curinos review

Summer 2022

Navigate **Today**

Global Spotlight on Rates

Open Banking: Opportunity or Threat?

The Implications of Shorter Deposit Life

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a note from the CEO

Welcome to the Summer 2022 issue of the *Curinos Review*.

We may be just a few days into summer, but the heat is already on for the global financial-services industry.

This issue of the *Curinos Review*, titled "Navigate Today," dives into the implications of higher interest rates as central bankers around the world try to curtail inflation. While it's unclear if the strategy will be effective, all types of customers are starting to demand higher yields on their accounts and will be increasingly tempted to switch providers. That means institutions will have to make some important decisions in the months to come.

We start with a global look at interest rates, which are rising faster than many had imagined just a few months ago. Inflation, supply-chain disruptions, global unrest and competition from new entrants are creating challenges for traditional players. Fintechs that don't own the primary customer account may be forced to lead the way higher on rates, hurting their bottom line. Meanwhile, wealth customers and commercial customers are already demanding higher rates; consumers won't be far behind. But unlike previous rising-rate cycles, institutions of all sizes today have technology to help them track churn, deepen relationships and manage the balance sheet.

Speaking of churn, we explore the adoption of open banking from the U.K. to Canada to the U.S. While some institutions fear new rules that enable customers to change providers more quickly, Curinos believes that incumbent banks have a distinct advantage because they already have valuable information about their customers. Now, they just need to use the power of that data to innovate products and services that the customers want and need.

Also on the theme of rising rates, we highlight the often-overlooked metric of deposit life, which has significant implications for treasury teams as they assess growth and profitability.

We dig into several aspects of the all-important shift from fixed mortgages to home equity as rates rise. How can lenders capitalize on the HELOC momentum? We offer a handful of answers and explain how deposit behaviors can help lenders anticipate credit needs.

And that's not all. This issue also includes articles on marketing, small business and workforce strategies.

So add the *Curinos Review* to your reading list at the beach or the pool and have a good summer.

Sincerely,

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Buckle Up: This Cycle Isn't for the Faint of Heart

By Peter Serene and Adam Stockton

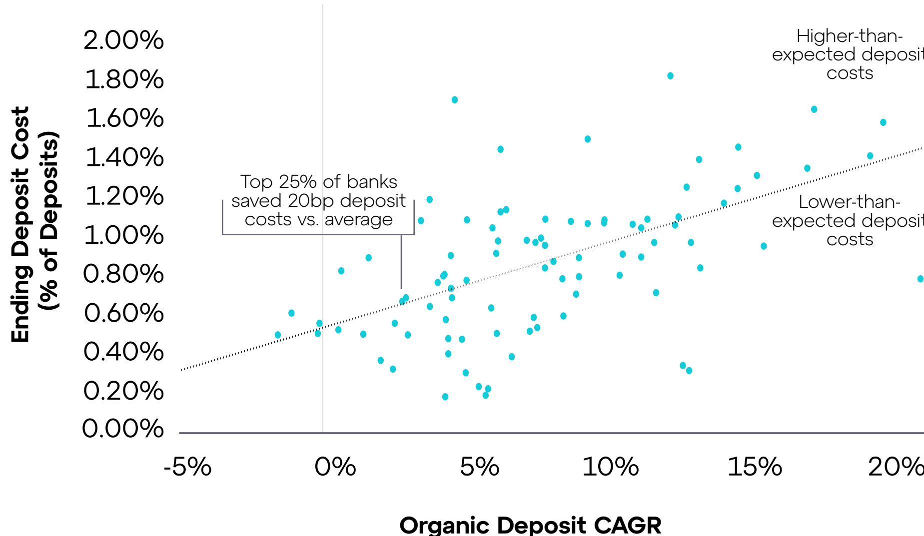
We're off to the races in what may be the most complex rising-rate cycle ever. Central banks around the world are raising rates faster than they have in the past and there's no end in sight.

