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Consumer Lending

Relevancy is top of mind for today's borrower

2023 Lending Consumer Preferences Survey underscores credit unions' potential to enhance member borrowing confidence through consistent multi-channel experiences.

A world of change evolves member priorities.

Staying on top of changes in consumer sentiment, preferences and behaviors is critical to sustaining relevant and competitive financial offerings. That is among the reasons TruStage™ provides regular, insight-rich reports like this one, which unveils the findings of our 2023 Lending Consumer Preferences Survey.

Understandably, the economic, emotional and societal turmoil of the early 2020s altered consumer priorities across nearly all aspects of life. Personal finance was no exception. As the latest TruStage consumer research shows, financial well-being in a post-pandemic world has taken on new relevance for credit union members who spent several years tightening already tight belts.

Concerns about the economy, rising interest rates, inflation and the criticality of insurance coverage were felt in many of the TruStage 2023 Lending Consumer Preferences survey respondents' sentiments.

Eight in 10 consumers have some worry about being able to meet their loan obligations should an unexpected event, such as unplanned expenses, costly car repairs or life events, come up.

Notably, consumers are seeking ways to mitigate their concerns around personal finance. More than 6 in 10, for example, would consider loan protection coverage when getting a loan, up significantly from 2019.

If there's one overarching takeaway from the 2023 Lending Consumer Preferences research, it's that the credit union opportunity is unmistakable. Members remain tentative about taking on additional financial obligations. Yet with the support of a trusted credit union, they may be able to realize the right balance of financing and protection, ultimately attaining the financial resilience they seek.

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Data-based intelligence for strategic decisioning

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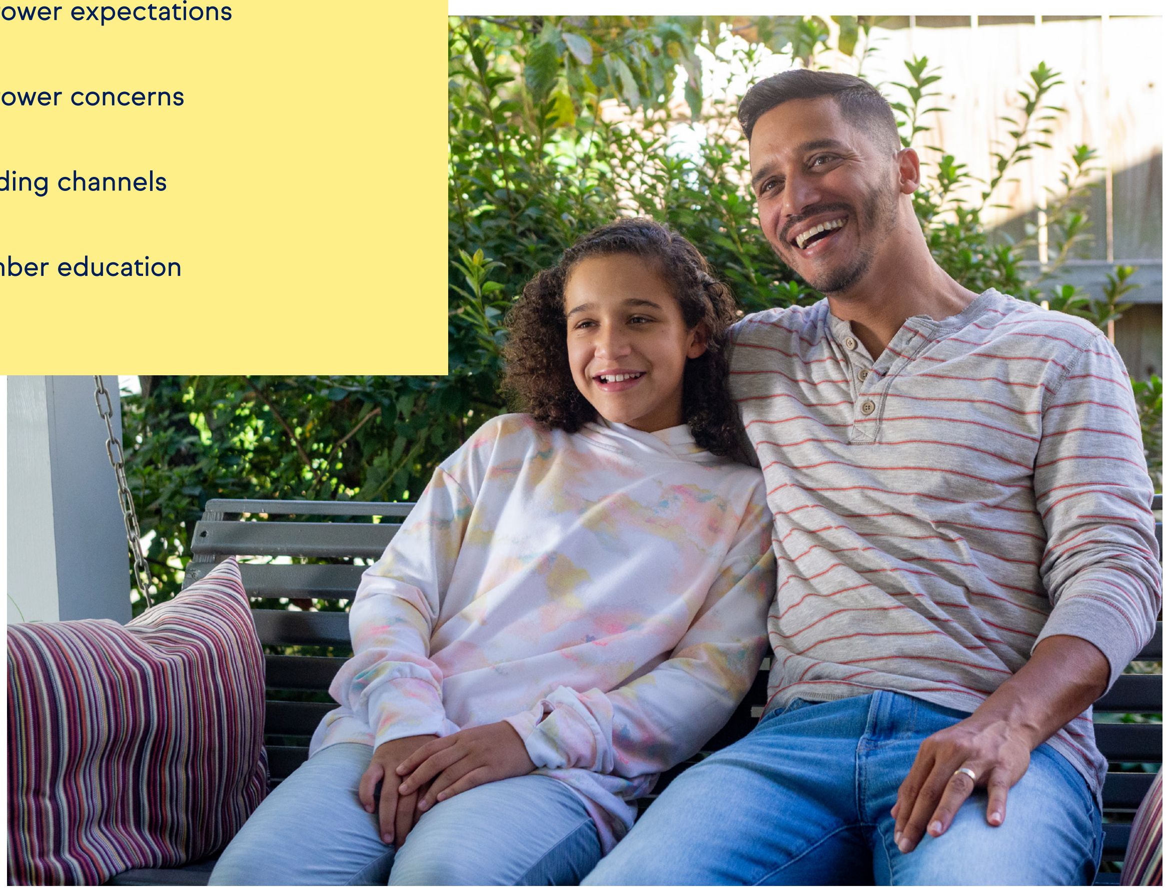
The realities of today's lending environment call for credit unions to make fast, yet strategic, decisions. Data-based intelligence is necessary to maintain relevancy, competitiveness and—key for credit union lenders—member-centricity.

