Exploring the Demand for Deposit-Based Bank Lending

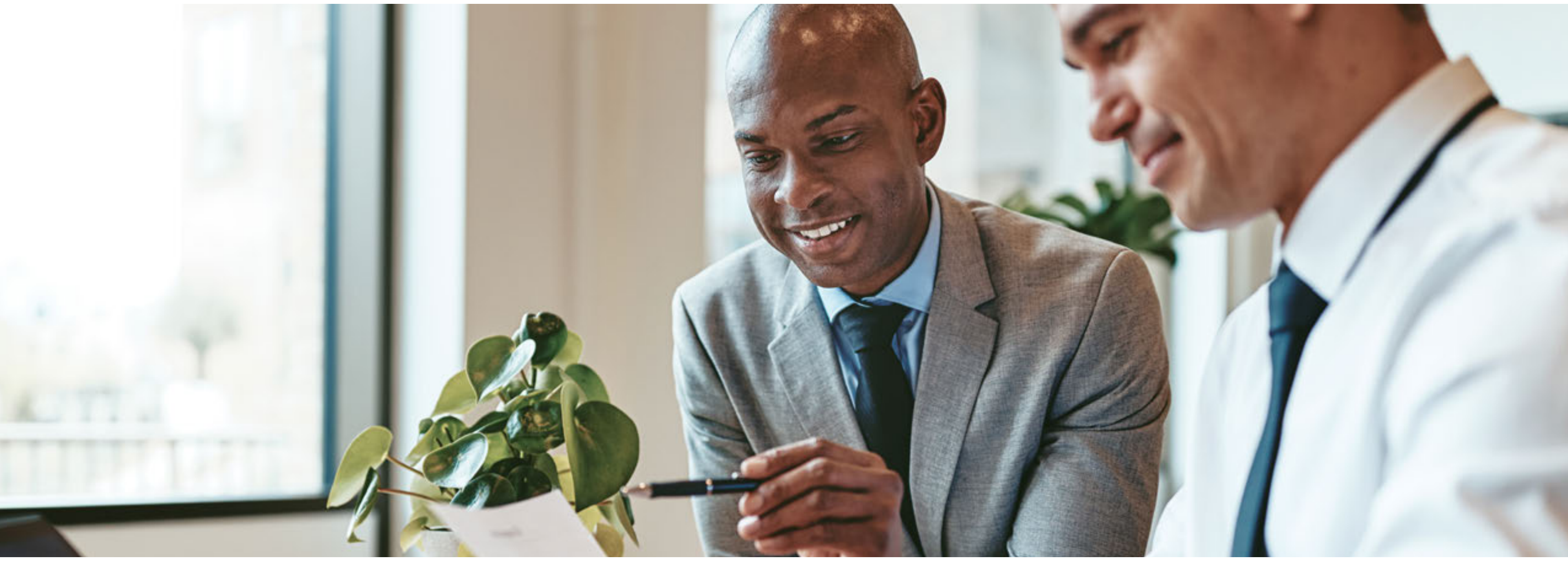
Emergency Funds Survey

JUNE 2021

SmartBrief | fiserv.

Introduction

According to a recent survey of banking customers, highly educated individuals with higher incomes occasionally need access to short-term loans of $1,000 or less. 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. They 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 would prefer to get those funds through their financial institution. This offers an opportunity for financial institutions to strengthen relationships with these higher-income customers by offering such loans in a way that's cost-effective for borrowers and cash-flow positive for banks.



Fiserv, in a partnership with independent third-party consultant SmartBrief, commissioned HawkPartners to conduct an Emergency Funds Survey, a study on the potential need in the marketplace for a banking solution that provides individuals with emergency liquidity in relatively small amounts for short terms.

