Don't Send Your Refinance Opportunities into Orbit

Engage borrowers now to drive retention

What goes up must (eventually) come down. But as rates tick down, a wave of refinances is coming—and that wave will put borrowers up for grabs, setting many lenders up for a refinance retention crisis. In 2021, during the previous refinance boom, [Rocket Mortgage captured more than double the refi volume of any other lender.]* As rates start to drop, digital-only lenders will be quick, aggressive, and sophisticated with their efforts to capture this coming onrush of refi business. If a lender can't get ahead of this to retain these borrowers at the time of refinance, they'll not only lose the lifetime loan revenue but, in many cases, face stiff early payoff (EPO) penalties that cut further into their bottom line.

Mortgage lenders have inertia on their side: With targeted engagement, lenders can show borrowers that refinancing with the same institution is the easiest path to capturing lower-rate savings. But to drive retention and protect revenue, lenders will need to proactively identify and engage their refinance candidates—before their competitors do. And given the volume and velocity of the oncoming refinance wave, the proactive engagement demands will rapidly overwhelm ad hoc and manual approaches, demanding a higher level of intelligent insight and automation.

Falling rates will trigger a refinance wave

In late July 2024, Fed chairman Jerome Powell said a rate cut "could be on the table as soon as the next meeting in September." Top economists at major Wall Street banks were much more unequivocal, predicting significant rate cuts starting in September and continuing through mid-2025, ultimately bringing the Federal Funds rate down to 3%.

Where could mortgage rates land in 2024 and 2025?

Here's where the top industry experts estimate mortgage rates will land in 2024 and 2025.

*Estimates taken from their respective websites on Aug. 5, 2024.

	2024	2025
Fannie Mae	6.7%	6.2%
Freddie Mac We make home possible	>6.5%	<6.5%
MBA Mortgage Bankers Association	6.1%	6.0%
Wells Fargo	6.5%	<6.0%

84%

of those who bought a home in the last year plan to refinance to a lower rate

Source: U.S. News survey

We're not likely to get back to the 2-3% interest rate range anytime soon, but it won't take much to trigger a wave of refinancing. To the average borrower, refinancing from 8% down to 6.5% adds meaningful monthly cashflow and serious long-term savings. If rates fall steadily over the next two years we could see a surge of refinances that puts as much as $500 billion up for grabs.

Calculating the risk of refinance retention

Lenders always have obvious incentives to retain borrowers when they refinance. Lifetime loan value is the main revenue source, and retaining customers opens up cross-sell opportunities like HELOCs that can create additional revenue streams from existing borrowers.

But it's at this inflection point—when rising rates turn into falling rates—that the risk and cost of refinance attrition is highest. Many lenders are looking at a huge volume of at-risk loans, which translates to tremendous revenue walking out the door. And many are still fresh—within the 6- or 12-month windows covered by Early Payoff (EPO) penalties in many investor contracts. Paying these penalties adds insult on top of the injury of lost loan revenue. Poor refinance retention can easily cascade into talent retention issues because loan officers (LOs) aren't fond of losing their hard-earned commission on lifetime loan revenue.

The graphic below puts that sizeable risk into dollars. Given the industry-average retention rate of around 20%, a mortgage lender that originated 1,400 loans above 6.5% over the last 15-18 months stands to lose over 1,000 of those refinance opportunities—adding up to $280 million on lost loan volume (assuming an average loan size of $250k). If 800 of those loans are less than six months old, they are at risk of paying out roughly $4.8 million in EPO penalties.

1,400
Loans above 6.5%

800
within the past 6 months

Risks:

1,120
Lost refinance opportunities

$280M
Loss of loan volume

$4.8M
EPO penalties

Based on $250,000 average loan size and 20% current retention rate

Spark borrowers' refinance intent before your competitors do

Lenders are in a similar situation to banks and credit unions with their depositors right now: anxious about waking "sleepy" customers and tempted to wait for borrowers to inquire about refinancing. But with rates on the front page every week, and a large volume of borrowers eager to relieve the pressure of high-rate mortgages (even if just a little), lenders can't afford to be reactive. You need to proactively reach out to give borrowers the good news about refi opportunities—before your competitors do—and make in-house refinancing the easy, obvious path to monthly and long-term savings.

4 steps to drive refinance retention

How can lenders face the oncoming refinance wave head-on—and capture their current borrowers' refinances to protect revenue and avoid EPO penalties? Here are three key steps to building a targeted refinance retention strategy:

1. Proactively identify your refinance candidates

The most obvious step looks easy on the surface. When rates drop, borrowers above that rate are your prime candidates. Most lenders already have some process for pulling reports on at-risk loans. But this often involves manual, ad hoc reporting—and it's frequently left in the hands of individual LOs to monitor their at-risk loans.