But that's not all. An ultra-low starting point for rates, excess liquidity, an unprecedented rapid pace of quantitative tightening, digital disrupters and macro uncertainty add layer upon layer of intricacy.

In the face of such uncertainty, there are always pitfalls but also enormous opportunities. To avoid the one and find the other, banks must employ a range of data, analytical tools and customer-management techniques.

While the last rising-rate environment was less complex than this, it still displayed a difference in beta performance that is useful when considering the challenges of today. For example, the top 25% of U.S. banks saved 20 basis points (bp) of interest expense when normalizing for growth in the last cycle, translating to savings of $2 million per billion of deposits. (See Figure 1.)

Figure 1: Deposit Performance in Prior Rising-Rate Cycle



Notes: Growth between 2015Q2 and 2019Q2 | Ending rate as of 2019Q2
Sources: Curinos analysis, S&P Global Market Intelligence

GLOBAL RATE RALLY

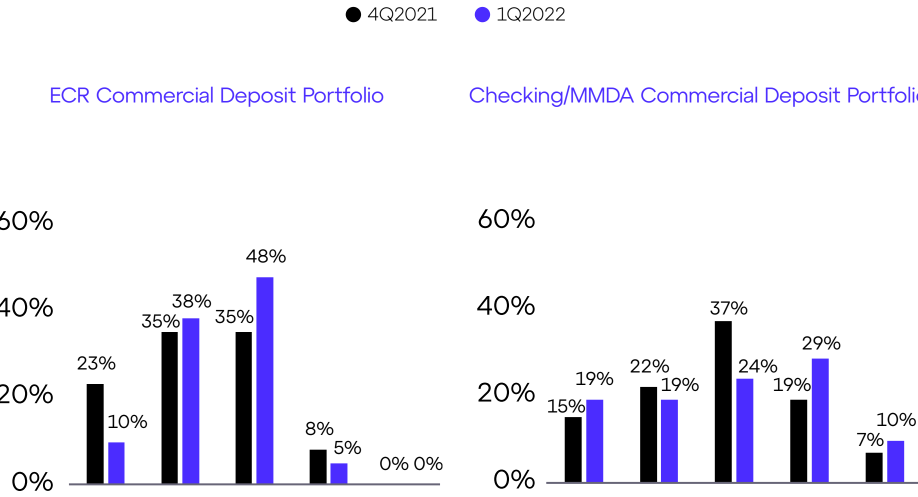
We'll start with the launch point and pace of hikes. As of June 2022, futures market data in the U.S. were indicating an additional 150-250 bp of Federal Reserve hikes by the end of the year, coming off a near-zero base. That comes on top of 150 bp of Fed hikes since March, including a whopping 75 bp increase in mid-June. Meanwhile, the Bank of England raised rates another 25 bp in June, representing its fifth increase since December, and said larger increases could be forthcoming. And the Bank of Canada has raised its benchmark rate to 1.5%.

Widespread publicity about the higher rates and inflation are already leading to more awareness from consumer and commercial customers. Moreover, the fact that we're coming off near-zero rates in many segments of traditional bank portfolios will make it harder for banks to significantly lag the back book. The Fed is taking an increasingly aggressive stance to tackle inflation. Its last increase of 75 bp was the largest one-time hike since 1994. As the Fed passes 2.00% and potentially 3.00% this year, maintaining customer rates of 10 bp or less will surely draw attention from customers, bankers and maybe even regulators. That is vastly different from the early part of the last cycle when banks were able to manage commercial rates through exception pricing and consumer rates through occasional promotions.

We expect broad-based rate sensitivity to return to commercial portfolios faster than consumer portfolios. Indeed, there has already been a material uptick in 2022 year-end commercial beta forecasts since the first quarter of the year. (See Figure 2.)

Retail portfolios will also begin to come under some pressure later this year, especially as consumer awareness grows. Competition from fintechs and other online players are likely to lead the way on higher rates for the entire industry.

