How to Thrive in a Fierce Lending Environment

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Credit inquiries increased by four million to 175 million in fourth quarter 2014.[1] In April 2015, however, consumer confidence dipped to 95.2 percent from 101.4 percent in March.[2] Undeterred, consumers remain in the hunt for credit. In fact, their likelihood of applying for credit over the next 12 months increased for each credit type.[3] What's fueling consumer demand?

A house is still a home AND an investment

For many consumers, home ownership is still the great American dream. Homes are usually the largest asset that consumers have and more of them are staying put as home values increase. U.S. home values increased about 26 percent on average since 2011.[4]

The increase in value provides additional equity from which homeowners can borrow to further improve their homes, pay for college or even pay unexpected expenses if needed. HELOC lending is at a six-year high, with a year-over-year increase of 21.5 percent and more than 1.2 million new HELOCs opened in 2014.[5]

Expiring HELOC draw periods are also expected to increase borrowing. With nearly $60 billion in loans reaching the end of their draw periods by 2017, millions of HELOC customers will want to refinance in order to lower their payments.[6]

Homeowners are also hoping to refinance their mortgages. The percentage of consumers who will likely apply for a mortgage refinance over the next year doubled – from six percent in October 2014 to 12 percent in February 2015.[7]

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[1] Federal Reserve Bank of New York, *Household Debt Continues Upward Climb While Student Loan Delinquencies Worsen*, February 17, 2015
[2] The Confidence Board, *Consumer Confidence Survey*, April 2015
[3] Federal Reserve Bank of New York, *Consumers Report a Higher Likelihood of Applying for Credit*, March 27, 2015
[4] Equifax, *National Consumer Credit Trends Report*, February 2015
[5] ibid
[6] Office of the Comptroller of the Currency, *Semiannual Risk Perspective*, Spring 2014
[7] Equifax, *National Consumer Credit Trends Report*, February 2015

Getting from points A to B

No matter the state of the economy, consumers still need to get where they are going and vehicles must eventually be replaced. In recent months, auto purchases have accounted for nearly one-third of all non-mortgage consumer debt, with balances near $1 trillion.[8]

Sometimes plastic is better than paper

Since the recession, and after a brief plunge in early 2014, credit card spending is surging again. With less cash on hand, consumers are making even small purchases with credit cards. Almost 40 percent of everyday consumer spending is by credit card.[9] Small business owners are also using personal credit cards as a source of financing.[10] Traditionally, small business credit cards have had different requirements and restrictions than personal.

Almost 40% of everyday consumer spending is by credit card.[9]

[8] Equifax, *National Consumer Credit Trends Report*, February 2015
[9] Payments.com, *The Changing Landscape of Credit*, April 29, 2015
[10] ibid

Different times require a different approach

When it comes to the economy, times have clearly changed. Nevertheless, consumers will continue to borrow as they go about their daily lives. There will, no doubt, be stiffer competition for the most creditworthy consumers. To generate sustainable loan growth, financial institutions must rethink how to communicate with potential borrowers.

Banks and credit unions typically send a seasonal prequalified offer to every account holder who qualifies for a loan, credit card or other financial product. Unfortunately, the majority of those mailings go to individuals who aren't interested. A better approach? First understand who is in the market for loans, and then target them with offers that are specific to their needs when they are ready to borrow.

1 Identify who is shopping and respond quickly

Extending an offer while consumers are shopping is highly cost effective. Sixty percent of all loan shoppers will commit to a loan within a week of a credit bureau inquiry.[11] Monitoring these inquiries and then countering with a quick, preapproved offer via the medium to which shoppers are most likely to respond — whether mail, email or phone — will help you stay one step ahead of the competition and win market share. Companies that execute well on event-triggered marketing can expect their messages to receive five times the response rate* of non-targeted push messages.[12]

2 Be proactive and make it easy for consumers to say "yes"

Rather than depending on seasonal campaigns, why not present multiple preselected offers across several lines at once? Tailor each offer to individual consumer's creditworthiness, product usage and history. With perpetual prescreen status, consumers are empowered to decide which loans they want and when. You've already said "yes" to them and made it easy for them to say "yes" to you.

Note: **Technology is important.** Seventy-two percent of consumers want to complete automotive credit applications and financing paperwork online.[13] Imagine the power of a multi-product, multichannel automated loan solution that streamlines the lending process.

3 Stay engaged and show your appreciation

The ultimate goal of every financial institution is to enjoy long, profitable relationships with account holders. Engaging them early on, understanding their needs, proactively offering solutions that help them reach their goals, communicating with them often, and thanking them for their business will go a long way towards earning your institution primary status. In a recent survey, one-third of consumers said they view their main checking account as their most important long-term financial relationship and would give the institution with whom they have this relationship most of their financial business. Sixty-one percent said they have other financial accounts and services with their main provider, and this increases with income…and, of course, tenure.[14]

60% of loan shoppers will commit to a loan within a week of a credit bureau inquiry.[11]

**Harland Clarke does not guarantee or warrant earnings on a particular level of success with a campaign.*

[11] Harland Clarke Client Database
[12] Gartner, *Five Event-Triggered Marketing Steps Marketers Aren't Doing*, February 5, 2013
[13] Autotrader, *Car Buyer of the Future Study*, 2015
[14] Synergistics/Harland Clarke, *Checking Account Acquisition and Retention Study*, 2015

Consumers are still facing financial challenges. Even so, they must find ways to adequately meet their needs. Borrowing money will continue to be an effective means to do so. With myriad options and lenders, the competition for creditworthy customers is heating up. Ensure that you are prepared to come out ahead.

Our strategic, data-driven loan marketing programs are designed specifically for financial institutions. For more information, please call **1.800.351.3843**, email us at **contactHC@harlandclarke.com** or visit **harlandclarke.com/LoanAcquisition**.

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