SHERLOK

HOME LOAN PRICING SPOTLIGHT

RETENTION & REPRICING INSIGHTS POWERED BY SHERLOK

Version 1
Published April 2024
Reporting Period: 1 July to 31 December 2023

Table of Contents

Executive Summary

‘Client churn reduced by 32% when proactively repricing clients to lower interest rates with the same lender‘

Today's ultra competitive home loan market, dominated by mortgage brokers, has seen a surge in refinance activity. However, repricing with your existing lender has appeared as a successful solution to retain clients and saving them money without refinancing.

Overview

Sherlok is Australia’s leading retention platform for mortgage brokers & lenders. Trusted to managing over $70b of home loans across Australia, Sherlok’s AI accurately predicts customer churn and automatically lowers customers interest rates reducing client churn by 32%.

With average mortgage broker client churn sitting at 17% p.a and lenders experiencing customer churn between 20-25%, now is the time to that action to focus on existing customers. The return on investment and the positive retention outcomes highlighted from this report will surprise you.

The residential home lending industry as a whole has been built on new customer acquisition, sometimes at the detriment of profitable, sustainable growth and rewarding existing clients. With credit growth expected to flatten or retract as a result of a property market slowdown, the next opportunity for growth comes from engaging existing customers. For mortgage brokers, retaining existing clients can be repricing them with the existing lender or refinancing them to a new lender.

Scope and limitations

This report focus’s on retention for mortgage brokers clients and specifically loans that have been repriced automatically by Sherlok’s AI engine.

We’ve decided not to publish lenders names who scored below the industry bench mark in an attempt to bring a positive perspective to the home loan pricing discussion. This allows us to promote, acknowledge and thank lenders who are out performing the industry benchmark.

What is Repricing?

Repricing is the process of requesting an interest rate reduction with the existing lender. This is most effective when the home owner is a high risk of leaving (churning), generally as a result of being charged an uncompetitive interest rate compared to what the market is offering ‘like for like’ products and loan profiles.

Sherlok’s predictive AI also assesses if a client will be eligible to refinance to another lender when repricing.

Methodology

This section describes the methods used to provide our insights and rankings throughout this report. Our team has taken an evidence-based approach to ensure that the information presented is accurate and reliable.

Data Insights Methods

Sherlok leverages multiple data sources including, but not limited to, open banking (CDR), original loan application data, broker and customer entered data and data collected from lenders through the repricing process.

This data is then used for propensity to churn modeling and most importantly to automate the repricing process including repricing escalations to request a lower rate if the lender's first reprice offer wasn't competitive enough. Sherlok currently automates the brokers repricing process across 51 lenders in Australia. competitive enough. Sherlok currently automates the brokers repricing process across 51 lenders in Australia.

This report contains insight from 36,546 loans that have been processed over the period 1 July 2023 to the 31st of Dec 2023.

We intend to publish this report every 6 months with insights being expanded over time.

Sherlok Model Bias

The insights and data in this report will have a Sherlok AI bias but should still maintain a close statistical representation to the whole industry.

Sherlok models are designed and trained to prioritise mortgage broker loans that:

- have the highest propensity to churn at that point in time and therefore the period we are reporting on

- meet the lenders eligibility criteria for repricing. Whilst the criteria differs from lender to lender the general rules across the board are loans above $50,000, 10 months since loan settlement, LVR below 85% and variable rate loans.

Typically speaking, loans outside these parameters will not be successfully repriced due to the lender's eligibility criteria.

Terminology

Previous Rate: Interest rate prior to repricing
MPR: Median Previous Rate
New Rate: Interest rate post repricing
MNR: Median New Rate
Rate Reduction: Interest rate reduction from repricing
MRR: Median Rate Reduction
Sherlok Loyalty Index: Rate reduction as a percentage of New Rate

Industry Overview

Larger loan books have older loans which have higher average interest rates. This directly correlates to higher client churn for brokers and lenders.

Repricing is a relatively new concept to the industry but one which adds significant value and positive outcomes to homeowners (interest savings), brokers (client & revenue retention) and lenders (customer retention).

It's been reported that the average mortgage broker customer churn sits at 17% p.a which equates to $23,800p p.a lost trail income per broker or whopping $95,200 assuming a 4 year life of loan. 17% churn is consistent with Sherlok's data however, our data suggests that in many cases churn can be significantly higher sitting between 20-30% for larger and older loan books.