Figure 2: Commercial Deposit Beta Expectations for 2022 (as of June 2022)



Weighted Average: 25%→28%

Weighted Average: 36%→40%

Source: Responses from Commercial Deposit Product Managers, Curinos CDA

DEPOSIT GROWTH UNDER THE MICROSCOPE

The next set of factors adding complexity to this cycle are unprecedented levels of excess liquidity and anticipated quantitative tightening that is being undertaken by central banks around the world. In the U.S., the massive fiscal and monetary stimulus unleashed by Congress and the Fed between March 2020 and December 2021 resulted in more than $3.5 trillion in deposits over the normal run rate of growth, according to a Curinos analysis.

Meanwhile, bank assets grew at a moderate pace in consumer businesses. Commercial loan growth turned flat to negative after an initial pop from emergency credit line drawdowns and the first round of PPP originations. That commercial loan growth has rebounded more recently, but consumer lending faces new headwinds as inflation raises prices on everything from gas to food. As a result, U.S. loan-to-deposit ratios have fallen to the mid-60% range from a long-term average in the mid-80s. (See Figure 3.)

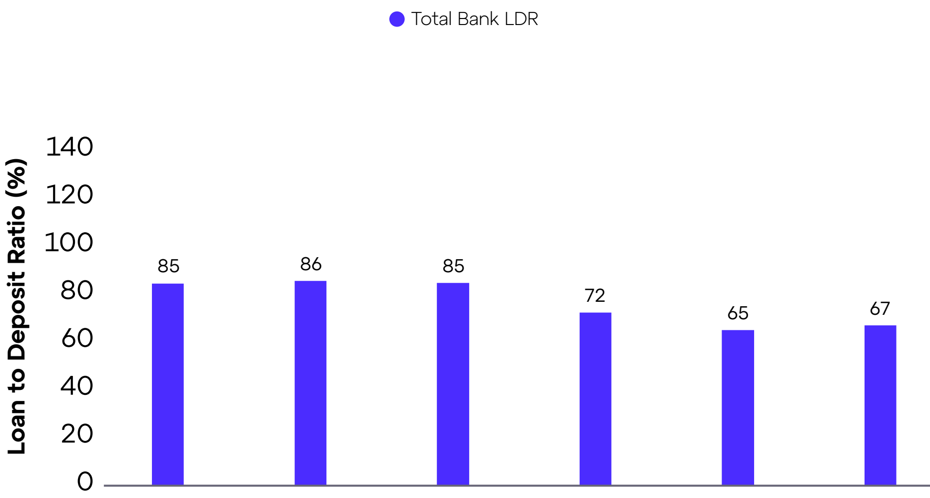
The same trends apply in other parts of the world, prompting global officials to rein in the flood of liquidity that has entered the system. The Fed is ramping up to a forecasted pace of $95 billion a month in quantitative tightening, leading Curinos to now anticipate flat to slightly negative deposit growth over the next two-to-three years. In the last U.S. cycle of quantitative tightening (2017-2019), deposit balances grew modestly as the upward support to money supply from credit extension outpaced the reduction in money supply. But the Fed at that time was reducing its balance sheet more gradually than the current pace.

Quantitative tightening is also under way in England, where the central bank is pulling 28 billion pounds ($37 billion) off its balance sheet, and Canada, where the government is no longer replacing bonds that mature.

DEPOSIT COFFERS DIVERGE

Skyrocketing inflation creates additional uncertainty, raising the potential of recession. Given the excess liquidity on bank balance sheets, this would be a manageable dynamic if the balance

Figure 3: Total Bank Median Loan-to-Deposit Ratios

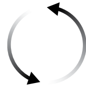
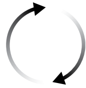
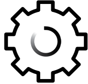


Source: Curinos CDA; S&P Global Market Intelligence

outflows were evenly distributed across banks. But they won't be. Some banks, including those that acquired a larger share of surge deposits from non-primary customers, will see much faster outflows. Those banks will have to compete for deposits on price sooner than others, which will create additional dislocations in the deposit market and create general upward pressure on deposit betas.