What follows are several learnings from recent consumer lending research designed to do exactly that. In addition to the data insights, credit unions will find several strategic actions to consider leveraging for enhanced member experiences and the continued growth of their loan portfolios. Insights are broken into four categories:

Four categories of insights

1. Borrower expectations
2. Borrower concerns
3. Lending channels
4. Member education



1. Borrower expectations

Disparities in how borrowers expect to engage vs. how they actually do

When comparing auto, personal and home equity borrower experiences, TruStage observed that borrower action often varies by loan type. For instance, those who had recently obtained a personal loan were more likely to use an online search engine to research options, whereas those who had recently obtained a home equity loan were more likely to ask friends and family or watch videos for advice. Much of this is likely due to the relative complexity of certain loan types over others.

Borrowers appear to take different action steps than they planned on taking once they actually enter the borrower journey. TruStage uncovered this finding by comparing the action steps of consumers who plan their loans for multiple weeks to those who recently borrowed.

Actions planned/taken	Looking/planning		Recent	
	2019	2023	2019	2023
Base (Total qualified)	338	809	591	582
Use a loan calculator	34%	**33%**	23%	**25%**
Use an online website to compare different loan options (e.g. rates, fees, term length)	36%	**33%**	19%	**22%**
Look at a different term length than what you originally thought you might get	20%	30%	18%	23%
Apply for various loan options before deciding on which to go with	27%	21%	14%	14%
Lock in a loan rate ahead of time (before finalizing on the loan)	27%	26%	13%	16%
Determine how much time/payments I could save versus my current loan (e.g. with refinancing)	19%	16%	16%	17%
Consider consolidating debt into a new loan	23%	14%	11%	12%
Take a loan quote to another financial institution for comparison	21%	18%	10%	12%
Determine how much money I could save versus my current loan (e.g. with refinancing)	15%	18%	12%	13%
Look at a different type of loan than what you originally thought you might get	19%	19%	8%	12%
Go with the first loan application that is approved	4%	11%	12%	12%
Request information on loan protection insurance	11%	13%	6%	7%
None of the above	4%	7%	24%	18%

For instance, **38 percent of survey respondents** who were planning on applying for a loan expected to use a website to compare different loan options, such as rates, fees and term length. Yet just **22 percent of those who had recently applied for a loan** reported actually using a website to track down this information.

The research uncovered similar disparities in how borrowers expected they would engage with lenders as compared to how they actually do. Among those planning for a home equity loan, 44 percent expected to contact their financial institution via phone. Among those who recently obtained a loan, though, just 29 percent said they'd used the phone. As another example, just 34 percent expected to apply for a home equity loan face-to-face, compared with 43 percent doing so in their most recent borrowing experience. When it comes to digital engagement, 35 percent expected to contact a lender online; 40 percent reported having done so for their most recent home equity loan.