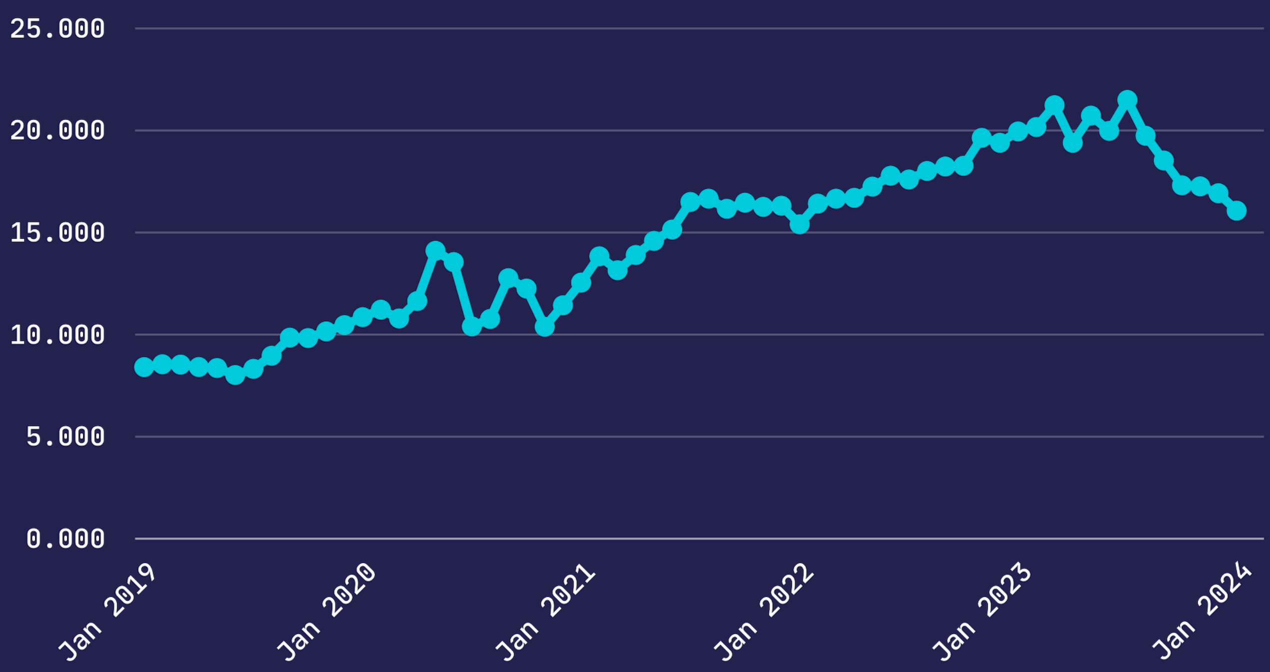
When looking at home loan survival rates (how long a loan will exist before a churn event) our data suggests the median home loan survival rate is 49 months for loans settled between 2015-2018. Our data also shows that loan survival rates have been decreasing since 2010.

But why do clients churn? There are several churn events including sale of property, upsizing, downsizing, paying out loans and refinancing.

At Sherlok and in this report, we focus on churn that is a controllable factor eg: existing clients who refinance away from their broker. Our research highlights that obtaining a lower interest rate is the main motivation for homeowners refinancing alongside debt consolidation and restructuring. All of these are generally more attractive with a new lender than the current lender.

With the rising cost of living and rising interest rates, reducing an interest rate reduces their largest monthly expense. A reduction of 0.50% in interest can save the average homeowner $2,250 in interest p.a on a $450,000 loan. This can be achieved by refinancing or, as our data shows, by repricing and staying with the same lender.

External Refinancing Activity Increasing



Source: Australian Bureau of Statistics, Lending indicators January 2024

Industry Comments

"Refinancing and repricing are vital options for home loan borrowers to ensure their home loan meets their current circumstances. Mortgage brokers drive choice and competition for consumers and over 70% of home loan borrowers use a mortgage broker. Our members have told us the first step they take is to negotiate with the incumbent lender to reprice a home loan, this service and the ability for mortgage brokers to prompt their clients when there may be a better deal for them is good for competition and good for consumers."

Anja Pannek
Chief Executive Officer, MFAA

"This report comes at a critical time for the mortgage broking industry. The data-driven strategies outlined provide invaluable guidance for brokers seeking to enhance client retention and drive sustainable growth, and to ensure they are acting in the best interests of their customer. Brokers have always played a critical role in increasing competition when they set up the loan and for the life of the loan, and this data is vital for brokers to understand and to act upon."

Peter White AM
Managing Director, FBAA

Open Banking Creates Transparency & Innovation

For years it's been difficult for home owners to easily view their home loan interest rate, resulting in a lack of transparency, understanding and higher interest rates. Open banking has the power to change that.

As open banking (CDR) matures and resolves its early adoption issues, several use cases have appeared that solve real problems for consumers.

One such use case is based on increasing transparency for homeowners. For the first time, third parties (apps and tech platforms like Sherlok) have the ability to access customers' loan data (with consent) via open banking to make it easier for consumers to understand what interest rate they are on and how this compares to the market.

More importantly, proactively tracking a homeowners current interest rate and alerting them when their rate is no longer competitive, is the first step to ensuring their rate remains competitive after settlement and reducing the likelihood of them refinancing away.

As open banking moves towards 'action initiation', it's exciting to think of the possibility that might exist to simply switch a home loan with a couple clicks, like you might switch electricity providers. However, there's still among way to go to reach mass adoption with open banking in its current state let alone action initiation.