Among the already widely known sources for quick, short-term funds are:

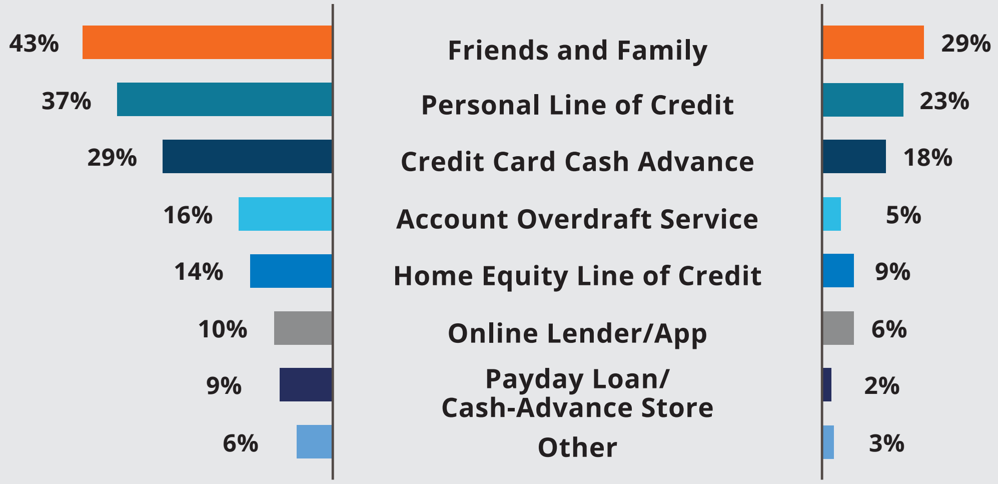
- Borrowing from family members
- Establishing and tapping credit lines
- Taking a cash advance from a credit card
- Borrowing from a third-party lender (a so-called "payday loan")
- Pawning jewelry or other tangible assets for cash

Consumers Don't Always Prefer Their Choices

Although consumers — particularly those with four-year degrees — use friends and family, credit lines and cash advances, they don't always prefer those options

Resources Used to Access Funds
(% of those who need short-term funds)

Resources Preferred to Access Funds
(% of those who need short-term funds)



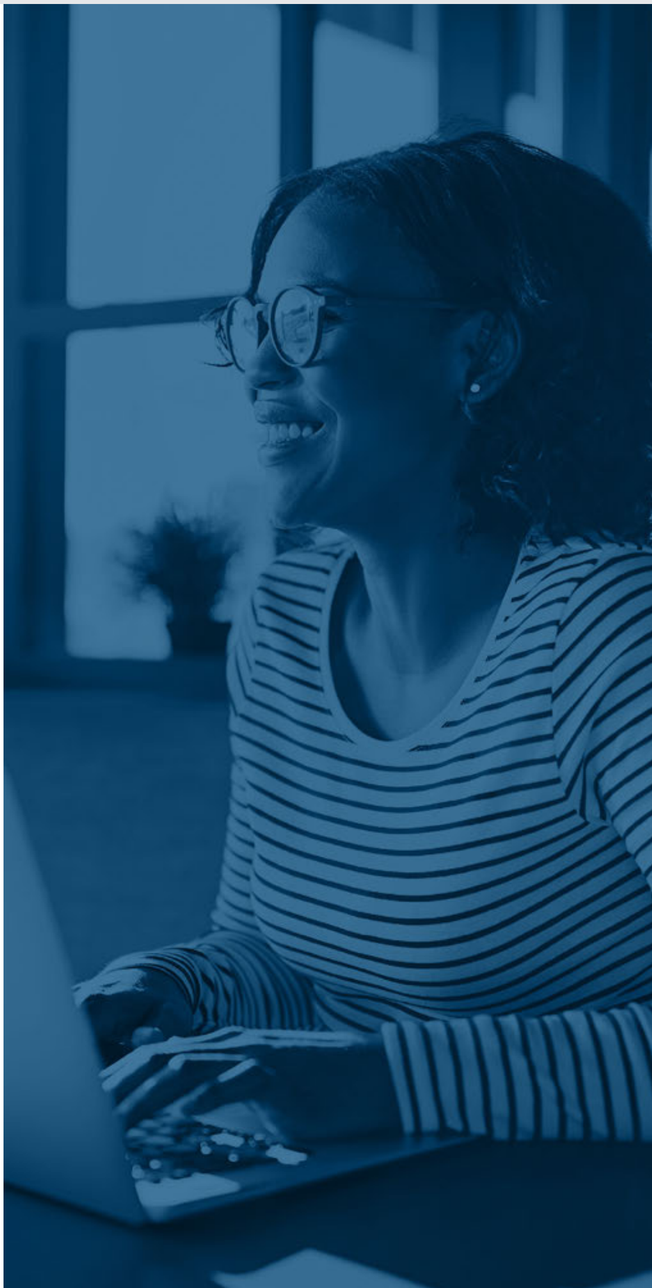
However, the survey results reveal an unmet need for an automated and fast solution for small, short-term loans. Financial institutions could meet this need in a way that generates cash flow while also yielding certain intangible benefits.