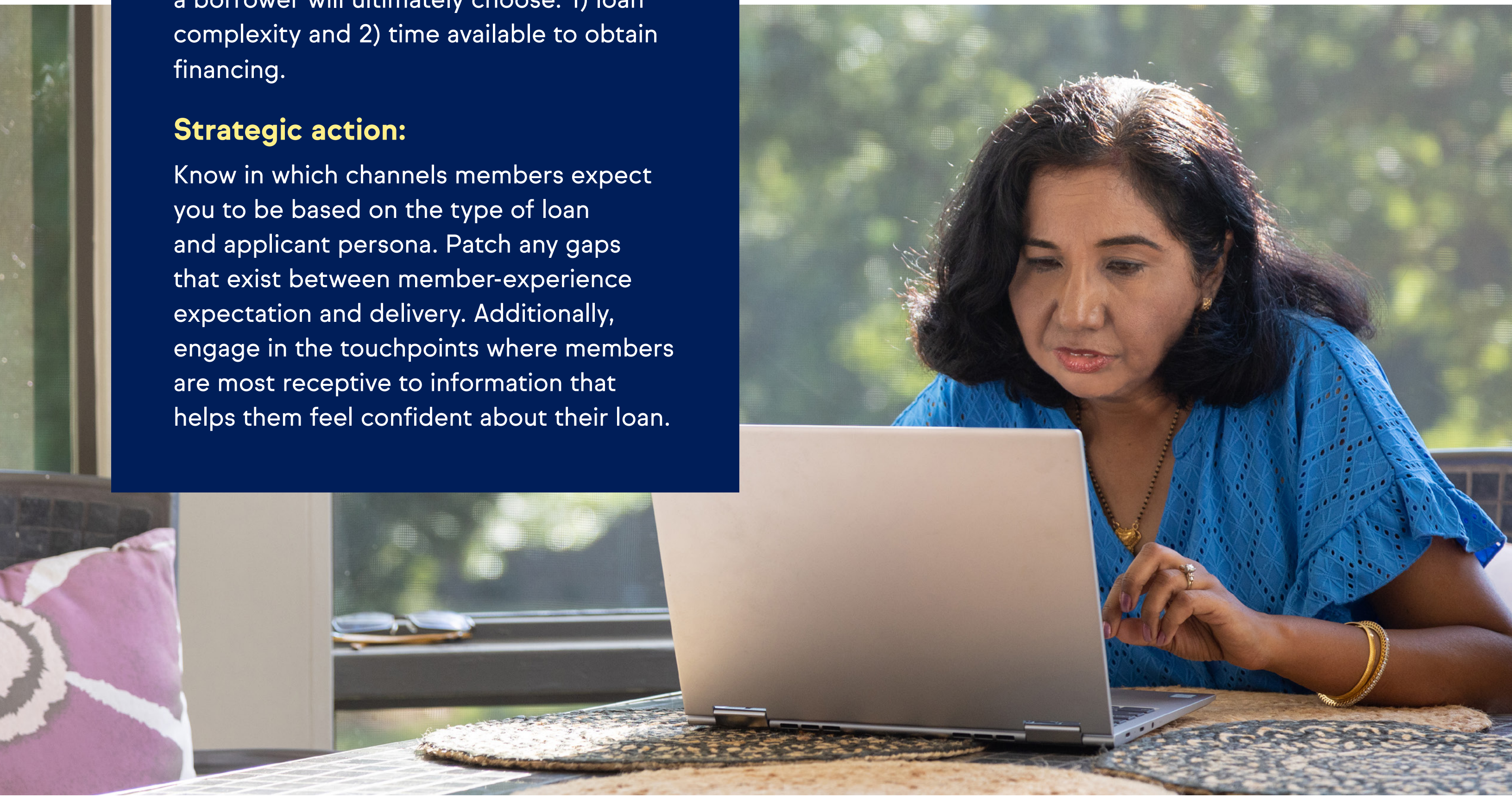
It's important to note that borrowers who spend a lot of time planning for a loan have unique tendencies as compared to those who are moving quickly to obtain financing. This makes sense, as planners have more time and/or desire to conduct thorough research, whereas other borrowers prioritize convenience and speed. Just 36 percent of those planning to get an auto loan in the next 12 months anticipated that the dealership is where they would get their car loan. Yet 59 percent of recent auto loan borrowers ended up obtaining financing through a car dealership. What's more, consumers who spend time planning their auto loans expect to apply digitally (77 percent). Compare that to the 44 percent of recent borrowers who actually did so.

What the data analysis tells us:

Two factors largely influence the channel a borrower will ultimately choose: 1) loan complexity and 2) time available to obtain financing.

Strategic action:

Know in which channels members expect you to be based on the type of loan and applicant persona. Patch any gaps that exist between member-experience expectation and delivery. Additionally, engage in the touchpoints where members are most receptive to information that helps them feel confident about their loan.



2. Borrower concerns

Worries about loan obligations abound

Lending consumers detailed a range of concerns about taking on new financial obligations. Two categories of worry emerged in the TruStage research:

1. Concerns about the loan itself (e.g., monthly payment, interest rate, total cost); and
2. Concerns about the ability to make payments (e.g., unexpected life circumstances, collateral loss/damage/depreciation).

Loan concerns	Repayment concerns
The monthly payment amount was the most or second-most important factor considered by more than half of survey respondents.	Nearly 6 in 10 (58%) said they were either somewhat or very concerned that unexpected expenses may come up
The next highest concern was the amount of interest paid by the end of the term.	Twenty-two percent of recent personal loan borrowers said they obtained loan protection because they were concerned about potential financial difficulties.
Twenty-five percent also cited concerns about the total loan amount they can afford to pay.	Half were concerned that a car repair cost would be too high, and 31 percent were concerned about theft or car damage impacting their ability to make loan payments.

