2020 Consumer Lending Survey

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nomis

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Executive Summary

Twelve years ago, as the banking sector began the long haul to recovery after the 2008 financial crisis, everyone agreed that changes were needed to better weather future storms. We focused on streamlining loan application processes, built and created more digital channels, and focused on empowering front-line teams with better tools and information so they can better serve consumers.

The COVID-19 crisis and the associated economic environment mean more changes for lenders. We're mid-way into 2020 and already:

- Several major banks have abandoned HELOC lending;
- Non-qualifying mortgages, a once rapidly growing and exciting part of the market, has dropped off dramatically;
- The secondary market for jumbos has shrunken, giving a massive edge to portfolio lenders;
- Consumers can easily see and shop rates; they have gotten savvier overnight and shop for mortgages like they are shopping for clothes.

For our 2020 survey (for those who missed last year's survey, you can find it here), we look at consumer attitudes to lending in the socially distanced COVID-19 economy. While it's true that banks have had self-serve customer capability enhancements underway for some time, we wanted to understand consumers' preferences as they apply for a loan.

Another emerging feature of today's lending landscape: marketplace and online lenders. How do consumers rate their reputation? And does a bank's reputation still have sway on where people shop for loans?

We surveyed U.S. consumers who applied for a loan in the past 12 months, and whose application was accepted. We asked them why they were applying for a loan, what type of loan they were offered, and what they ended up with.

And along that journey, we looked at their shopping preferences and practices, what influenced their purchase decision, their attitude to loyalty, how they like to transact with their lender, and more.

In particular, we wanted to understand the importance of pricing: as they start their hunt for a loan, as they compare lenders before completing an application, and (given the ease of comparing prices online these days) whether consumers continue to consider and compare prices once their application is underway.

We hope you will find these insights useful as you continue to evolve and enhance your pricing capabilities — especially in the light of digital transformation projects that may be underway within your organization.

Survey Objectives

With consumers increasingly aware that alternatives to their current bank exist, both locally and on the web, the savvy consumer is evaluating a range of lenders. At the same time, competition from lenders for these loan applications will increase, with banks well positioned to offer HELOC products to their existing mortgage customers.

To find out, Nomis Solutions surveyed a nationally representative group of consumers who applied for a loan in the past 12 months, and whose application was accepted. The 500 respondents were all in the United States, at least 18 years old, and with incomes $25K or more.

We wanted to understand their expectations, experiences, and preferences throughout the loan application process.

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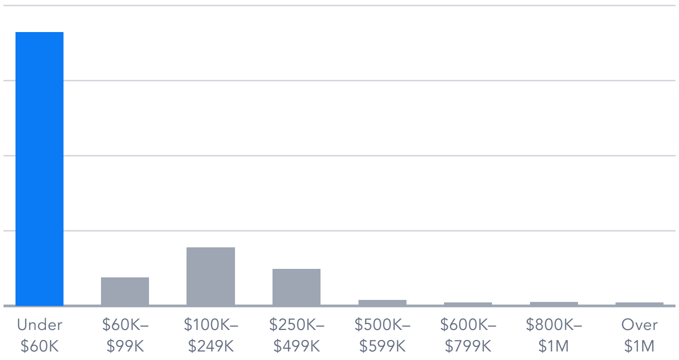
Setting the Stage

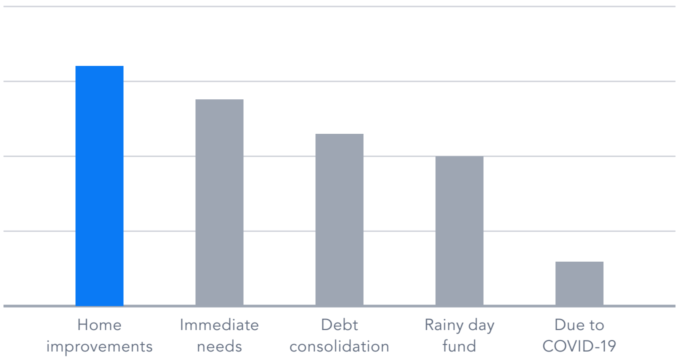
All 500 respondents (62% female, 38% male) had applied for a loan within the last year, with a slightly higher tendency toward recent loan applications. The majority (two-thirds) were looking to borrow less than $60K.

What was the amount you borrowed?