Opportunity to Fill a Gap

The study focused on individuals of higher income and education. The results indicated a significant need among these individuals — 35 percent — for emergency funds of less than $1,000. Given the demographics of the participants, many of these individuals are likely already retail banking customers who have apparently gone elsewhere for these loans.

The study's implication is that a gap exists between what customers need and what financial institutions offer in terms of quickly accessible small loans.

The survey indicates that one potential solution would be for financial institutions to offer quick and accessible short-term loan products. A full 84 percent of respondents said they would switch financial institutions just to access such a solution. Furthermore, respondents suggest they would be more satisfied and also more loyal to their banking institution if they had the opportunity to use this type of short-term credit facility.

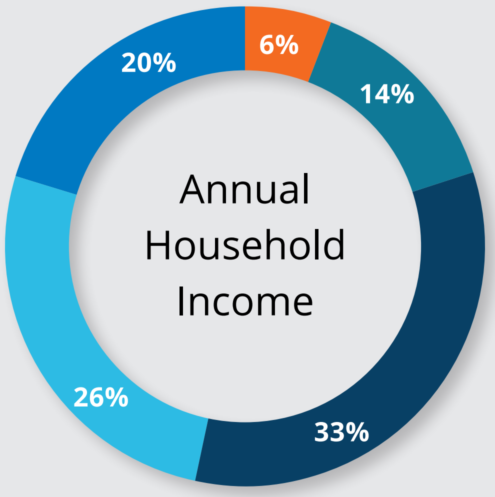


Emergency Funds Study: Survey Methodology

Small amounts, drawn once or twice a year. Short-term loans have been necessary when expenses temporarily exceeded available cash, according to the survey participants. These loan amounts — required one to several times a year — have typically been a few hundred dollars, but could reach several thousand dollars. Generally, the expectation is that these loans will be repaid within a few months — as opposed to longer-term loans of one or more years.

According to the study of 1,063 people, 35 percent of all respondents, or 367 people, said they sometimes need short-term funds. Of these respondents who need short-term funds, 90 percent need them either once or a few times per year, and 74 percent said they need emergency short-term funds of $1,000 or less.

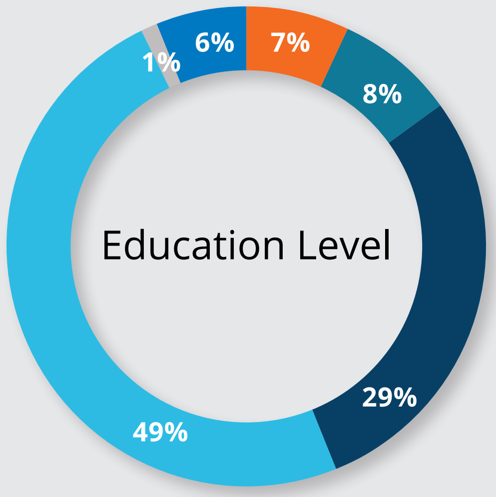
Educated participants with relatively high salaries. Of the survey responses, which were submitted between July 29 and September 12, 2020, 33 percent had an annual household income before tax of $50,000 to $99,000, and 26 percent said their annual household income was more than $100,000. In terms of education, 29 percent of the respondents said they had a bachelor's degree and 49 percent said they had a post-graduate degree.