In 2019, just 23 percent of respondents said they were worried about a market crash and losing value in their investments. When asked the same question in 2023, 37 percent indicated they were concerned about such an event.

Similarly, TruStage observed an 8-point jump in the percentage of borrowers concerned about vehicle depreciation and a 5-point jump in concerns about the high cost of car repairs.

TruStage noted differences in the worries expressed by borrowers based on the type of loan they were considering. For example, whereas 22 percent of personal loan borrowers reported having concerns about potential financial difficulties, just nine percent of auto loan borrowers said the same. When it comes to personal histories with financial problems, nearly 2 in 10 personal loan borrowers said they have had trouble with missing a payment previously; a mere four percent of auto loan borrowers responded as such.

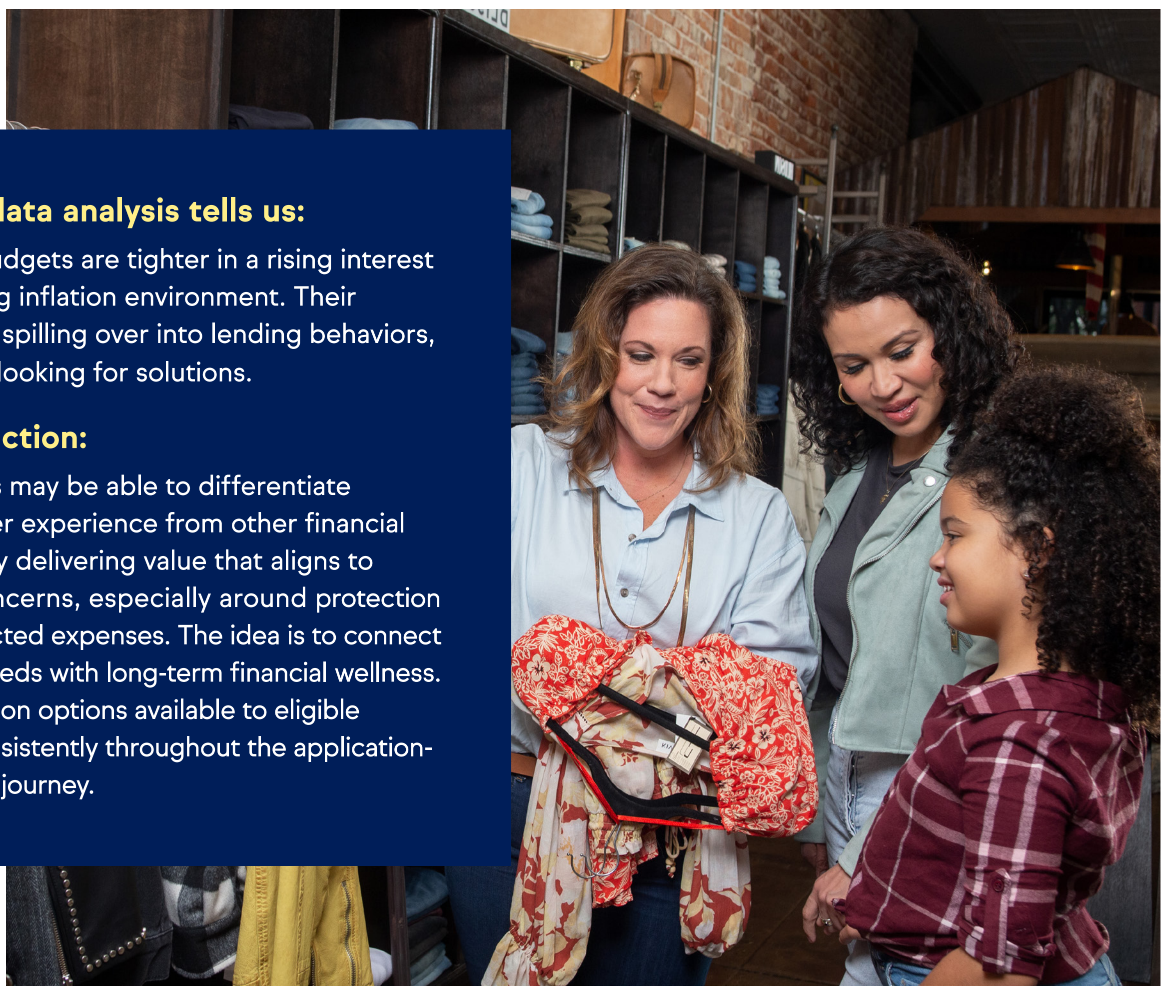
Interestingly, more survey respondents appeared to be taking action to mitigate their concerns today as compared to 2019. More consumers today say they are likely to look at different term lengths (28% in 2023 vs. 19% in 2019) and different types of loans (16% in 2023 vs. 12% in 2019) than what they originally thought they might get. They are also more likely to use a website to research these options.

