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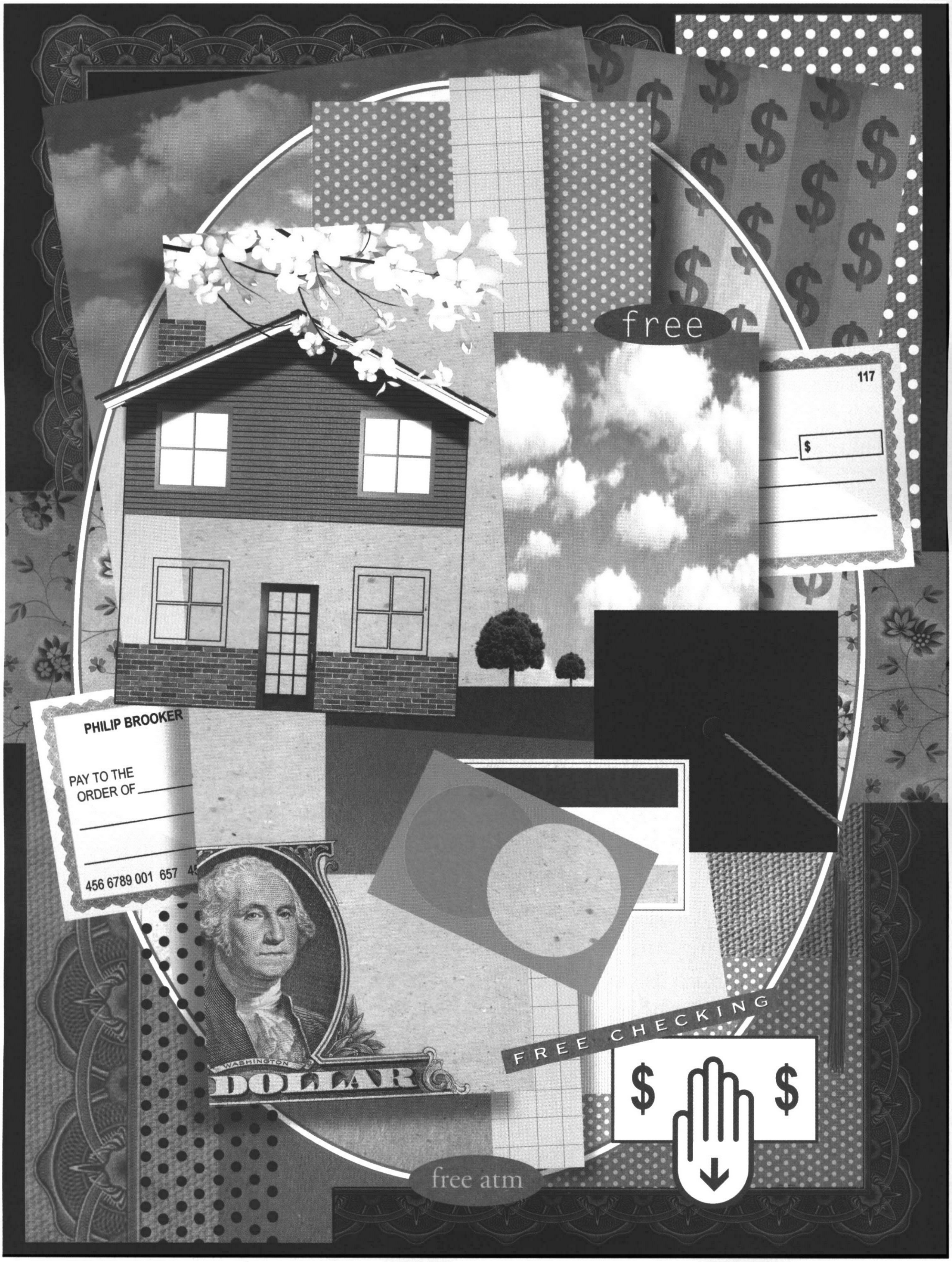

Seeking Customer Stickiness

BY MARY McGARITY

Major banks, including Bank of America and BB&T, along with national lenders like Ditech are seeking a larger share of their customers' wallets. Cross-selling and retention are their new business mantras.

