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Creating Customers for Life

How to survive as a small mortgage broker in today's highly competitive market

Executive Summary

In 2000, there were more Australian home mortgage borrowers than ever before and they were borrowing more.

As government initiatives such as the First Home Owner Grant and property investment tax incentives encouraged still more borrowing, home equity was also being freed up for use on renovations, cars and investments.

“Bank bashing” had also become a spectator sport in the media, with many borrowers consequently losing trust in traditional lenders.

It was the perfect time for a new breed – independent mortgage brokers – to make their mark on an increasingly dissatisfied market.

Consumers quickly adopted these newcomers, using them to shop around on their behalf, thereby gaining access to a variety of lenders and loan products without having to do the legwork.

In the space of five years, numbers of independent mortgage brokers in Australia moved from an insignificant base to around 18,000 operators.

In a *Technology Brief* report dated March, 2005, JP Morgan’s Chief Banking Analyst, Brian Johnson, said: “The Australian mortgage industry is undergoing significant change as major banks lose market share to mortgage brokers.

“Brokers are here to stay and now account for up to 45% of new loans.”

The experience overseas suggests that in the coming years, mortgage brokers could be introducing up to 80% of all loans.

While the actual amount of new loans that mortgage brokers introduce varies from between 30% and 45%, there is no doubt that the Australian mortgage industry is strong and is set to continue to grow.

Yet, hidden within this phenomenally accelerated growth is a startling conclusion – the average annual loans written by individual brokers is not enough for them to survive.

Based on the estimated 18,000 brokers and with annual loans written by all brokers at $40 billion, the annual cut averages would be at just over $2 million a year.
This suggests that a lot of brokers are either part-timers (providing broking services as an add-on to their main role), or they are simply not going to last long.

The average annual loans written by individual brokers is not enough for them to survive.

In addition to this, regulatory and licensing standards – similar to those instituted in the Financial Planning profession – are likely to be implemented in the next couple of years. This will likely see a shake out of the part-timers in the industry.

Such potential has attracted larger players to this market, bringing with them large advertising budgets to build a brand and stay top of mind with consumers.

This of course presents a huge challenge.

How can the smaller players not only maintain their independence but also attract clients to grow their business?

How can the small independent broker ensure survival?

An Industry Snapshot

Up to 2000, anyone could become a mortgage broker, with the emerging industry peppered with former bank managers, mobile product lenders and others from totally unrelated industries.

As numbers of mortgage brokers exploded, the media spread tales of cowboys amongst the ranks who were after easy money and fat commissions. Boundaries of behaviour were being tested and it was only a matter of time before steps were taken to rein it in.

At the same time, it was clear that even the vast majority of ethical brokers were not on a level playing field with banks and other major lenders, many of whom were aggressively defending their patch by staying out of the broker market and countering the newcomers with sophisticated PR campaigns and saturation advertising.

Over the last five years, the industry has undergone many changes and rapidly.

The industry has become bigger, more professional and is having a significant impact on the lending industry. It is estimated that there are some 18,000 now operating as mortgage brokers. These brokers are credited with introducing between 30% and 45% of new loans to lenders.

There have also been changes to the regulatory regime. Western Australia is presently the only state to require licensing of brokers; even so, some large eastern state players are exempt from its standards. Although the regulatory environment has increased in complexity over the past five years, it still remains inconsistent, piecemeal and difficult to implement.

Industry groups are supporting the notion of a national licensing regime. In its National Finance broking regulation submission in February, 2005, the Mortgage Industry Association of Australia (MIAA) recommended that all loan writers should be licensed and that there should be two levels of licence, namely a full licence for those having at least two years industry experience, and a qualified licence for others. Such regulation will go a long way towards separating the wheat from the chaff.

The overhead costs of compliance, licensing and technology will squeeze many independent brokers out of the market.

Although professional brokers will not hesitate to apply for a licence under the proposed regulations, low volume brokers will struggle with the overhead of compliance requirements, licensing regimes, mandatory minimum education standards and the cost of providing ongoing services to their clients.

Consequently, the proposed regulation will greatly benefit the industry, as well as consumers. It will eliminate the unprofitable and unqualified, deliver improved service levels, remove unsavoury practices and ultimately provide an even more uniform and professional image.

The way brokers operate has also changed, with the introduction of new technologies. In 2000, specific mortgage broking technology was in its infancy, with brokers relying on a chaotic mix of post, fax and e-mail for their transactions. Software tools available to brokers were mostly limited to that offered by lenders, with the more sophisticated end of the market offering calculators, application forms and policy and product summaries.

