What's Trending in Lending 2019: Actionable Strategies for Success
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Transcript

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Nathan: Good day and welcome to Harland Clarke's webcast: What's Trending in Lending 2019. This webcast is being recorded and a replay will be provided to you within a few days. If you have questions, please use the question box located in the control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Stephenie Williams of Harland Clarke. Stephenie, the floor is yours.

Stephenie Williams: Thanks Nathan. Thank you for joining us today. We're excited to be talking about all things lending. I'm Stephenie Williams, the Executive Director of Acquisition Solutions with Harland Clarke. My background is 14 years as super regional financial institution as well as some experience in the retail and automotive space. My focus is on helping our clients acquire new households as well as new products from those households. I'll be presenting today with Marc Meoli. Marc, do you want to introduce yourself?

Marc Meoli: Thank you Stephenie. Good afternoon everybody. My name is Marc Meoli. I come to you with just over 25 years of experience in the lending side of different-sized banks and credit unions. My focus at Harland Clarke is identifying and implementing marketing solutions that meet both retail loan goals and strategic goals for your organizations. Thank you, Stephenie.

Stephenie: Let's move on, next slide please. Let's take a look at what we're going to be addressing today. I'll be covering for you the current lending environment as well as home lending trends. Then, Marc's going to address what's going on in the auto lending and digital space. Then at the conclusion, we'll open up for questions.

Next slide please. Great. Thank you. In looking at current trends today, we are really in an interesting environment for lending. We have a rising rate environment throughout last year in 2018 that translated into things like average credit card interest rates are now around 16.68%. We also have record outstandings at the same time with revolving balances reaching historical levels over a trillion dollars. That's going on and is really fueled by what we've seen in terms of a strong economy with increasing home prices as well as an increase in the S&P 500 index. I will say that's where we've been. We're starting to hear rumblings of perhaps some chinks in the armor of that strong economy. It'll be interesting to watch how that continues to unfold.

Next slide please. One of the things that we've really observed is credit card debt. It continues its solid growth pace, as I mentioned previously, exceeding a trillion dollars in outstanding balances. The consumer impact over the past four years has been about an 18% increase in balances. In fact, according to Experian, the average consumer with credit card balances has a balance of about $6,300. That's not including retail cards. That's just looking at Visa, MasterCard and the like.

Certainly, these outstandings vary by generation. For instance, Gen X is the highest; it stands at around $7,400. Boomers are really a close second, just below them by about $100. Then at the other end of the spectrum, you have Millennials and Gen Z that are lower around $4,300 and $2,000 respectively. That makes sense to longtime lenders. You think earning capacity really correlates to line assignment so the ability to have larger balances is certainly limited.

It's important to keep in mind that the broad market of individuals, while I stated those different outstanding balance averages, we find that about 43% of consumers carry a balance from month to month. In today's rising rate environment, credit card rates and payments continue to increase for these consumers.

Marc: Stephenie, if I may ask, do you also see differences in credit card balances by income range?

Stephenie: That's interesting Marc. I'll answer it two ways. There are some differences. What's really unique is credit card debt-to-income ratio is higher with lower incomes and lower with higher incomes. The lowest 20% of wage earners have an average credit card debt-to-income around 13.9%, compared to the top 20% of wage earners have a credit card debt-to-income around 4.8%.

Those numbers, when you look at debt-to-income, they can be a little misleading. When you look at the hard dollars for those groups, the lowest wage earners are right around $2,100 as an average balance, whereas the highest wage earners are around $12,500. You'll see that, just like we like to do one-to-one marketing messages, it's really driven based on consumer behavior. Thanks for that question.

Marc: Great. Thank you.