Customer retention and cross-selling aren't new concepts in mortgage lending, but they're increasingly important in today's tough business environment. Holding on to good customers with a proven track record—and selling those customers new products or services—is an essential piece of doing business today. ■ That's a switch from just a few years ago, when the focus was on generating new loan business, and loan officers had all they could do to answer incoming calls. "It's a change in philosophy," says David Massey, vice president of mortgage loan training and process improvement for Winston-Salem, North Carolina–based BB&T Corporation. ■ "For a few years we were so busy with refinances, we couldn't really keep our heads above water. Now that we have a little time to breathe, we realize we need to be doing more to keep our current customers," says Massey, who heads BB&T's mortgage servicing center in Greenville, South Carolina. ■ Bringing in new customers through mergers and acquisitions has also slowed, Massey adds. "Many banks used to get customers by buying smaller banks and merging [customers] in. That's just not happening anymore. You can't find the good deals for the community banks to merge into your enterprise, so you really do have to take care to retain and increase the business with your existing clients," he says.

Some lenders are expanding the sheer number of products offered to customers in order to increase customer retention levels, as well as to bolster profits. Charlotte, North Carolina–based Bank of America is continually adding to the products it offers customers, and is seeing good results, says Stephanie Powell, customer service and relationship deepening executive, consumer real estate, at Bank of America.

> Identifying patterns in the way customers interact with their lender is essential, Hamermesh says.

"When you start offering more products, you exponentially increase your sales," Powell says.

GMAC Mortgage, Horsham, Pennsylvania, and affiliate Ditech, Costa Mesa, California, have also added more products to their suite of customer offerings, says Richard Powers, senior vice president and general manager of Ditech. "There's a variety of other products, based on demographics, inclinations and affinities, that we now market to folks that are in the GMAC/Ditech fold," he says.

Which products are the most popular to cross-sell to mortgage customers? Home-equity products, refinances, credit cards and insurance products are prevalent, according to sources interviewed for this article. "Home-equity products are probably the most popular right now. Refinances are common, too," says Robert Lee, chief executive officer of XSell LLC, Jacksonville, Florida. Pre-approved credit cards also rank high on the list of products offered to current mortgage customers, he notes.

Selling new products effectively to current customers isn't always a simple matter, Lee says. Lenders need to first sort out which customers might be good cross-sell candidates, and then determine what products those customers might be interested in, he notes. Pricing is important, too, Lee says. "It should make good sense for the customer, but also for the bank in terms of making a profit," he says.

Selling mortgage products to current retail banking or credit-card customers may slow down temporarily in the wake of the subprime debacle, says David Hamermesh, senior analyst, consumer lending, for TowerGroup, Needham, Massachusetts.

"Banks, especially those that are more conservative, are starting to walk away from even A-paper mortgages. There may be some reluctance to aggressively push mortgages, but I expect that will be a relatively short-term issue," he says.

Customer service reps and tellers as salespeople

For many lenders, holding on to existing customers means rethinking the role that staff in customer-service centers play. Pitching new products to existing customers calling in for help can be a very effective cross-selling tool. A customer walking into a local branch is also a good target to market additional products to, sources say.

Training mortgage-servicing personnel to cross-sell existing customers is a strategy that's worked well at Bank of America, especially in the mortgage call center, Powell says.

"In the past five years, we've gone from a service-only expense center and turned ourselves into a profit center," Powell says. "It's very much a shift in thinking. It's also a big change in the way the other units at the bank look at you. They're used to looking at you as an expense center, and now we're generating profits."

But transforming a service-oriented call center into a profit-generating sales channel can be a challenge, Powell adds. Lenders need to re-evaluate the traditional ways of recruiting, training, compensating and managing call-center agents, she says.

Expanding customer relationships is a focus across Bank of America's entire organization, says Terry Francisco, senior vice president, national media relations, for Bank of America. That includes reaching out to customers who visit their retail banking centers, he says.

Engaging customers at Bank of America's retail branches is part of one of the bank's core philosophies of "leading from the lobby," according to Francisco.

Customers are greeted by a personal banker prior to reaching the teller window, he says. "The personal bankers engage customers in conversation. Our hope is to save them time and perhaps open their eyes up to new products," Francisco says. "We're trying to change the old mindset that tellers are behind these cages and wait for the onslaught to come in at lunchtime."

Both call-center and branch personnel need the right technology and training in order to successfully cross-sell current customers, says TowerGroup's Hamermesh.