As rates drop, this approach will prove difficult to manage in real-time and at scale. Without centralized visibility, lenders are left to hope that LOs are pulling their at-risk reports regularly and acting on them quickly.

How Total Expert can help:

The Total Expert platform solves this challenge with automatic rate-drop

alerts. Using Optimal Blue's standard 15- or 30-year fixed basis rate—or a custom rate index set by the lender—lenders can set alert thresholds. When the basis rate drops, Total Expert automatically pulls a list of at-risk loans. Lenders can easily sort and filter, deliver lists to LOs, or give LOs access to the intuitive reporting tools and alerting functions.

2. Prioritize your EPO-risk borrowers

Many lenders are looking at a substantially high volume of at-risk loans over the coming months (and years). Identifying them is the first step, but acting on them will be the bigger challenge. Lenders need to balance limited marketing budgets and limited LO time between retention and net-new originations. The key is developing a prioritization protocol within that pool of at-risk loans, to drive a more strategic retention effort that focuses time and resources where they matter most.

How Total Expert can help:

Total Expert delivers pre-configured prioritization, starting with those most-recent loans that bring the added risk of EPO penalties. Lenders can automatically give LOs and marketers a clear list of those high-priority retention targets—without needing to run ad hoc reports and then manually sort through Excel spreadsheets. Lenders can also prioritize at-risk loans based on other attributes, such as loan size.

3. Automate engagement to scale

As mentioned in the previous step, lenders need to translate insights into action—or it's all for nothing. Of course, LOs could easily take a list of at-risk loans and send generic refinance alert emails advertising lower rates. But people expect personalization—especially when it comes to financial decisions. Borrowers want to feel like mortgage offers and guidance are tailored to fit their specific situation, needs, goals, etc. They also want more than just a rate—they want to feel confident that refinancing is the right option, and now is the right time. While the general rule of thumb is that a rate of at least 1% lower on a current mortgage will benefit a borrower, many lenders will be watching rates closely over the next two years as they hope to capture the oncoming refinance business. Being clear with those borrowers on the specific benefits that will affect the savings they can achieve by refinancing will motivate them to take action.

How Total Expert can help:

Total Expert is the only platform purpose-built for mortgage lenders that combines customer intelligence from the first two steps with tools that automate action. Total Expert's Journeys perfectly align with the 'buyer's journey' of a refinance. Lenders can leverage these pre-built templates on Day 1, or modify them at the organizational level—and even empower LOs to tailor them with intuitive journey-building functionality.

Journeys can be as simple as alerting an LO to reach out with a one-to-one phone call, email, or text. Or they can trigger automated nurture Journeys, powered by the robust Total Expert Content Library. Nurture Journeys can let a borrower know that rate drops make refinancing a good option. Content walks borrowers through how to do the math, even giving them calculators on monthly and LTV savings, and provides expert guidance on how to decide if and when it's the right time to refinance. These personalized journeys give borrowers the tailored financial guidance they crave—and positions the LO/lender to be there at the end of the journey with the easy offer to refinance in-house.

4. Sales Accountability

Both the lending organization and the L have a responsibility to stay close to any loans that have been funded in the past 15-18 months. When rates start to decrease, keeping those customers engaged and educated on their next best steps will make the difference between being the lender that refinances their loan or being the lender that sees those loans blast off with a competitor. Staying on top of that process can easily be a lost cause if organizations rely on CSV downloads and spreadsheets saved to lenders' desktops. Not to mention the potential uptick in new production that can result from lower rates will affect LOs' ability to prioritize which customers need the most attention.

How Total Expert can help:

Not only does the intelligent automation provided by Total Expert allow messaging to go out on behalf of the LO who helped past customers with their loan, but data can be used to create smart contact lists in Focused View that surface the borrowers who have the highest priority to receive personal outreach. Additionally, a daily email sent directly to originators each morning can help them organize their day to maximize their results. The organization and the LO can feel confident that they're doing the most to retain their at-risk customers while concurrently building their pipeline with new prospects for continuous growth.

Make in-house refinancing the easy, obvious path to monthly and long-term savings.

Insight + action puts sizeable savings in reach for lenders

What does it mean to put all three steps together—to identify, prioritize, and proactively engage your refinance candidates? Taking the same example from earlier—a typical mortgage lender looking at 1,400 at-risk loans—the combination of Customer Intelligence, automated action, and proactive outreach enables that lender to retain 75% of the volume that may have jumped on board with another lender. That translates to over $200 million in recaptured loan volume (and the resulting downstream revenue)—and more than $3.6 million in immediate savings through EPO penalty avoidance.

