

Raddon Research Insights

Borrowing From Experience: Building a Better Loan Process



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Executive Summary

In our 2019 study *Lending Insights: The Future Is Now*, we examined lenders' nascent innovations and posited how these advancements might revolutionize the loan paradigm for financial institutions. In this report, *Borrowing From Experience: Building a Better Loan Process*, we explore the loan application process from the perspective of the borrower, to identify points of friction and opportunities for institutions to drive growth and profitability through an improved customer experience.

For this study, we surveyed – prior to the COVID-19 crisis – 1,265 consumers who had applied for a loan in the past three years and took a deep dive into understanding their experience and perception of the process when they applied for their most recent loan. Overall, mortgage loans (53%) were the most common type of loan that borrowers most recently applied for, reflecting the resurgence in refinance activity and the continued march of Millennials toward homeownership. The most common means borrowers used to apply for their most recent loan entailed doing so in person at a financial institution office (33% overall). Millennials (36%) were just as likely to have applied for their most recent loan in person at a financial institution, and generally, we find that access to in-person guidance continues to hold value for a significant cross section of applicants.

Borrowers were generally satisfied with their loan application experience. On a 10-point scale from “Extremely Difficult” to “Extremely Easy,” borrowers scored the ease of the process at 7.4 on average.

Likewise, two-thirds (67%) of borrowers were able to complete their application in under 30 minutes. Notably, however, borrowers who applied for their loan at a vehicle dealership tended to have the most favorable experience. Here, the ease of applying was rated 7.9 out of 10, and three-quarters (78%) of borrowers were able to complete their application in under 30 minutes. The ability of the finance manager to shepherd borrowers through the application process, combined with the inherent locational convenience, clearly serves as an advantage for dealership lenders.

Another challenge for the industry is that younger borrowers tended to be less satisfied than others with their application experience. Almost half (48%) of borrowers aged 18 to 34 agreed or strongly agreed that applying for a loan is a long and difficult process, compared to 37% overall. Also, approximately six in 10 (58%) younger borrowers expressed that they disliked some aspect of the application process, versus half (52%) of all borrowers. Lower income younger borrowers – represented by Raddon's Fee Driven consumer segment – were most likely to relay difficulty with their application experience, despite being the most likely segment to have most recently applied for a personal loan (25%) and the most likely segment to have applied for their most recent loan via mobile phone (11%). These consumers are among the most heavily affected during the pandemic – and most in need of fast, easy access to small-dollar loans. The crisis exposes a gap in lenders' ability to serve the mass market effectively.

As we look more in depth at borrowers' loan application experience, this analysis will address the following questions:

- What is the general attitude of borrowers toward the current lending environment?
- What types of loans did borrowers most recently apply for, and how did this vary across different segments of the population?
- What was the location or channel through which borrowers applied for their most recent loan?
- How many steps and how much time did it take for borrowers to complete their most recent loan application, and how did this vary for the different types of loans and channels used?
- How do younger consumers – aged 18 to 34 – in their prime borrowing years feel about the process of applying for a loan?
- What aspects of the process contribute to loan applicants' dissatisfaction, and how can lenders generate growth through a better borrowing experience?

Borrowing From Experience: Building a Better Loan Process

The loan application process is a critical component of financial institution operations and success, because it serves to ingest and adjudicate opportunities for new earning assets. As technology has rapidly evolved, banks and credit unions have been pressed to deliver a more digital experience, yet borrowers still demonstrate some affinity for personal interaction when applying for a loan.

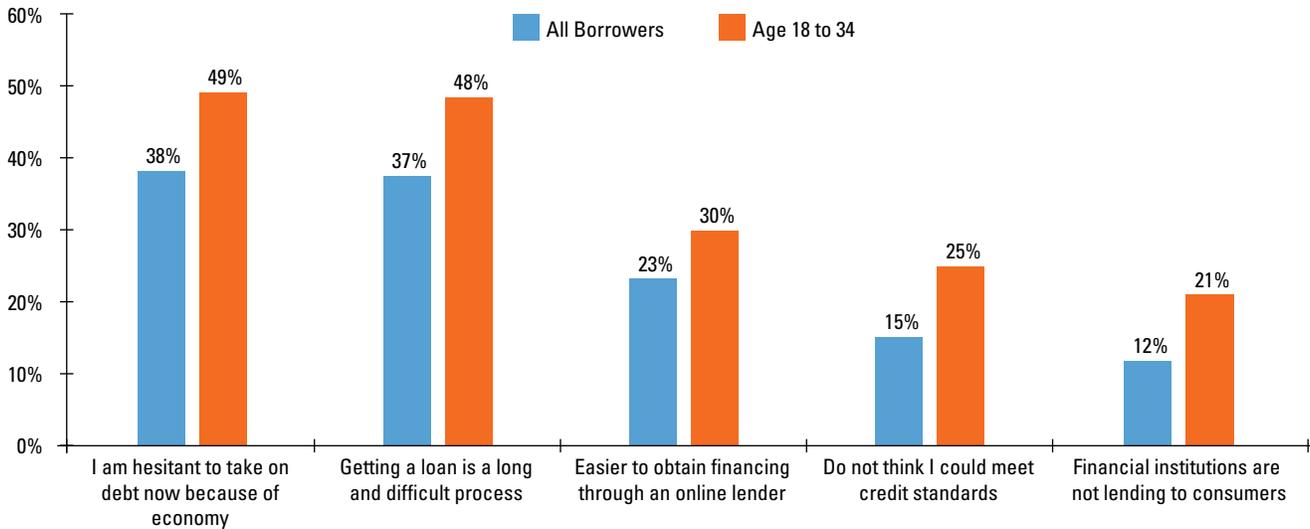
The challenge for lenders, then, is to strike the appropriate balance in fostering convenience and providing guidance while connecting this high-tech, high-touch experience in a seamless and efficient way. In this study, we learn from borrowers' application experiences to identify key strategies for financial institutions to build effective loan processes for the 2020s and beyond.

Consumer Attitudes Toward the Borrowing Environment

Even with our survey being fielded before the economic impact of business shutdowns and surging unemployment, over one-third (38%) of all borrowers, and almost half (49%) of borrowers aged 18 to 34, agreed or strongly agreed that they were "hesitant to take on debt now because of the economy." Similarly, 37% of all borrowers, and 48% of young borrowers, agreed or strongly agreed with the statement that "getting a loan is a long and difficult process."

These sentiments establish a backdrop for our study, and the unforeseeable and unprecedented economic fallout and behavioral changes triggered by COVID-19 certainly mean borrowers' concerns are heightened and loan processes will be increasingly scrutinized. Financial institutions that have been able to identify and effectively remedy shortcomings in their processes amid the pandemic will emerge stronger and better equipped to compete and serve their communities in a post-COVID-19 world.

Figure 1: Percent of Borrowers Who Agree or Strongly Agree With Statement Regarding Borrowing Environment



Source: Raddon Research Insights. Q: Below are a number of statements regarding the current consumer borrowing environment. For each statement, please indicate how much you agree or disagree by checking the box closest to your opinion. n = 1,265