28%

of consumers say they are likely to look at different term lengths

16%

of consumers are likely to look at different types of loans than they originally thought they might get



What the data analysis tells us:

Consumer budgets are tighter in a rising interest rate and rising inflation environment. Their concerns are spilling over into lending behaviors, and they are looking for solutions.

Strategic action:

Credit unions may be able to differentiate their borrower experience from other financial institutions by delivering value that aligns to borrower concerns, especially around protection from unexpected expenses. The idea is to connect immediate needs with long-term financial wellness. Make protection options available to eligible members consistently throughout the application-to-ownership journey.

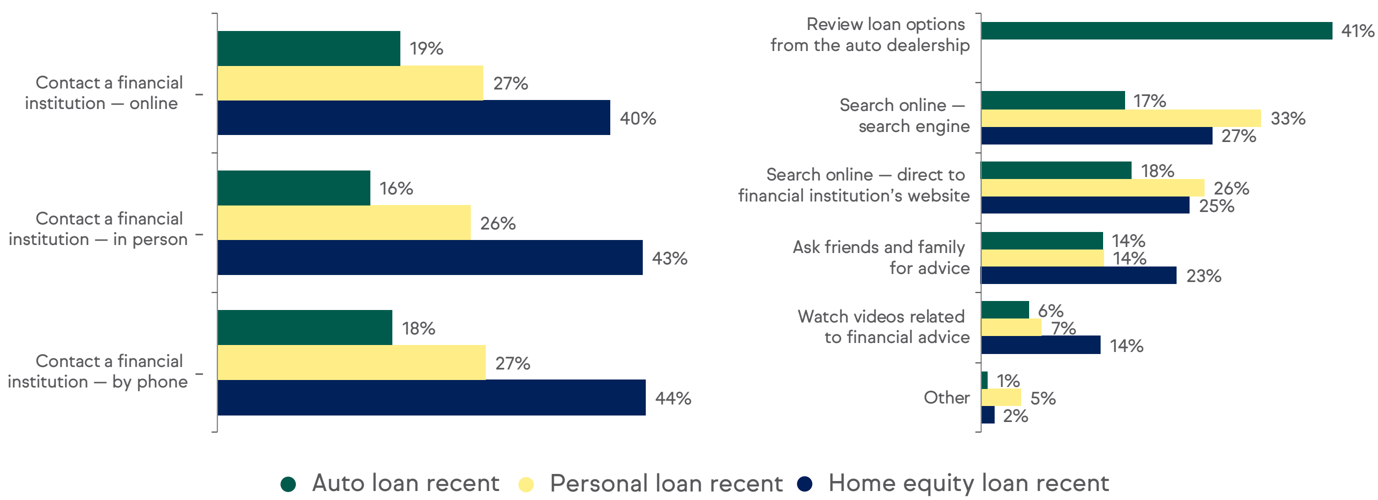
3. Lending channels

Borrowers expect seamless, multichannel engagement

Among legacy financial institutions, there has been a tendency to “check the digital box,” which has led to an abundance of unsatisfactory digital window dressing. TruStage research shows that borrowers are much less focused on so-called “digital experiences” and instead expect access to multiple methods of communication and research to get the information they need to make confident borrowing decisions.

Nearly identical percentages of recent home equity borrowers, for instance, expected to contact a lender online (40 percent), in person (43 percent) and by phone (44 percent). The same was true when TruStage polled consumers who had recently obtained personal and auto loans. Nearly identical percentages of these borrowers expected to contact the lender across all three channels.

Actions taken when looking for a loan



And, when it comes to comparing in-person and online engagement, respondents found unique value in each channel.

While just more than half think that applying for a loan in person would be a better experience in terms of getting all of their questions answered and receiving the best customer service, 42 percent believe applying for a loan online would be better in terms of information that is both saved and easily adjusted. They also believed the ability to compare options would be better online vs. in-person.

However, respondents were split on what channel is easiest (32 percent in-person, 29 percent online, 39 percent equally good) and which is fastest (27 percent in-person, 37 percent online, 35 percent equally good).

