

The price is right

A top five US bank's home equity lending business increases profits and volume by 4.9 percent and 15.5 percent respectively.

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

The business challenge

The team has been under intense pressure in a declining market with increasing loss rates, budget pressure and staff reductions. The leadership team was looking for quick and effective ways to increase margins and maintain volume in a capital constrained environment.

The leader of the 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 with a higher level of accuracy.

Other banks have been able to increase profits and market share by 10-20 percent, 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 a top three strategic priority.

The team conducted an extensive evaluation of the offerings on the market. Ultimately, the team chose to partner with Nomis Solutions and use the Nomis Price Optimizer for Home Equity Lending solution.

Financial, strategic and operational benefits

The team 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.

Financial:

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

Strategic:

- Visibility into how prices affect consumer response and how that impacts the performance of each of their products and the entire portfolio. This insight is now used to make pricing decisions that are tightly aligned with specific performance targets.
- 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:

- 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.
- 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.

"By implementing a pricing optimization solution, we've gained a significant advantage that allows us to better manage our performance in the volatile home equity market," says the Vice President of Home Equity Lending. ■

What advances can you expect from pricing optimization?

The financial benefits of pricing optimization are well known, however, the operational and strategic benefits are no less valuable.

- Eliminate the time-consuming and error-prone process of manually calculating rates by automating the calculation of the profit-optimal price point 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.
- Leverage simulation to gain 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.

Information provided by Nomis Solutions.
Visit www.nomissolutions.com or contact us at info@nomissolutions.com or 650-588-9800.