

# Enhancing Performance in Home Equity Lending: **A Pricing Optimization Case Study**

A top five U.S. bank's Home Equity Lending business increases profits by 4.9% and increased volume by 15.5%

**Challenge:** Under intense pressure in a declining market with increasing loss rates, this top five bank's home equity leadership team was looking for a way to quickly increase margins, maintain volume, and leverage pricing to create a more attractive portfolio composition and risk profile, while effectively deploying increasingly scarce capital.

**Solution:** Implemented the Nomis Price Optimizer™ for Home Equity to: 1) automate the calculation of the profit-optimal price points for hundreds of thousands of product pricing cells, 2) streamline and improve the efficiency of the pricing process by centralizing pricing information and all models in one system, and 3) leverage simulation to gain more visibility into product and portfolio performance and understand the impact of price adjustments and macro-economic changes before implementing new prices in the market.

**Results:** This Home Equity Lender now uses a nationally deployed, dynamic pricing optimization solution that provides an automated, streamlined and efficient pricing process. The solution generates deep insights into consumer response and product performance. In addition to operational and strategic benefits, the team has achieved strong financial results including a 15.5% increase in volume and a 4.9% increase in profits (NPV) compared to the predominantly risk-based pricing practices and manual processes used before.

*“By implementing a Profit-based Pricing approach we’ve gained a significant advantage that allows us to better manage our performance in a volatile home equity market.”*

—Vice President of Home Equity Lending at one of the top five U.S. banks

## The Business Challenge

The Home Equity Lending division of one of the top five banks in the United States is considered an innovator in rolling out new and appealing Home Equity products. The team uses sophisticated risk models to price more than \$6 billion in annual home equity loan originations.

However, the team has been under intense pressure in a declining home equity market. They've experienced increasing loss rates and have faced budget pressure and staff reductions. The home equity leadership team was looking for quick and effective ways to increase margins and maintain volume in a capital constrained environment.

In order to deal with this difficult situation, the team realized that they needed a more advanced approach to pricing. They wanted to systematize their pricing process and better understand the impact of their prices on consumer response and product and portfolio performance.

The leader of the home equity team had heard about Profit-based Pricing, a more advanced approach powered by pricing optimization technology, which provides the customer insights, automation and capabilities necessary to use pricing as a strategic lever to achieve performance objectives and implement price changes more dynamically and frequently. He was intrigued by the fact that this approach combines pricing analytics, optimization and execution to better tailor rates to target segments and markets.

He had heard that others had been able to increase profits and market share by 10-20% and make decisions using a consistent, repeatable and efficient process that supports regulatory compliance.

After gaining an understanding of the magnitude of the process and performance improvements that could be achieved, pricing optimization was elevated to one of the top three strategic priorities for the Home Equity business unit.

## Finding The Right Pricing Solution

The Home Equity Lending team was looking for a solution that was flexible enough to meet their unique requirements. They wanted to work with an experienced team of pricing experts that understood home equity lending and used a partnership approach to deliver a customized solution through implementation best practices.

The ability to support continuous pricing improvement and adapt quickly to the changes in the marketplace were also important to the team. They conducted an extensive evaluation of the available offerings on the market. In particular, they wanted the ability to:

- Retire the time-consuming, laborious, and error-prone process of manually calculating rates by automating the calculation of the profit-optimal price point (within operational and regulatory constraints) for hundreds of thousands of product pricing cells,
- Streamline and improve the efficiency of the pricing process from performance monitoring through price execution, eliminating the use of spreadsheets and centralizing pricing information and all models in one system, and
- Leverage simulation to gain more visibility into the impact of price adjustments or macro-economic changes

on product performance and portfolio mix composition before implementing price changes in the market.

Ultimately, the Home Equity Lending team chose to work with Nomis Solutions and use the Nomis Price Optimizer™ for Home Equity Lending solution, which was developed for the specific needs of their market. The Nomis Solutions team brought extensive pricing optimization experience and expertise to the table including the Pricing Excellence Program, which encompasses all of Nomis Solutions' implementation best practices and ensures a quick and successful implementation.