Technology vendors are helping lenders put together scripts for their agents in call centers and branches, but the scripts won't be effective unless the agent has good information about the customer and the product being offered, Hamermesh says. "That doesn't mean just a screen popping up with a script. You need the analytics in the background figuring out the right product for the customer, and how to price it correctly so [that] it's attractive to the customer but so it also makes a reasonable profit for the bank," Hamermesh says.

Great customer service, sales incentives key

Great customer service is a prerequisite for all cross-selling or retention efforts, Hamermesh says. "You can't overlook the fact that any attempt to retain an existing customer isn't going to be successful if the customer isn't happy," he says.

Identifying patterns in the way customers interact with their lender is essential, Hamermesh says. "Some customers rely on paper statements. Lenders need to figure out the common characteristics of those customers and tailor the marketing message to them. Should those customers be reached through direct mail or through statement inserts?," he asks.

The same analysis should be directed toward customers who manage their business online or by telephone, Hamermesh says. "What do those groups have in common? It's really a question of segmenting," he says.

Over the past couple of years, Bank of America has raised the bar on the customer-service standards the bank requires in its call centers, Powell says. "We want to provide the customer a level of service that is above and beyond what we've done before," she says.

Part of great customer service means answering the phones promptly, or maintaining what Powell calls "a good average speed of answer time."

She adds, "If a customer is mad at you because they've been kept waiting on hold too long, they're certainly not going to buy anything from you."

An excellent incentive plan is vital to encouraging service personnel to sell to customers, Powell says. "It's not just about how you carve out the dollars so much as making sure you have a very good system for delivering the incentives and compensation. The agents need to know that when they sell a product, they know how much money they've made and that when their check comes, the money is on there. It's very important that they trust that and they don't have to worry about being properly compensated," Powell says.

Creating the right incentives for all parties involved in cross-selling can be complicated, says TowerGroup's Hamermesh. "Branch managers in a retail bank are typically compensated based on a combination of all the different products they sell. Valuing mortgages and home-equity lines appropriately compared to all the other bank products, and therefore creating the right incentives for the sales people, is key," he says.

Many lenders find that piece challenging, he notes. Creating the proper incentives to cross-sell isn't just an issue at the individual front-line salesperson level, but also at the division level within the mortgage lender, he says. "You have all the different divisions who feel like they own the customer. Every division, from hedging to the originations group, to servicing to secondary marketing, needs to be compensated appropriately when an existing customer is being serviced, is retained and signs up for a new product," Hamermesh says.

Bank of America—mortgage as an anchor product

Bank of America has placed increased emphasis on cross-selling new products to current mortgage customers for the past

Award-Winning Campaign

A direct-mail campaign promoting home-equity products for GMAC Mortgage, Horsham, Pennsylvania, and affiliate Ditech, Costa Mesa, California, won an award for the advertising agency that created the promotion. In June of this year, Quattro Direct, Berwyn, Pennsylvania, was recognized with a "Benny"—the Benjamin Franklin Award for Direct Marketing Excellence in the Financial-Cross Sell/Retention category, according to Scott Cohen, managing director of Quattro Direct.

The campaign, which began in early 2006, uses customizable direct-mail formats for GMAC Mortgage and Ditech, Cohen says. The design is adaptable across the GMAC business units and products, saving production costs, he adds.

The mailings go to customers who fall into two categories: those with a conforming loan but without a home-equity line of credit (HELOC) with GMAC or Ditech; or customers with a current HELOC who are using less than 20 percent of their credit line, Cohen says. "We try to sell a home-equity line to the group with just a first mortgage. For the group that has less than 20 percent of their current [home-equity] line in force, we try to activate that line of credit," he says.

When creating a direct-mail campaign for a mortgage lender, Quattro doesn't limit its interaction to the lender's advertising and marketing staff, Cohen says. "I like to listen to what the loan officers have to say about the quality of the leads that are coming in and the problems they're having. It helps us understand what kinds of [mailings] are driving the best leads for them," he says.

Typically, brand isn't important in mortgage advertising campaigns, Cohen says. Potential borrowers are more interested in interest rates and terms, he notes. In the case of the Ditech/GMAC direct-mail campaign, however, brand is very important, Cohen says.

