



HOME LOAN

INTEREST

INSIGHTS

A SPOTLIGHT ON HOME LOAN INTEREST RATES & REPRICING TO RETAIN CLIENTS

Version 2

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Executive Summary

'Mortgage Brokers have taken interest rate cutting into their own hands by slashing clients interest rates to save an astonishing \$84.5m of interest costs in 2024.'

Overview

Sherlok is Australia's leading client retention platform for mortgage brokers & lenders to keep clients for life. Sherlock's AI accurately predicts customer churn, alerts brokers and customers when home loan interest rates are too high and automatically processes a reprice to request lower interest rates, keeping clients on the lowest rate for life.

With the launch of Sherlock RateTraker in September 2024, a 24/7 interest rate tracking tool that allows home owners to request a lower rate if your current interest rate is too high, Sherlock now has one of the richest data sets and interesting insights for new and existing loans in the home loan industry. This dataset coupled with data and insights on repricing hundreds of thousands of home loans ensure Sherlock's AI and ML models continue to evolve.

Scope and limitations

This report focus's on retention for mortgage brokers clients and specifically loans that have been repriced automatically by Sherlock's AI engine to obtain a lower interest rate without the need for refinancing to a new lender.

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 for '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 and predicts the loan end date by leveraging over 100 customer data points.

Methodology

Sherlok's team takes 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, property data, broker and customer entered data.

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 repricing process across 51 lenders in Australia for mortgage brokers and their clients.

This report contains insights from home loans that have been processed over the period 1 January 2024 to the 30th of October 2024.

Sherlok Model Bias

The insights and data in this report will have a Sherlock 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

Sherlok RateTraker Rating: The interest rate rating compared to the market

Industry Overview

Mortgage Brokers continue to grow market share as the trusted advisor for customers to obtain a home loan.

In early 2024 the MFAA reported the broker market share has continued to grow, reaching a record 74.1% of all loans originated. We expect broker market share will continue to increase above 80% and may even reach as high as 90% in the future as consumers prefer personal support and advice over digital only channels.

We believe the main drivers of broker demand and market share growth has been driven by the following

1. Increased trust in mortgage brokers since Best Interest Duty (BID) was introduced. A broker is legally obligated to act in the best interest of consumers where a lender is not.
2. There is no one size fits all for residential lending as consumers personal and financial situations are more complex and require more structuring than ever before.
3. Consumers prefer to assess all options across multiple lenders to find the right fit, loan products and interest rate.

Mortgage brokers continue to adopt new technology to improve the customer experience, speed up the process and enable better customer outcomes.

It's not all about the lowest interest rate, but it's still a significant influencer.

Interest rates are still a significant factor when considering a home loan and the importance of lower rates is magnified for existing homeowners when refinancing vs new buyers seeking a first home. It remains evident that Lenders continue to rely on interest rate pricing as a key tactical lever to drive home loan lending volume. Especially as the refinancing cashback to customers has been phased out.

However, a new tactical lever has emerged in 2024 in which the speed to approve a home loan application can influence the brokers and customers preferred lender. The certainty of approval, ease and speed of loan approval are increasingly seen as key factors which can sway lender and loan product preferences.

Industry Comments

"Sherlok's report clearly shows why the Consumer Data Right is vital for Australia's lending industry. It demonstrates how consumers are punished for their loyalty when it comes to lending. Crucially, it shows how further integration of the CDR in this industry could have real cost-of-living implications for mortgage holders. We commend Sherlock for bringing such a key consumer issue to light."



Rehan D'Almeida
CEO
Fintech Australia

CDR/Open Banking is the future, whether incumbents like it or not.

It was a David and Goliath battle between Open Banking supporters and the Australian Banking Association.

It was a David and Goliath battle between Open Banking supporters (Fintechs, Mortgage Brokers, Smaller lenders etc) and the Australian Banking Association (ABA). Open Banking supporters urging the Government to continue to advance Open Banking which increases competition and enables savings for consumers. On the other hand ABA argued it was too expensive for the banks who turned over billion dollar profits and the adoption of CDR has been too slow.