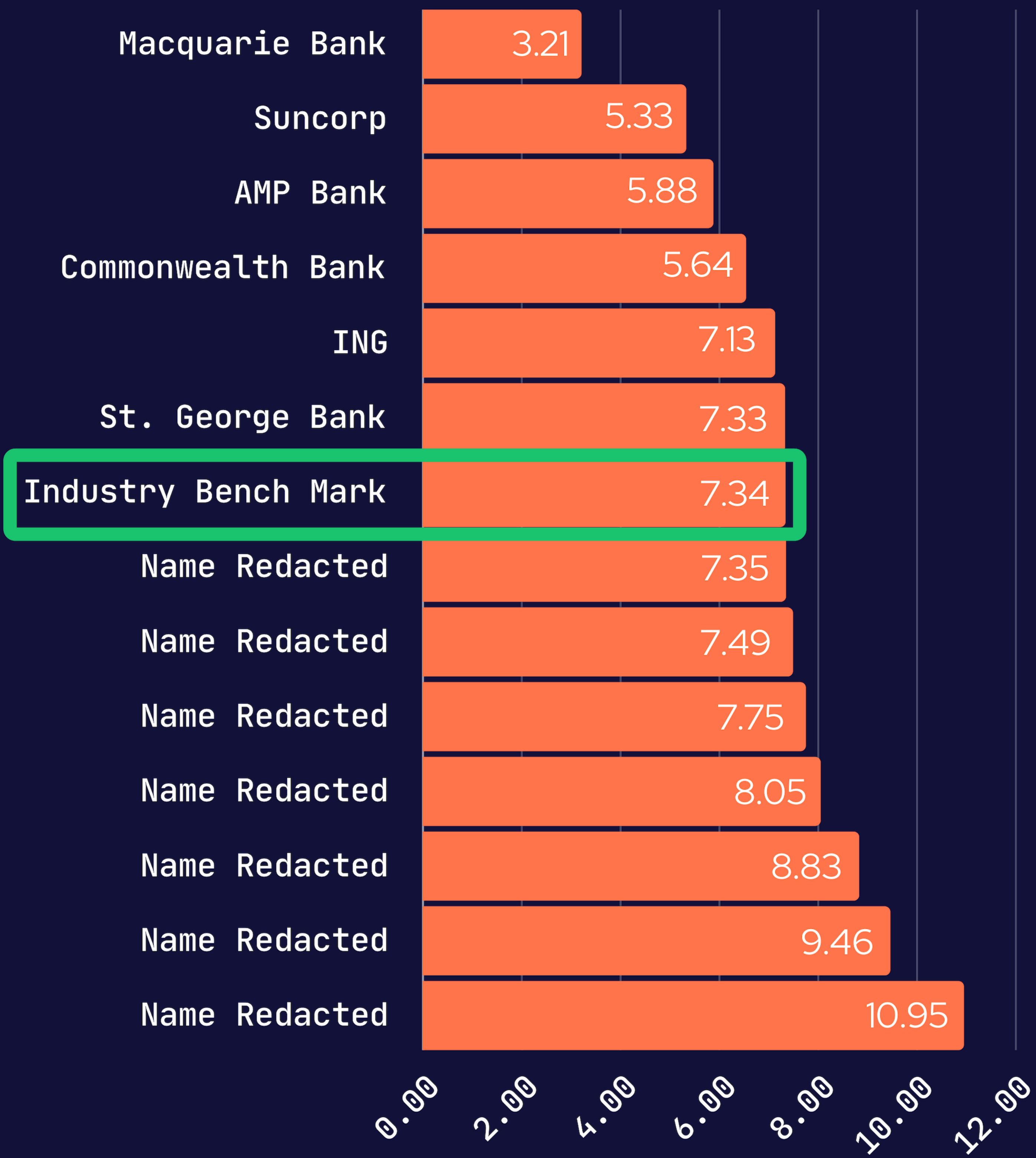
In late 2022 Sherlok took the approach to lead with an open banking only solution, putting us at the leading edge of this 'new' framework. As a result, we were the first in Australia to turn on open banking data for mortgage brokers and their clients.

We continue to believe that open banking is the way of the future and strongly believe that data recipients (those receiving data to add value to the customer) will be pivotal in the success of open banking. After all, the data recipients are more motivated to make beneficial changes for consumers than the data holders (those holding the customer data and are required to share it).

Having spent almost 18 months working with the regulators, CDR and treasury, we're proud to see it heading in the right direction and stay committed to its success. Not just for our own benefit, but for the benefit it brings to consumers and brokers.

The Sherlok Loyalty Index

Sherlok has developed the loyalty index to help identify, benchmark and rank lenders on how they manage existing clients interest rate pricing on home loans. The Sherlok loyalty index is the interest rate reduction from repricing as a percentage of the new rate ((PreviousRate - NewRate) / NewRate)) * 100). The lower the index, the more the lender is looking after their existing customers by providing a competitive interest rate post settlement.



*Not all lenders Sherlok reprices with are listed

Repricing outcomes

‘Repricing is an effective retention strategy that delivers tangible results and great outcomes’

From July to December 2023 Sherlok processed 36,546 reprices for brokers and their clients across Australia.

In the following sections, we dive deeper into the data from successful reprice outcomes and the impacts on retention. Sherlok’s insights provide a unique perspective that, until now, has not been available to the industry. Brokers using Sherlok achieved an average rate reduction of 0.46% over the period for brokers clients. Assuming an average loan amount of $450,000, that’s an annual interest savings of $2,070 per home loan.

As mentioned earlier, brokers using Sherlok achieved a 32% reduction in client churn vs brokers not using Sherlok. This can add an additional $50,816 of revenue p.a. per broker generated from retaining trail commission and generating new upfront revenue by refinancing clients when a reprice has been unsuccessful but better rates exist in the market.

The main factors impacting a successful reprice outcome (rate reduction) are outlined below.