Digital disrupters present even more complexity in this cycle. Direct banks were important in the previous cycle, but significant segments of the population resisted online banking and traditional bank promo rates largely kept pace with direct bank competitors. It's a different story today. Consumers are much more aware and comfortable with digital banking; the pandemic has only accelerated this shift.

Then & Now

	Last Cycle (2015-2018)	This Cycle (March 2022-?)	Implications
Pace and Magnitude of Expected Hikes	**25 bp** increments, spaced out, **225 bp** total increases	**50-75** bp increments, potentially an additional **250 bp** of hikes by the end of 2022	Higher client awareness and urgency. Potential pressure to move bottom rates earlier
Excess Liquidity	None – fierce competition for deposits	Significant systemwide, but evaporating at some banks	More complicated balance and growth tradeoffs
Rates Launch Point	Generally **25 bp+**	**<5 bp** for many balances	Pressure to raise lowest rates earlier in the cycle
Faster Quantitative Tightening, Growth	**$10B**/month ramping to peak of **$50B/**month	**$47.5B**/month ramping up to **$95B**/month in Sept. 2022	Much harder to offset impact on balance levels through money multiplier effect
Inflation	**2% +/-** *(near stated target range)*	**8.50%** *(40-year high)*	Less flexibility to gradually ramp up tightening, consumer runoff
Digital / Disruptors	Less consumer comfort, smaller share, fewer players	Much more awareness, comfort and new BaaS enabled entrants	Upward pressure on betas
Regulatory Disruption	Basel III / DFA / 2a7 reform	No major structural changes	Regulatory transformation provided some cover to go slower on rates "cost of doing business going up"
Macro Uncertainty	Corporate tax reform proposals	Geopolitics, COVID-19	Greater macroeconomic uncertainty

Source: Curinos analysis

Still, digital and direct players typically don't hold primary checking accounts and so they didn't experience the same surge in balances as their traditional counterparts. As such, they are already retuning to a posture of aggressive price-driven acquisition. U.S. online bank savings rates increased by more than 25 bp through the end of May compared with no increase in traditional banks, according to Curinos data.

Likewise, for the smallest commercial customers, betas were much lower than other commercial segments in the prior cycle. But with more fintechs competing for wallet share, digital disruption will likely flow through to this segment as well, placing continued upward pressure on betas.

OTHER CONTRIBUTING FACTORS

Lastly, sanctions and energy market disruptions from the war in Ukraine, combined with ongoing supply-chain problems tied to COVID-19, mean we're living through a time of nearly unprecedented market uncertainty. Tight labor market conditions and an ongoing process of determining new work and life routines create additional challenges and drivers of both local and macro uncertainty. In short, relative to prior cycles, there is a broader range of potential market conditions that can change quickly and without much warning.

THE PATH FORWARD

Putting this all together, there are strategies that banks must follow to prepare and succeed in this challenging market.

First, reinforce the fundamentals of primary client acquisition and retention. Non-primary relationships, balances and volumes are always the first to move. Reinforcing comprehensive financial relationships that hinge on cash flow through the primary checking account is fundamental to predictability and profitability in consumer and commercial portfolios. Banks that are most successful will systematically measure relationship primacy on both an absolute and potential basis and integrate these measures into relationship pricing.

Second, data and analytics are critical. Timely and granular competitive data are helpful in all cycles, but more so in this cycle than any before. Rates and balances are going to move quickly and varying surge dynamics are creating competitive asymmetry. Data will inform decision makers about market dynamics, but it is also critical to have a finger on the pulse of your own book. Analytical insights enable decision making at pace and scale.

Finally, planning and forecasting are key. There's an old adage "a plan beats no plan." Well, in this cycle we would update that to "many plans beat one plan." With so many drivers of market uncertainty, it's critical to pre-plan for alternative scenarios so you can shift course quickly. The best scenario planning integrates macro factors with bottom-up analysis at the customer level and takes into account relationship primacy in balance and beta forecasts.

