

# HOME EQUITY WIRE

Trends in Seconds, Firsts, Securities and Workouts

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## Marketing HE Now More Complicated

With rates rising, lenders are beginning to return to more traditional methods of lead generation than, say picking up the phone. This is an area where loan professionals who entered the business before the beginning of the latest refi wave could have an advantage over their competitors. Maybe.

According to Rich Weissman, president and CEO of Portland, Ore. – based The Database Marketing Agency Inc., marketing home equity products today is much different than it was just a few years ago.

“The home equity lending market has changed and changed significantly over the past few years,” Mr. Weissman told *HomeEquityWire*. “Borrowers are far more savvy and more savvy in a variety of ways.”

First of all, borrowers today realize that home equity products can be moved from institution to institution. This is a departure from the way many consumers thought about these products in the past. Furthermore, they realize that it’s not a complicated process in today’s lending environment to move their equity loans and lines to another lender.

Secondly, Mr. Weissman says borrowers have learned to think differently about the relationship between the mortgage products they own.

“The whole notion of how I get cash out of my house has become far greater than just a home equity loan. There are lots of different options available for people to do that,” he said.

In the past, these products were fairly simple. You couldn’t touch the equity in your home until your loan-to-value fell below 80% (which was were it started not so long before that). Even then, risk-averse banks wanted to loan less than 80% total on all mortgage-related products. The type of product, whether a loan or a line, was pretty much a one-time decision and had an impact on the interest rate offered. The loan period was also standardized.

Today, all of that has changed, Mr. Weissman pointed out. “That’s no longer the case. There are home equity loans that are variable. There are home equity lines that have fixed portions. There are special introductory rates that begin at a particular period of time and when that introductory period is over they change, even though it may be a fixed-rate product. So the complexity is far greater.”

This combination of a more informed borrower, a very competitive market for home equity products and a vast array of available solutions has made the home equity borrower more illusive and difficult to target,” Mr. Weissman savs.



**Rich Weissman** says targeting home equity borrowers is more difficult today than it was in the past.

“The traditional ways of looking at who is an appropriate home equity borrower no longer apply today,” he said.

Targeting home equity borrowers today is a much more complicated process than it was in the past, but that doesn’t mean today’s mortgage professionals can’t handle it, Mr. Weissman said.

It involved thinking correctly about three important challenges, he explained.

First, the product. “Understand your products and understand the profitability of each product, because different home equity product types have different profitability dynamics.”

In the past, this wasn’t a real consideration for marketing professionals in this area. The product was standard and the market was standard and the goal was to sell as many as you could, Mr. Weissman recalls. “Well, that’s changed.”

Today, there are home equity products that you must offer to be competitive that you would really rather not sell if you could sell another that is more profitable.

“You’ve got to understand the profit dynamics of each and every product type and each and every design and configuration to understand which ones you want to sell and which ones you don’t,” Mr. Weissman said.

The second challenge is on the delivery side. “People are coming up with new ways to deliver home equity products,” Mr. Weissman pointed out. “They are coming up with ways to make that process easier.”

One area where home equity lenders have had great success is in the reduction of paperwork that has led to increased speed to close. The Internet has also

made it easier for borrowers to tap into their home equity.

“Speed and simplification has become the rule. And so for banks, credit unions and others who want to make certain they are targeting their core franchise, they’ve got to make it as easy to get approval and get your money,” Mr. Weissman pointed out. “Only the legal requirements for the rescission period should limit how quickly you can get it done. Otherwise it should be as fast as fast can be.”

Finally, after product and delivery considerations are in hand, the third challenge for marketers of home equity loan products is the prospect targeting.

“Now in the old days, you could pick homeowners who have lived in their homes more than five years and target them. Now, it becomes a lot more complex.”

The first mistake that many lenders make when targeting their marketing efforts for home equity products is ignoring their existing customer base.

“I will say that very few financial institutions truly understand how much of their own base they can target for home equity lending,” Mr. Weissman said. “As we look at penetration numbers, we find that most customers go elsewhere rather than their primary financial institution for real estate lending. So sitting right in your own base is a wonderful group of prospects that have opted to go elsewhere for a home equity loan or a home equity line.”

To target these folks involves applying analytical tools to your own customer databases. Like a number of firms working in this area, The Database Marketing Agency helps lenders do this. In this case, the firm operates on batches of client data and returns segmented database tables of likely prospects.

In addition, the company provides additional research to help lenders better understand the borrowers in its portfolio.

“If you go and get property tax records, which are public information, you know whether or not that customer has a home equity loan and where they have it,” Mr. Weissman said.

“And we know when they took it out. And if you keep track of rates, you can figure out what their monthly payment is.”

With this information in hand, the marketer can tailor a product offering to the specific needs of an actual customers, which is more effective than applying a shotgun approach to a marketing effort.

“You’re now targeting in a very specific way, because you know what they have, you know what it costs them, you know what they’re paying and now you can talk about real savings, real dollars and cents,” he said.

But when lenders talk to their existing customers, Mr. Weissman warns them not to get caught up in the mad rush to achieve cross-sell objectives.

“It’s not cross-sell, that’s not the key number. The key number is share of wallet. I want to know out of all the accounts you have, what share of them do I have,” he said. “Typically, the financial services industry – and I’ve been in and out of it for 25 years – hasn’t done a very good job of truly understanding share of wallet.”

What home equity lenders should focus on, he says, are those clients that have products with the financial

institution, but who have home equity products with another firm.

“We know that share of wallet is particularly low when it comes to mortgage and home equity lending,” Mr. Weissman says.

“What we like to do for folks is to help them develop an understanding of which among their own customers are most likely to have that particular product elsewhere and then target those with that likelihood.”

**THREE KEY CHALLENGES  
FOR HOME EQUITY  
MARKETING MANAGERS**

1) **Knowing The Products**  
Some home equity products are more profitable than others. Marketing the right mix adds to overall profitability.

2) **Delivering Fast & Easy**  
Borrowers expect the process to be fast and simple. Failing to deliver on that promise will cost you business.

3) **Targeting Your Own Customers**  
Failing to look at your own portfolio for home equity business is a mistake. Use analytical tools to determine who is most likely to have a home equity product with another lender and capture that business.

Source: The Database Marketing Agency