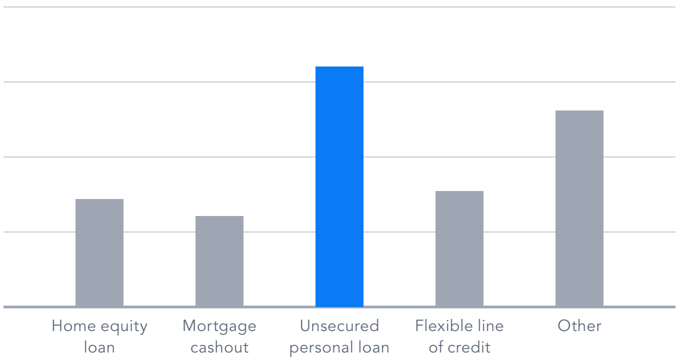
More than half of the respondents were looking to finance a short-term need, such as home improvements. The survey was completed in early June, and only 5% mentioned COVID-19 as the reason for their loan application.

What was the reason you applied for a loan?

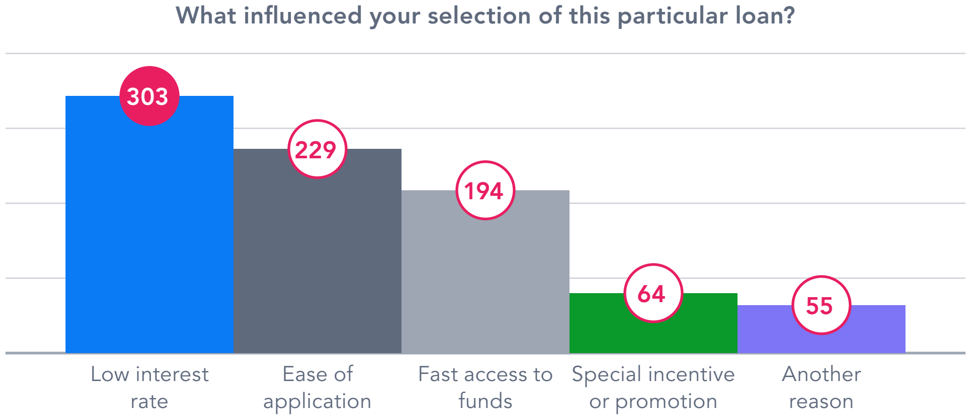


Unlike our 2019 survey, when HELOCs were very popular, loan product mix was skewed toward unsecured personal loans. Those who answered 'OTHER' were primarily funding an auto (or similar) loan or a conforming mortgage.

What type of a loan did you end up with?



Insight #1: Price is the Top Driver



In today's competitive lending environment where interest rates are continually in the news cycle, consumers are focused on securing the lowest possible rate as they select a loan product.

36% stated that a low interest rate was the primary criterion for their loan product selection, but ease of application (27%) and fast access to funds (23%) were also important factors. Special incentives offered by the lender were important to 8% of loan applicants.

Takeaways

Pricing has become much more scientific over the last few years. Due to the competitive pressure from fintechs and neo-banks, increased expectations from customers, regulatory scrutiny of salesforce behavior, and a changing interest rate environment, banking executives have started to exercise their pricing muscles again.

Amid all the uncertainty, one thing is very clear: the times when static rate sheets were sufficient to compete are long gone. Today, banks and lenders are using a number of different levers to become more customer-centric in pricing their products.

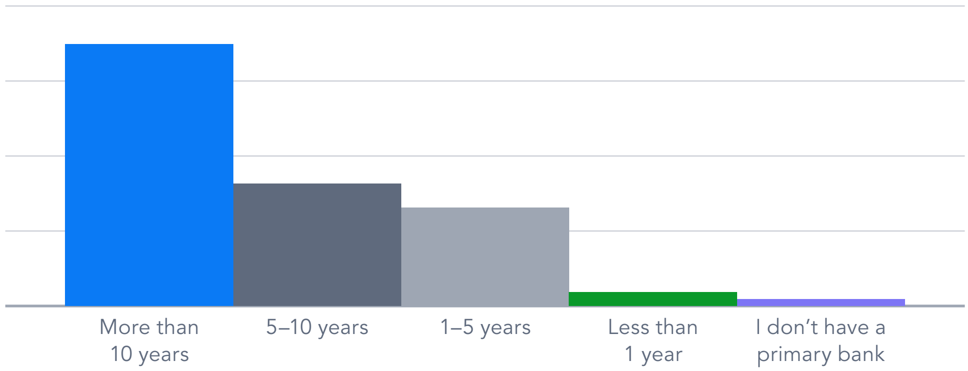
As they compete for loan business, banks must implement data-driven strategies for these three modalities:

- Base pricing and segmentation
- Promotional and behavioral pricing
- Discretionary and exception pricing

Insight #2: Relationship Matters (but Price Matters More!)