Commonsense prevailed with the current government and The Hon Stephen Jones agreeing to advance Open Banking so Australians can control their data to better understand their financial position, financial products and unlock insights, automation and savings, Saving that can be in the ten of thousands of dollars per year per consumer. In Sherlock's open banking use case, \$84.5 million dollar savings for Australians were achieved between January 2024 and October 2024.

Sherlok's open banking use case enables our Repricing automation to reduce clients home loan interest rates to a lower rate if it's deemed to be too high. Efficient and seamless process automation is built on the foundation of accurate data. Live and current data from open banking provides accurate modeling, predications and seamless AI automation and decisioning.

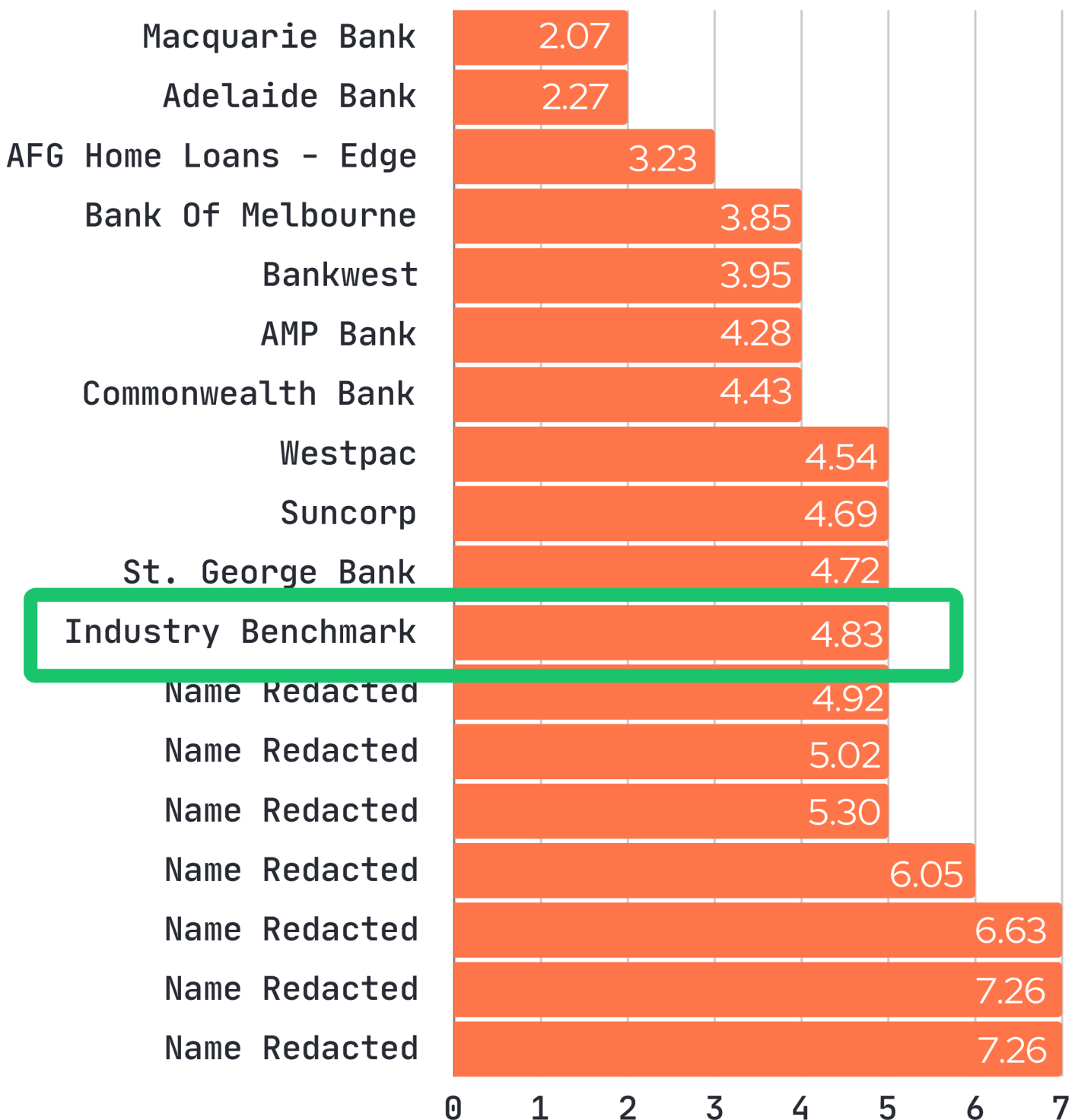
CDR/Open Banking provides customers the ability to share their data with Sherlock in a safe and secure was and in turn we monitor their interest rates, rate their rate compared to market and lower their current interest rate if it's too high. A tangible and real life use case on how CDR enables transparency, increases competition and provides consumers with money in their pocket from interest rate savings.