1,400
Loans above 6.5%

800
within the past 6 months

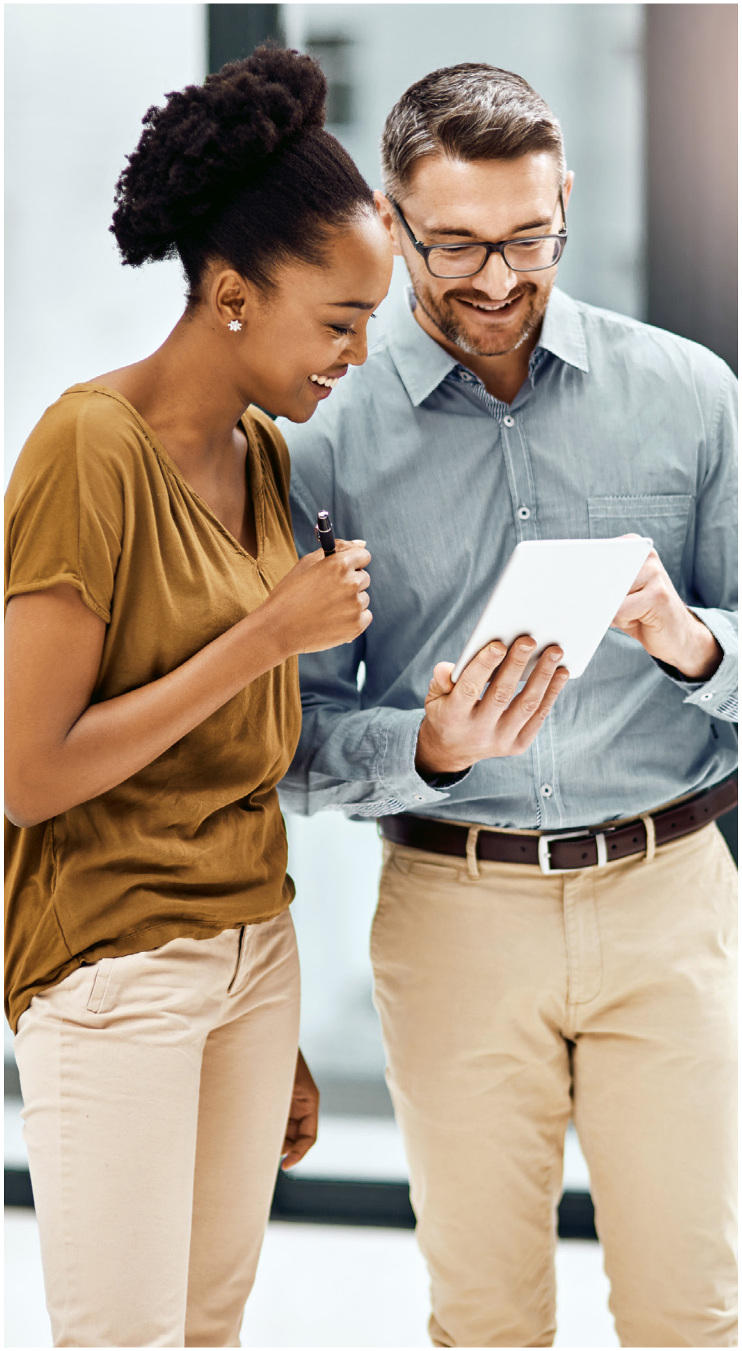
Recaptured Volume:

75%
Recaptured using insights + actions

$210M
Recaptured loan volume

$3.6M
EPO savings with recapture

Based on $250,000 average loan size and 20% current retention rate



Rates will fall—will you be ready to ride the refinance wave?

Plenty of ink will be spilled trying to predict the size and speed of rate drops in 2024 and beyond, but it's only a matter of when—not if. Lenders cannot afford to sit back and wait for borrowers' refinance inquiries. In far too many cases, those inquiries will never come—because aggressive fintech lenders will get to borrowers first, and impatient homeowners may not wait for rates to fall further and further. Retaining those refinancing opportunities depends on the ability to proactively engage borrowers. But lenders similarly can't wait until rates drop to begin putting this proactive engagement strategy together.

As lenders prepare for the oncoming refinance wave, they need to ask critical questions: Do we have the tools in place to automatically identify our prime refinance candidates? Do we have an engagement program to proactively connect with these retention-risk borrowers? And—perhaps most importantly, given the volume and velocity of the refinance wave—can we execute this proactive engagement at scale?

Those who can answer "yes"—and those who act now to move their organizations toward "yes"—will be positioned to ride the refinance wave, rather than be overwhelmed by it.

About Total Expert

Total Expert is the purpose-built customer engagement platform trusted by more than 200 financial enterprises. Total Expert unifies data, marketing, sales, and compliance solutions to deliver the perfect customer journey across every financial milestone—in any market. Total Expert turns customer insights into actions that increase loyalty and drive growth for modern banks, lenders, credit unions, and insurance companies. Total Expert is now available for purchase on the AWS Marketplace and Salesforce AppExchange.

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