This is a highly complex period and one that will surely produce winners and losers. But by following the success factors outlined here, we believe any bank can win during and after this cycle. ■

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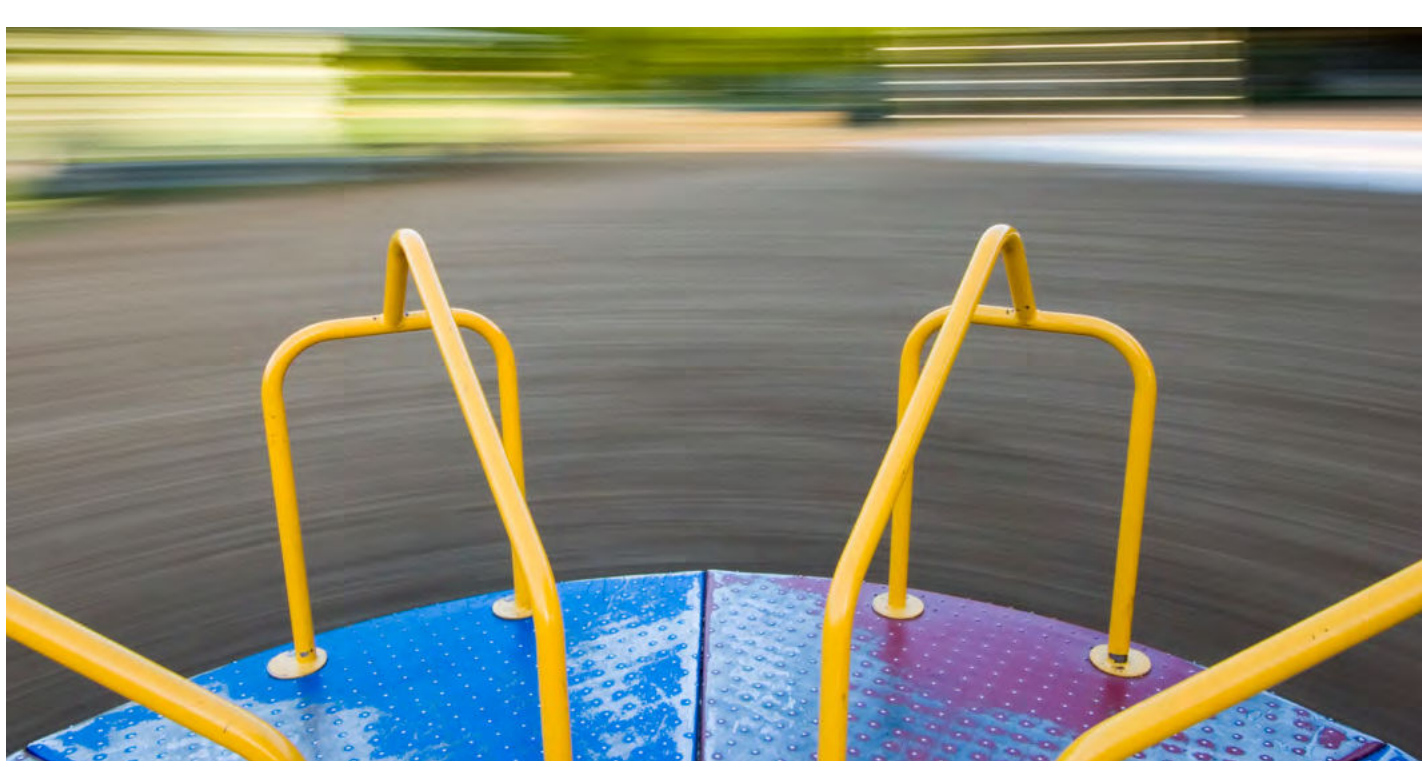


Rate Revival

It may seem like many U.S. banks are towing the line on rates so far, but Curinos data show that they are actually already on the move.

On the average day in May 2022...

200

banks changed rates

A total of

5,000

individual product rates changed. That is

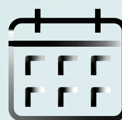
4x more

than the average daily changes in 2021

This adds up to...