Stephenie: Let's move on to the next slide. Mortgage debt, this is what we're looking at. It's increased over the last four years, as the slide states, around 14%. What's fueling that increase? A couple of things. It's fueled by the increase in housing value, which has spurred consumers to refinance and consolidate other higher interest rate debt. The housing value recovery, while it's been large, it's not universal. Keep in mind that across the country, there's still about 27 metro areas that have not recovered from their pre-recession values. In fact, projections in third quarter of 2018, there remain about 4.9

million properties in the US that are underwater, in other words, owing more in loan balances than the property is actually worth.

Let's move to the next slide, please. What does this mean for you as a financial institution, maybe as a financial marketer or as a product manager? There is opportunity. There continues to be opportunity. Consumers are seeking credit, and many financial institutions are in a position with dollars to lend and goals in order to increase their loan balances.

Next slide, please. Continuing on that, consumers, while they're seeking additional credit, really, they're seeking that additional credit because they're looking for ways to manage their monthly cash flow. That's a problem that financial institutions can help with. Certainly, forecasting on offers and delivering them in a way that solves the consumer pain points, such as consolidating debt and lowering monthly payments is a message that resonates well with most all consumers.

As you're thinking about these challenges, take a look at the products that can really help in this process. We have personal unsecured loans, low-rate credit cards, home equity loans and lines of credit. With those products, there are definitely messaging and functionality elements that can help; balance transfer, talking about fixed-rate partition for debt consolidation, those types of elements.

If you will, next slide, please. Just before we get started with the home lending trends, I'd really like to take a poll about some of your institution mortgage practices. Does your institution originate and portfolio mortgages? You can select one of these. Hopefully, we've identified most of the eventualities. Either you originate and portfolio mortgages, you originate and sell mortgages, you originate via broker and portfolio, or you do not offer mortgages. Give it a minute for people to finish up, and then we'll post the results.

Thank you, Nathan. It looks like about half of you originate and portfolio mortgages. Then the balances is a mix, if you will, between selling and not offering or working with brokers. Thanks, that's a helpful insight as we look to present a little more information around the mortgage space.

Let's move on. Looking at the mortgage space in particular, there has been threats of this for an extended period of time, but we're really starting to see. We're hitting the mark where refinances seem to be passing away a little bit. I know we've had some rate volatility in the last few weeks, but all in all, the projections are as you can see from this chart.

We are entering a territory that hasn't been seen since early in the 2000s. What territory is that you might ask? We have refinance activity that's going to be making up less than

30% of all mortgage activity. This definitely changes the levers that you as marketers and product managers need to focus on in order to achieve success.

Let's take a look at the next slide and see what's behind this change. Increasing rates. Mortgage rates are now around 4.44%. While still historically low compared to the early '90s when mortgages were in the 7% and 9% range, they're high compared to the 3% to 3.75% rates that we've been seeing in recent years. New housing sales are projected to climb modestly to 2.1% this year. That's a slight slowdown compared to what new home sales have been. That might give builders the opportunity to increase supply as, if you've been reading statistics you'll know, in many parts of the country housing inventories have less than four months.

That is well below historical norms which are typically more in the seven to nine month range of supply. This is also impacting existing home sales as well. While they fell through most of 2018, it's expected that they will come in flat during 2019. The tightening inventory that I was just describing has impacted and pushed average home prices up slightly. It's expected that increase is going to continue in 2019 at about a 2.5% clip.

Let's move to the next slide. What do these changes in the marketplace mean for financial marketers? It really means that each customer is more valuable than ever. Expand their relationships and wallet share while pursuing prospects. It also means that consumers who refinanced at low rates and are still seeking credit, they're looking for alternatives. Probably looking for personal loans and home equity products because there isn't a better deal to be had than the rate they likely received on their recent refinance.

There is a need to nurture current mortgage activity by educating prospective buyers that are going to be in the market. Make sure those buyers understand the process and think to come to you, their financial services provider, first.

Let's go to the next slide, please. How can we succeed as financial institutions in this environment? Well, we can educate customers on available loans in order to capture all of their existing opportunity. You think about it and many times, due to purchase process, specifically home purchase process, your own customers tend to finance elsewhere. They don't necessarily think of you first.