Most aggregators and brokerages have now allocated large software budgets – buying either off-the-shelf software packages or building specialised systems from the ground up - as an edge against their competitors.

One of the other changes the industry has faced is the emergence of a new form of mortgage brokers – brokers associated with large franchise broking companies that have large advertising budgets to create strong brand image and stay in front of the consumer.

Brokers and aggregators are still in the process of refining their models, although most now can be categorised as franchise, full service or no frills (with the models differing in terms of commission paid, services offered and cost of entry to the broker).

Brokers are also reacting to the changing environment. Medium and small groups are consolidating to gain economies in technology, branding and opportunities for cross-selling. Associations between real estate agents, financial planners, accountants and mortgage brokers are also becoming formalised. There is a move towards supplying an integrated financial and property management service to clients. Even small scale brokers are diversifying into insurance, leasing and home services to compensate for reduced income resulting from the cooling property market.

There is a move by mortgage brokers towards supplying an integrated financial and property management service to clients.

Lenders are also trying to claw back some of the market lost to mortgage brokers by improving their direct channel service with the promise of personal service formerly associated with branch managers or investing in expensive product advertising campaigns.

Others are repackaging their brand into broking space, following in the footsteps of the Aussie Home Loans rebirth into Aussie Mortgage Market.

Competing Against the Big Guys

The creation of large franchise groups of brokers has changed the industry dynamic and places strong competition on the small independent mortgage broker.

These companies will try to buy market share through development of a mortgage broking brand using deep advertising pockets. They will rely on traditional marketing to build brand awareness and get the attention of potential customers.

The traditional approaches to marketing are:

1. Interrupt marketing via the media of Television, Radio and Print
2. Direct Marketing to known groups such as doctors, engineers and other professions or location-based letter box drops
3. Sponsorship of major events

Traditional forms of marketing for brand recognition require deep pockets.

However in a crowded market traditional marketing is becoming more costly and less effective as:

- Consumers are bombarded with advertising everywhere they go and as a result, very little of it registers;
- There is too much choice in the market place. According to research conducted by social commentator Hugh Mackay (Ipsos Mackay report October 2004) "We live in a society that worships freedom of choice – however we hate to make the decision.";
- Consumers are spending less time seeking alternative choices and are turning more to brands, companies or individuals they trust or have been recommended to them; and
- To attract the attention of clients over their competitors companies need to continuously out-spend their competitors - it is a price war that spirals ever upward in terms of dollars spent.

So can the small independent mortgage broker not only remain independent but effectively compete against these giants?

The answer is a resounding yes.

But only as long as brokers recognise and implement the basics of “Permission Marketing'' based on Earning, Retaining and Building the trust of clients.

Small independent brokers have some of the advantages and disadvantages in relation to their counter-parts in larger companies, particularly franchise models.

Applying the principles of Permission Marketing can help small brokers leverage off their existing advantages and match some of the advantages usually only held by the big guys.

In turn small independents can create profitable customers for life.

The Small Broker Vs Franchise Broker

Small mortgage brokers can have significant advantages over the larger players, however they also do have some disadvantages against their franchise counterparts.

While franchise members have to share significant amounts of commission with head office to fund advertising campaigns, central systems & management, the small broker can join an aggregator and only sacrifice a relatively small amount of commission.

They will still receive critical support in the areas of training, compliance, commission payment and technology but are left with control over their remaining expenses.

Small brokers also have independence and control. They have:

- Freedom to choose their technology platform - While franchise brokers must use the software provided by their company, independent brokers can choose the software they wish to use. They may choose to use the software provided by their aggregator or may choose to purchase/license third party tools;
- Freedom to design processes to support customer contacts and application processing that suit the broker;
- Freedom to choose their brand name; and,
- Freedom to move aggregators and retain their trail commission.

Brokers in a franchise may be offered more technology support and more tools to continue the relationship with the client such as head-office issued Newsletters and automatic periodic loan notices.

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To survive and thrive small brokers must not only acquire tools that are available to large franchises, they must exceed these service levels whilst retaining their advantages of high commission and independence.

Using effective implementations of Permission Marketing and Customer Relationship Management, the small broker can appear to be a much larger organisation and offer very effective customer care right from the point of initial contact.

Permission Marketing

Presently, most brokers simply fail to keep in touch with their client once their loan has settled.

A survey conducted in 2004 showed that over 70% of clients could not recall who their mortgage broker was and, worse, did not know how to contact them again.