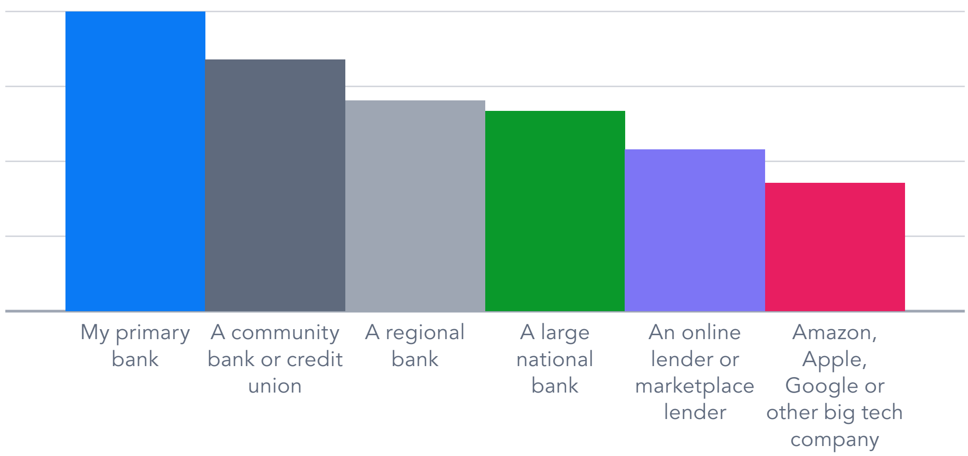
Have neo-banks and fintechs dented the relationship with traditional banks? For these borrowers, the answer is not much.

How long have you been with your primary bank?



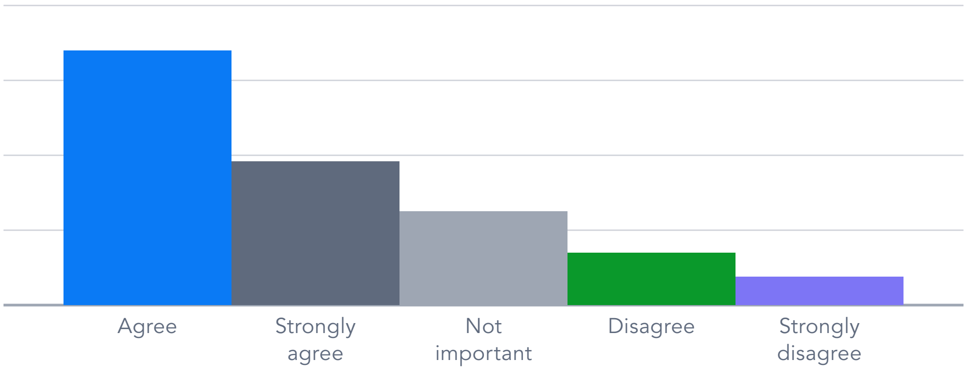
Most of our respondents have a long-term relationship with their bank, and very few said they have no 'primary bank.'

How would you rank these lenders by trustworthyness?



When we asked them to rank a wide range of loan providers by trustworthiness, Main Street (including national and regional banks, as well as community banks and credit unions) got higher rankings than online lenders.

Do you agree with this statement: *"I would switch from my primary bank if it is more expensive than other lenders."*



When we asked if they'd be willing to pay more for a loan from a bank whose reputation was high, 78% said No. In fact, 70% of respondents confirmed that they would switch from their primary bank based on price.

