How to Step Away from Traditional Lending

Created By: Allied Solutions, LLC

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BORROWING LANDSCAPE

Not all borrowers who apply for loans with your financial institution will be the "perfect" candidates for lending. Excellent credit scores, large down payments and interest rates aside, non-traditional borrowers are an underserved market that could be very lucrative for your business.

Let's take a look at three types of borrowers that your financial institution should consider for non-traditional lending opportunities:

NEAR-PRIME BORROWERS

Consider those borrowers that might not have the perfect credit score – the near-prime market.

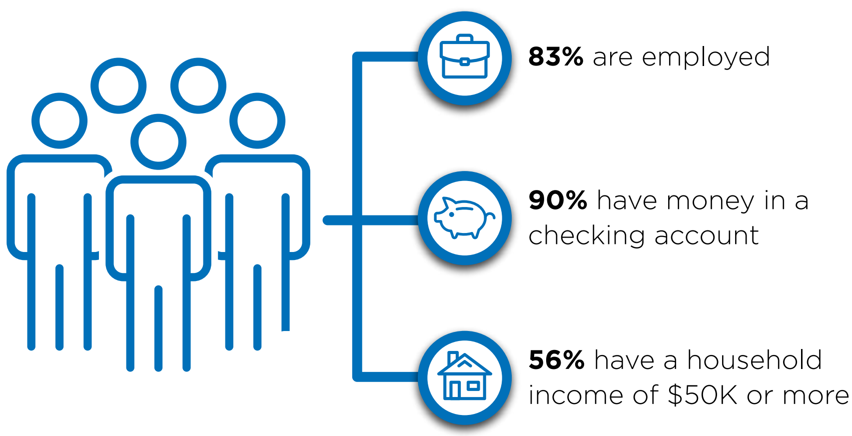
Consumers with near-prime credit (660 – 720 approximate credit score) face credit limits that are often less than desirable, while limits for those with excellent credit have been growing. Scores in this range are not exclusive to those with poor or unestablished credit and can include borrowers with average credit or younger lines of credit.

In fact, today's typical near-prime borrower is employed, has money in a checking account and has a household income of $50k or more.[i]

Low credit lines and high interest rates can be daunting to any borrower, but lending to this sector of borrowers at lower interest rates coupled with the correct risk management approach could drive yield to your financial institution.

Consumers in this group want lines of credit and they have money to spend!

Do you know your **near-prime** borrowers?



"Residual based financing loan payments are often 30-40% less than conventional monthly loan payments, and the loan terms are much shorter. This helps decrease the amount of consumers in a negative equity position"

– **Richard Epley**, CEO, AFG

PAYMENT CENTRIC BORROWERS

Then there are the payment centric borrowers. These people aren't interest rate sensitive (yes, that's right!) and are instead looking at the monthly payment required. They're worried about what they can get for their money here and now. They're the ones walking into car dealerships asking how little they need to put down to drive off with the nicest car on the lot.

The current climate of the lending market means borrowers aren't necessarily using traditional methods in searching for and taking out loans. Borrowers today are educated and technologically savvy – they know what they want - and they want it now!

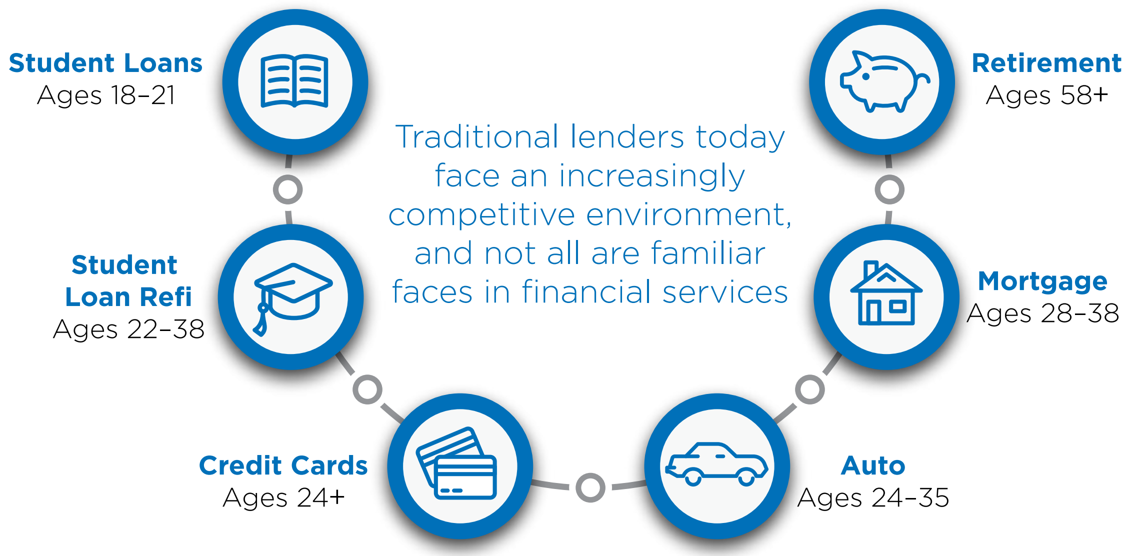
[i] "The Near Prime Gold Mine." *FIS*, 20 Aug. 2015, https://www.paymentsleader.com/the-near-prime-gold-mine/ .

