The Digital Journey Starts at Acquisition

LQ Digital shares their playbook for lender growth in a rising rate environment

LQ DIGITAL

Introduction

The necessity of remote transactions during the pandemic, coupled with increased demand from record-low mortgage rates, forced a long-awaited digital growth in the mortgage industry. Lenders experienced firsthand how technological capabilities keep their business agile during uncertain times. There's no turning back now—modernization only moves in one direction.

Last year's massive volume spikes meant that business was booming across the board. However, we're now reaching the tail end of the refi boom and lenders are scrambling to squeeze every last drop out of the refinance opportunity. New mortgage applications for refinancing and home purchases are starting to slow as rates steadily rise from 2020's record lows. The reality is if consumers were going to refi during the historically low rates, they would have done it already. So now the market opportunity will shift to more purchase volume/growth over the summer months and typical "home buying" season.

But now competition has become more fierce. Lenders across the board have benefited greatly from the refi boom and many companies jumped onto the lending bandwagon to take a piece of the market share - including Bankrate, Zillow, Credit Karma and many others. In the past, consumers typically only had 4-5 lending choices but now they have 40+. With the added choice of lenders and rising rates, lenders have had to get aggressive about cutting rates and fees so that they can capture market share. Simply put there's been a huge influx in demand and now supply of lenders. As rates continue to rise, lenders cannot rely on easy business anymore, especially with new digital lending companies gaining market share. They must get ahead of their competition.

The strategic use of technology is crucial to acquiring customers and getting ahead of the competition. Using the right technology is also imperative to customer satisfaction in a post-COVID world that is increasingly welcoming younger homebuyers. The native-digital generation of Millennials already comprises 38% of today's homebuyers—more than 90% of whom use the internet during their buying journey. This cohort combined with Gen-Z already accounts for more than half of the U.S. population. Digital capabilities are table stakes when it comes to meeting the expectations of these tech-forward consumers as they age into their home-buying years.

Competition is going to increase quickly as the nation recovers from the pandemic, and those who are using tech to keep their pipeline flowing will be better equipped to compete and win new business.

This white paper will explore how investments in digital acquisition directly contribute to a lender's ability to maximize future profitability and allow them to remain competitive. It will also provide a playbook for building a tech-enabled acquisition strategy for growth.

The Current Market

COVID-19 has objectively changed every business, including lending. It exposed weaknesses and underscored the need for agile, digital workflows. When the pandemic first began, stay-at-home orders caused a spike in contact rates over the phone, which many call centers were unprepared for at the start. Now, life is gradually moving toward a return to normal and contact rates have leveled out to the pre-pandemic volumes. However, branch traffic is still down as borrowers continue to show a preference for digital service channels. Staffing needs are in flux as lenders monitor the effects that rising mortgage rates are having on refi and new purchase applications.

Shrinking application volume will undoubtedly lead to increased competition among lenders and brokers. However, while growth targets coming from executives won't change to accommodate these market conditions, the business's ability to achieve these targets will be weakened unless lenders rethink how they can reach customers, and with what offers.

There are several ways lenders can do this. One is to expand the portfolio of products. For example, if you're getting squeezed in refi, you can cut your rates and options - but you can only go so far depending on your operating model and cost. Lenders should consider whether or not they can expand their coverage and loan scenario - are you participating in jumbo loan amounts versus just conforming? Are you participating in ARM products? FHA loans? Are you playing across different credit score pools? As refi demands lessen and loans become more competitive, the shift of focus will naturally follow to other products, purchase, home equity, etc. especially as we shift to the natural 'home buying' summer season.

Of course, along with your product offerings, business leaders must also create a thoughtful and cost-effective digital strategy to keep the pipeline flowing and stay competitive against newer online lenders that talk up their tech-centered value propositions.

The last few years have seen an explosion of new lenders coming to market. Consumers now have a variety of options at their fingertips. As such, the initiation of the customer relationship starts online and that experience must be exceptional. Understanding this, many lenders are exploring building a tech-driven direct-to-consumer (D2C) purchase acquisition engine that would appeal to Millennials. The challenge is doing it in a way that allows them to compete successfully against emerging lenders while cost per funded loan (CPFL) begins to rise.

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Although intuitively lenders know they have to elevate their digital acquisition and experience - lending institutions haven't been as nimble and adept at deploying their digital engine as those in other industries. Marketing efforts across the business are separate and often have different perspectives on what is important—corporate marketing takes into account the overall brand and promotes a suite of services, while the lending business unit is focused on new account openings and funded loans. They face challenges with balancing branch fulfillment versus D2C strategies and are plagued by chasing upper-funnel metrics rather than CPFL, the true measure of impact.