We're proud supporters of open banking and are truly excited to see what the future holds for innovation and positive outcomes for consumers.

The Sherlock Lender Loyalty Index

Sherlok's Lender Loyalty Index benchmarks and ranks lenders on the 'loyalty tax' they charge existing home loan customers compared to new customers. The Sherlock Loyalty Index is the interest rate reduction from repricing as a percentage of the new rate $((\text{PreviousRate} - \text{NewRate}) / \text{NewRate}) * 100$. The lower the index, the less 'loyalty tax' or interest rate margin is being charged to existing customers.

It's important to note that a low index does not directly correlate to the lowest interest rate in the market. Sherlock RateTraker rating is a better tool for lowest rate in the market. Instead a lender with a lower Sherlock Lender Loyalty index suggests they have a lower interest rate margin for existing customers and are therefore looking after existing customers the most from an interest rate pricing perspective. Lenders with a high index often have charged new customers a cheaper interest rate and have a higher rate for existing loyal customers.



Sherlok RateTraker Ratings

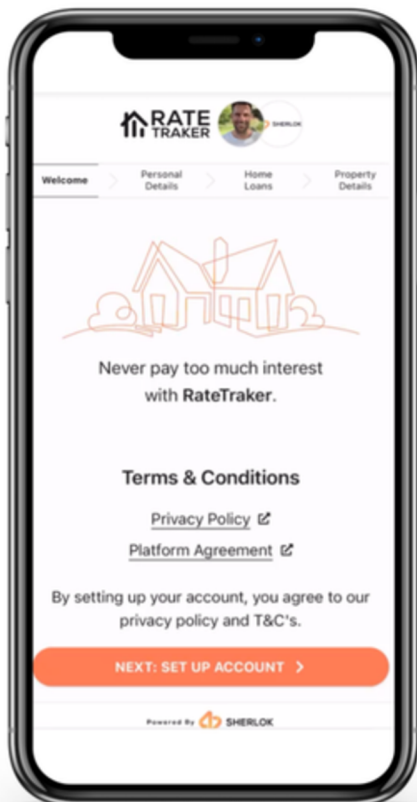
In mid September 2024 Sherlock launched RateTraker, an open banking powered solution that allows homeowners to connect their loans and instantly receive a rating of their interest rate. The rating compares like for like loans in the market and considers all the loan attributes for an accurate rating including loan amount, LVR, applicant type, finance type, repayment type, loan purpose and loan features. Since launch \$332m of loan have been connected to Sherlock RateTraker.

In an industry first, clients can request a rate review via Sherlock RateTraker which will automatically process a reprice with their current lender to lower the interest rate via their broker. The first client to receive a RateTraker Rate and request a rate review saved themselves over \$7,000 in annual interest.