1,000

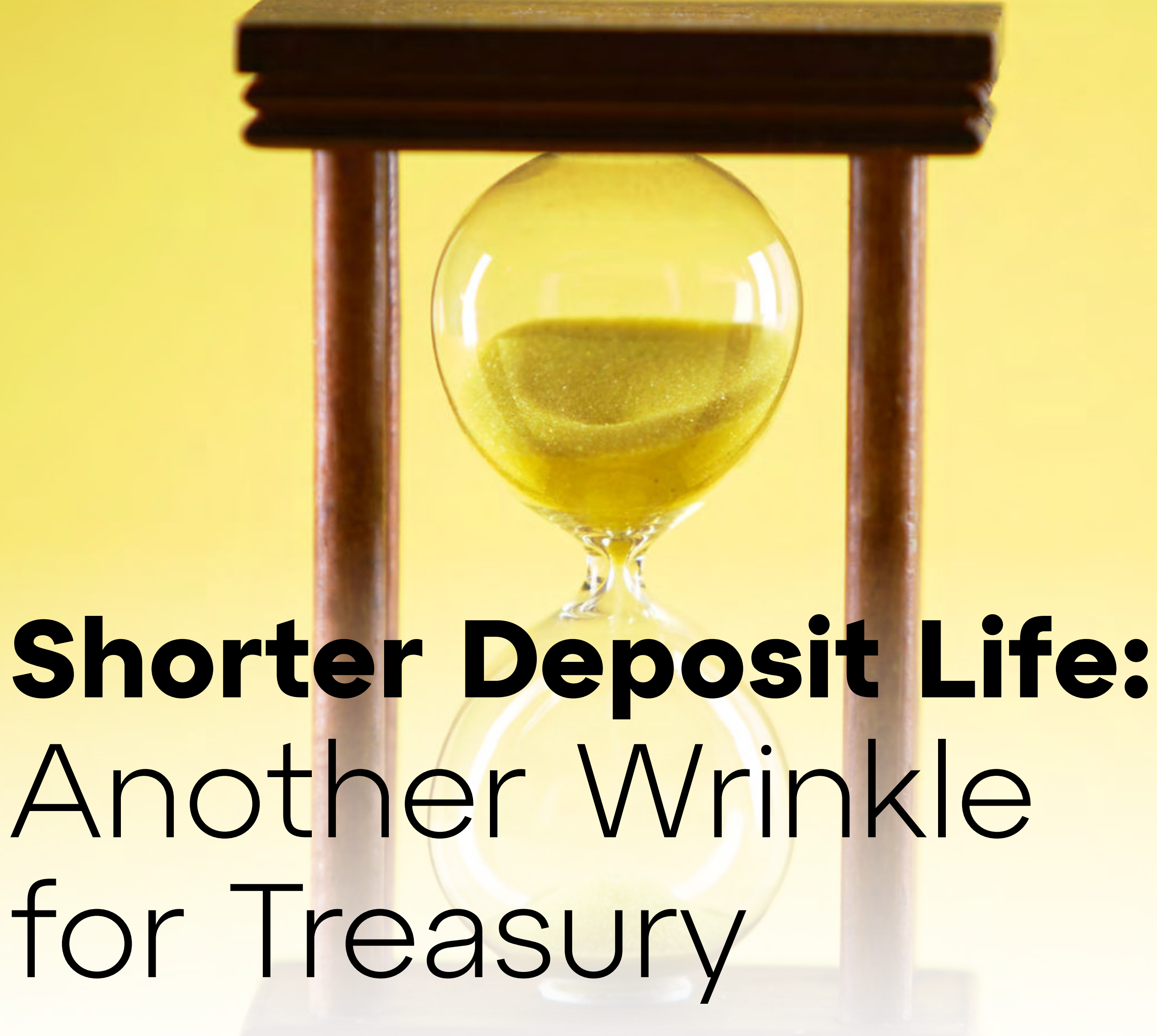
banks changing rates each week



25,000

rates changing each week

Source: Curinos Standard Rate Data



Shorter Deposit Life: Another Wrinkle for Treasury

By Greg Muenzen

Treasury teams are likely to focus on how much banks are paying for deposits and the betas associated with them as rates rise. Deposit life, however, is another important and often-overlooked metric that changes through interest rate cycles and has significant implications for growth and profitability.