"Because the campaign is being marketed to current customers, using their brand and their logo is key to getting the direct-mail piece or e-mail opened in the first place," he says.

Quattro Direct created two templates: a No. 10 envelope package and a 6 x 9-inch package, Cohen says. "They both kind of scream of the GMAC blue and orange, and have colorful pictures of homeowners on the piece. Within these two templates, we've created a completely flexible format, where we laser-print the entire letter," he says.

> Typically, brand isn't important in mortgage advertising campaigns, Cohen says.

The adaptable format of the direct-mail campaign can be used across the various GMAC units, Cohen says. "We were able to pull the data from the different GMAC units—mortgage, retail and Ditech—and create a highly flexible campaign," he says.

Direct mail is generally more cost-effective for lenders than either online lead-generation or outbound telemarketing, according to Cohen. "Across those three different channels, you're going to get a lower cost per lead from an online lead, but a direct-mail lead is usually a more qualified lead and you'll see a higher conversion rate [from it]. A click-through online doesn't really engage the prospect as much as the conscious decision to open a letter, then call a toll-free number or fill out a short order form. Once a prospect goes through that, they're more qualified," Cohen says.

Most of Quattro's advertising campaigns integrate mail with an online presence, he adds. "It might be a micro-site or a splash page on the lender's Web site that looks like the direct-mail piece, so the consumer knows when they go online that they've come to the right place," Cohen says.

The Ditech mail campaign gives customers the option to either call a toll-free number or visit the Ditech Web site, he says. A spokesman for GMAC says the monthly mail campaign is ongoing. "Response rates have been historically strong with excellent conversion," he says.

five years, Powell says. "It's becoming even more of a focus as we continue to get better at it," she says.

Bank of America views the mortgage as the anchor product for cross-sell opportunities, Powell says. "The more that you can build onto that anchor, the more 'sticky' the customer becomes. It's what we've really built all our retention efforts around," she says.

The efforts are paying off: Today the average Bank of America mortgage customer has five additional products with the bank—an enormous jump from several years ago, Powell says.

Five years ago, about 70 percent of Bank of America's mortgage portfolio customers had only one product—their mortgage—with the bank, Powell says. "We've completely reversed that now. Today, 70 percent of our mortgage portfolio customers have at least one additional product with Bank of America, and most have three or four additional products," she says.

The company has increased the number of products it offers to mortgage customers, she says. In its early cross-sell efforts, Bank of America typically offered one or two additional products to its mortgage customers. The bank has gradually added more products to its suite of offerings so that today, almost every mortgage customer is offered at least one additional product, Powell says.

A newer product that resonates with consumers today is Bank of America's Privacy Assist®, a service that gives customers a suite of tools to protect their credit rating and to guard against identity theft, Powell says. "It's a service that customers pay monthly for that will notify them of any credit hits. This product is something we almost always offer to a customer," she says.

"A few years ago, if there were 1,000 mortgage customers calling us, maybe 200 of them were eligible for a credit card and 200 were eligible for a refinance. We didn't have a product to offer to the rest. We've increased our capability to offer more products, so today perhaps all 1,000 of those customers are offered a product," she says.

Bank of America has aligned its cross-selling incentive plans with the profitability of the services and products sold, Powell says. The compensation for selling a product to an existing customer is the same as for selling to a new customer, she says.

Call-center agents use an automated desktop system the bank developed internally, she says. "We've had it for two years, and it's continually evolving," she says.

"When a mortgage customer calls into our servicing center, there's a sort of pop-up that lets the agent know this customer does not have a checking account with Bank of America. We want the agent to offer that customer a checking account," she says.

All offers are "stack-ranked" according to "what's profitable and what we think the customer might be most interested in," Powell says. "Many different things go into that ranking, including what makes the best sense for the customer."

For example, Bank of America will look at whether a customer is better off refinancing a mortgage and taking extra cash out, or whether a home-equity line of credit (HELOC) makes better financial sense for that particular customer, she says.

Which products are the most profitable? "We first want to offer them a [refinance], if it makes sense for the customer. Our deposit products, such as checking accounts, are very profitable for the bank. Home-equity products are also profitable," she says.

"Once you've established that you can [cross-sell] and you have the tools to make it happen, all of the other areas of the bank want you to sell their product for them. We're constantly looking at other products and deciding how they would fit in with what we're already selling," Powell says.

