

## Practical Guidelines on Retention Pricing for Mortgage Lenders



With recent figures from the Council of Mortgage Lenders identifying that 1.4 million loans are due to mature and potentially reset to the standard variable rate (SVR) in 2008, an unprecedented challenge for the UK mortgage industry lies ahead. The impact of the increased rates is already seeing mortgage payments increase by up to 60% a month for their clients. The burning question for mortgage lenders should be, how to profitably keep hold of these existing customers within their retention pricing strategy bearing in mind the challenging financial climate.

Traditional pricing techniques such as one price fits all, market based, index based, and risk based typically ignore a fundamental component, the consumer's preferences and overall response to different prices and offers. Profit based pricing solutions provide valuable insights into how different pricing strategies impact customer response and the lender's portfolio performance.

Nomis Solutions, a leading provider of profit based pricing solutions, enables mortgage lenders to better manage their pricing decisions with a robust and scalable software based platform which is vital in the current financial climate. The Nomis Price Optimiser provides a comprehensive business user focused solution that combines pricing analytics, optimisation and execution into a complete pricing strategy and process.

Lawrence Whittle, Managing Director, UK and Europe, Nomis Solutions confirms: "Working with the top banks and finance companies around the world, we have discovered that the pricing process is one of the most undervalued processes in the industry and better understanding customer response presents significant opportunity for profit and volume improvement in the order of 10-20%."

The number and value of maturing fixed rate products is estimated to be much higher for the 2007-2009 period than that of previous few years, with almost 75% of borrowers opting for fixed rates, many of whom will not see the benefits of the recent base rate drops announced by the Bank of England.

"To really benefit from price optimisation mortgage lenders need to pay particular attention to how their customers respond to current pricing practices to make more informed product pricing decisions. The first step towards a more insight driven retention strategy is to understand at a detailed level the types of customer segments within your current portfolio and how they are likely to react when their rate resets. Customer segmentation needs to be continually updated to ensure that it is consistent with the most recent market conditions."

Price optimisation incorporates a process of continuous updates and improvements to ensure that this takes place. The philosophy behind price optimisation is to calculate the trade offs explicitly for different customers segments and, based on that calculation, determine the right action set for each customer segment.

For any lender to obtain the required profit and volume from its retention pricing, it must establish a disciplined process that updates continually over time. Pricing decisions should be based on the best understanding of the profitability and responsiveness of different customer segments. There is no doubt that customer response changes over time thus, the parameters of all the underlying models need to be updated to reflect current reality. These will further change over time as the underlying cost of funds change, as competitors change their rates, and as the housing market changes.

Whittle concludes: "The next few years are going to be critical ones for British mortgage lenders in terms of profitability. There is going to be continued focus on retention and customers are likely to be shopping for the best rates. The mortgage lenders who will thrive in this environment will be those who understand how their different customers will respond to their offers and how to use that information to determine the best action and offer for each customer segment."

### About Nomis Solutions

Nomis Solutions is the recognized leader in Profit-based Pricing for banking and finance. Powered by price optimization technology, Profit-based pricing is an advanced approach that enables executives to strategically use pricing to achieve improved financial results, gain insight into customer preferences, and support compliance. 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 customer preferences impact product and portfolio performance, within a strong compliance framework. 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, USA, Nomis Solutions has offices in Charlotte, NC and London, United Kingdom. Visit [www.nomissolutions.com](http://www.nomissolutions.com) or contact us at [info@nomissolutions.com](mailto:info@nomissolutions.com) or 650-588-9800.

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