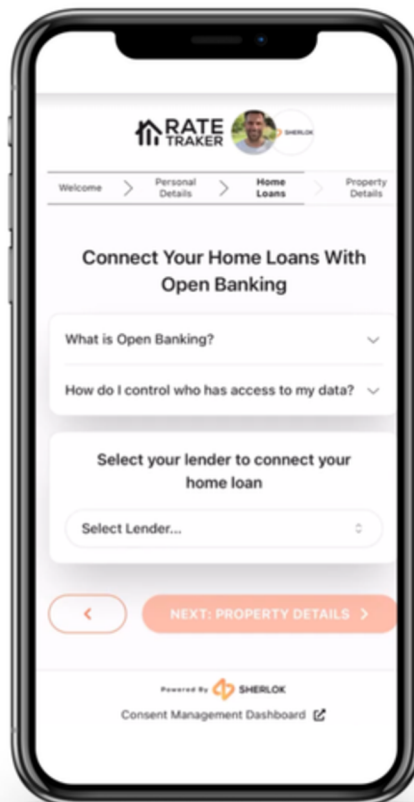
Sherlok RateTraker rates the interest rate out of 10, with 10 being a great rate (a low interest rate) and 1 being a terrible rate (high interest rate).

We believe the data insights from Sherlock RateTraker enable industry first insights that are unique to Sherlock as we have the ability to assess, compare, rate and benchmark lenders on existing clients loans. Something that hasn't been done before.

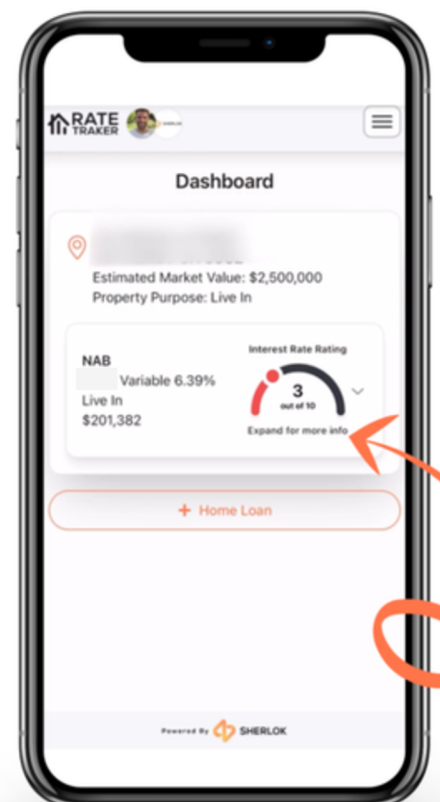
On the next page, you'll see the insights across the top 17 lenders.



Consent



Connect
Loans



Rate your Rate
& Reprice

Sherlok RateTraker Ratings

The table below shows the Sherlock RateTraker rating across the top 17 lenders. The average rating and median interest rate are across the \$332m of loans connected and includes both investment and owner occupied loans.

Lender	Ranking	Average Rate Rating	Median Interest Rate
Bank Australia	1	9.7	6.19%
ME Bank	2	9.2	6.12%
Great Southern Bank	3	9	6.14%
Ubank	4	8.8	6.14%
Bank Of Melbourne	5	8.8	6.15%
St. George Bank	6	8.4	6.14%
ING	7	8.2	6.26%
AMP Bank	8	8.1	6.34%
Macquarie Bank	9	7.9	6.38%
Westpac	10	7.8	6.20%
Bank Of Queensland	11	7.7	6.29%
Commonwealth Bank	12	7.5	6.28%
Bankwest	13	7.3	6.19%
NAB	14	7.2	6.34%
Virgin Money Australia	15	7.2	0.95 6.42%
Suncorp	16	7.1	6.23%
ANZ	17	6.5	6.39%

Mortgage Brokers Saving Home Owners Millions In Interest Costs

Repricing clients to lower rates saved every day Australians \$84.5 million in interest costs without having to switch lenders

2024 saw a record breaking milestone achieved by Mortgage Brokers who repriced clients to lower rates saving an outstanding \$84 million of interest.

Not wanting to wait for the RBA rate cut decision, brokers took matters into their own hands cutting clients interest rates by requesting a rate review.

The biggest repricing rate reductions came from larger loans, generally >\$1m in outstanding debt and with LVR's below 80%. There wasn't a significant difference in discounts achieved between Owner Occupied loans and Investment loans for the period which signals healthy lender appetite to retain both types of loans.

The last tranches of clients to roll off ultra low fixed interest rates have also been rewarded with large interests rate reductions, further highlighting fixed rate maturity as being a critical time for brokers to connect to clients and review their rates. It also highlights how quickly the post fixed 'roll over variable rate' becomes uncompetitive with many brokers obtaining >1% discounts for their clients after a fixed rate expiring.