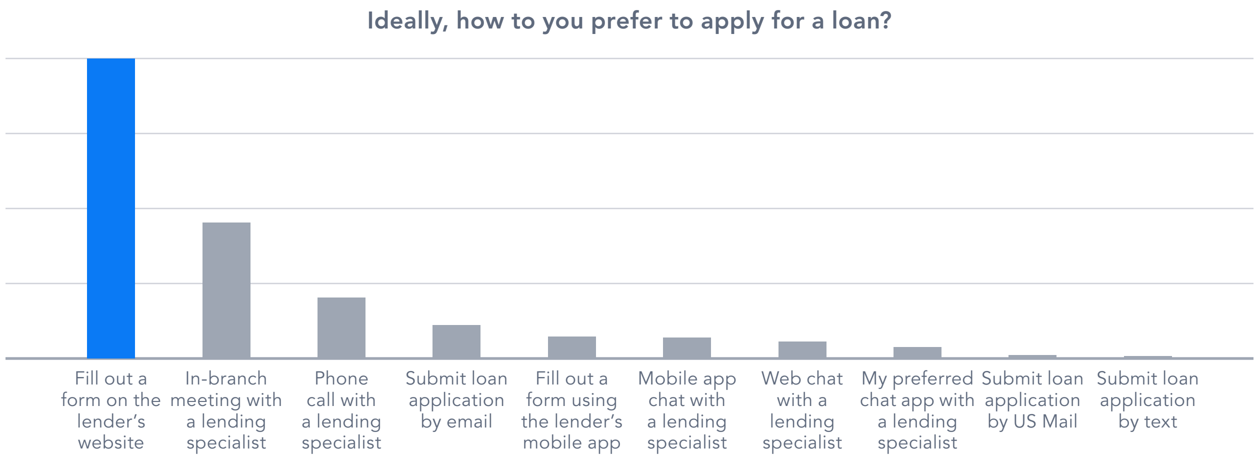
Takeaways

Banks should not be complacent about their hold over customers, and need to focus on promotional pricing and behavioral pricing to better compete by considering:

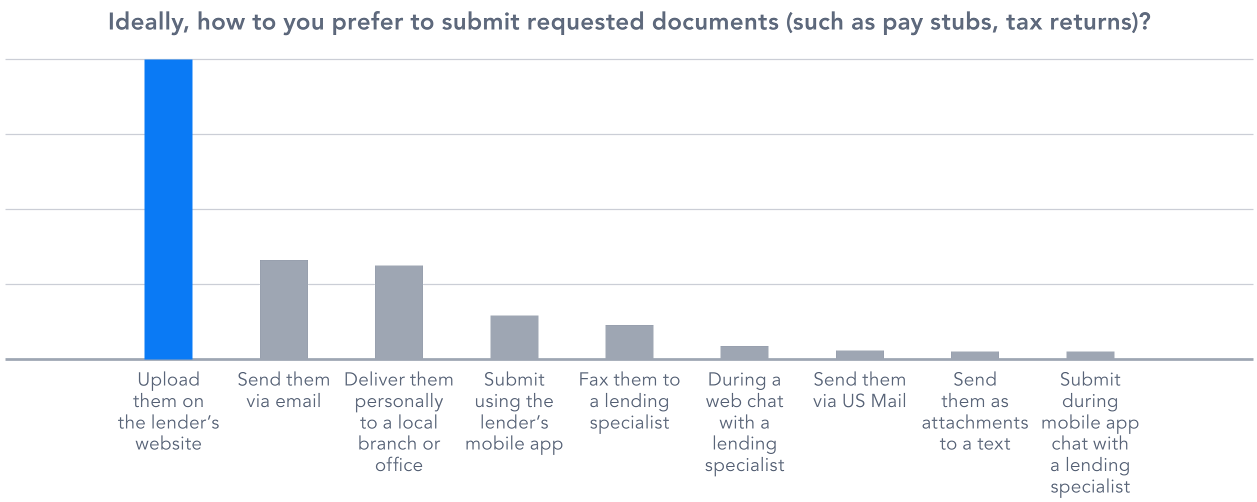
- Time-bound teaser rates or "specials";
- Segment-based promotions for specific markets or customer segments that are coordinated with direct marketing;
- Engagement-based or behavioral pricing to reward customers based on specific behaviors that deepen their engagement with the bank;
- Cross-sell pricing — a variant of behavioral pricing where preferred rates or fee waivers are offered to customers who deepen the relationship by buying multiple products.

Insight #3: Expand Digital Pricing and Self-Serve Capabilities

Banks have been tracking the inexorable trend toward online banking, and we've recently seen reports of permanent branch closures, perhaps hastened by the COVID-19 pandemic. However, for some borrowers, access to an expert is still important.

