

Getting Off the Rate Auction Block

...the path to profitability

OK! I'll raise my hand: The Lending Tree commercials anger me. The commercials are insulting.

Sure, you've seen them.

A smirking couple impolitely spins around a loan application and laughs at a hapless loan officer, calling into their hallway, where a stiffly business-suited crowd lolls about: "Next!"

Join the crowd of people who hate this commercial. To mortgage professionals, the Lending Tree advertisements are insulting and beyond just irritating.

How do you get off the auction block and still stay in business, and do so profitably?



A White Paper
Majestic Consulting &
Marketing
The MyRateAlert.com™
Company

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I addressed this issue recently at a two-day training boot camp that focused on the core “whys” that drive profitable loan originating. What is a “why?” Everything from marketing to presentation to application to processing through closing and post-closing has a “why.” Why do it this way? “Because the consumer wants it,” should be the overriding answer.

Getting off the rate auction block was one of the 10 modules for the boot camp. Let's set the stage here by challenging the current perception that price is king.

It's almost universal that the first question on first contact with a consumer seeking a mortgage is: “What's your rate?” It's no different in Florida than in Washington state. Consumers are conditioned by advertising, and not just for on-line lenders like Lending Tree, that price is their only concern. Little wonder that you're feeling pressured by this auction block mentality.

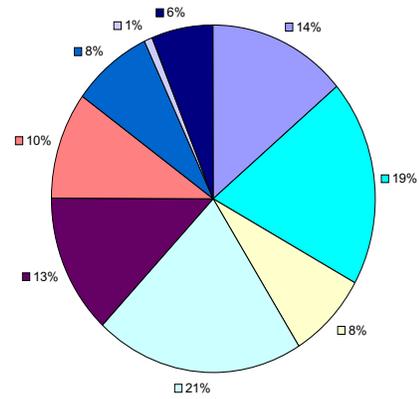
As the Internet evolved the direction of on-line lending added more pressure to lenders margins. This is arguably more perception than reality, since our own comparison of note rate to note rate and APR to APR showed Internet “best price” claims proved hollow. The Wall Street Journal has also reported on the fallacy of “best price” on the Internet. But, so the argument went: “Mortgages were simply a commodity and mortgage bankers

and brokers were middlemen threatened with extinction.”

Yet, experience and hard research show that most consumers do not choose a lender based on rate and price. Fannie Mae’s most recent complete research shows just 23% of homebuyers and just 20% of refinancing home owners selected a lender based on rate and price considerations. According to the Fannie Mae study, most consumers selected a lender because of a referral (and most referrals came from friends and family followed by Realtors and builders).

Big Five accounting firm KPMG says consumers want first to be educated. So far, nothing in the woeful under performance of price-focused Internet lending has upset either of these

Recent Refinancers



Recommended by a friend or relative Price Recommended by a real estate agent
 Used before for a mortgage or other loan Convenience recommended by a mortgage broker
 Used my current bank Better interest rates Other, all equally, not sure

Source: FNMA

loyalty of the on-line lender and what’s the rate of repeat business?

In the final analysis, the mortgage is a commodity. However, the decision-making, consulting, and arrangement of a mortgage aren’t commodity services, and therefore shouldn’t be thought of as price-sensitive.

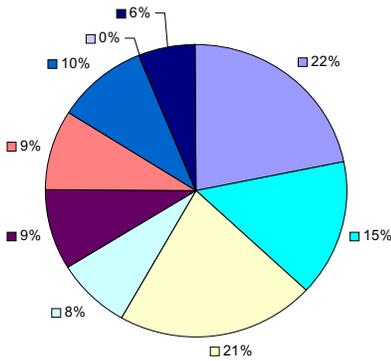
Experience versus price

Beef is a commodity too. But when you select a good restaurant you don’t make judgments based on price. What’s the atmosphere? Do you like the wait staff? Do they play the music too loud? Do they mix a great martini? Do they have the premium beer you like? How is the food presented? What’s the service like? All of these questions come into play when deciding on the *experience* of where to dine.

Branding defines value as well. How can BP/ Amoco sell gasoline for more than the non-branded station across the street? BP markets “clear” fuel in a bright and safe environment. BP markets the trust that your car won’t stall somewhere down the road. And BP sells a lot of gasoline.

Buying a home and getting a mortgage are experiences, too. How do you define the customer experience at your company? Getting off the

Recent Purchasers



Recommended by a friend or relative Price Recommended by a real estate agent
 Used before for a mortgage or other loan Convenience recommended by a mortgage broker
 Used my current bank Better interest rates Other, all equally, not sure

Source: FNMA

views. Fannie Mae says on-line lending reached a plateau at about 2% of originations, well under the pace for the 20% targets the gurus predicted. More recent data reported in mid-January in The Wall Street Journal indicates a spike to up to 5% during the recent refinance boom. The question remains whether the focus and spending on on-line lending is merited yet given the apparent market share of customers willing to take this path. A really big question also remains unanswered: What’s the

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an auction block takes a disciplined approach to the whys of your practice as an originator and company.