A solid commitment from management is absolutely necessary to transform a service-only center to a services and sales center, Powell says. Having service agents cross-sell to customers "will definitely increase your [call] handle time. You need management to agree that the revenue that selling will generate will more than pay for the additional handle time," she says.

Banks interested in having customer-service agents sell new products may also need to rethink the way that they hire, Powell says. "A very confident service associate is not necessarily going to be a good sales associate. We had to find the right balance. A good sales associate is a little more aggressive, but they're also more needy and need more stroking," she says.

Team managers in the service center need to "be on the floor patting backs. You have to change the way you think and what you do for your associates because they need that recognition," Powell says.

Providing agents with the proper tools, such as a sales script and selling ideas, is also important, says Powell. Top sellers typically don't need the script, because "they have their own pitch and know exactly how to do it," she says. "An unmotivated seller—and you'll always have some of those—won't look at the script because they don't care. It's the people in the middle that use the scripts. That middle group is where you have the most opportunity to increase [sales], and that's where the script ideas are the most useful."

Bank of America emphasizes selling to current customers in a very non-intrusive way, Powell says. "There are places that hold the customer captive in their voice-recording unit, and they inundate the customer with selling messages all the way through. The customer has to listen to those messages and can't get to where they want to go. Bank of America has chosen not to do that," she says.

> Bank of America views the mortgage as the anchor product for cross-sell opportunities, Powell says.

Because mortgages are viewed as an anchor product, Bank of America is looking to turn more of its bank customers into mortgage customers, Francisco notes. In May of this year, Bank of America introduced a simplified mortgage product designed to increase the number of deposit customers who take out a mortgage with the bank, says Francisco.

The bank's streamlined No Fee Mortgage PLUS mortgage "has been an extremely popular product for us, especially in the banking center channel," Francisco says. Since it was launched in May, the new product has lifted mortgage applications greater than 40 percent in Bank of America's banking center channel, he says.

"One of our major goals with No Fee Mortgage PLUS has been to increase the number of Bank of America deposit customers who also get their mortgage with us," Francisco says.

In 2005, about 6 percent of the bank's deposit customers who had a mortgage had their loan with Bank of America. Today, 12 percent of the bank's deposit customers with mortgages have their mortgage with Bank of America, Francisco says.

XSell LLC's Lee believes there's huge potential for mortgage lenders to cross-sell to their existing customer base.

A cross-sell platform

XSell LLC's Lee believes there's huge potential for mortgage lenders to cross-sell to their existing customer base. The company was founded solely to help mortgage lenders and other financial organizations pursue that strategy, he says.

The company offers a hosted software platform, XSell, designed to "help lenders identify and pursue potential sales when customers contact them for assistance," Lee says. The company began doing business in 2003, specifically to tap the niche market of cross-selling to customers. Back then, many lenders didn't see the need for such a product, Lee notes.

"The environment in 2003 and 2004 was really different. The majority of people we were talking to didn't really see a need for what we were trying to do—sell other products to their customers," Lee says. Most lenders viewed their customer-service call centers as a cost center, not a profit center, he says.

Today, XSell executives no longer need to convince lenders of the importance of cross-selling products to customers. "The prospects already know how important it is," he says.

Traditional methods used by banks and auto-lending firms to cross-sell their existing customers don't generate a great response, according to Lee. "Telemarketing and direct mail won't show great results. Direct mail typically generates a half-percent to 1 percent success rate," Lee says.

The Do Not Call Registry put a serious damper on outbound telemarketing in 2003, he adds. The Federal Trade Commission (FTC) amended its Telemarketing Sales Rule (TSR) in October 2003, making it illegal for most telemarketers or sellers to call a number listed on the National Do Not Call Registry, according to the FTC Web site.

XSell's platform helps companies cross-sell products to their existing customers across multiple channels, including retail, online and through call centers, Lee says. The platform aggregates and analyzes data on customers who contact a company to determine whether there might be a new product or products to offer the customer, he notes. XSell then provides on-the-spot sales scripts or guides, through pop-up windows, for the sales agent to effectively make the pitch, Lee says.

The platform can be integrated with a company's voice-response system or Web site, and customers interested in a new product are transferred to a sales agent, he adds.

