Raddon
A Fiserv Company

Raddon Research Insights

Lending Insights: The Future Is Now

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Executive Summary

It would be fair to say that financial services products are commodities that have realized little innovation over time. Indeed, online and mobile banking technology has provided more convenient access to products and has streamlined processes to an extent, and there have been tangential enhancements, such as credit card rewards programs. Yet, broadly speaking, the product set remains rigidly categorized, while processes continue to be anchored down by legacy practices. However, the latter portion of the 2010s, and 2019 in particular, ushered in some notable developments that are poised to profoundly reshape lending in the 2020s and beyond.

Two key tenets of this emerging loan transformation are product flexibility and process simplicity. Today, the major banks' sole home equity credit offering is a line of credit with the option to lock in funds at a fixed rate with fixed payment terms. And this year, Citi introduced a similar construct to its credit card suite with its Flex Loan and Flex Pay product features. Meanwhile, Apple's newly launched Apple Card epitomizes process simplicity with its rapid decisioning and end-to-end mobile experience. In combination, these advancements revolutionize the interaction between borrower and creditor and soften the distinction between product categories.

From the consumer standpoint, anticipated loan demand continues its uneven rebound. After falling to 24% last year from an overall five-year high of 28% in 2017, the percentage of consumers anticipating a loan need in the next 12 months ticked back up to 27% this year. The recent volatility in this trend appears to mirror changes in the interest rate environment. Demographics also continue to be a driving force here, with anticipated loan demand among Millennials (57%) and Gen X (39%) soaring to five-year highs in 2019, while Baby Boomers' loan demand fell significantly from 17% last year to just 12% this year.

The burden of student loan debt continues to grow – primarily for Millennials, of course – but otherwise the borrowing consumer is generally healthy despite record levels of aggregate debt. Auto lending has slowed down while the use of equity credit and credit cards has been gaining traction. With these trends in mind, this study takes a look ahead at what the future of lending might entail:

- How will burgeoning student loan debt affect the Millennial borrower, and how can financial institutions resonate with this key loan segment?
- What will be the impact of disruptors such as Apple as they continue their inroads into financial services?
- How do financial institutions need to adapt their lending efforts to remain relevant amid a rapidly changing environment?

Lending Insights

Raddon's 2019 Lending Insights study, *The Future Is Now*, examines the state of the borrowing consumer a decade after the Great Recession and explores the impact that new product innovation will have on the lending environment in the coming decade. In the present, we see borrowers and competition gravitating from auto loans to home equities and credit cards and an uptick in loan demand for the next year as consumers weigh the potential for recession and the implications on their personal financial lives.

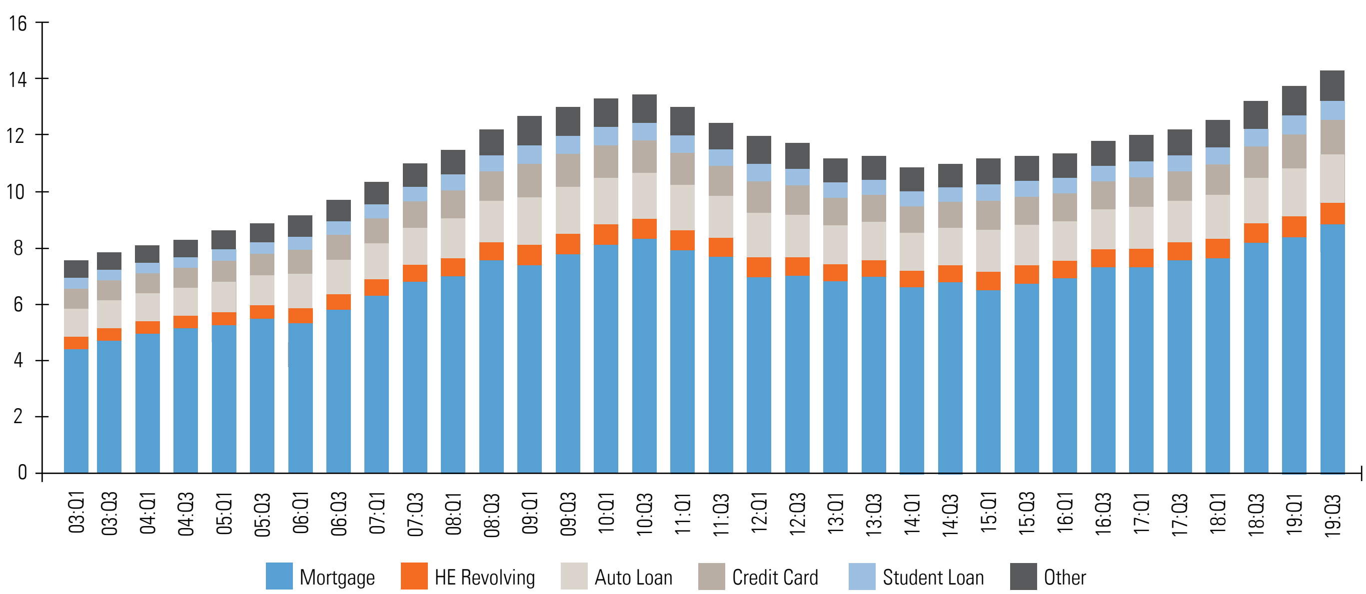
We also observe that 2019 represents an inflection point for the industry and that process modernization and product flexibility will be the hallmarks of lending in the 2020s. The viability and success of financial institutions will depend on their capacity to be nimble and adapt their loan practices for an increasingly mobile consumer who emphasizes access to funds over need for product.