The Solution

The most effective way for lenders to keep their pipeline flowing long after rates have increased is to build a borrower acquisition engine and focus their strategy and tactics on finding the right mix of customer leads where they can uniquely compete. Those leads must also pull through the funnel more consistently to closed loans that maximize revenue and profits. The more a lender can measure the economics of each lead source/type down to CPFL, the better it can uncover the best mix of customer segments / leads to drive profitable growth in their business. Lenders must understand the economics of their portfolio in order to drive the metrics that drive their business.

"It's finding new growth ideas that scale which excite senior level execs in an organization. Simply making your sales channel more efficient is a cost game" says Chris Erickson-King, GM of LQ Digital, a leading digital customer acquisition company. "To find growth you have to measure your entire funnel down to revenue, and be able to identify the right lead types/sources that pull the most volume through each stage of your funnel at maximum profit."

The two most important operational (and often difficult) steps in achieving this are 1) joining the data between marketing and sales to create the full-funnel view of performance and then 2) ensuring that every lead provided to sales receives the exact same sales treatment and leverages a mix out of outreach methods. Contact types should include phone, text and digital in order to drive higher lead conversion rates by engaging customers in their preferred manner through the entire loan process (e.g. from first contact, to loan app completion, to loan lock through funded loan).

"Digital channel decisions should come second" Erickson-King advises. "Only after you are confident you can accurately measure which customer segments are most profitable at pulling through down to funded loan, should you then focus on channel decisions on where to find more of them.This ensures you are optimizing for CPFL and funded loan volume, not click volume, lead volume or application volume."

How familiar are you with every stage of your funnel? How accurately can you measure your profitable audience segments? Below is a step-by-step playbook for lenders to follow.

The Playbook:

Building an Acquisition Strategy for Growth in a Post-COVID World

Step 1: Identify Borrower Profile

Before lenders should invest in new lead sources, it's important to determine the business' ideal borrower profile in order to target the right segments that deliver the best bottom-line economics.. The best place to start is the close. That is, reviewing the profile of your closed loans to quantify the long-term value of different customer segments. This bottom-of-the-funnel data informs top-of-the-funnel lead sourcing decisions, such as which segments to target, what they are worth, as well as how to allocate media budget to help fine-tune profitability.

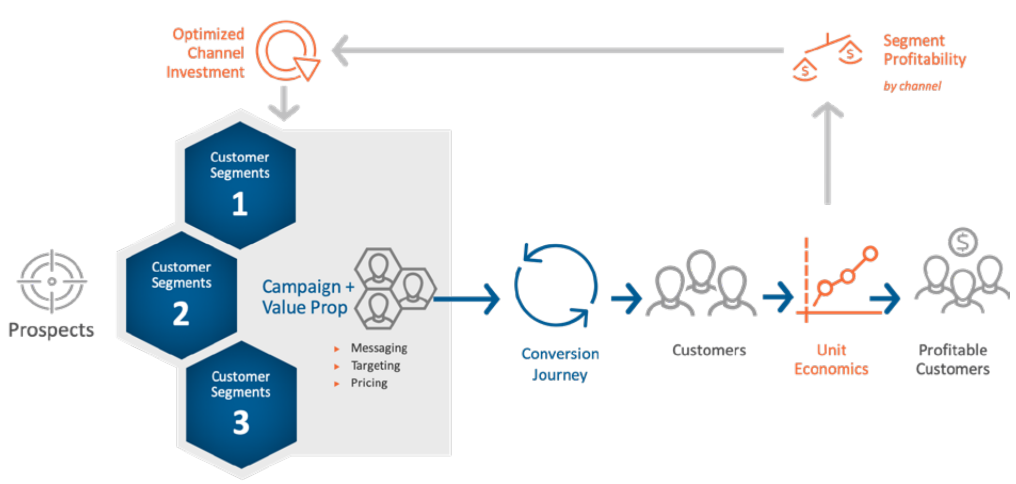
When considering the ideal "who," lenders must keep in mind lead volume, conversion rates and final acquisition costs by audience segment.

Step 2: Instrument Your Funnel

To execute the playbook, lenders must first connect marketing data with sales and revenue data. This requires stitching together all the data from various customer acquisition channels, such as ad platforms, to the lender's onsite web analytics, lead management systems, CRM and financial ERP into one singular data hub. Such full-funnel visibility shows the origin of each funded loan—from the marketing campaign down to the acquisition channel—audience segment and more.

Doing this allows lenders to rapidly capture data from click to close, but it's important to touch every lead in a consistent, orchestrated way at every step through conversion.