MODERN BORROWERS

Not to be forgotten are the modern borrowers, most likely millennials, but also borrowers across all stages of life who have adapted with the times and have become accustomed to a certain level of service that they experience as a consumer in other aspects of their lives.

It's true that the average consumer of financial services is in their mid-to-late 40s, and as such, lenders tend to cater to this demographic. With this statistic in mind, expanding your market to younger generations may seem like the obvious solution. This is certainly something to focus on, but let's dive a little deeper.

The Modern Credit Journey[ii]



[ii] Lendkey, 2017.

You have an opportunity to capture these borrowers and ensure they are getting a solution from you that feels natural, easy to maintain, and worth investing in, which in turn, can be profitable for your financial institution.

It's a consumer's market – consumers of all ages are seeing what they can do digitally, through third parties, and through other means of alternative lending. They're not always going to the financial institution first. They're looking for convenience and the best offer, wherever those can be found.

All of this means you, as a lender, need to attract and retain these types of borrowers, because your competitors are already doing it.

STRATEGIES FOR SUCCESS

First and foremost, you need to retain the consumers you already have by staying relevant and top of mind.

Thinking about how your existing consumers already are engaging with your institution can magnify cross selling opportunities, which will, in turn, help in building momentum to attract new borrowers. Does this sound like a monumental task? It doesn't have to be. Here's how:

"Developing a loan program that safely expands opportunities for modern borrowers is an essential component in growing a profitable equity portfolio."

– **Kathleen Ayer**, Managing Director, NFP FI Programs

1. ADOPT METHODS TO MANAGE RISK AND SERVE NEW MARKETS

Tapping into your non-traditional markets is important, but doing so does not come without risk. There are a variety of lending products out there that can help you as a lender to tap into these under-served markets, differentiating your institution from lenders that are only utilizing traditional financing methods.

Implementing alternative lending solutions can help your institution pursue more loan opportunities while offering those desirable loan characteristics, like shorter loan terms and lower monthly payments, to a variety of borrower profiles.

In addition to this, your institution could be utilizing data to obtain a full view of a consumer's financial history. Why not utilize rental histories, checking account history, cellphone records, utility bills, and even social media and other third party data analyzing spending or savings trends to help you decide your lending parameters?

2. OFFER MORE OPTIONS

Keep in mind that you need to cater to a wide variety of borrowers, or your loan portfolio will not survive. Ask yourself if you are targeting diverse enough demographics. Financial institutions are apt to ignore millennials and what they want due to poor credit histories or lack of lending experience.

Nurture your borrowers by helping them get faster approvals and receive better offers (payment, rate and shorter loan terms) on both new and/or existing loans.

"Your consumers deserve the best loan terms. As their lives change and their credit improves, it is important that you offer them upgraded financing options"

– **Jerry Kroshus**, President & CEO, Auto Approve

3. MAKE IT EASY FOR BORROWERS TO WORK WITH YOU

In a competitive lending environment, consumer loyalty is key, and fostering a positive environment for borrowers is important to your success throughout the lending process and beyond. Make sure your website and all digital tools are easy to use and that information within them is presented clearly.

Take into consideration that your institution should implement ongoing digital engagement. Consider that borrowers expect financial institutions to offer online and mobile technology for bill pay, account and balance inquiries, check cashing, and peer-to-peer payments, among other transactional needs.

KEY TAKEAWAYS

Whichever method you choose – diversifying your institution by utilizing lending products that allow you to work safely and efficiently with prime, near-prime, payment centric, and modern borrowers is the key to your success.

Serving new markets, offering diverse lending options, and making it easy for borrowers to work with your institution digitally are just some of the possible courses of action you can take to differentiate yourself as a lender that will ultimately lead to consumer loyalty and referrals.

By stepping away from traditional lending and thinking outside the box of prime borrowers and typical loan terms, and instead expanding your pool of borrowers and adopting new methods to mitigate risk, you put yourself in the best position to retain and attract loan opportunities.

"Understanding your borrowers and having the correct risk mitigation services in place allows you to service a diverse set of borrowers, which is key to your success and survival in a consumer driven marketplace."

– **Brian Timson**, National VP, Partner Development & Innovation, Allied Solutions

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