

FICO® Optimization Solution for Mortgage Pricing

Make the right pricing decisions using
advanced analytics

With FICO Optimization Solution for Mortgage Pricing, you can:

- **Gain 5–15 basis points in incremental spread:** Drive better results by outpricing — not underpricing — your competition
- **Deliver customer-level pricing:** Replace rate sheets that only give you one price for every term
- **Align pricing strategies with customer price elasticity:** Simultaneously improve both margin and volume by appropriately discounting rates
- **Deploy pricing strategies across all channels simultaneously:** Create consistency between all sales and marketing activities
- **Enhance pricing strategy governance:** Leverage process and approvals workflows to simplify the management of pricing decisions

FICO® Optimization Solution for Mortgage Pricing is a complete pricing solution for your mortgage renewals and originations business. The solution leverages analytically derived price elasticity models to implement granular pricing strategies that allow you to discover the set of prices that best align to your current volume and margin goals. By seamlessly deploying the optimized pricing strategy to your frontline resources, we maximize the effectiveness of your sales force with specialized tools designed to enhance the negotiation process and offer the optimal prices and terms to each individual customer.

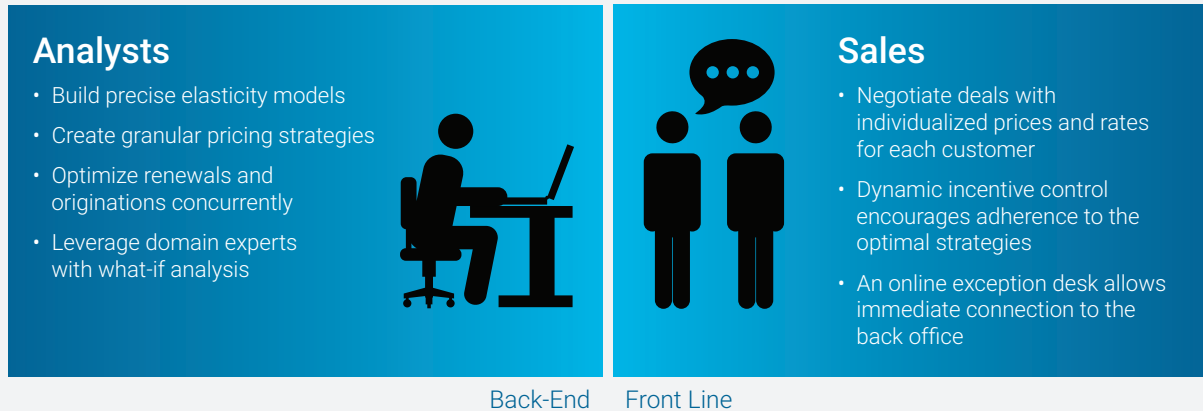
With historically low lending rates, competition for residential mortgages is heating up, motivating some lenders to underprice in order to increase revenues. Now more than ever, lenders need mortgage pricing strategies that enable them to optimally balance the trade-off between balance growth and interest income. But it's harder than it sounds.

On one hand, price sensitivity is a difficult analytical problem to solve. Most lenders rely on regression models and scorecards where accurate price elasticity models are needed. This takes analytical expertise and some organizations lack the internal resources to develop efficient, differentiated pricing strategies. On top of that, many branches still rely on rate sheets. So even if an organization was able to discover granular pricing strategies, they would be unable to implement them.

In addition to analytics and infrastructure gaps, many lenders are unable to leverage their most valuable asset — the domain expertise of their employees — due to the limitations of having a single price for each term. A flexible optimization process is necessary so the pricing strategists can apply what-if analyses to understand potential impacts to the entire portfolio.

Complete pricing solution

FICO® Optimization Solution for Mortgage Pricing



Our solution connects your back-end analysts to your front-line sales team to ensure the optimal pricing strategies are applied to each individual customer.

Why Pricing Optimization Is the Answer

An effective solution to these weighty challenges requires powerful analytics that can develop customer-level price sensitivity models and help you understand the pricing impact across the portfolio. Optimization allows you to solve linear, non-linear and discrete pricing problems, perform what-if analysis to understand sensitivities and simultaneously optimize across all rate variables.