The Average Rate Reduction from repricing has reduced from 0.46% to 0.34% as a result of a stagnant cash rate environment.

\$84.5M

Total Interest Saved

By repricing clients to a lower rate with the same lender

0.34%

Avg rate reduction

Across all home loans by repricing to a lower rate

\$972

Average Annual Savings

Per client across all reprices during this period

6.25%

Median Interest Rate

Post reprice for all owner occupied home loans

Personal Bests Savings by Mortgage Brokers for their customers

Mortgage Brokers continued to look after existing clients by reviewing their home loan interest rates and repricing them to lower rates. Whilst a rate reduction is not guaranteed with the incumbent lender, brokers requesting rate reviews and repricing via Sherlock continue to deliver outstanding results to their clients.

1,897

Clients saved over \$1,000 p.a

26

Clients saved over \$10,000 p.a

3.63%

Largest Rate Reduction

by repricing a clients home loan to a lower rate with the same lender

\$34,789

Highest Savings p.a

The highest annual interest savings for a single client. >\$2m loan, OO, P&I

\$84.5M

Interest Saved

The total life time interest saved from repricing over the period

5.78%

Lowest Rate Achieved

By a broker for their client by repricing

There are still significant savings to be had by repricing

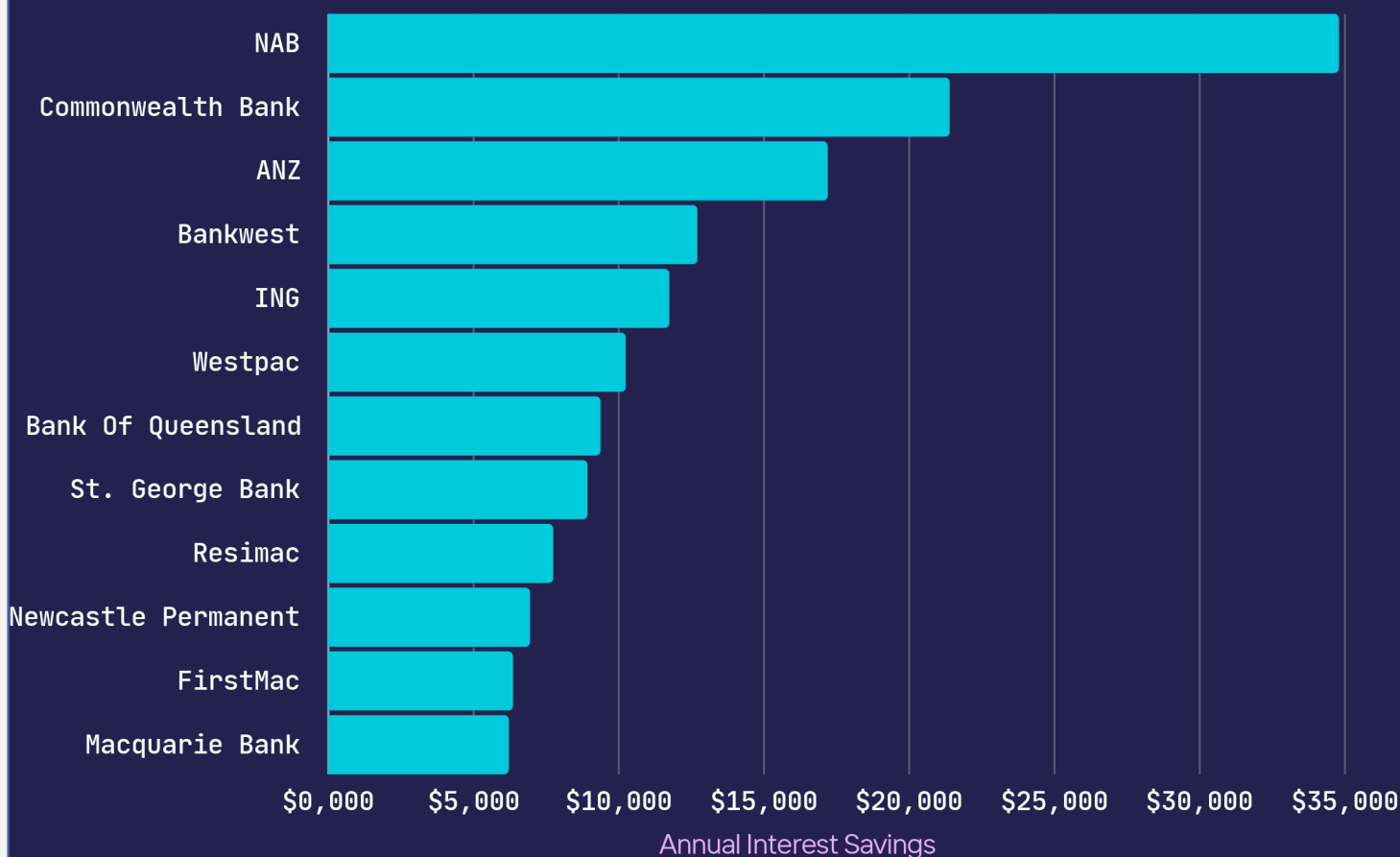
Every month multiple clients saved over \$10,000 in annual interest. That's real money in the pockets of everyday Australians.