For example, customers logging into a lender's Web site to check a balance or make a payment will see a variety of targeted offers on the site, he says. "It might be a banner ad or a skyscraper ad, but it's always very specific and personalized for that customer," Lee says.

The XSell platform looks at customer information such as the loan-to-value (LTV) ratio on a current loan, payment history and customer standing. Geographic and demographic information are also taken into account when XSell determines the proper offer to make to customers, Lee says.

An empty-nester customer might receive a HELOC offer, but the message is framed around vacation suggestions, Lee says. "The ad or message will talk about using the money for their vacation, and it shows a cruise photo," he says.

Another borrower with the same lender may receive the same product offer, but the message and the amount of the credit line might be very different based on the borrower's demographic and geographic profile, Lee says. A borrower in his or her 30s with credit-card debt might be offered a HELOC with a message focusing on reducing debt, he says. "It's the same product offer, but with a very different way to compel the borrower to go ahead and apply for the product," Lee says.

XSell can be used to help retail bank branch staff cross-sell products to banking customers, Lee adds.

Pop-ups on the teller's computer screen indicate which product or products the customer is eligible for, as well as a sales guide that leads the teller through the sales interaction, Lee says. If the customer is interested, the teller is able to transfer the customer information into the bank's mortgage application system. "The system then triggers a call to the customer from a loan officer," he says.

Current customers phoning into a call center who show interest in getting a mortgage are typically transferred to a loan officer right away, rather than called back, Lee says. "The customer-service rep has a loan officer standing by who can take the application. It's a warm transfer. When that transfer occurs, the loan officer has all the appropriate, relevant information at [his or her] fingertips," Lee says.

That's important, because customers grow impatient if they're asked to repeat all their loan information a second time, he adds.

Before any offer is presented, XSell runs customer information through its enterprise rules engine. "We know that the customer is qualified, and we know something about them that shows they have a propensity to buy the product. It's not just the next best offer as far as we know. It's very targeted," Lee says.

XSell clients are seeing response rates of between 12 percent and 15 percent on targeted offers, according to Lee. "That's a phenomenal response rate, but our offers are very focused. With direct mail, you're getting a response rate of maybe 1 percent," he says.

Cost-wise, using XSell's system to cross-sell customers is competitive with other cross-sell methods, such as direct mail, according to Lee. XSell's pricing is based on the number of closed transactions a client realizes through using the system, he says. Mortgage lending clients typically pay a small base fee to cover XSell's ongoing costs, but the bulk of its revenues come from closed transaction fees, he says. "Pricing with a [lender] client might be made up of 10 percent base fees and 90 percent transaction fees," Lee says.

"We truly believe our clients will see a higher success rate. Then as their success rate increases, our revenue will increase," Lee says.

BB&T—using technology to target opportunities

XSell's pricing model is one of the reasons BB&T began using XSell in its mortgage call center in 2006, according to BB&T's Massey.

"XSell gets paid on a closed deal, which I think is a great business model. They're interested in our success, because when we're successful they make more money. We could be running a million calls through XSell and not closing any loans, so they wouldn't make any money," he says.

Using XSell's platform is part of BB&T's increased focus on customer retention, and on expanding the role of customer-service agents to include selling new products, Massey says. "Before implementing XSell, we were strictly a service center. A client would call regarding their mortgage loan with a question or problem. We'd answer their question, solve their problem and be done with them," Massey says. "We realized we should be doing more."

About a year ago, the bank created a fulfillment center, Home Mortgage Direct, to handle mortgage originations over the phone, he says. "It's a new concept for BB&T Mortgage. Prior to this fulfillment center located within the call center, all of the mortgage loan originations were taken care of in the field at our branch offices," Massey says.

"BB&T was, and still is, very much a relationship-oriented company. That used to mean you had to look somebody straight in the eye to have a relationship," Massey says.

That's not always the case today, he notes. "BB&T executives recognize that face-to-face interaction isn't the preferred method of doing business for every customer. Especially with the younger folks, many prefer to do things online or over the phone. Some have never walked into a branch in their life," Massey says.

BB&T uses XSell on incoming calls in two areas: its interactive voice-response (IVR) system, and when clients are speaking to a live agent in BB&T's call center.

> When determining which existing clients are potential cross-sell candidates, BB&T looks at about 10 different characteristics of the customer and the loan.