Consider how the realtor really directs that activity for the buyer because they're not out to buy a mortgage. Those consumers are out to buy a house and you just have to have a mortgage to buy a house. They're not going to think of you first. They're not thinking of that loan first. They're thinking of the reward, which is the home.

Also, dust off those referral relationships. Capture more market share. Think about realtors, accountants, builders. Make sure that you have robust dialogues going on there. Ask the question, "Are your MLOs hosting home buying seminars?" Seems that was a thing in the past that really died down, but that's a great way when you have Millennials and some Gen Z that are really looking at that first home purchase. They are definitely researchers. Make it available and perhaps look at virtual home buying seminars so they can still feel anonymous yet get that good information.

Next slide, please. Beyond mortgage, let's look a little more in the home lending space and look more specifically about different ways consumers are borrowing money that's related to their home. More and more consumers are really using cards, specifically rewards cards, to pay for home improvement projects. Based on research from house and Synchrony Bank in 2017, 141 billion of the 152 billion spent on home remodeling was purchased using credit cards.

Well, certainly, some of those cards could've been attached to home equity lines of credit. That's still the lion's share of home improvement spend. Think about your cards, if you have rewards cards, think about how those are in the competitive space compared to your home equity products. At the end of fourth quarter 2018, there were 15.4 million home equity line of credit accounts. It's a lot. That is down from the heyday of 2008 when there were more than 23 million home equity line accounts. Well, 15 million is nothing to sneeze at; they are becoming a little bit more scarce. Consider the value of each of those accounts.

Next slide, please. Looking at other impacts on home equity, it's important to consider the cycle we've just exited. This diagram certainly depicts the number of home equity balances that were reaching end of term, so really forcing consumers to find relief, whether that find relief was refinancing, which many consumers did, or was taking out a home equity closed-end loan to term out that debt. That was a significant glut in the pipeline.

2018 was really the last of that major glut of home equity accounts entering the end of draw phase, but it really drove consumers to term out that debt. Where did they turn to? We saw in the credit card data, likely a lot of that went into revolving debt in cards.

Let's go on to the next slide, please. What does all this activity mean for financial institutions? While home equity certainly remains viable in 2019, there is a battle for outstanding. That battle is due in part to consumer perception around tax deductibility not being so significant. If you go into the details of tax deductibility, you'll see that there's still a pretty generous cap on that deductibility. However, perception is reality. Consumers believe that that no longer exist. You're battling it.

You're also battling between rewards cards and unsecured loans, battling for those balances. Monthly payment matters. Home equity can definitely be positioned in most cases due to its significant rate of advantage. That's meaningful and should be called out. An ongoing plan should address home equity end of draw consumers to effectively retain outstandings. In essence, that enveloping strategy. If you didn't have end of draw programs in place, you should consider that in order to maximize the retention of the balances that you have in your portfolio today.

Let's move on to the next slide. What can your financial institution do for success? Well, take a look at your home equity product offerings, how are you positioning them? Do you offer a fixed rate option? If so, are you promoting payment examples featuring that benefit? If you do not offer, it's an attractive addition, especially in an increasing rate environment. It allows the consumer to really shield themselves from increased monthly payments.

Now that we've covered the overall lending market and specifically home lending, Marc, I'd love to pass it along to you to give us some more insights into the auto space and the digital space.

Marc: Thank you, Stephenie, I appreciate that. Thank you for the insights. A lot of great information there, especially in the mortgage and the home equity loan markets. There's a lot of action going on.

The auto lending space is certainly no different. That is, there's a lot of unpredictability in the auto market with consumer buying behaviors and presenting a lot of the challenges for financial institutions. As you can see here, when we look at the auto market overall, the industry has been relatively strong from 2016 forward. Strong meaning active; there's a lot on the left-hand chart. There's a lot of activity in loan originations, financing for auto loans. So, let's take a look at that.