Such research points to brokers not only failing to retain their client base but also losing out on opportunities to receive referral business from their clients.

We must accept that smaller brokers cannot compete against big players using traditional forms of marketing. Also customers responding to advertising are often shopping around with several brokers, and are going to be very hard to convert. Trying to outbid a competitor can be costly and time-consuming.

By using Permission Marketing, small brokers can generate more successful leads than are generally created from advertising campaigns – and for much lower costs.

The idea of Permission Marketing is to use your client-base to:

1. Market to the client again - ie sell the client a mortgage again. This can also be called client retention
2. Acquire further clients from the client. This is known as referrals.

Permission Marketing is when the client or potential client gives you their permission to market to them based on the trust that you have earned by giving them a great service.

Once they have given you their permission, they are more likely to read and respond to any material that you send to them. They feel obliged to reciprocate to you for having remembered them. The way they can reciprocate is to return to you when they have need of a further mortgage and also send you referrals. A good turn deserves another -

you have looked after them and are continuing to do so and they now feel obliged to look after you.

But Permission Marketing can only be successful if you are successfully implementing the basics of marketing based on Earning, Retaining and Building the trust of clients:

1. Providing a great service (Earning clients trust)
2. Continuing to keep in touch with the client so that they do not forget you (Retaining their trust)
3. Continuing to service them (Building on their trust)

Earning, retaining and building trust can be time consuming and expensive for smaller mortgage brokers. Technology is generating new marketing tools that can help create customers for life.

From a consumer perspective, the time is also right for the introduction of fresher and more personal forms of communication. Increasingly overwhelmed by saturation advertising and too much choice in the marketplace, consumers have already begun turning more to brands, companies or individuals they trust, or who come with high recommendations. As they become increasingly comfortable with electronic communications and transactions, consumer expectations will increase that services will be provided in this format.

This does not mean face-to-face communications will die, quite the opposite. A successful service will still be dependent on a broker's personal skills to win the confidence of the customer and reinforce the electronic messages.

Technology for earning, retaining and building trust

Brokers who are not comfortable with technology will *not* survive.

While the claims of e-commerce group, LIXI, that all loan lodgements will be electronic by 2007 may be ambitious (*Australian Broker* issue 2.14), there is no doubt that brokers will be forced to use technology for all aspects of their business.

Small brokers need to look as professional as big brands without employing a large number of back office staff.

The key to doing this is with technology. It is not enough to have access to information about loan products, lender policies and assessment criteria. All brokers are now equipped with at least basic tools in this area.

Research commissioned by mortgage software solution designer Loankit® highlighted that many brokers are either not using the software provided to them or have significant concerns about some aspects of the tools. Key areas of inadequacy appeared to be:

- Lack of end-to-end integration, tracking all interactions from first point of contact
- Lack of integration of pre and post sales software
- Time to enter data, poorly designed screens
- Lack of confidence in serviceability calculations and product information
- Difficulty producing reports, time to prepare proposals to clients

How can the broker reach all of their clients if they don't have an integrated customer database? How can they provide accurate sales information when they do not trust the product and assessment tools provided? How can they implement an ongoing communication plan or create a Newsletter without wasting lots of time.

Brokers need better tools if they are to Earn, Retain and Build the trust of their clients - tools that can help deliver the services normally associated with the Big Guys while offering effective customer care from the initial point of contact.

Regular follow-ups based on knowledge of the clients' loans are especially critical to retaining a positive relationship. Systems that automatically inform both brokers and clients of anniversaries, rate expiries and other loan events ensure that brokers remain in the minds of their clients at the right times.

Earning Trust

The broker particularly needs to earn the trust of the prospect. Whilst not all inquiries lead to a sale, all inquiries can lead to a name on your contact list. By making it a policy to collect all names and email contacts of prospects, your customer database will grow into a valuable asset.

This gives you an opportunity to earn the trust of prospects over time with the delivery of informative and relevant Newsletters, updates on products and other free value-add services, such as budgeting and investment analysis tools.

All brokers have a network of people for whom trust is fairly easily earned. For many brokers the best leads come from people in the professional and personal life, including family, friends and neighbours, and people that they directly work with. These are contacts that, with their permission, can be added to a centralised customer database as a source of future leads.

Earning trust is critical when trying to close a deal, however to do this brokers must be confident in the information and calculations performed by their software tools.