Customers calling into BB&T's IVR system are asked to enter their account number and security code, Massey says. "At that point, through an interface between our IVR and XSell, the loan number and other bits of information are sent to the XSell server. XSell checks, based on our predetermined rules, whether this is the type of account we would like to retain," he says.

If it is, a code is passed from XSell to BB&T's IVR system instructing the IVR to play a message to the client, known as the "opportunity message," he says.

"The message might say, 'We see that you're a preferred client and we may be able to offer you preferred terms on a new loan or a refinance,'" Massey says. A client can opt to do nothing, or if the message piques his or her interest, the call is transferred to Home Mortgage Direct.

Mortgage loan counselors man the phones at the Home Mortgage Direct center to talk to inbound callers about opportunities for new loans, Massey says. The counselors start out by giving customers general information, such as interest rates. "Should the conversation continue forward, the counselors take the application over the phone. They handle the processing and closing," Massey says.

The XSell software works similarly when agents are speaking to customers live through BB&T's call center. "When the customer-service representative enters the loan number into their computer, XSell's system will check behind the scenes to see if the customer is a candidate for a [selling] opportunity. If so, a pop-up box will come up on the screen showing that there's a cross-sell opportunity," he says.

The agent clicks on the box to run a script that gives a general solicitation that indicates to the caller that he or she is a preferred customer and eligible for a new loan or a refinance. If the customer is interested, the XSell system sends the caller's information over to a queue in the Home Mortgage Direct center, where a loan counselor will take the call. "We have a warm transfer where the customer-service rep passes the caller real-time to the loan counselor," he says.

When determining which existing clients are potential cross-sell candidates, BB&T looks at about 10 different characteristics of the customer and the loan, including payment history, the age of the loan, the type of the loan, adjustable-rate mortgage (ARM) adjustment dates and interest rates, Massey says.

"It's kind of like a scoring matrix that gives points for meeting certain criteria. Once a threshold of a certain number of points is reached, that equals a [selling] opportunity," he says.

Pitching to existing customers calling in with a question has great potential for increasing sales and profits, according to Massey. "If you're going to solicit somebody, solicit the inbound caller. You've got them on the phone, they're thinking about you and you don't have to worry about any of the Do Not Call [registry] mess. With outbound calls, you wind up leaving a lot of messages and making no contact," he says.

BB&T currently offers mortgage clients either a new loan or a refinance, but hasn't yet begun offering home-equity products. "Right now we're taking baby steps by offering first liens, although I can certainly see home-equity products being offered in the future," Massey says.

Massey also envisions the mortgage division eventually offering BB&T credit cards and insurance products to its current customers. "Right now we're just trying to retain that first-mortgage [customer], because it is a dynamic market and people go from lender to lender," he says.

BB&T also uses traditional direct mail to solicit current customers through its marketing division. "We're currently running a campaign where we sent out a letter to our ARM customers that have upcoming ARM changes in 2007," he says.

BB&T follows up with a second letter a month after an ARM adjustment, "when they're getting used to that sticker shock. The second letter asks if there's anything BB&T can do to help, and lets them know we can help them review their options," Massey says.

Keeping current customers satisfied is vital to any retention or cross-sell effort, Powers says.

Ditech offers equity-rewards credit card

Ditech's retention channel has long been a key contributor for the company, but the company has stepped up its cross-sell efforts by adding other financial products to its suite of offerings, says Powers. Powers took over the helm at Ditech in 2006. Ditech is a general business unit of Residential Capital Corporation, an indirect wholly owned subsidiary of GMAC Financial Services.

"We've expanded the cross-sell opportunities beyond just trying to retain customers or get them additional mortgage products," Powers says.

Over the last year, Ditech has been actively promoting a new equity-rewards credit card, Powers says. The company began offering the Ditech Equity Rewards℠ MasterCard® credit card exclusively to qualified Ditech customers in April 2006, Powers says. The Ditech equity-rewards credit card complements the GMAC Mortgage Equity Rewards MasterCard, first released in April 2004, he says.

The Ditech Equity Rewards card helps Ditech customers pay down their mortgage balance with every qualifying purchase, Powers says. Cardholders earn one point for every dollar in net retail purchases charged to the card. Each time a cardholder accumulates 2,500 points, the cardholder qualifies for a $25 reduction of principal on his or her mortgage with Ditech, Powers says.