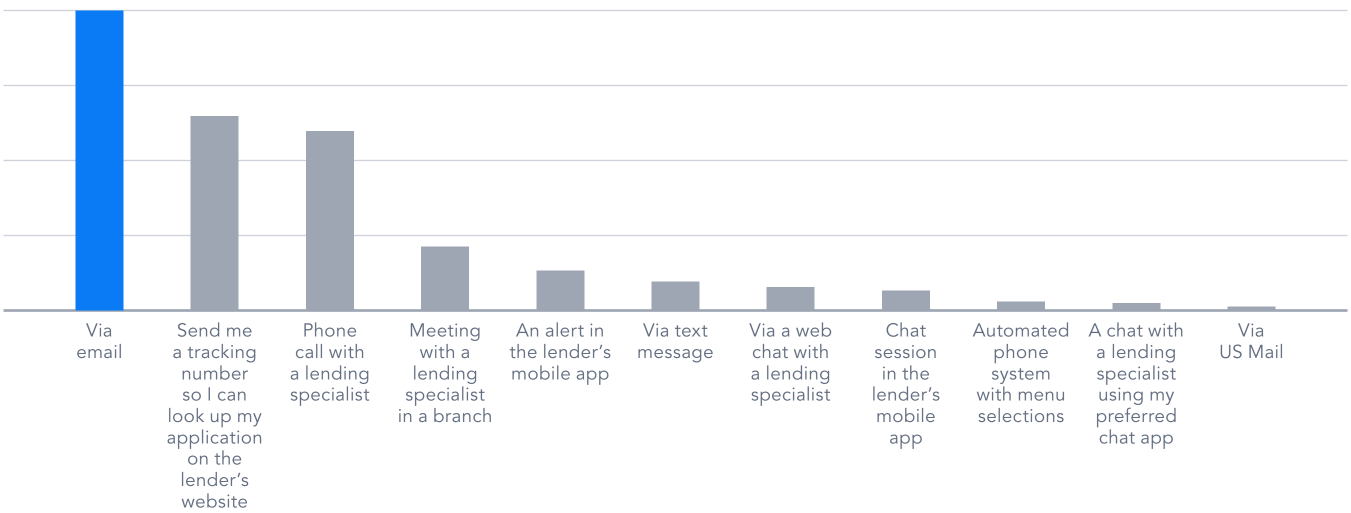


Most consumers prefer to apply for a loan using some digital technology (web, email, mobile app, chat), but one-fifth of applicants value a meeting with a lending specialist.



Similarly, digital means are the preferred mode for documentation.

How do you prefer the lender notify you about the status of your application?



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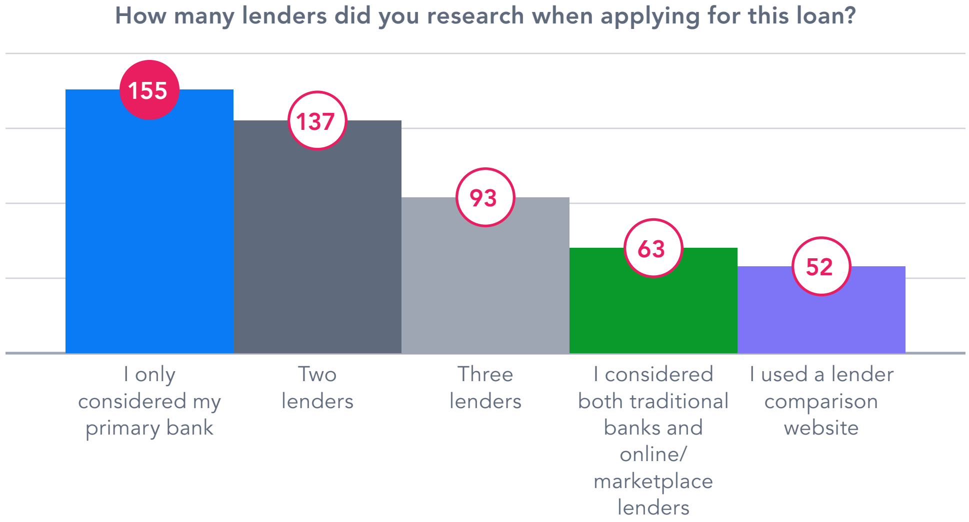
Takeaways

Just as they expect in other retail environments, today's consumers are looking to transact digitally and expect convenient customer journeys during their shopping and application process. Presenting the right price and the right offer upfront is key to getting that conversation started. To capture the mindshare of shoppers and win their application, make sure your pricing process is fully automated and that your customers can transact on their preferred channel.