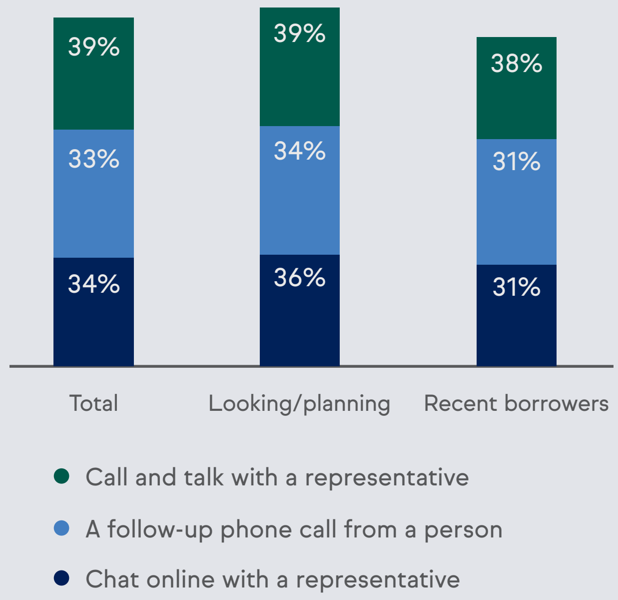
It's clear that even borrowers who engage online expect to move through different channels as their needs warrant.

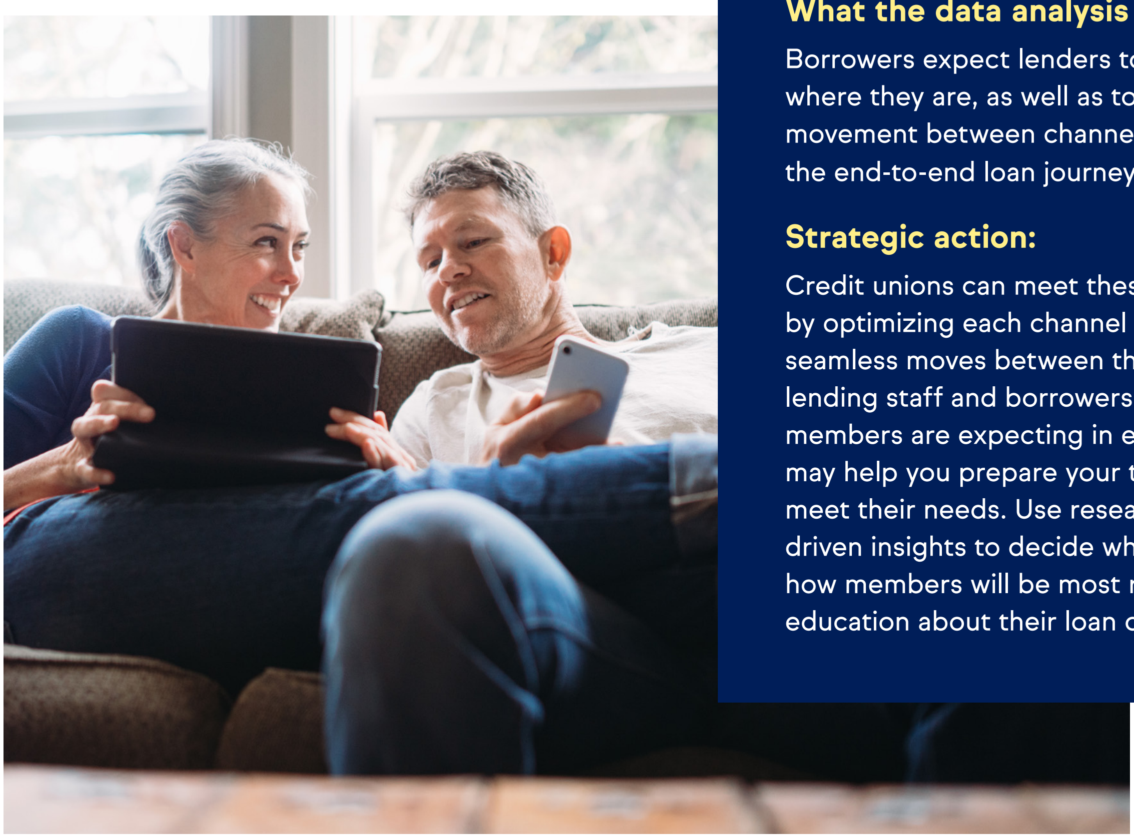
Consider the response to the TruStage survey question:

Which of the following do you expect during the loan process if applying for a loan online?

Nearly four in 10 (39%) responded by saying they expect to call and talk with a representative; 33 percent expect a follow-up call from a person; 34 percent said they expect to chat online with a representative.