- Loan Purpose (owner occupied vs investment)
- Loan to Value Ratio (LVR)
- Repayment Type (P&I vs Variable)
- Loan amount
- Age of the loan
- Customers repayment history

32%

Reduction in client churn

Brokers using Sherlok achieve a 32% reduction in client churn

0.46%

Avg rate reduction

The average rate reduction achieved during the repricing process

51.6%

Median LVR

The median LVR across all reprices during this period

11mths

Since loan settlement

The optimal time to reprice since settlement to achieve a discount >0.25%

Repricing Outcomes - Sherlok Personal Bests (PB's)

We take a look at the best and largest results brokers achieved from repricing their clients with Sherlok.

The stand out result was an annual interest rate saving of $35,402 for a broker's client on a owner occupied loan with Principal and Interest (P&I) repayments and an LVR below 60%. Larger loans with lower LVRs, that are owner occupied with P&I repayments, achieved better results across the board. 8 of the top 10 best annual savings were owner occupied loans with large loan amounts (>$750k) and low LVRs (<70%)

Surprisingly, Investment interest only loans (IO) appeared at the top of the largest rate reductions. Our hypothesis is that APRA's 2017 IO lending changes saw lenders increase IO rates by about 40 basis points to deter borrowers from IO loans repayment and reduce the percentage of IO loans in a lenders portfolio. Now with balanced portfolios, lenders can offer lower rates and higher discounts for IO loans to retain these clients, much more than they could offer in 2017-2020.

The median new rate (the new rate after repricing) achieved was 6.18% over the period. We note that July-Dec 2023 only saw one RBA cash rate increase compared to the previous 6 months which had four. The median new rate trend across every 6 month period will be very interesting to watch, particularly when benchmarking lenders.

2.80%

Largest Rate Reduction

The largest rate reduction was a $500k+ investment loan, IO, LVR <70%

$35,402

Highest Savings p.a

The highest savings for a single client. Achieved on a OO loan, P&I <60% LVR

$77m

Interest Saved

The total life timer interest saved from repricing over the 6mths

6.18%

Median New Rate

Median new rate across all successful reprices during the period

Maximium Savings per Lender

You can save money by refinancing to a new lender but it pays to reprice with your existing lender first.

The maximum savings per lender is the maximum annual interest savings brokers achieved for their clients by repricing with Sherlok. In this graph, we've plotted the max savings achieved in each month for each lender.

The average max savings each month was $7,782 for each client. What's notable is every month recorded a max annual interest savings greater than $10,000 for a client with 4 of the 6 months recording savings above $20,000 and 1 month above $30,000 for a single client.

