Your Voice

A New Era Of Lending

As the personal lending market continues to get more competitive, offering a lending experience that gives more flexibility to borrowers is crucial.

By John Waupsh

The recent data from TransUnion shows that the size of the personal lending market has more than doubled over the last five years. The reasons for this staggering growth can be attributed to a number of factors, but most notably, it has been a result of higher total employment coupled with rising household incomes. Megabanks, fintechs and alternative lenders have dominated this increase in personal lending, and as a competitive reaction, TransUnion predicts that we will likely see more personal lending activity from community banks and credit unions. The challenge for them, however, will be how they differentiate their lending experience.

Historically, loan products have all looked the same, leaving community financial institutions with little to compete on. In fact, most institutions have focused on rate and speed of application process, which is necessary to staying competitive based on what consumers have indicated as primary drivers of choice, but these are not the only factors driving their decisions. We know that rate ranks among the most important, with minimum monthly payment following close behind. Application experience and fast lending decisions are also important, but they are not what drives a consumer to choose one institution over another.

In a recent report, "Reinventing Consumer Loans: How Community Based FIs Can Win the Millennial Lending Market," released by Cornerstone Advisors, Ron Shevlin, Director of Research, emphasizes the need for community financial institutions (FIs) to find new strategies to better compete with large banks in the lending markets. While many mid-size FIs believe they have superior rates and service, millennials, for instance, are often selecting the megabanks and large regional banks they already bank with for their borrowing needs.

If community-based FIs can no longer differentiate themselves based on price, and borrowers are finding less value in application ease or speed of approval, how should FIs attract borrowers? The answer, as Cornerstone discovered, is that community FIs can compete by offering loan features that improve the borrower's experience during the life cycle of the loan.

Cornerstone outlines three tactics in its report, which include providing flexible credit terms, bundling accounts and offering access to future funds – a new concept called a take-back loan. A take-back loan allows borrowers to pay ahead to reduce debt, but take that extra back if they need it, eliminating the fear of parting with 'extra money' while also enabling the borrower to make better financial decisions.

Access to a borrower's own extra payments or take-backs is important, but actually seeing the impact of those changes is critical. Combining this concept with a sleek, mobile dashboard allows borrowers to manage debt by showing the loan's status instantly. One step further – borrowers can also see the impact of payment changes before making them, giving them even more control.

As the personal lending market continues to get more competitive, offering a lending experience that allows borrowers to take back extra payments and then see the impact is a game-changer that will only fuel greater growth. ❖

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