The credit card offers Ditech customers a nice alternative to traditional credit-card reward programs that offer benefits such as free airline miles, Powers says. When using the Ditech or GMAC equity card, customers see their mortgage balance decline—a benefit that's very tangible and meaningful to consumers, he adds.

"There's the real life benefit of paying down your mortgage—it sends a pretty powerful message," Powers says.

The equity-reward credit-card promotion is seeing good success through a direct-mail campaign created by Berwyn, Pennsylvania–based advertising agency Quattro Direct (see sidebar, "Award-Winning Campaign"). Ditech also markets to current customers online, Powers says.

The company's direct-mail campaign focuses on the benefits that are most tangible to clients, Powers says. "We're emphasizing the benefits of this card versus other cards a customer might have at their disposal. Most consumers have had experiences where they've tried to redeem miles. They can't get the flights that they want because flights are not available or there are blackout dates," he says.

Powers declined to give specifics on the response rates Ditech is realizing from its direct-mail campaign, saying only that the rates "certainly exceed historical response rates."

Much of the credit for the success of the direct-mail campaign goes to Quattro, Powers says. "The fact that the letters are sent to a targeted group of current customers who already know us and are happy with their business with Ditech or GMAC helps a lot, too," he adds.

Current Ditech or GMAC customers going online for information will be offered a refinance or home-equity product if they're a customer with a record of paying on time, Powers says. "It really relates to making that process simple and easy for the customer to actually act upon. We know a lot more about our customers than anyone else does. If we're doing it right, we should make the process [of obtaining a new product] easier than a competitor. The key is offering the right products and making the process easier than our competitors," he says.

Keeping current customers satisfied is vital to any retention or cross-sell effort, Powers says. Ditech surveys its loan customers at closing on how they feel about the experience of doing business with Ditech. For the last two years, more than 95 percent of customers surveyed say they would recommend Ditech to friends and family, according to a Ditech spokeswoman. In the most recent 2007 survey, that percentage rose to 97.1 percent, she says.

Company statistics also show that "nearly half of first-time Ditech customers use Ditech for their next purchase/personal finance solution," the spokeswoman says.

"If you talk to people that have done business with us, they are effusive in their praise, and love doing business with Ditech," Powers says.

The value of keeping customers

Keeping customers happy opens up many opportunities for lenders, says TowerGroup's Hamermesh. "By building a full, rich set of accounts for the customer, the lender has that much more information about the customer. They can see if they've been taking draws on their equity lines or where they've been making credit-card purchases. All that information gives the lender an opportunity to make new product pitches [that are] more focused," he says.

Lenders have an opportunity to improve the credit quality of their portfolio by selling new products to current customers with solid payment histories, Hamermesh adds. "Banks, especially mortgage companies, have huge amounts of information on their customers—certainly even more than can be obtained from a consumer credit report. There's an opportunity to improve credit quality, to give customers products that are really tailored to their needs that will serve both the customer and the financial institution well," he says.

The mortgage sector could take cues from other financial service industries on how to hold onto customers, sources note.

A TowerGroup research report published in August showed that lenders are increasing their investment in customer retention and cross-selling. The research findings are based on a proprietary study on the future direction of consumer lending, including home-equity, first-mortgage, automobile and student lending. TowerGroup surveyed a group of 40 top financial services institutions in the United States, Canada, the United Kingdom and Ireland.

Fifty-five percent of lenders responding to the survey selected "cross-sell at point of sale" as their No. 1 organic growth strategy, according to the TowerGroup research report.

The mortgage sector could take cues from other financial service industries on how to hold onto customers, sources note. Several point to the credit-card industry as being particularly adept at customer retention.

Credit-card companies are very effective at making counteroffers to cardholders "when they are engaging in behaviors that look like they're going to be canceling their cards," says Hamermesh. "In order for that to happen, you need to be able to recognize the right behaviors and then be prepared with the right offer," he says. In the mortgage business, those behaviors might include customers requesting a payoff statement on their mortgage or making an inquiry with another mortgage lender, Hamermesh says.

"Credit-card companies have retention units that put a lot of effort into saving their current customers, and not just into new acquisitions," Bank of America's Powell says.

"For the mortgage industry as a whole, I believe it would be very beneficial to dedicate more time and energy to the customers you already have," Powell says. **MB**

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