Since 2016, for the purposes of these remarks, I'm going to focus on the unadjusted originations shown in the lighter of the green lines. The unadjusted numbers from 2016 on have been roughly two million plus in number of originations on a monthly basis ongoing. As we look towards 2018, that has certainly maintained that level, but going into 2018 we see a bit of a trend where the originations tail off, at least in the first part of the year or through the first quarter of the year.

The fluctuations show some irregularity and frame the challenges that financial institutions face. That is, having the ability to capture new loans, certainly maintaining the volumes that they've experienced over the last several years which has really benefited and boosted the balance sheets in that category, but also to retain business as consumers continue to buy new cars either more frequently than not because of the availability and the changes in technology. Certainly, we do see a lot of activity going on in terms of replacement of vehicles.

The second point I want to make is looking at the auto loan sales on the right-hand side of the charts. It really echoes what we're seeing, is that there is some fluctuations throughout periods. You can see, for example, at the end of January 2019, there was a drop in unit sales, picking back up in February and March. We'll continue to see that over time with the expectation from the experts in the market that will average out at about 17 million units per month in sales.

Again, that's a very strong number. However, it does also present different challenges for the financial institutions in an increasingly competitive environment. The lenders are challenged with understanding the buying behaviors, the buying journey, how best to serve their account holders, their borrowers and to make sure they're prepared to capture that next transaction or new transactions from potentially new customers coming into the organization.

Next slide, please. An important factor to consider is buying behavior, the consumer buying behavior. There are more tools and information than ever available to the consumer today, at their fingertips to learn about what's available to evaluate financing options and to quickly compare various sources of funding for that next auto purchase. As we know, more consumers begin their buying journey online. This is across all retail channels, auto is no exception. We see the online activity increasing tremendously.

Let's face it. It's convenient, it's easy, it's self-driven. There's no time restrictions in terms of when I can check on information or the consumer can look. Of the buyers that shopped online for an auto loan, the average amount of time spent shopping was 14 hours as you can see in the information on the slide. 61% of that time was spent in online research and shopping; more than eight and a half hours that the consumer spent in trying to understand what the options are in terms of the vehicle they're going to purchase. Also included in that is financing options to look at payment amounts and interest rates, to find that would they qualify for.

Simply put, I think consumers want to complete part of that car buying process online prior to visiting the dealership. With technology, with information at their fingertips, it makes it much easier. As a financial institution, we need to ask ourselves, how do we make our brand relevant in this experience? How do we put ourselves in front of the consumer at the right time? How do we build that relationship? How do we engage the consumer in the early stages of research and shopping to ensure that they continue to look to you as a source of funding?

Surveys also confirm that the time in the F&I process when at the dealership is stressful and a primary source of customer dissatisfaction. What does this mean? It means that the financial institutions really have a great opportunity in front of them to connect with their customer and to make sure that they're aware of what they have to offer.

Next slide, please. Financial institutions that experience great success in the auto loan origination are those that are looking to grow, engage and educate their customer base; ensuring that vehicle financing process is streamlined and it's easy for the consumer to complete or to engage someone along the way when they feel it's right to talk to somebody.

An issue for many institutions is that indirect lending has been a feeder source for new households and also for auto loans to build a portfolio in terms of outstanding balances. Household growth also is important and leads to new deposit relationships. As a core lending source, like indirect lending, chain begins to fade. This is, again, primarily due to changes and maybe the competitive pressures that you're seeing or the consumer buying behaviors and having accessibility to all that information.

Institutions need to maximize their cross-sell efforts. Often we see an institution base needing a new loan product, but are unaware of the consumer shopping. That's important to understand and to be able to build a plan and put your brand back in front of the consumer.

Next slide, please. Action items for success. Grow your base. As a core lending source fades, whether it is from the auto product or as Stephenie mentioned, it maybe with the home equity or mortgage and the changes that we're seeing in that in that part of the market. Look at the positive growth often the key topic today in many conversations as a way to build that customer base and building that base and be prepared to continuously cross-sell using different marketing techniques and channels to communicate and to create what we would term as an "always-on" message.