\$10,000 is a lot to everyday Australians and what a special gift Mortgage Brokers delivered to 26 lucky clients in 2024. 26 clients had their interest rate reduced on their existing home loan to save over \$10,000 in annual interest.

What's interesting is annual savings of \$10,000 or more weren't limited to larger loans above \$1m. Specifically looking at the 10 highest savings from repricing, 6 clients had loans above \$1m and 4 clients had loans with balances between \$500,000 and \$820,000. Every one of the top had their rate reduced by >1% . If we look at the top 20 annual savings, 8 of the top 20 clients had their interest rate reduced by over 2% highlighting the significant disparity in front book/back book pricing if clients aren't aware of their interest rate. To put a 2% rate reduction in perspective, that's 8 interest rate cuts delivered by the broker without waiting for the RBA to cut rates.

Almost every month in 2024 saw a broker saving clients more than \$20,000 annual with one broker savings over \$30,000 in annual interest for a single client.

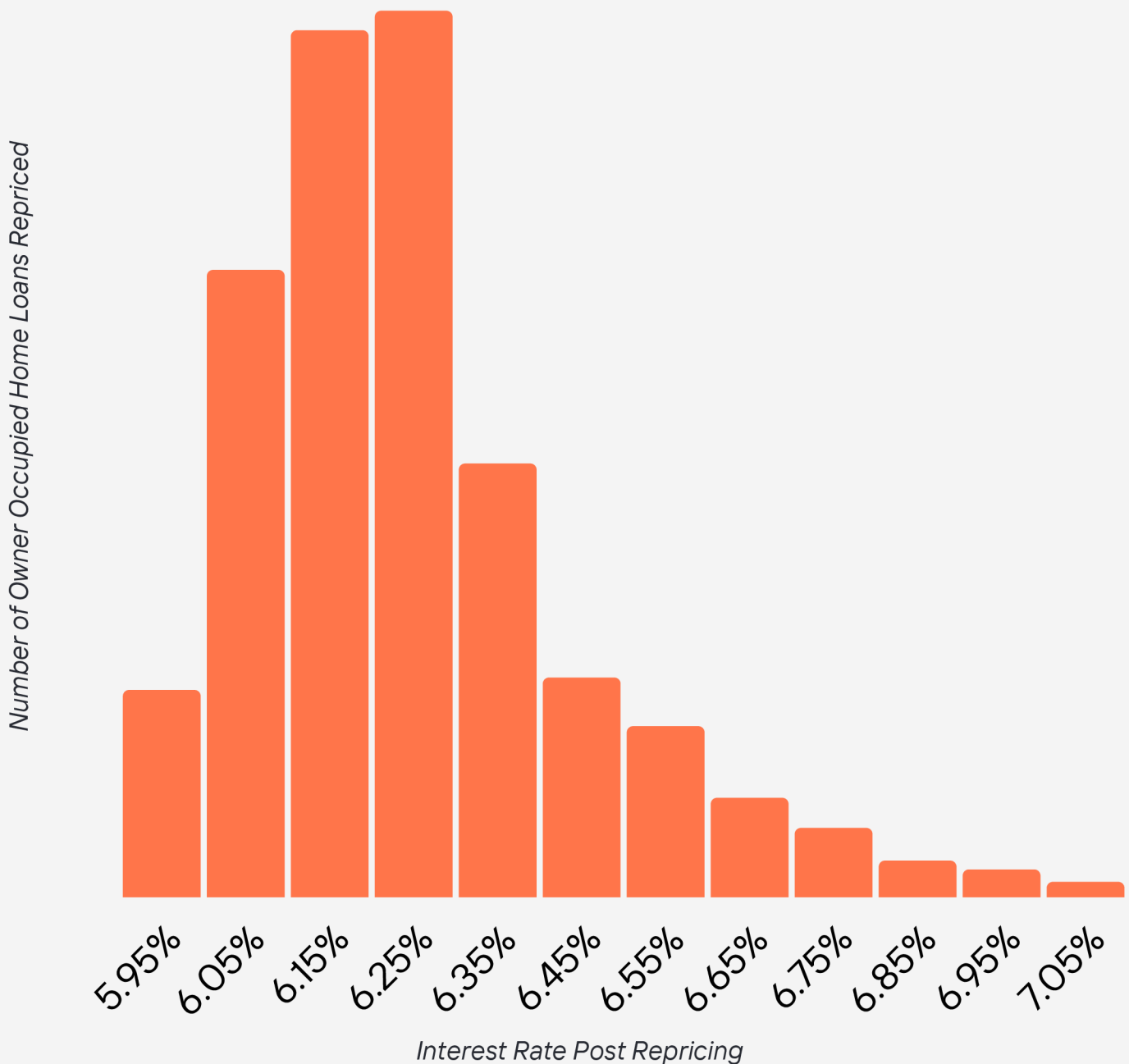
Largest Savings per Lender for an Individual Client



What interest rate should you be on with your current lender?

Whilst personal circumstances, loan and property attributes have an impact on your interest rate, our data suggests that a reasonable home loan interest rate for existing loans (not new to bank customers) should be within these ranges.

1. Owner occupied home loans under 80% LVR should be in the range of **6.05% to 6.25%**
2. Investors should expect their investment loans under 80% LVR to be in the range of **6.31% to 6.61%**



Conclusion

'Don't wait for the RBA to cut rates, speak to your broker to get a rate cut today'