$7,782

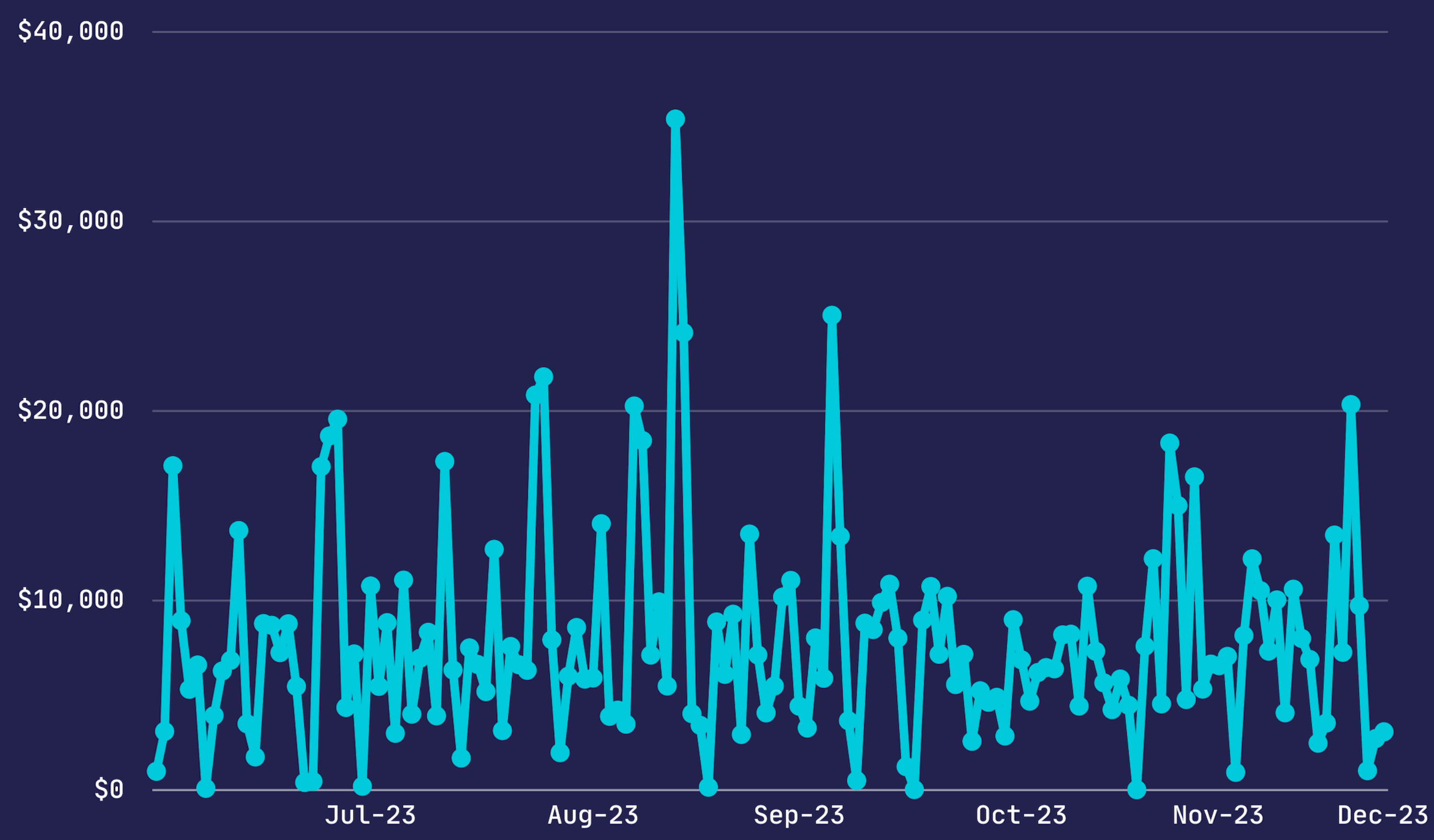
Ave Max Savings

Average maximum savings across all lenders

$35,402

Highest Savings p.a

The highest savings for a single client a OO loan, P&I <60% LVR



Owner Occupied VS Investment Loans

The big 4 banks offered larger rate reductions, but started from higher rates compared to the rest of the banks.

Investment loans have attracted a higher interest rate than owner occupied (OO) loans for many years. Here we take a look at the rate reductions for each loan purpose - specifically all loans across all LVR brackets.

Surprisingly the big 4 banks offered larger rate reductions than all other lenders (excluding the big 4 and their subsidiaries). Whilst it's great to see the big 4 leading with larger rate reductions, a closer look at Median Previous Rate (MPR on pages 14-17) tells a slightly different story. Both OO and Investment loans with the big 4 had higher Median Previous Rates than all other lenders combined meaning that prior to repricing, the average home loan with the big 4 had a slightly higher interest rate.

OO loans with the big 4 had a MPR of 6.54% compared to 6.39% across all other lenders, a +0.15% increase for home loans with the big 4 banks.

Investment loans with the big 4 had a MPR of 6.75% compared to 6.69% across all other lenders, a +0.06% increase for big 4 home loans.

0.23%

OO rate reductions all lenders excl big 4

Median rate reduction across all OO loans across all lenders for the period

vs

0.36%

OO rate reduction big 4

Median rate reduction across all OO loans across the big 4 bank and their subsidiaries

0.23%

Invest rate reduction all lenders excl big 4

Median rate reduction across all investment loans across all lenders for the period

vs

0.29%

Invest rate reduction big 4

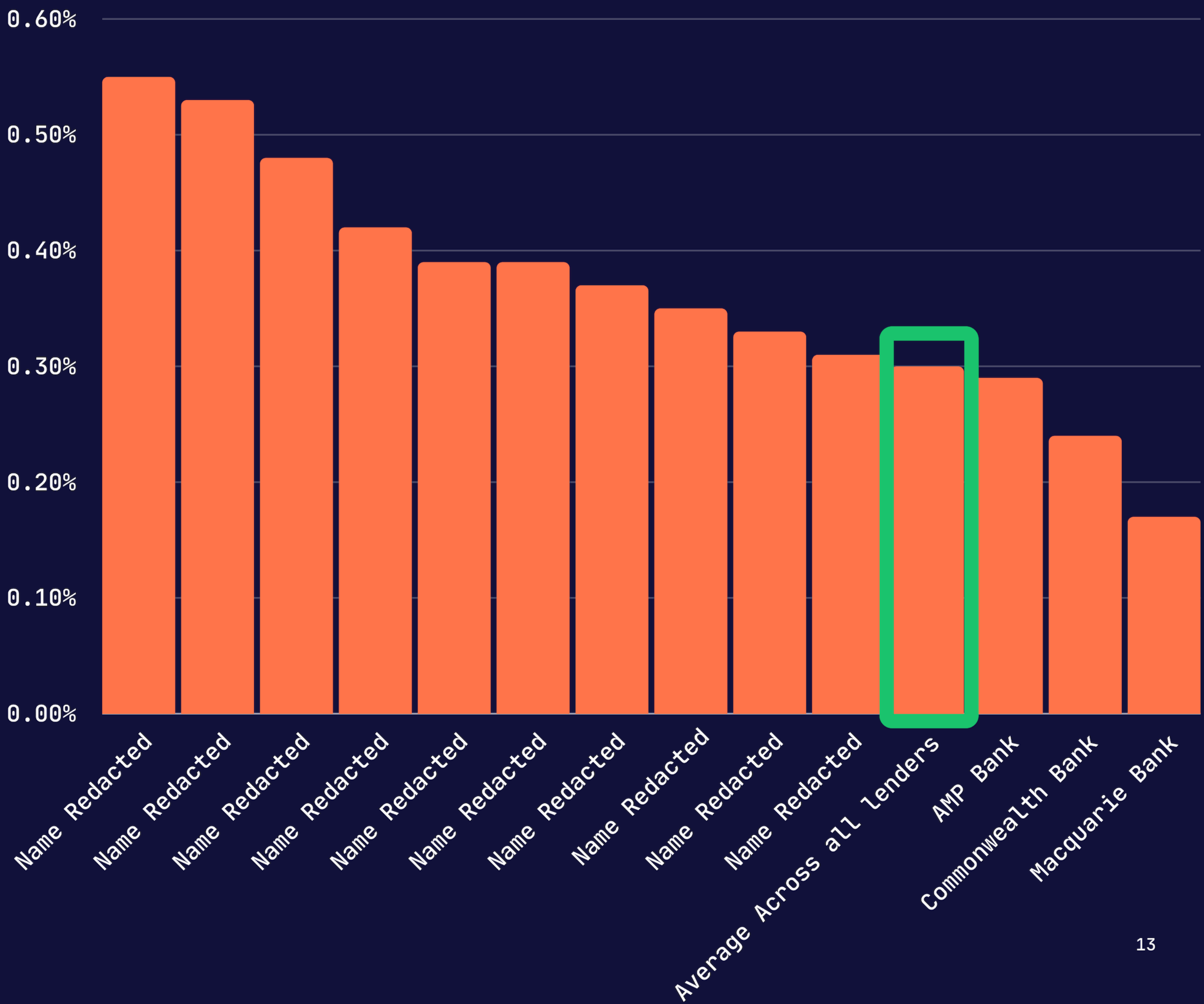
Median rate reduction across all investment loans across all lenders for the period