As previously mentioned, again, when transactions are guided by a third party, indirect lending source or a broker or a realtor, institutions may want to consider looking into different programs like a trigger based acquisition or retention solution to make sure that, again, you're reaching your customers when they're out shopping, when they haven't come to you first.

Then the "always-on" concept that I mentioned. It's understanding that you need to meet the consumer where they are using turnkey marketing to increase engagement or creating an exceptional experience can only lead or will lead to additional or increased loan value.

I'd like to make a shift a little bit and talk more about the consumer experience. If you would, next slide. First, let's start with another polling question if we can get your participation. Does your institution monitor/review that customer origination experience?

If you would select one that you do monitor for each loan product annually, or that you monitor for new products, or no, that you don't have any type of monitoring in place to gauge the experience. If you take a second and answer that.

Great. It's good to see that we have a quarter of the audience that is looking and monitoring, and a lot of opportunity then for those that are not. We'll address some of that as we go through these next slides.

The digital experience; things that you should know or consider as you're considering the experience that your customers are going through. As I noted the auto lending section in my comments, consumers expect information and decisions at their fingertips. Engagement, whether you're providing general information or 24/7 access to offers, or making it easy to accept or apply for a loan become a real differentiator for the organization. It's very important that you take a look at what you're doing and see what you can do to move up a step in terms of engaging your customers, and making sure you're offering them all the tools they need to make a decision.

We've read and heard about the FinTech impact on financial institutions and business. They make the process simple and convenient for the consumer. Staying ahead of the transaction, a new loan purchase becomes very important to try to put yourself in front of the FinTechs that are out there, that are aggressively going after particular markets.

Auto financing too has been transformed with more outlets that get pre-qualified. It's very important that you put your brand, your products in front of your account holders when they're shopping or before they're shopping so that they have you on top of mind awareness. That time frame, if you remember, it would be in that researching phase, which is, obviously, going to be at the beginning of the transaction early in it, and it does consume quite a bit of the consumers time. What can we do to really get in front of our account holders and make sure they know to stop by and talk to us or you before shopping?

Next slide, please. We'll look at a few examples. As you can see here, this example would say that with Rocket Mortgage, some would say that it's a revolutionized mortgage process and there's others out there that have done this as well. Basically, taking what can be viewed as a very intensive process to get pre-approved and really to reduce it down to an experience on a mobile device through digital channels.

This is where we are today. You can apply and get approval almost instantly. As you can see, step nine in nine steps, to see if I can get approved for a loan. That really says a lot and sets the expectation of the consumer really high because the marketplace and the technology is really driving that. Are you prepared to compete with this? Are you prepared to get that fair share of the market? Or do you have strategies in place for retention or servicing of your existing customer base? All of these questions we should be asking.

Next slide, please. We do see varying types of engagement starting with the marketing of lending services and different products, and applying all the way through fulfillment. As you can see here, these two apps or these two sources are focused on time. The time to get approved has been reduced to two minutes, as you can see on the SoFi side and five minutes on the Marcus side.

Both of these are very aggressive. They've built a tool and differentiate themselves in the market as being able to deliver. What I think is different and important to remember is the opportunity to build that top of mind awareness and stay in front of competitors like these. It's important to know that you have brand recognition and that you have that relationship to rely on.

Next slide, please. What does this mean for the financial institutions? There are tools that range in complexity and cost, and allow the consumer to respond to an invitation, maybe opting into an instant review or approval where they initiate, or maybe even acting on a firm offer of credit. We need to examine the user experience for all products. We need to be able to educate the consumer and make them aware in that "always-on" fashion and across multiple channels to give them the ability to choose your brand and your product before they are engaged by another source.