At the same time, lending is an area where consumers may want to start the process digitally but have access to expert help when needed. Don't forget the importance of humans in the loop — especially as we recover from this current crisis. Empowering your front-line bankers and lending specialists with customer insights is key, along with the ability and the authority to make 'in the moment' exceptions to secure the business of the customer they're working with right now.

Insight #4: Borrowers are Comparison Shoppers



When researching a loan, only 31% of loan applicants considered solely their primary bank, and these consumers tended to be older. Almost 70% our respondents researched two or more lenders, and included online/marketplace lenders and lender comparison websites in their research.

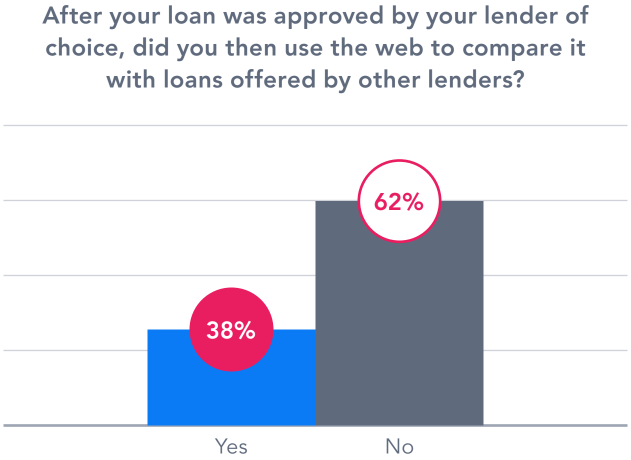
Takeaways

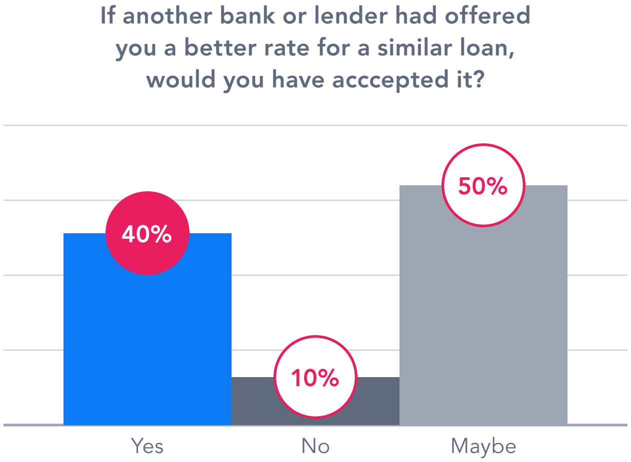
The lender that can offer a consumer the best possible price across all available prices offered to that consumer is best positioned to deter comparison shopping. In effect, you have one shot so make it your best.

The trick, of course, is to be continually optimizing your price in response the daily dynamics of the market, so that you maintain your competitive position consistently, over time. This is the essence of an effective pricing strategy.

In order to optimize your pricing, you'll need to embrace a digital approach. Clearly, legacy pricing models and printed rate sheets are a thing of the past. Instead, highly dynamic and well-informed pricing, driven by real-time data, is the only way to stay at the top of the pile and be the stand-out source for that consumer's loan application.

Insight #5: Beware of Buyer's Remorse





If you think a loan application means your customer has moved on from shopping, you'd be wrong. Once their loan was approved, 31% said they continued to shop for something better, and 41% admitted they would accept a better offer from another lender. Fewer than 10% of borrowers would reject a better offer from a competing lender, and 50% would at least consider the idea.

Takeaways

Consumers continue to rethink their options, even once their loan app is underway. And why not — if loan prices are readily available and are known to be fluctuating. This underscores the need for you to be confident that your pricing strategy is robust, and therefore the need for a data-driven approach that assimilates your competitors' pricing into your in-the-moment pricing.

Optimize Pricing for Today's Digital Customers

Bank product and pricing decisions are typically reactive and address short-term problems such as capacity, competitive pressures, or quarterly financial objectives.

These short-term-focused business drivers will only intensify over time, therefore, to drive sustained growth and profitability, banks must develop customer-centric lending products and pricing strategies.

A customer-centric pricing approach — characterized by consistently making smart pricing decisions that reflect detailed customer insights — demands technology that combines cutting-edge AI and billions of financial observations, public and private data.

Whether you're a data scientist, a lending product manager, or mortgage loan officer, you can apply advanced pricing analytics technology today to make better, data-driven pricing decisions that deliver more profitable consumer lending transactions.