Median Rate Reductions - All Loans Combined (OO & Investment)

The Median Rate Reduction (MRR) over the period is the median amount that the lender has reduced the interest rate during the repricing process for all successful reprices.

Looking at the rate reductions gives us an indication of which lenders have an appetite for offering larger discounts to retain customers. However, MRR needs to be considered alongside a lender's median previous rate. As an example, giving the largest rate reduction off the highest previous rate may only bring you back inline with the rest of the industry.

Rate Reductions at a more detailed level (like for like loans, and like for like loan attributes) is a key part of Sherlok's repricing escalation decision engine. By tracking and comparing recent 'like for like' reprice outcomes, Sherlok can make automated, well informed and accurate escalation decisions for brokers to achieve further rate reductions for their clients. From a lenders perspective, it paves the way for data driven repricing decisions that maximise customer retention before a discharge form is received.

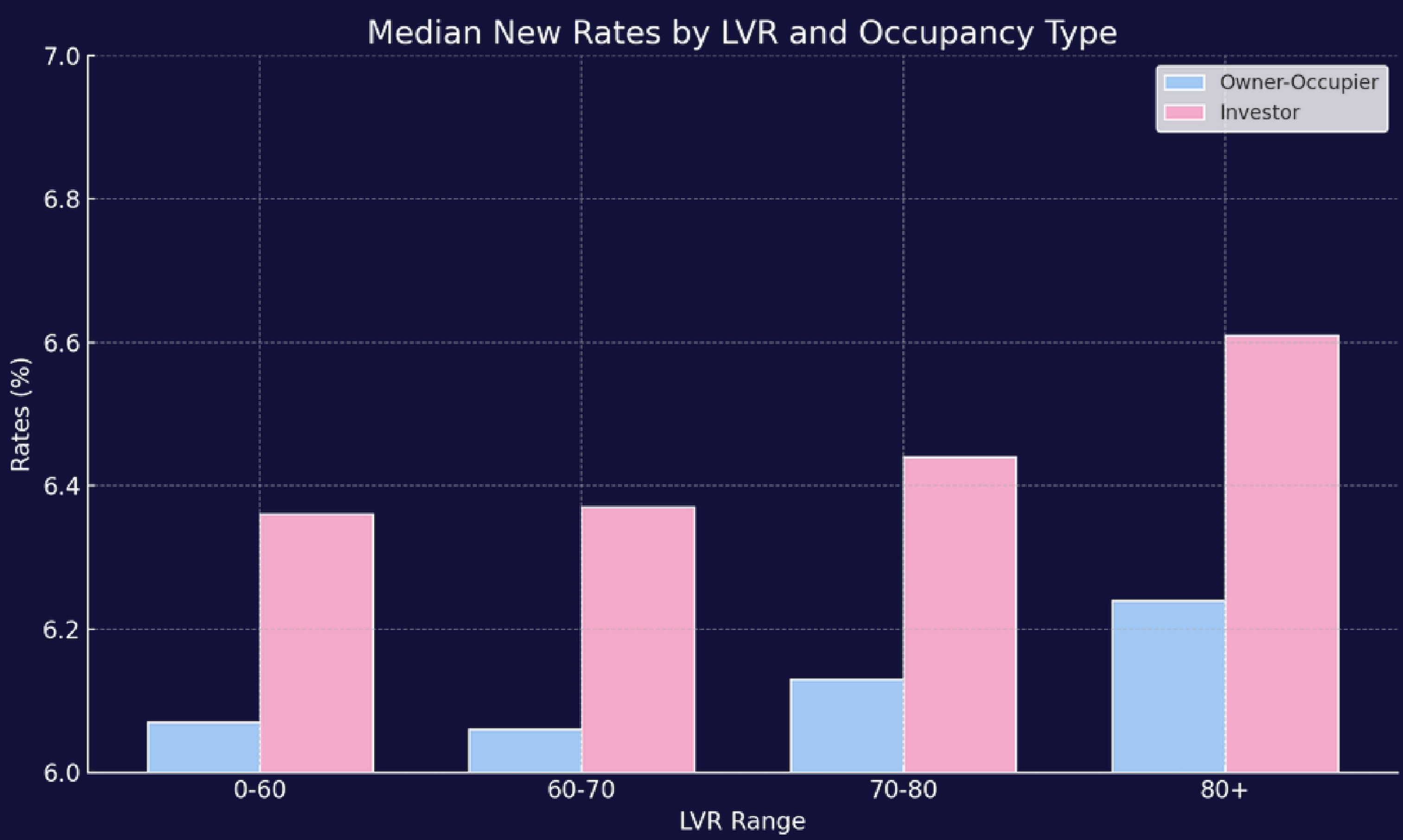


How LVR Impacts Repricing and Customer Interest Rates

The loan to value ratios (LVR) are important with ‘new to bank’ customers as it can impact the lender’s risk appetite, assessment criteria and interest rate pricing. Generally speaking, the lower the LVR the lower the interest rate and more relaxed the credit policy will be. What we have found is LVR has the same impact on existing customers and repricing to a lower rate. Let’s take a look.