■ <$25K ■ $25K-$49,999 ■ $50K-$99,999
■ >$100K ■ Prefer not to answer

Focus on Educated, High-Income Borrowers

Most respondents had incomes well above the median, and they currently bank at many top-name institutions



■ Some College Credit, no Degree ■ Associate Degree
■ Bachelor's Degree ■ Post-Graduate Degree
■ Other Level of Education ■ Prefer Not to Provide

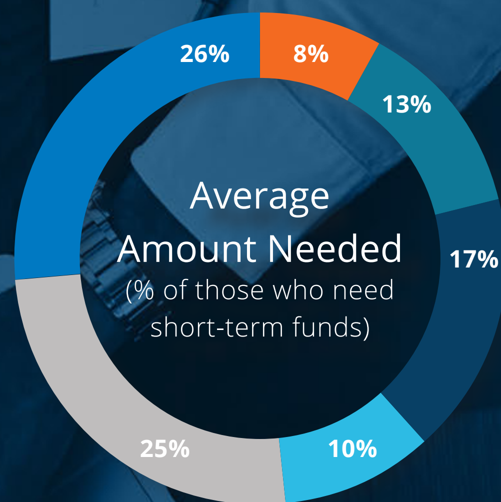
Needed for unexpected expenses. About 70 percent who said they need short-term funds said the reason is unexpected expenses, such as repairs to a car, a home or appliances. At least half of those seeking a loan of $600 or more said it typically takes at least one day for them to access short-term funds.

Most would prefer to avoid tapping family and friends. Those borrowing more than $1,000 on average said they prefer a home equity line of credit or online lender rather than friends and family or an overdraft service. However, the vast majority of respondents — 74 percent — needed less than $1,000. Those borrowing from friends and family — or 43 percent of those in need of a short-term loan — are more likely to be asking for less than $1,000, with 26 percent saying they needed to borrow $1,000 or more. About 37 percent used a personal line of credit and 29 percent used a credit card cash advance to access funds.

“About 70 percent who said they need short-term funds said the reason is unexpected expenses, such as repairs to a car, a home or appliances.”

Less Than a Paycheck’s Worth.

About three-quarters of respondents’ loan amounts were less than $1,000 — less than a week’s worth of wages for most borrowers in the survey.



<$200 | $200-$400 | $401-$600 | $601-$800 | $801-$1,000 | >$1,000

Link between amount borrowed and time to access. Time to access funds was typically faster for smaller amounts across all funding sources. To borrow less than $200, 40 percent of respondents said it took only several minutes. At least half of those seeking a loan of $600 or more said it typically takes at least one day to access short-term funds. For those borrowing $1,000 or more, 66 percent said it took one or several days to access the funds.

Most respondents said they have been able to repay short-term loans within six months, although it takes slightly longer for those borrowing larger amounts. Those who borrow less than $200 are significantly more likely to repay the funds in less than two months than those who borrow more than $400. Those who borrow more than $1,000 are significantly more likely to require more than six months to repay the funds.

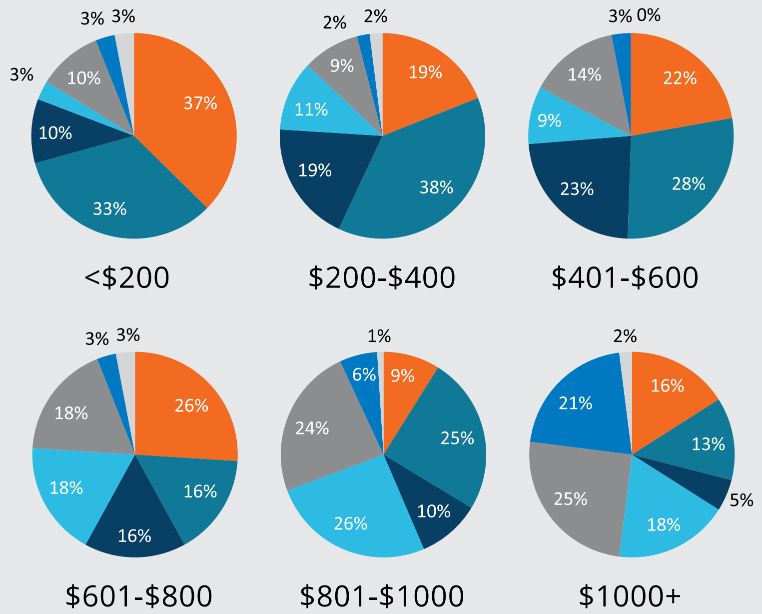
Borrowers Typically Repay Quickly

For loan amounts less than $1,000, very few borrowers required more than a year to repay, and, with defaults rarely happening, a bank lending solution could be seen as low risk

Time to Access Funds

(% of those who need short-term funds)

- A few weeks or less
- 1-2 months
- 2-3 months
- 3-6 months
- 6 months – 1 year
- More than 1 year
- Could not repay



Customer Interest in Fast, Short-term Loans from Financial Institutions

Perhaps the most significant finding of the survey was that most respondents in need of short-term funds said they are willing to switch financial Institutions for one that offers a short-term funding solution.

