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Kropper's Domain

Are lenders doomed to lose customers every time they take out a loan? One expert says, "No!"

By Scott Kersnar

Steve Kropper, CEO and co-founder of Boston-based Domania, says the mortgage industry should admit up front that most of the loans in a portfolio are bought from other originators, that borrowers consequently have no loyalty to lenders, and that mortgage professionals cede borrower loyalty to Realtors by default — despite the fact that lenders have the opportunity to "talk" to their borrowers every month when the payment notices go out. He says lenders also need to stop denying that it costs $1,300 or more to reacquire or replace customers lost when borrowers relocate — or some other lender picks them up in the process of a refi.

With customers like Chase Manhattan Mortgage, IndyMac Bank, Greenpoint, E-Loan and Fleet, Domania specializes in helping lenders retain borrower customers and acquire new ones more cheaply.

A former strategic advisor to Martin Marietta Corp. and International Data Corp., Mr. Kropper frequently speaks on real estate and consumer information issues. He received his B.A. in economics from Boston University, and has an M.B.A. from Cornell University. He currently serves on the MBA's Residential Loan Production Steering Committee (RLPS), as the only member of the committee who is not from a lending institution. Mortgage Technology editor Scott Kersnar recently interviewed Mr. Kropper.

Mortgage Technology: *How did you get appointed to an MBA loan production committee?*

Steve Kropper: Well, my sense is that each of these committees suffers one or two vendor members, and I get to be on this one. If there is a more substantial reason, I think it's because in the course of a month I will talk to just about every one of the top 40 lenders about using data to improve processes and lower costs and formulate policy. For example, at the first meeting I attended, there was some discussion about flipping and helping HUD to reformulate some sensible rules on flipping as contrasted to legitimate repeat sales. I suggested that there was data out there on repeat sales that would solve the problem without HUD having to create sledgehammer regulations.

One of my favorite examples of using data intelligently is Radian Guaranty's new insurance product insuring ownership without issuing a whole new title insurance policy. Their data-driven product writes a third of the cost out of the process and provides the same level of security to the lender. With this alternative lien product they use skinnier research and more insurance, based on data about the actual indices of ownership.

MT: *What does Domania do for the mortgage industry?*

SK: Lenders are not good at keeping customers. We help them deal with that problem. Domania is exclusively focused on customer retention for purchase-money loans. North of 90% of borrowers don't stick to the same lender for their next house. Run-off was the reason Homeside melted down and that is also reflected in the losses of every servicer in the country. Not net losses, because huge refi volume obscured the run-off. But other than the funeral business, I don't know of any industry with a lower customer-retention rate.

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—Steven Kropper
CEO, Domania

MT: *You have said this industry does not know its own metrics and statistics. Please explain.*

SK: An industry that understands its cost structure can make a decision on where to invest to cut costs. The mortgage industry does not have a good handle on its cost structure. In particular, it does not have a good handle on sales and marketing costs or on origination costs of its branch networks. For example, if you tell lenders that it costs them $1,300 to find a mortgage customer, you will get vociferous disagreement. Finding a customer for a mortgage is the single most expensive cost of acquisition for any industry, yet they will say it couldn't possibly cost them that much and insist that they would do things differently if it did.

Mortgage banks typically are controlled by the branch guys. That's at the root of channel conflict, and that is the reason cost structures are obscured. Direct-to-consumer costs are much lower than the branch system.

MT: *How do you attack the problem?*

SK: We work to cut the $1,300 lenders pay in sales and marketing by farming lenders' existing portfolios. Vendors have to adapt to lenders, even to individual lenders, to create a business fit. We are able to do that by working in a very narrow area, the acquisition and retention of customers, which can be quantified to demonstrate value to the lenders. Lenders should sub out a lot of what they do but they are reluctant to sub out core functionality. If lenders had their own postal delivery force, they wouldn't use the post office or FedEx either.