"We knew that pricing optimization was the route that we wanted to go, but we needed to move fast and needed to see conclusive results if we were going to implement this on an enterprise scale," commented the Home Equity Lender's executive sponsor. "Nomis Solutions demonstrated the industry expertise and a clear plan for a partnership with our organization to achieve measurable results."

## Financial, Strategic & Operational Benefits

The Home Equity Lending team now uses the Nomis Price Optimizer, which combines pricing analytics, optimization and execution with a more advanced pricing process to optimize the rates of hundreds of thousands of pricing cells. It provides them with the insights, automation and capabilities necessary to use pricing as a strategic lever to achieve performance objectives. It also enables them to implement price changes more dynamically and frequently.

They are achieving the following financial, operational and strategic benefits:

**Financial Benefits:**

- 15.5% increases in volume
- 4.9% increases in profit (NPV)

**Strategic Benefits:**

- The team has gained visibility into how prices impact consumer response and how that impacts the performance of each of their products and the entire portfolio. This deep insight into consumer response is now used to make pricing decisions that are tightly aligned with specific performance targets. Goals for the entire portfolio, one product, or a particular micro-segment and internal constraints can be quickly updated. Rates can be optimized automatically to meet these new requirements.
- Once prices have been distributed into the market, the team can monitor the impact that the new rates have on performance and quickly make changes if they are not achieving their desired results. Because the solution continually updates and calibrates the models, the team is continuously learning more about consumer response to pricing and using that information to improve results.

**Operational Benefits:**

- The solution automates, streamlines and improves the efficiency of the pricing process from performance monitoring through price execution. All pricing information and profit models reside in a central system, which eliminates the need for version control and eradicates errors due to manual entry, which are common when using several separate spreadsheets.

- “What if” scenarios are run to determine what would happen if they matched a competitor rate in a particular market segment or to simulate the impact of higher loss rates on performance. In the past, this was a time consuming and imperfect process. Today, they can understand the impact of higher loss rates in a few minutes.
- After simulating a price change for a particular product and market segment, the team can determine the cross-price effects on other products in the portfolio to ensure their decisions will lead to desired credit mix and performance targets. When recommended prices are generated, they review and approve them before locking them down and publishing them to the front-line staff and website.

The Home Equity Lending team at this top five U.S. bank now uses a nationally deployed, dynamic pricing optimization solution that provides an automated, streamlined and efficient pricing process. The solution generates deep insights into consumer response and product performance and enables the team to continually monitor and improve its pricing based on changing market conditions and internal goals. Based on the strong financial results and operational and strategic benefits achieved in the Home Equity Lending business, several other lines of business are exploring the opportunity to implement a Profit-based Pricing approach. This includes the Mortgage business unit that is closely aligned with the Home Equity Lending business and Deposits.

To obtain more information, schedule a consultation, or speak with the Home Equity Lending executive sponsor featured in this case study; please contact Karen

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**About Nomis Solutions**

Nomis Solutions is the recognized leader in Profitbased Pricing for banking and finance. Profitbased Pricing is an advanced approach to pricing, powered by pricing optimization technology that provides the insights, automation and capabilities necessary to use pricing as a strategic lever to achieve performance objectives and implement price changes more dynamically and frequently.

The award-winning Nomis Price Optimizer™ Suite is a set of business solutions that combines pricing analytics, optimization, and execution into a comprehensive pricing strategy and process. The suite includes specific solutions for auto finance, home equity lending, personal lending, mortgage, and deposits.

Each solution delivers quick time-to-benefit, increases profits and market share by 10-20%, and provides valuable insights about how dealer and/or customer preferences impact product and portfolio performance through a consistent, repeatable and efficient pricing process that supports compliance. Select customers include Abbey, AmeriCredit, Ford Motor Credit Company, GE Money, HBOS plc, Royal Bank of Canada, and Washington Mutual Bank. Headquartered in San Bruno, CA, Nomis Solutions also has offices in London, United Kingdom.

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