The secret - using Unit Economics to quickly refocus spend levels + tactics at more profitable customers

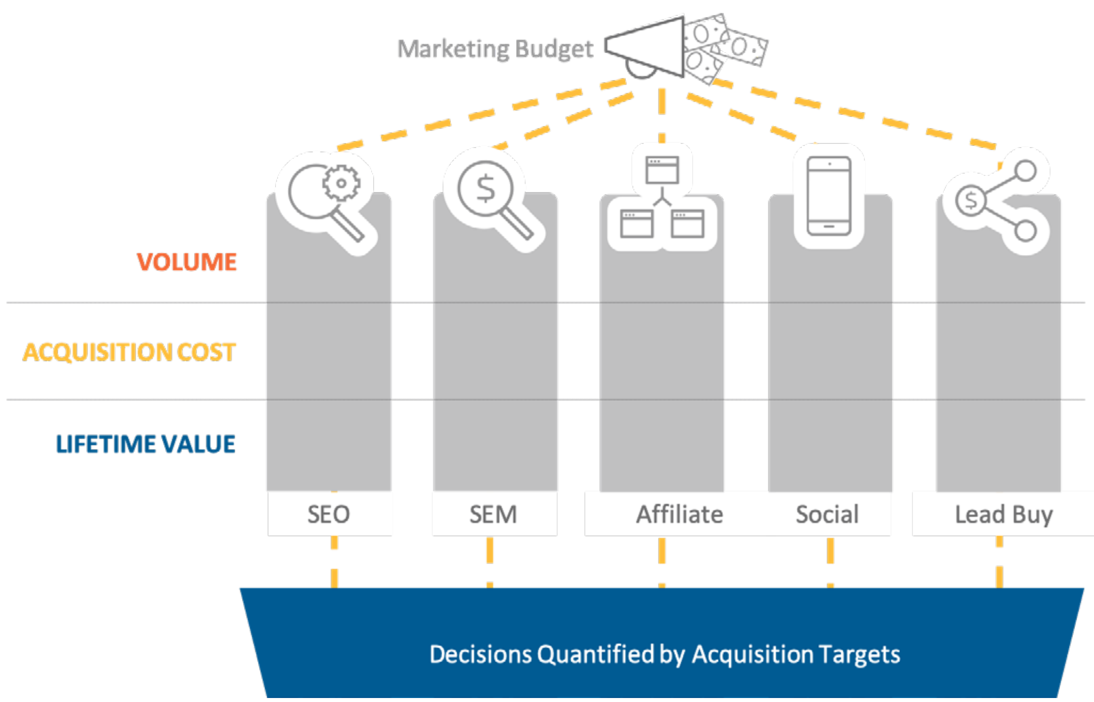


Analyzing this connected data will enable lenders to optimize customer segmentation strategies, refine search algorithms to return leads that more closely match closed loan successes and identify and close holes in the conversion process.

Although an effective strategy, it is difficult for many companies to execute. One considerable obstacle is that data lies in silos, such as sales funnel KPIs and marketing metrics, and is not organized for actionable use. Unifying and analyzing the data requires skills that often expand beyond those of an internal marketing team, such as database expertise for understanding how to scope and build the project to connect disparate data sets that have varying formats. Additionally, marketing would need reporting tech expertise to create a cohesive end-to-end data stream in the form of a usable UI. Without these internal capabilities, data analysis would be a slow and arduous process that lacks real-time insights, which are required to teach targeting algorithms to optimize spend.

While a lack of internal marketing or IT capacity and skills may make this seem daunting, time consuming or expensive - it doesn't have to be. Companies exist that specialize in providing services to relatively inexpensively host the connections between your existing systems, making this very achievable with much less cost and effort. So you can focus on the business at hand.

Building a Profitable Portfolio



Step 3: Determine Media & Services

Once full-funnel visibility is achieved, decide on digital marketing tactics and connect the channels into your data model. Effective customer acquisition engines customarily include search, paid social, affiliate marketing and lead buy. Keep these considerations in mind for each:

Search: Digital marketing is becoming more expensive. With this channel, it's important to have a finely tuned paid search strategy that leverages your internal down-funnel CPFL data by customer to feed back into and train the search engines targeting algorithms to optimize getting your ads in front of the right customers.

Paid Social: This channel is effective at reinforcing brand awareness. It is best used for exploring key audience segments and expanding the customer journey through brand education and consideration.

Affiliate: Define your economics and differentiation with partners to drive meaningful traffic and leads. An investment in conversion rate optimization (CRO) to maximize the conversion rates of your landing pages is important for success with this channel. Affiliates will start with a cost-per-click (CPC) model and create unnecessary spend if you're not pushing hard on maximizing your CRO performance. Then as you generate data showing the higher conversion rates your pages are delivering, you can negotiate transitioning your affiliate commercial relationship to a cost-per-action (CPA) model.