If a financial institution did not offer a short-term, small-dollar loan option, but another nearby financial Institution did, 57 percent replied they would consider switching financial Institutions and would open a new account there, but not move an existing account. A full 27 percent said they would move their existing account. Those borrowing less than $200 said they are significantly less likely to use a streamlined solution.

Additionally, 85 percent said they were very likely or somewhat likely to respond "yes" when asked, "If a financial institution offered a quick and easy way to obtain a short-term loan, without having to go through the standard credit application process, and have money deposited into an account within minutes, how likely would you be to use that as your preferred resource?"

The survey reveals an opportunity for financial Institutions to offer an easily accessible, automated credit product for a wider audience than is currently available from financial Institutions for a small, short-term loan.

The highly educated customer group, already engaged and comfortable using digital channels, as evident in their willingness to participate in the online study, appears interested in an end-to-end automated and streamlined solution that offers quick and anonymous liquidity, with a known automated repayment plan.

Tangible and Intangible Benefits to the Financial Institution

The overwhelming affirmative response to switching financial institutions for access to this type of loan solution has several implications. Offering these loans meets clients' needs, as indicated in the survey results. But offering this type of product could also generate goodwill and increased loyalty. Providing liquidity resources within the financial institution reduces both work and risk in retaining customers. Continued banking relationships presumably yield more data, which can in turn be used to offer more financial solutions to customers' needs and hold on to the most active customers.

For example, a financial institution customer — one who may already have a CD or brokerage account with the bank — would not have to resort to perceived undesirable solutions to obtain a loan, such as a CD's early withdrawal fee or selling stock at a disadvantageous time. Rather, this short-term loan product could be considered a goodwill gesture from the financial institution providing the loan to its valued customer. The cost to borrow might be viewed by customers as a "convenience fee," similar to what is paid at a conveniently located ATM that is not part of a customer's banking network.

This cash-flow bridge could be a tool to reach a broad base of current or potential customers, particularly if it is automated end-to-end and transparent, with a repayment plan that is affordable and easily understood.

An automated, streamlined request and approval process is typically less labor-intensive and more cost-effective for the financial institution than a home equity line of credit. The relationship created by successful loan repayment could serve to encourage long-term savings and a prolonged, loyal relationship with the bank, especially considering the enthusiastic response for this type of product in the study.

> "The overwhelming affirmative response to switching banks for access to this type of loan solution has several implications for retail banks."

Summary and Study Implications

A retail banking credit solution is needed to provide access to small, short-term loans, according to survey respondents. Traditional loans, based on credit checks and credit histories, have resulted in denials for even small loans and often sent accountholders to resources outside their retail bank.

This gap in banking offerings could be filled by loan-approval criteria other than credit histories, particularly for clients who already have funds at the financial institution but are invested or otherwise facing a short-term liquidity crunch.

In particular, an automated solution would be cost-efficient for the banking institution in the long run while meeting immediate customer demand. Automated repayment would mean lower costs and less risk to the bank and better access for the customer.

The long-term payoff for the financial institution would be in volume and expanding a customer base that has been starved for a credit solution. The product could enable financial institutions to offer better and more personalized solutions, broadening customer loyalty and goodwill and strengthening customer relationships. The process could even allow financial institutions to be perceived as a source of support to the customer.

To succeed, the banking product would have to offer nearly immediate credit. The reach of the product would not be limited to credit-history results. The process would have to be transparent and automated. And the solution would have to be affordable and include a predetermined repayment plan.

The study focused on highly educated participants with relatively high income and found that this niche audience regularly seeks small, short-term loans, so the implication is that an even wider audience could also benefit from this type of credit solution.

ABOUT

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