market-leading borrower intelligence and retention technology, then compared their performance to published industry averages.

Participants were selected for the study based on two criteria: (1) each lender had implemented Sales Boomerang within 18 months of the study period, and (2) each lender's refinance origination data for calendar years 2019-20 was readily available in independent public records. The sample set included bank and nonbank lenders of varying sizes and a mix of retail, wholesale and consumer-direct lenders. Together, the group originated nearly 350,000 refinance loans in 2019.

FINDINGS

Over the course of the two-year study, Sales Boomerang identified thousands of loan opportunities within the lenders' existing customer databases; in all, alerts were triggered for approximately 13.5% of past customers.

> **Lenders who implemented an automated borrower retention system saw their borrower retention rate improve by an average of 11.66%**

So significant were these gains that each lender achieved an overall refi retention rate of 1.4 to 5.3 times the industry average. For every additional refinance loan retained, the lenders saw a direct, positive impact on bottom-line revenue.

It's important to note that refinances, the focus of this study, represent only a portion of total origination volume. Since many Sales Boomerang alerts are expressly geared toward identifying purchase loan opportunities, we strongly suspect the sample group experienced even larger increases in purchase loan opportunities retained. A follow-up study is currently underway that examines Sales Boomerang's impact on lenders' volume as a whole, across both purchase and refi loans.

HOW DOES A 1% IMPROVEMENT IN BORROWER RETENTION IMPACT A LENDER'S BOTTOM A LINE?

Suppose a mortgage company funds 20,000 refinance loans in an average year. Improving that number by 1% would mean adding another 200 closed loans.

20,000 x 1% = 200

Now assume those 200 loans have an average home value of $250,000. That's an extra $50 million in loan volume.

200 x $250,000 = $50,000,000

If the lender earns an average profit margin of 2.5%, that's $1.25 million in additional bottom-line profit.

$50,000,000 x 2.5% = $1,250,000

CONCLUSION

Our research indicates a clear opportunity for lenders to overcome the mortgage industry's legacy of poor customer retention and, in so doing, significantly increase their bottom-line profits. Like lights and running water, an automated borrower retention strategy has become a necessary utility for lenders that hope to thrive in today's ultra-competitive market. For more information about Sales Boomerang, visit salesboomerang.com.