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Point of View Paper

Short-Term Lending Can Have Broad Appeal

Higher-Income People Also Show Interest in the Service

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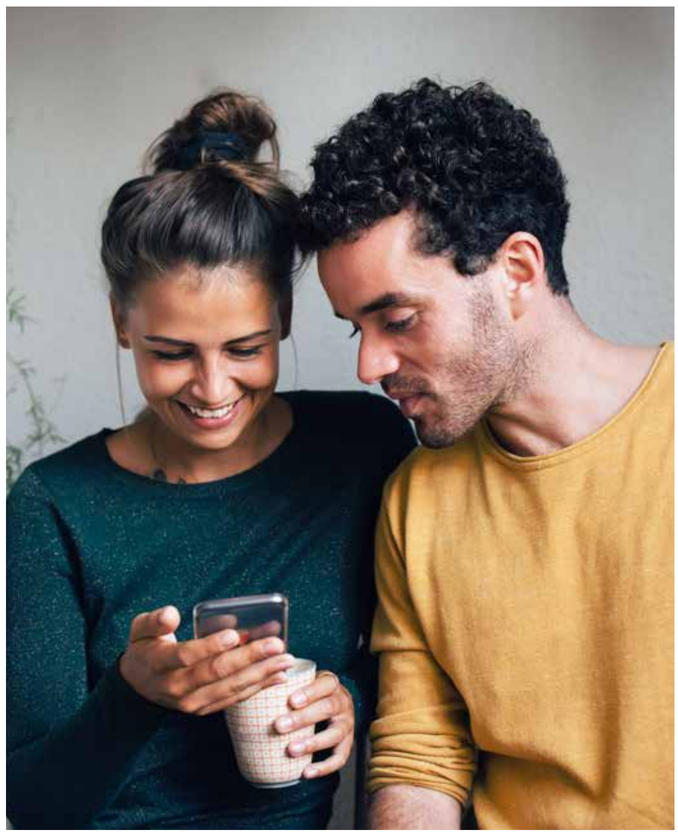
When it comes to short-term lending, there is a persistent assumption that the service is strictly for lower-income consumers who have few options for accessing funds. Those consumers do use short-term loans, and consumer advocates have encouraged financial institutions to enter the short-term lending market to provide thoughtful, appropriate, lower-cost options.

Yet that is far from the whole story.

The 2020 Emergency Funds Survey, commissioned by third-party consultant FutureNet in partnership with Fiserv, shows a significant portion of higher-educated, higher-income respondents also want access to short-term funds.

In the survey, 26 percent of respondents with a household income of $100,000 or more expressed a need for short-term funds, usually for an unexpected expense such as a car repair or to replace a major home appliance. Those people have access to credit and fulfill their need for short-term loans primarily through friends and family, cash advances from their credit cards, and personal and home-equity lines of credit.

Yet they want those same funds through their financial institution in a quick, straightforward, digital manner.



Short-Term Lending Can Have Broad Appeal

Leaning Into the Cultural Shift

Loyalty Follows Liquidity

Offering a Needed Option

Leaning Into the Cultural Shift

The situation is not an anomaly. Financial institutions that offer accelerated check-funds availability and overdraft solutions also experience significant demand from higher-income consumer segments.

Long-term customers are the type of stable, reliable borrowers financial institutions seek for their lending portfolios.

Loyalty Follows Liquidity

Of the respondents in the survey with more than $100,000 in income who had a need for short-term funds, 76 percent said they would either switch to a financial institution that offered short-term lending or credit options or at least open an account there. So the financial institutions that offer those options can have a competitive advantage.

And while it can be a challenge to get new products funded, even with a sound business case, it still can be more difficult to replace lost customers.

Offering a Needed Option

Short-term loans benefit accountholders and financial institutions by providing a proactive lending option. Instituting a smartly designed deposit-based liquidity program is a recognized way to migrate consumers away from the cycle of nonbank lenders.

It also helps ensure retention. Often a consumer will repay a nonbank loan with an overdraft and then possibly receive a charge-off from the financial institution, which in turn may lose that accountholder.

With the advanced deposit analytics available today, there is no need for a costly third-party credit check. Loan approval is based on consumer behavior within the banking relationship, allowing even those with lower credit scores to qualify.

The benefits of these loans include:

Secure service at a reasonable cost – Financial institutions can offer lower fees than payday lenders, and other options.

Enabling a path for successful repayment – Consumers have more time to repay and can avoid aggressive collection cycles. Borrowing terms are transparent, and frequent notifications ensure consumers aren't surprised by upcoming payments. Excessive use can be controlled by cool-off protocols.

Loyalty and deeper engagement – Financial institutions can help consumers graduate to more traditional loan or credit products.

Meeting Consumer Needs Today and in the Future
There's no standing still. Today's products won't meet consumer needs forever.

Financial institutions that look forward and design deposit liquidity solutions that keep them at the forefront of what's being offered across all industries will be ready to serve consumers well.

About the Author

Jeff Burton is senior director of product management and business strategy for Deposit Liquidity Solutions, Fiserv. He is responsible for leading the company's deposit-based lending solutions and services business. That includes technology supporting the underwriting, enrollment, servicing and control of those loan programs as well as analytical models to assess consumer behavior, risk and use trends, implementation collateral and best practices. Jeff has 30 years of industry experience in strategy, product development and sales.

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