In this example that you see here, we see the use of multiple offers of credit. We're giving the consumer options to be able to educate themselves and look at what's available and take that anxiety out of the conversation. They know that they're approved and let them choose what they need at that time.

Next slide, please. Where do we begin this process? As a financial institution, we really need to look at auditing the loan application and origination experiences as several of you are doing today, and others may be looking to do or doing on a limited basis. Really, taking a look at that and what does it mean to your organization. What tools do you have available to be able to develop that, proactively pre-approve or educate, make the consumer aware of what's available to them through your organization. Offer that loan education to consumers, reinforcing that primary financial institution status, and taking advantage of that to retain the business, to build the business and to grow your different portfolios.

As we begin to wrap up. Meeting consumer expectations in the digital space and understanding what's going on in the market and communicating, educating the consumer really leads to higher brand awareness and recall, much better experiences so that you can compete and provide those products and services in a convenient, timely way. Really, connecting at the point of decision. All of this leads to the increased likelihood of loan acquisition. Again, building brand awareness, building great relationships, and really meeting the consumer's expectations in the lending space.

With that, I'll open up to questions. If you do have questions, you can enter them in the panel on the screen to your right.

Stephenie: Marc, I was looking at the question panel and we do have a couple of questions that have come in. Hopefully, you'll be ready to answer. One of them is asking about the image that you showed with multiple offers. The question was, what is the response rate financial institutions are achieving when offering multiple preapprovals to their customers?

Marc: It's a great question. Thank you. It depends on the products that are being offered, of course, and the number of products. I think opening the opportunity to or opening the number of offers allows the consumer to opt in into what's most important for them at that time rather than guessing. What we would expect is to see a response rate between 2-3.5%, again, depending on the range of products that are offered and obviously the offers.

Stephenie: Great. We've got another question here. It says, are you seeing or have fear for trends in increased delinquencies in regards to car loan lending? I don't know if as you were looking at those marketplace based trends on auto lending, Marc, did you see much related to delinquency? I know that I've seen a little bit of uptick in delinquency for subprime, but I don't know that I'm really close to the prime numbers.

Marc: I do not have that information from the prime market. I've not seen anything stand out as being of major concern from a general industry standpoint.

Stephenie: Okay. We also got a third question here. It says, are there any opportunities for generating and keeping mortgage volume I should consider in my loan marketing plan?

Marc: Sure. Again, a great question. If an institution isn't already utilizing say a trigger program or trigger strategy, it is a way to keep more of what you've really thought and to originate originally. You put the time and the expense into doing that as many consumers don't realize the current financial institution can help with all of their financing needs.

When it comes to keeping it, just again from a retention standpoint, the trigger program will notify you when somebody steps outside of the brand and is looking, and really allows you to re-engage that consumer to make sure that they're aware of that they can continue with the financing with that institution. Trigger programs, definitely, is a plus in that case.

Stephenie: I find it interesting, Marc, as we talk with clients on a regular basis, preconceived notions around triggers. Triggers definitely do very well in long origination processes like mortgage and home equity. Most of the clients we deal with also achieve great success in unsecured opportunities like credit cards. It seems consumers that are looking for unsecured debt have almost an insatiable appetite, if you will. I know in some of the programs you and I have looked at on a credit card trigger program, they can achieve 8% and 10% response rate on something like that. It just must be that insatiable appetite.

Marc: Yes, it is and not having options elsewhere if they need the money for a particular reason. Again, in terms of monitoring activity when somebody is out shopping, I think it's important to have that conversation to make sure that the financial institution is there for them during those times of need.

Stephenie: Yes. Well, that wraps up the questions that we have. One of them was a question that was asking about the slides. That's a good time as any, Nathan, to hand it back to you to close us out. Thank you all for your time today.

Marc: Thank you.

Nathan: Sure. Thank you, Stephenie and Marc. This will conclude the webcast. Just want to remind everyone that we'll send out a brief survey and we welcome your feedback. We'll also be sending out the recording and presentation within a few days. Thanks for joining us.