LVR has a significant impact on a home owner’s ability to refinance to another lender. So much so, the likelihood of churn is increased once the LVR is below 80%. This is because refinancing a loan under 80% LVR can happen without paying Lender Mortgage Insurance (LMI). A cost that can be in the thousands of dollars.

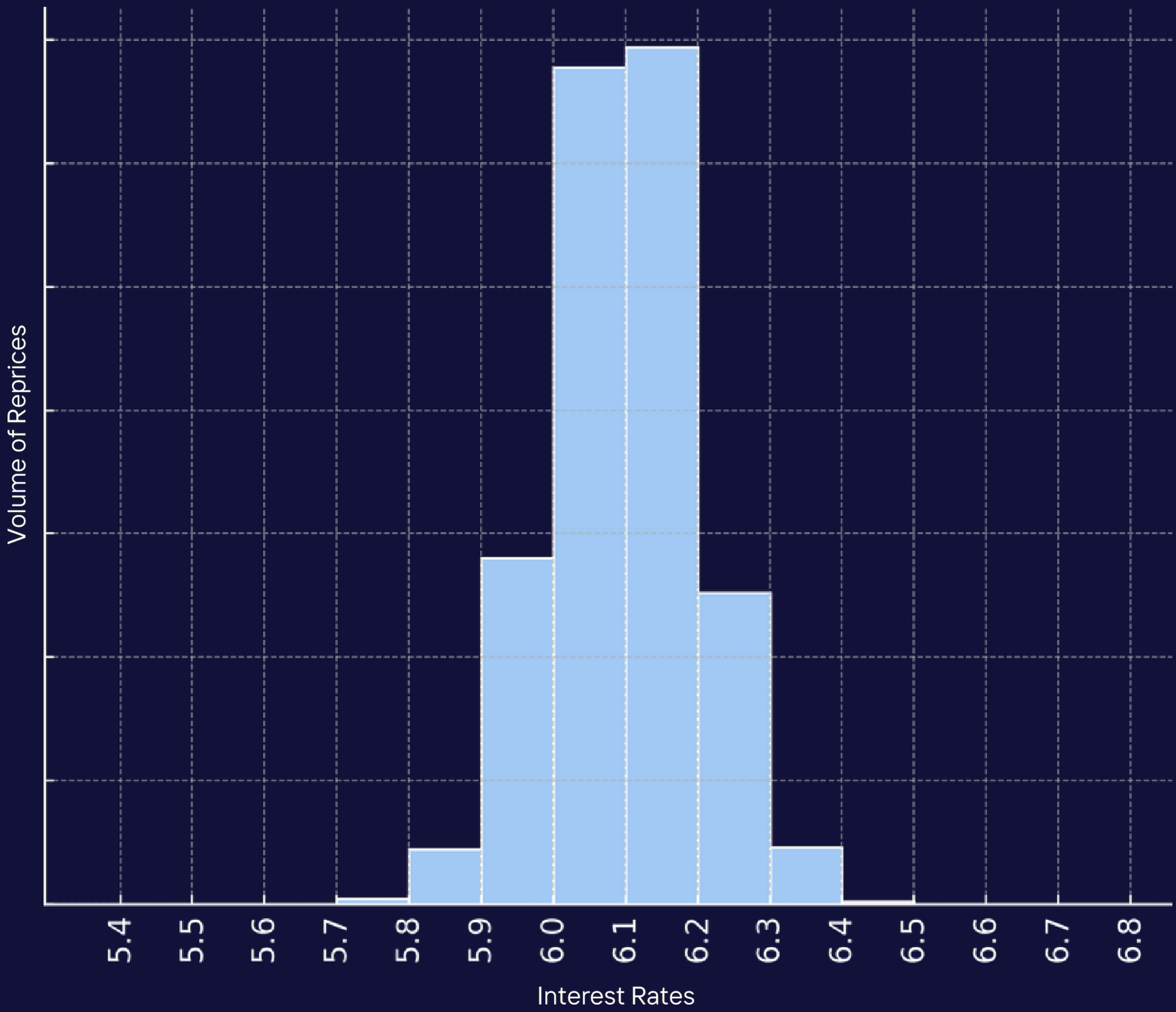
Our data suggests that LVR brackets continue to have a significant impact on existing customers rates and how much their current lender will reduce the rate by repricing. As you can see from the graph below, loans with an LVR below 80% achieved lower Median New Rates (the rate achieved after repricing) than those with an LVR greater than 80%. The next noticeable step down in interest rate pricing is once a loan in under 70% LVR.



Distribution of New Rates

The median new rate (the interest rate after repricing) achieved during the period was 6.18%. Below is the distribution of new rates across all successful reprices including owner occupied and investment loans.