Expectations from online loan process





What the data analysis tells us:

Borrowers expect lenders to meet them where they are, as well as to enable movement between channels throughout the end-to-end loan journey.

Strategic action:

Credit unions can meet these expectations by optimizing each channel and enabling seamless moves between them for both lending staff and borrowers. Knowing what members are expecting in each channel may help you prepare your team to best meet their needs. Use research and data-driven insights to decide where, when and how members will be most receptive to education about their loan options.

4. Member education

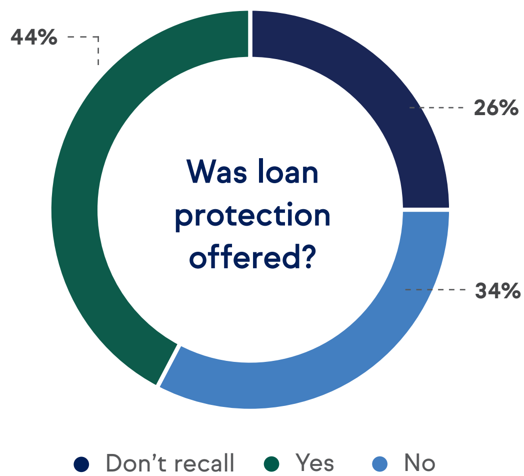
Borrowers elect protection when offered in a relevant manner

Instilling confidence around financing decisions is easier with an educated borrower base. Time and again, the TruStage research found a strong correlation between awareness and engagement. For example, when asked for the main reason they did not get a payment protection product, several respondents said they weren't aware, weren't told or weren't informed of the option.

Seven in 10 consumers have one or more concerns about making loan payments. Six in 10 said they would elect one or more payment protection products along with their loan if offered the option. Despite a 68 percent increase in likelihood to purchase since 2019, only three in 10 recent auto loan borrowers obtained protection.

Awareness and relevant presentation appear to be a factor in the gap between likelihood to purchase and actual purchase. Across all loan types, six in 10 borrowers weren't offered or do not recall being offered a payment protection option.

Beyond simply offering these solutions, credit unions must do so in a compelling and relevant manner.



Understanding the member "why" behind adding payment protection is key. The top three reasons 2023's survey respondents shared with TruStage included:


Rather have the extra protection


Thought the price was low enough for the added peace of mind


Have many unknowns about the future

As with some of the research, loan type continues to factor into action. Auto loan borrowers were found to be more likely than personal loan borrowers to opt into protection insurance.

Three in 10 recent auto lending consumers obtained protection products, as compared to nearly two in 10 recent personal loan borrowers.

What the data analysis tells us:

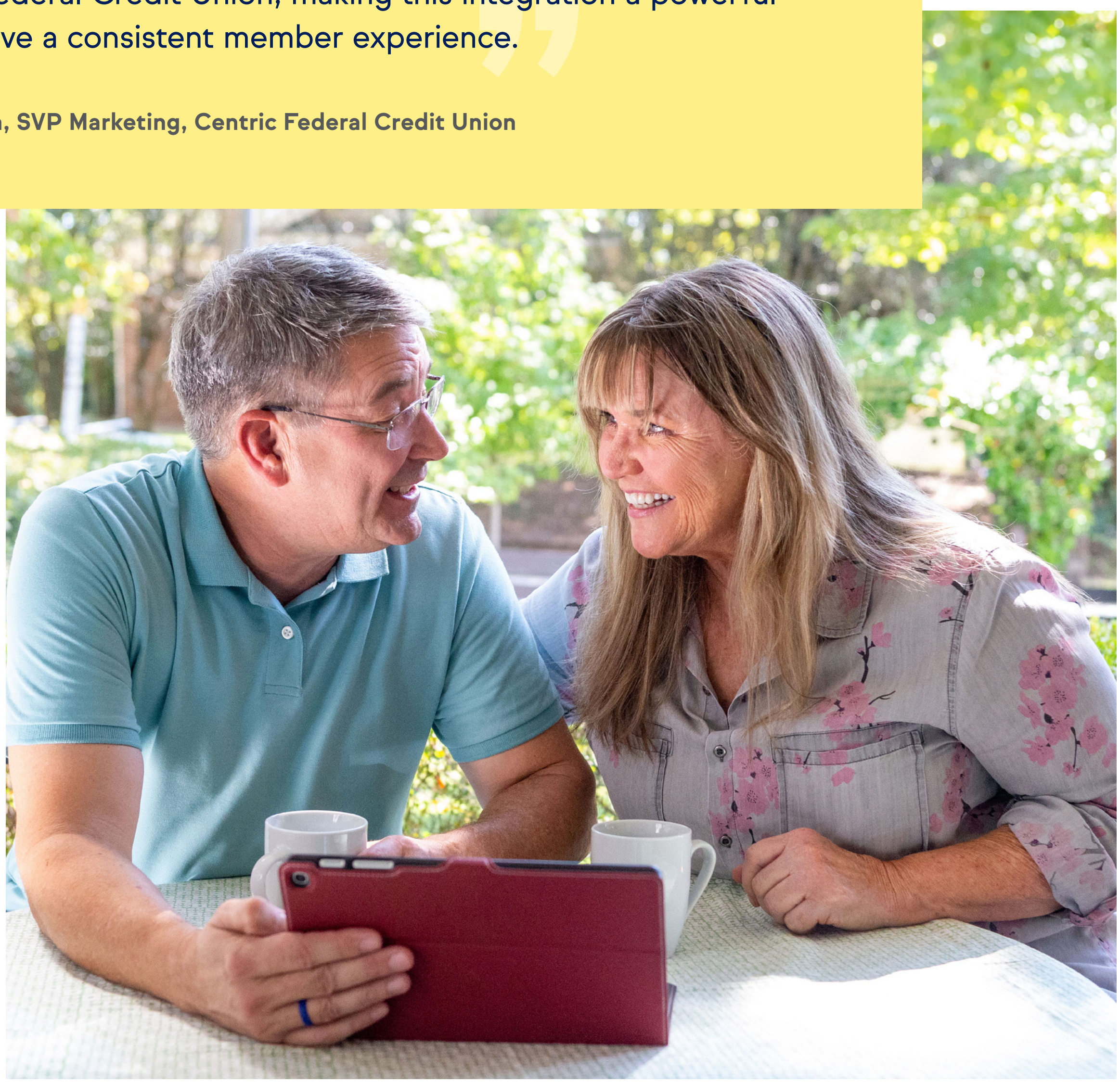
Every borrower brings to the table varying levels of awareness, as well as attitudes and perceptions, about loan products and associated add-on options. Simply offering protection solutions is not enough to ensure adequate product penetration. Education, personalization and seamless integration of offerings are necessary to optimize election.

Strategic action:

Lenders should continue to seek out tools and processes to promote awareness and engagement. To optimize engagement, credit union lenders should deploy end-to-end consistency and non-disruptive visibility of payment protection products across the applicant journey. Digital integrations, such as the TruStage/MeridianLink dynamic content solution, is one example. The integration enables education around payment protection products to be displayed along with a provisional quote as part of the borrower's digital loan application.

> With the integration inside MeridianLink, staff and members are able to confidently include the Debt Protection selection inside the application. This process allows for a seamless inclusion and accessibility for both the staff members and members served.
>
> Since activating the integrated experience in May of 2023, Centric Federal Credit Union has educated thousands of members through their online application and payment protection options. This channel originates the highest number and dollar amount of loans for Centric Federal Credit Union, making this integration a powerful way to drive a consistent member experience.

– Kelli Green, SVP Marketing, Centric Federal Credit Union



In conclusion...

Knowledge breeds empathy. With the benefit of data insights, more credit union lenders are better equipped to make timely, member-centric and strategic decisions to improve the borrower experience and enhance relevancy— from application to servicing and beyond. Understanding how members borrow today gives credit unions the capabilities they need to empower members to achieve financial wellness with fewer worries and greater confidence.

TruStage is here to help. Through the unparalleled customer understanding that comes from research like the 2023 Lending Consumer Preferences Survey, we are helping more credit unions uncover the insights necessary to improve the borrower experience and deepen member relationships.

2023 Lending Consumer Preferences Survey methodology

Approach

- In partnership with Epsilon, TruStage conducted an online quantitative survey with 1,121 consumers across the United States.
- Consumers were invited to participate in an online survey from February 28 to March 22, 2023.
- For reference: 2019 research was from November 26 to December 17, 2019.

Research groups

- To qualify for the research, respondents were required to meet the following criteria:
  - Age: 25 to 75
  - Make the main decision or shared decision in loan decision making
  - Loan qualifications:
    - Recently obtained a loan: got a personal loan, auto loan or home equity loan in the last 12 months, **OR**
    - In market for a loan: started looking to get a loan in the last 6 months, **OR** plan to get a loan in the next 12 months (personal loan or auto loan or home equity loan)

All data in this report is sourced from the 2023 Consumer Lending Preferences Research, conducted by TruStage in partnership with Epsilon, February 28 - March 22, 2023.

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