Lead Buy: Educated and strategic lead buys maximize your conversions while reducing wasted spend on under-targeted leads. Make sure the purchased lead economics work by establishing benchmarks for KPIs as they relate to CPFL.

A note about Lead Buying

There are really 2 sources when it comes to Lead Buying - shared aggregated leads and using a rate table, such as Bankrate. Going after shared aggregated leads is when you go after leads that fill out a form on LendingTree or some other site - they then sell those leads off to other lenders and there's a race to call, text or email the leads into submission. We recommend against lenders going after this option because unless you already have strong brand recognition, it's going to be hard to make that work.

Where we do see value is investing in the rate table world, such as being listed on Bankrate or Credit Karma. That way leads become exclusive inquiries. However, when doing this you have to make sure you are well positioned and have a strong rate. Again this is where it's important to make sure you have the right product offerings to be competitive against other lenders.

It is useful to work with a digital agency, like LQ Digital that is well versed in how to get the maximum results and ratings out of these lead sources. Educated and strategic lead buys maximize your conversions while reducing wasted spend on under-targeted leads. Make sure the purchased lead economics work by establishing benchmarks for KPIs as they relate to CPFL. Then, consider engaging with a conversion service to qualify leads on your behalf. You'll also get the most out of these leads if you engage with a conversion servicer to qualify leads on your behalf so that your LO's spend more time closing deals instead of fielding unqualified customers.

Step 4: Convert Leads

Although digital is the foundation of the acquisition engine, current data shows that more consumers at this stage still prefer the high-touch conversation and thus conversion success increases if you can quickly drive leads to a first call. No matter how much people research online, when it comes to important purchases, they want to talk to a human being. Key success criteria here are: speed of the first call for each lead, and making sure each lead receives the same consistency and cadence of follow up contacts. If you are unable to immediately connect on the phone, best performance comes from leveraging a mix of contact types—coordinated use of phone, text and email—to meet customers where they are and increase contact rates. There will be a combination of online and offline tactics that work best for each lead type - and that will be important to measure and improve upon. Ultimately, the speed and consistency of your outreach, combined with using the power of the phone to maximize conversion rates, will become a key part of your winning strategy.

It's worth considering outsourcing the lead qualification function to a professional contact center. This reduces channel noise and delivers only qualified leads to your loan officers to maximize their bandwidth. Professional contact centers are able to call new leads within seconds, live-transfer qualified leads and skillfully ask unqualified leads the right questions to gather valuable market intelligence about why certain customers or products are not converting. However, not just any call center will do. Automatic telephone dialing systems (otherwise known as ATDS) are banned in many jurisdictions and recent court rulings have opened large legal liabilities to companies leveraging such technologies irresponsibly. You will want to work with an agency that is well versed in the most recent TCPA rulings and has extensive experience working with large lenders helping ensure they stay compliant with the changing regulations.

Next steps - bring it all together

As you mature in your digital customer acquisition engine, you can start to organize and focus your efforts in 3 areas to harness the full value of all your leads at any stage of customer maturity and readiness:

1. Create immediate opportunities for conversions by integrating your marketing data. Maximize the conversion of your highest LTV leads today to drive down your cost per application, cost per lock and CPFL.

2. For qualified leads that stall in the application process, leverage a dedicated team separate from your LOs to execute a fast follow-up program that utilizes a coordinate cadence of call, email and text workflow to increase final application completion rates. As you go, continue to track and refine which contact sequences and cadence maximize final improve funnel stage progression by lead type.

3. For leads not currently ready to borrow, leverage another dedicated team and technology to manage a nurture program that combines contact types, such as phone, text and email. This will help you continue to extract value from older lead sources, generating incremental revenue growth over time.

Conclusion

Using this playbook to refine your borrower acquisition strategy will connect the dots between the leads you reach through media and down-funnel conversions to paying customers. Instrumenting your funnel is a key part of the process, as it enables you to orchestrate activity across channels to inform tactics, drive strategy and ultimately maximize profitable growth.

LQ Digital is a unique provider of digital multi-channel performance marketing, lead qualification contact center and platform data integration. With over 15 years' experience and benchmarking data by working with fortune 500 Finserv brands, LQ Digital brings a complete solution for lenders looking to pivot quickly and take advantage of market changes to find new growth. If you're looking to rev up your acquisition strategy so that you can remain competitive in 2021, connect with one of our experts and unlock your growth potential.

Contact us