New rates is a critical data point for many reasons including being a critical insight for lender specific repricing escalations, having the ability to accurately run comparisons to assess the new rate against the market and determining each lenders retention appetite vs rates offered for new customers.



Median Previous Rate - All Loan Types Combined (OO & Investment)

The Median Previous Rate (MPR) is the median interest rate the customer was on before the loans were repriced.

MPR is a good indicator of lenders who are pricing existing clients above or below the industry benchmark. Below we look at MPR across top lenders in September 2023 across all Owner occupied and investment across all LVR brackets, repayment types, loan amounts etc.

Ranking (Low to High)	Lender	Median Previous Rate for Sept 2023	Rate Diff. Compared to #1	Additional cost to homeowners p.a*
1	Bank of Melbourne	6.34%	0	0
1	ME Bank	6.34%	0	0
2	CBA	6.45%	+0.11%	$495
3	ING	6.47%	+0.13%	$526
4	BankWest	6.49%	+0.15%	$675
4	Macquaire Bank	6.49%	+0.15%	$67
INDUSTRY MPR BENCHMARK		6.51%	+0.17%	$742
5	Name Redacted	6.54%	+0.20%	$900
5	Name Redacted	6.54%	+0.20%	$900
6	Name Redacted	6.64%	+0.30%	$1,350
7	Name Redacted	6.67%	+0..33%	$1,462
8	Name Redacted	6.69%	+0.35%	$1,575
9	Name Redacted	6.84%	+0.5%	$2,250

Median Previous Rate - Owner Occupied Loans Only September 2023

Here we look at a snapshot of the MPR and we have selected September 2023. For continuity we'll continue to snapshot the middle of the period of each report.

What's noticeable here is the disparity between the lowest and highest Previous rates and the annual savings of over $4,000 between the lowest and highest.

Ranking (Low to High)	Lender	Median Previous Rate for Sept 2023	Rate Diff. Compared to #1	Additional cost to homeowners p.a*
1	Bank of Melbourne	5.99%	0	0
2	ME Bank	6.19%	+0.20%	$900
3	CBA	6.28%	+0.29%	$1,305
4	Macquarie	6.34%	+0.35%	$1,575
5	NAB	6.44%	+0.45%	$2,025
INDUSTRY MPR BENCHMARK		6.46%	+0.47%	$2,092
6	Name Redacted	6.48%	+0.49%	$2,205
7	Name Redacted	6.54%	+0.55%	$2,475
7	Name Redacted	6.54%	+0.55%	$2,475
7	Name Redacted	6.54%	+0.55%	$2,475
8	Name Redacted	6.64%	+0.65%	$2,925
9	Name Redacted	6.88%	+0.89%	$4,005

Median Previous Rate - Investment Loans Only September 2023

Here we look at a snapshot of the MPR for investment loans only for September 2023.

The rate difference and annual savings difference for investment loans is surprisingly much less than that of owner occupied loans.

Ranking (Low to High)	Lender	Median Previous Rate for Sept 2023	Rate Diff. Compared to #1	Additional cost to homeowners p.a*
1	Bank of Melbourne	6.42%	0	0
2	ING	6.44%	+0.25%	$112
3	CBA	6.53%	+0.11%	$495
4	Westpac	6.54%	+0.13%	$563
INDUSTRY MPR BENCHMARK		6.58%	+0.17%	$743
5	Name Redacted	6.62%	+0.20%	$900
6	Name Redacted	6.69%	+0.28%	$1,238
7	Name Redacted	6.73%	+0.32%	$1,418
8	Name Redacted	6.98%	+0.57%	$2,543

Conclusion

‘Keeping clients on competitive interest rates is the #1 way to reduce churn.’

”When I was a broker, I truly believed that interest rates were not the most important thing for clients. Clients wanted assurance, certainty, clarity and an easy process when obtaining a loan, as well as a competitive rate. However, post settlement this changes and their interest rate becomes extremely important and an influential factor in the risk of churn.”
Adam Grocke, Founder of Sherlok

Whilst refinancing to a new lender has been seen as the only way to increase competition in the home loan industry, we believe repricing with your existing lender is an alternative way to increase competition. Repricing is a sound first step that provides an opportunity for retention with the existing lender and provides a simple yet significant positive outcome for homeowners.

Focusing solely on rate or repricing is quite often an unpopular position and strategy with brokers and in particular lenders. I mean, we get it, lenders need to manage margins and key stakeholders, whilst staying on par or above industry growth. It’s a difficult task, however, what the data clearly shows is that post settlement, clients with competitive rates will stay for longer. As it becomes easier to refinance (we believe this can be done in 15 minutes), more clients will look to refinance for less and those on competitive rates won’t have a financial benefit to refinance.

In conclusion, Sherlok aims to bring brokers, lenders and clients closer together in a fairer, long term sustainable manner that creates a win win win situation. We hope this report brings to life the positive impact we are having to reduce churn for brokers and lenders and the positive impact we enable for brokers clients.

Thank you!

We'd love to hear from you and what you'd like to see in the next report. Reach out to us at hello@sherlok.com.au or visit our website www.sherlok.com.au

All enquiries including media to hello@Sherlok.com.au

Are you a mortgage broker? Try Sherlok for Free

Try Sherlok For Free

Are you a lender? Sherlok can help with your third party customer retention.

Contact hello@sherlok.com.au