A lack of transparency and difficulty to view and compare current home loan interest rates has resulted in a significant portion of homeowners paying a higher interest rate without realising it. The ACCC home loan price enquiry in 2019 also supports this view. As an example, log into your banking app and see if your interest rate is displayed on the home screen like your current balance? Then try to find your current rate without having to click through various screens.

The vast majority of homeowners are unaware of their current rate and unaware if their interest rate is competitive or not. The same has been true for Mortgage brokers trying to help existing clients. Brokers haven't been able to view clients current rates without significant manual processing, meaning client reviews or identifying if rates are too high has been extremely time consuming.

The good news is Open Banking and tools like Sherlock RateTraker change that, giving brokers and clients the ability to track rates 24/7 and be alerted if the rates are uncompetitive. Open banking truly gives the power back to the consumers and allows them to bring their trusted advisers into their circle to help them.

Looking forward to 2025, any RBA rate movement will likely see the front book/back book margins increase across lenders portfolios. So with interest rates almost certain to move in 2025 (up or down is anyone's guess), Mortgage Brokers and their clients have an opportunity to get on the front foot, start tracking their rates and reprice to a lower rate.

Our message to our broker and lender partners, is to stay close to your clients, help your clients through the next wave of rate movements or the reality is someone else will.

All the best

Adam Grocke
CEO
Sherlok

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? Get started with Sherlock and Sherlock RateTraker now!



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

Contact hello@sherlok.com.au