MT: *You say your Portfolio Protect program allows lenders, quote, "to retain existing borrowers at a fraction of the cost you would pay using any other method," and that lenders can save up to $750 per loan with Portfolio Protect. How do you track that?*

SK: Lenders promote Domania services on their Web pages. We track when the customer comes to a private-label version of Homeprice Check, then we track them while they use it. We track their response to our e-mail campaign, and then we track them when they execute an application. We use a cookie to follow them all the way from end to end. The lender gets our reporting at each stage of the process. What the lenders care about is the applications that come to them from our links. Fifty percent of the loans we generate are new customers.

MT: *Do you really think lenders can wrest consumer loyalty away from Realtors?*

SK: I think they can. The commonly held view is that Realtors touch the borrower first. Wrong. I am talking about customer retention, and who has the first and ongoing relationship with the borrower? It's the lender.

MT: *Which lenders and/or mortgage brokers, if any, are succeeding in holding their own against Realtors in retaining borrower loyalty?*

SK: Currently, nobody. However, the first to do it well, coincidentally, will be Chase, Fleet, Greenpoint and IndyMac [all Domania customers]. The only lender who never let us in the door, who never wanted to talk about customer retention, was Homeside, the lender with the biggest impairment. Every other lender has given us a hearing.

MT: *How do call centers figure into customer retention?*

SK: Call centers are the salvation of lenders' retention efforts. I think there are a number of call centers out there that are very well run and appropriately meshed with the mortgage lender's Web presence. Companies doing a particularly good job are Countywide, National City and the unit that Quicken bought. IndyMac has an awesome call center. Call centers are the affordable — and manageable — consumer-direct channel because they can be run like a factory.

MT: *You have had some skeptical things to say in the past about customer relation management and cross-selling. Why?*

SK: My skepticism in relation to CRM is that it doesn't find the C and doesn't maintain the R. In order to do CRM you have to know who the customer is. The mortgage lenders have the customer in their portfolio but they don't know where that customer is going to get a loan next time. With respect to R, in order to maintain the relationship, my axe to grind is that you have to have some currency. That currency is not rate watch, because that burns out the relationship, it's not listings of homes for sale, which also burns out the relationship. The useful currency is content about owning and managing and financing a home. It's information about what my neighbor paid, why my property taxes are too high, what my equity is, and do I have enough insurance on my house. I think that is what the relationship is about: useful information.

"The mortgage industry does not have a good handle on its cost structure."

MT: *And your lender clients are willing to outsource that relationship building to you?*

SK: Yes, because the technology and the marketing involved can be isolated from the lender's existing operations. The demarcation involved is like a nice, onelane road that the lender can set up easily. Lenders don't have to set up highways into their systems, marketing and technology to benefit from what we do.

MT: *You have said the mortgage industry can learn a lot from credit card issuers and other financial services. What are the lessons to learn?*

SK: The simplest lesson is to mine your database. A servicer has unparalleled information on a mortgage customer. They don't use the information they already have and they don't treat their existing borrowers like valued customers. Every time a borrower comes back to a lender, the borrower is assumed to be a felon. American Express is legendary for customer retention. It is nearly impossible to escape being an American Express customer, whereas it is nearly impossible to remain a mortgage lender's customer.

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MT: *You are partnering with Epsilon for an analytics-based enhancement to your next version of Portfolio Protect. Epsilon was owned by American Express for a long time. How is that going?*

SK: Very well. Profiling customers is the most proprietary thing Domania does, differentiating who is a buyer, who is a tire kicker. Thanks to our profiling software, nobody comes close to us at that. The profiling software we developed in-house got us three-quarters of the way we wanted to go. Epsilon came in and got us the rest of the way, bringing in their experience with credit card, travel and lots of other industries.

MT: *Are you profitable?*

SK: We are not profitable yet, but we expect to be by the end of Q2 or the beginning of Q3 of this year. I am pleased to report that the amount of capital we consume is modest compared to revenues. The only thing we disclose about annual revenues is that they are in excess of a million bucks and growing. ◆