Effective Pricing Strategies

The first step is to address the back-end requirement of developing effective models at the customer level. Optimization allows you to go beyond simple rates sheets and blanket discretion policies and build truly effective pricing strategies that leverage powerful elasticity models to effectively manage volume and margin across your entire portfolio. Advanced analytics are not limited to one price for each term. You can optimize a set of prices and terms for each individual customer, based on differences in price sensitivity. This all leads to efficient and

differentiated pricing strategies that will let you outprice, not underprice, your competition.

With scenario creation and comparison features, you can tap into the power of your own domain expertise by applying what-if analysis and fine-tuning the initial strategies recommended by the optimization process. The mortgage market and product experts in your organization can use the software to quantify the impact of strategy adjustments on volume and margin, and re-optimize the remaining portfolio in the context of those "local" changes. By leveraging the combination of this invaluable domain expertise and flexible, scenario-based optimization, you will see a significant impact on profits and volume.

Powerful Sales Negotiation Tools

The second step is to connect the back-end strategies with front-line channels. Sales teams can access dynamic pricing strategies for each individual customer through an online tool. For existing customers up for renewal, it's as simple as one click to see an optimal set of mortgage terms and target rates to offer

that customer. Client-specific ranked offers are provided so the salesperson can see the impact of each next-best deal to offer that customer. Dynamic incentive control encourages adherence to the optimal strategies and reduces the number of deals made with maximum discretion.

Challenges in

Mortgage Pricing

- Price sensitivity is a difficult analytical problem to solve
- Inability to implement granular pricing strategies
- Competitive pressure leads to poor decisions
- Domain expertise gets lost
- Tendency for front-line sales to give the lowest price

An exception desk is integrated directly into the application and provides an immediate connection between a sales representative and the back office when a pricing exception is needed during a negotiation. This leads to more profitable deals, shorter negotiation times and more satisfied customers.

FICO® Optimization Solution for Mortgage Pricing

FICO® Optimization Solution for Mortgage Pricing provides significant margin increases without sacrificing volume by discovering optimal differentiated pricing strategies across the entire portfolio. This is the only product on the market that delivers high-end analytics and optimization to enable granular pricing strategies for both renewals and originations.

By providing an automatic bridge between back-end analysts and front-line sales teams, this solution makes the essential connection to deliver an optimal set of pricing strategies to each individual customer.

Key features include:

- **Powerful analytically derived pricing**, including optimizations involving linear, nonlinear, continuous and discrete pricing problems
- **Pricing based on granular population segmentation**, down to segments of one, enabling true customer-level pricing

- **Business controls** enabling domain experts to adjust the pricing process as needed without need of IT assistance and inject their judgment into the mathematical process
- **Immediate deployment** of approved prices across all channels with zero IT resource requirements
- **Scenario creation and comparison** to carry out what-if analysis and to understand dependencies and sensitivities within the problem
- **Full customization** for model development, report creation (using Tableau), profit valuation and optimization

Part of FICO® Decision Management Suite

FICO offers a comprehensive suite of solutions for banks to strike the right balance between risk, profitable customer relationships and compliance. It includes FICO® Decision Management Platform, a comprehensive set of analytics, decisioning and optimization products, complemented by integrated application development and productivity tools.

FICO Decision Management Suite reduces implementation costs and total cost of ownership by connecting all the components necessary to power up your analytic decisioning capabilities. It also integrates flexibly with an organization's existing technology and data infrastructure, reducing the need for "rip and replace" systems that can deliver additional value when combined with FICO Decision Management Platform.

Core system components include:

- **Automated decisioning**, workflow and rules to streamline and drive consistency and governance around all critical processes.
- **Model management** to enable ongoing model oversight and governance, including automated validations. Our solution is also able to incorporate any existing predictive models previously developed, such as PMML models.
- **Optimization**, including FICO Optimization Solution and pricing optimization capabilities.
- **An easy-to-use interface**, helping empower business users to make changes without the need for IT help, and test what-if strategies.
- **Full reporting** via interactive dashboards, to understand where optimization is providing value.

Available on-premises or in the cloud

FICO® Optimization Solution for Mortgage Pricing and FICO® Decision Management Suite can be delivered as either on-premises or cloud-based solutions.