Trends in Retail Loan Usage

Consumer Debt Levels Are Generally Manageable – But Student Loans Are a Continuing Concern

Although aggregate debt levels reached all-time highs in 2019 – leading some pundits to speculate that a repeat of the financial crisis a decade ago is forthcoming – a deeper dive into the data challenges the notion that consumers are overly burdened with debt. As of the third quarter of 2019, consumers held $13.95 trillion in total debt, almost $1.3 trillion more than the $12.68 trillion they held at the peak of the financial crisis in 2008 (Figure 1).

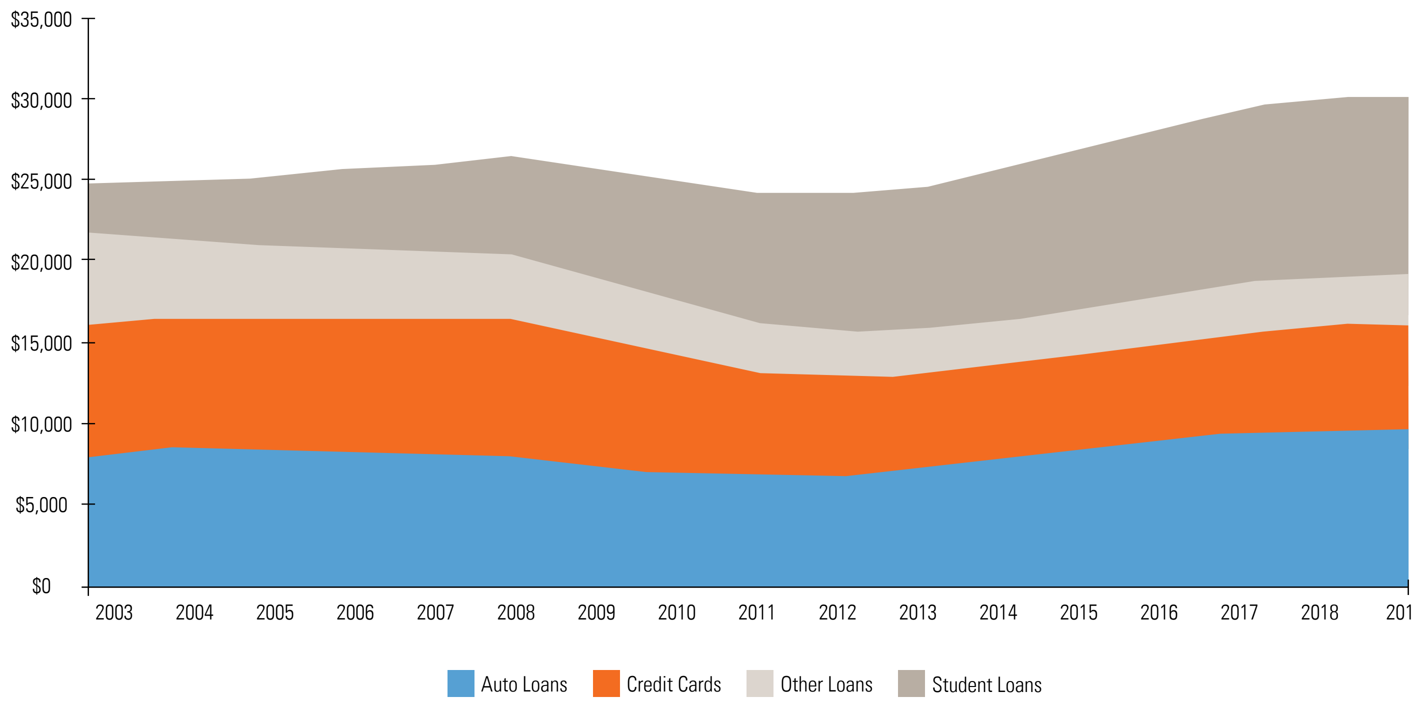
Figure 1: Trend in Total Debt Balance by Loan Type (Trillions of Dollars)



Source: New York Fed Consumer Credit Panel/Equifax

However, adjusting for inflation and population growth, combined real consumer debt per household in autos, credit cards and other loans remains below the levels leading up to and amid the Great Recession (Figure 2). And despite the recent surge in home values, real debt per household in mortgages and home equities is substantially lower than its peak in 2008 (Figure 3). Real student loan debt per household, however, is the one loan category that has continued to grow unabated (Figure 2).

Figure 2: Trend in Real Consumer Debt Per Household by Loan Type (2019 Dollars)



Source: New York Fed Consumer Credit Panel/Equifax, Raddon calculations