When assessing software, the broker should be looking for:

- Well-presented comparison of products, containing facts about product features not marketing descriptions
- Accurate estimates of costs, including exit fees, Mortgage Insurance & legals
- Accurate qualification tools
- Scenario tools for presentation of options to clients
- Reports that can be created in minutes not hours, with their own branding and contact details

The broker who can provide detailed information and accurate qualification to their clients quickly and easily is more likely to earn their trust and convert the deal.

"It is simple to qualify a client and to find the right loans. Loankit generates simple, easy to read reports that look professional."

Gail Baker, All Mortgage Finance

Retaining Trust

To retain the client trust the smart software must keep in touch with your clients as if you were personally looking after them. This is part of a Customer Relationship Management (CRM) strategy.

CRM is a strategy which places the customer at the heart of your business' activities and culture.

Having a client-focused contact plan is vital to retaining trust and building it into a life-long relationship.

For example, once a loan has settled it is critical that the client be contacted in a suitable timeframe to ensure that there are no teething problems. Brokers who omit this step risk diminishing the relationship, particularly when there are some outstanding issues to resolve.

Regular follow-ups based on knowledge of the client's loan are also critical to retaining a positive relationship. Systems that automatically inform you **and** your client of anniversaries, rate expiries and other loan events ensure that you are in the mind of the client at the right time.

With the importance of repeat business and referrals in the mortgage industry, it makes sense to talk to your customers regularly through a channel that encourages an ongoing relationship.

"The major advantage of Loankit is that it saves me time and it makes me look very professional. The updates and analysis are also particularly useful"

Alex Filipovic, indigo Finance

Building Trust

The trust built on service and follow-through must continue to be developed over time.

Whilst Newsletters and other free value-add services can help keep you top of mind with a prospect, they are even more effective in creating referrals from existing clients.

By keeping the client aware of changes in home loan products and other relevant news you are helping them to keep up to date. You are also giving them something they can pass to their network as a recommendation to use your services.

Other ways that great software will help you build the trust of the client is by informing you of special offers that might be particularly beneficial to specific clients.

This gives you an opportunity to show to the client that you are actively monitoring their loan and are watching for opportunities to help them save money or add attractive features. This is a powerful demonstration of how you are keeping the client at the heart of your business and strengthens their ties to you.

Having the trust of the client encourages them to recommend your services to their friends, family and colleagues. These are by far the best leads as you are unlikely to be competing against any other broker or the direct contact of the lender.

The easiest (and cheapest) referrals come from current clients. Ray Jutkins, a specialist in direct marketing, suggests that: “Leads come from two primary sources: current customers – usually your best source for more business, and prospects – those who can buy what you sell but are not doing so today.

“I have written more loans than I would have without Loankit”.

Gail Baker, All Mortgage Finance

Strategic Referral Alliances

Once you have established a relationship of trust with your client you are in a unique position to leverage a hidden advantage of permission marketing.

The client in all probability uses the services of other professionals such as financial planners and accountants.

Based on the trust you have fostered they will usually be more than willing to introduce you to professionals they use or the ones they know through a more personal relationship. This introduction gets a foot in the door of these professionals. Thus the first step in formulating an alliance (the introduction) is simplified.

Rather than cold-calling referrers, an introduction via your personal network or existing customers gets you off to a better start. You need to be able to demonstrate that you can offer value to the referrer and their clients. This need not be financial. Indeed many industry experts argue against paying referrers as this can create a conflict of interest and opens the door for a competitor to offer more.

Value must come in the form of:

- Professional, personalised service to customers
- Reliable follow-through on all referrals

In proving this to your potential referrer you already have a proven case - a mutual client who is satisfied with your service!

"I not only send the newsletter to my clients but to a number of real estate agents as well."

Peter Chislett, Realty Executives Finance

Conclusion – Building a Customer for Life

Small mortgage broking businesses can develop a close relationship with prospects and clients so that they not only benefit from repeat business but also provide the customer opportunities to refer new business.

Having access to the right tools and implementing a Customer for Life approach however is critical to success.

To succeed brokers must:

- Make the customer the central focus of their business
- Have regular and meaningful contacts with prospects and customers alike
- Implement permission-marketing strategies to prospects with value-add services such as Newsletters
- Have tools to support the sales process that are faster, more flexible and more accurate that competitors
- Develop relationships with strategic alliance partners to create a source of leads
- Become your client's "trusted advisor"

"I have not come across any package that does it as well. Loankit is very flexible, the system is well set up and their focus is on providing quality service."

Peter Chislett, Realty Executives Finance