Step one: Determine your discipline

Since the decision is between price and value the first step is to determine your path. Decide whether your business discipline is price or value. It's OK to be price oriented. It's not OK to try to be both price and value because the companies that excel and dominate at either one or the other will crush you. For a more in-depth look, read *Discipline of Market Leaders...* by Michael Treacy and Fred Wiersema.

Step two: Define your competitive advantages

Establish clear and definitive Unique Selling Propositions. Price is price. If you choose that route, you've got to be the lowest price. That's your USP. We chose the value route not because we thought the price route was wrong, but because we couldn't see a clear path to profitability based on a USP that is so hard to defend.

Down the value road, saying that you offer "great service" or that you're a "value added" lender isn't enough. USPs must be clearly and deeply defined and present clear value to the consumer. They must be *unique* and defensible.

USPs are your competitive advantages and they precisely define your service and value to both lead sources and consumers. As such, your USPs must be constantly examined and renewed. At our sister company, Majestic Mortgage Corp., the arsenal of important USPs includes:

- **MyRateAlert.com™** system to keep prospects and clients informed on a daily

basis, provide them information to make their own decisions, and automatically alert clients to lock-in and refinance opportunities. The side benefit is that the system quenches the client's thirst for information, leaving the originator to focus

on action calls. Majestic Consulting offers MyRateAlert.com™ to loan originators.

- **Move Up HomeBuyers Tax Analysis™** to clearly demonstrate improved cash flow from the greater deductions of a new home. This can be a real deal maker when a buyer is on the fence, as it can clear up the cash flow hurdles. This marketing program almost single-handedly helped us penetrate the higher-end market, moving our average loan amount up by 22.3% since its implementation.
- **Face to face consultation.** Face to face develops trust and rapport that engenders customer loyalty. The agenda for the consultation must hold out powerful and specific benefits to the consumer, like how they can afford much more home on a payment that is comfortable to them. We see face to face as critical to raising conversion and closing ratios, which drive profitability.

MyRateAlert.com™ and the Move Up HomeBuyers Tax Analysis™ are available for loan originators at www.MajesticConsulting.com.

USPs are critical to gaining permission for the face-to-face consultation. The whys of our USPs drive towards a face-to-face consultation because we believe this is what the consumer wants.

- **Providing an accurate HUD-1 three business days prior to closing.** Experienced borrowers know that this resolves the hassle of last minute rushing around for a certified check in the right amount. In essence, this USP rehearses the closing so that the escrow process at the title company is smooth and trouble-free. Consumers are so tired of “late figures” that the promise of “early figures” is a real winner since the result is a stressless closing, and that’s what the consumer wants!
- **A customer retention program** that rewards customers for repeat business and referrals.

Step three: Identify your market

Structure your marketing to match your discipline. Price-based marketing attracts a price-focused consumer. Value based marketing attracts a values focused customer. Ask yourself this: Which is more likely to be loyal? To make referrals? To come back again?

Let’s look at a somewhat extreme example outside of our industry. According to Autodata Corp, Woodcliff Lake, NJ, Hyundai sold 209,012 vehicles last year. Mercedes Benz sold 205,416. Hyundai’s Sonata has a MSRP of \$19,319. Mercedes Benz S Class 5.0L has a MRSP of \$80,845.

The cars sort of look alike ... at least each has four wheels. But, do you think that Mercedes Benz markets to the same audience as Hyundai? Not in the least. Likewise, your marketing needs to be aimed at attracting the right, targeted buyer. Can value focused customers be found in the newspaper rate guides? We think not. Where do you find value-oriented customers? Primarily through personal and professional referrals.

It was critical when we made the big switch to value that we had a newsletter, marketing campaign and web site ready to communicate our USP brands to our raving fan customers and lead sources.

Step four: Market your USPs

Don’t be shy about giving your USPs a brand name. A new application for an old solution deserves

branding. Claim the solution and you have a USP! Your lead sources and your customers need to know that you stand for something so make sure you’re the one making that definition clear.

Don’t let branding occur by default. Think of the new LO who enters a Realtors office and begs for a chance at delivering a tough (read: junk) deal? Even if successful, what’s the brand image other than as the junk deal lender. And, by the way, do you think “we do tough deals” is a unique claim?

The process of marketing includes scripting to address the rate question with a response that carefully sets out your USPs. Don’t just answer the rate question since that can be conversation ending, unless, of course, you’ve decided that this is your route and you are confident of having the lowest rate. Sound marketing will ensure that the questions will start with your USPs and not rate.

Would you like the PowerPoint slides in our boot camp module “Getting off the auction block?” We’ll email them at your request. Just email Response@myratealert.com with a subject line of “Getting off the auction block.” The slide show will be in an Adobe.pdf format.

Next Step:

For more information about USPs that move you off the rate auction block e-mail: TomWard@myratealert.com.

www.majesticconsulting.com

Suggested reading:

Discipline of Market Leaders

Selling the Invisible

Permission Marketing

Good to Great

Books are listed on our website at
www.majesticconsulting.com.

**Experience the power of Unique
Selling Propositions (USPs)**

MyRateAlert.com™

WealthBuilder™

**Move Up Homebuyer Tax
Analysis™**

Majestic Consulting and Marketing develops USPs for mortgage originators. Reviews of these systems are available at our website,
www.MajesticConsulting.com.