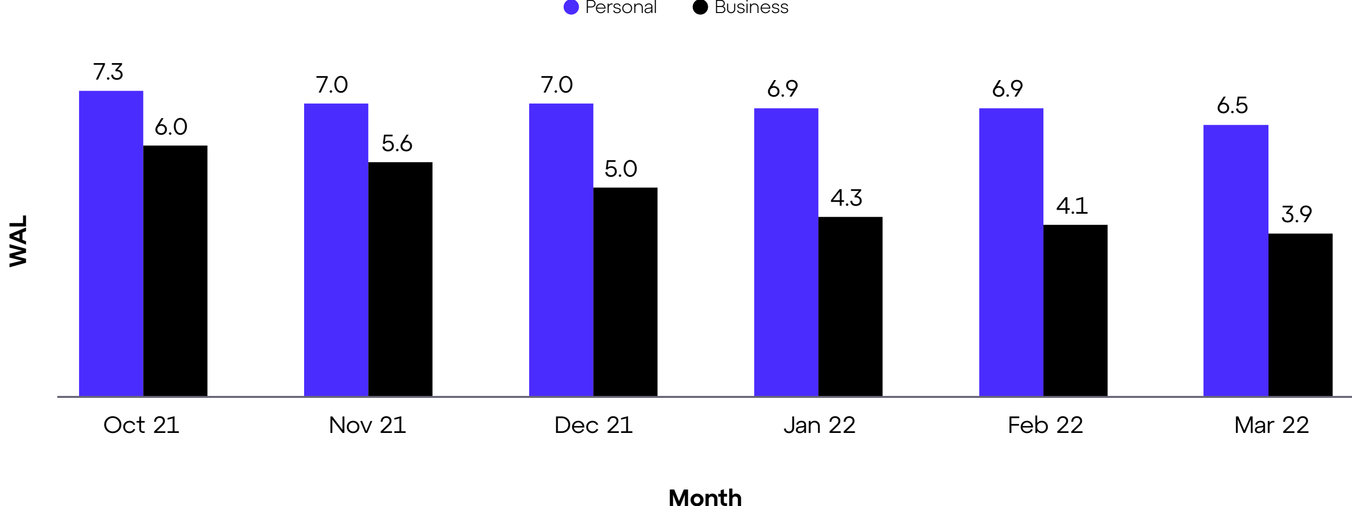
Indeed, this measure of balance stability has already begun to contract and is expected to shorten even more significantly this year due to higher rates and rising inflation. In addition, deposit life can be shortened by digital advancements that make it easier than ever for customers to find higher rates, open accounts and transfer balances. The result: banks may underestimate their liability sensitivity to rising rates, struggle to hit planned balance growth and overestimate the value of their deposit funding.

Financial-services firms can manage this challenge more easily by improving the foundational deposit study analytics that feed interest rate risk management. This includes analyzing deposits on a segment-by-segment basis rather than as a monolith. The availability of timely information on expected life can play a key role in helping treasury teams navigate these fast-changing industry dynamics.

RATES RISE, CUSTOMERS MOVE

There's little doubt that the recent rate hikes, combined with expectations for more increases throughout the year, will have a significant impact on deposit duration. The flow of funds between products and financial institutions is expected to accelerate as rates rise and customers increasingly favor higher-earning savings and term deposit products. This in-

Figure 1: Trailing 12-Month Personal Savings and Business Savings – Weighted Average Life (WAL)



Source: WAL benchmarks sourced from Curinos Comparative Deposit Analytics (CDA) Treasury Analyzer platform. WAL calculated based on balance decay curve analysis with decay rates observed over a 12-month rolling observation window, with 10-year cash flow truncation assumed.

cludes offerings from a growing number of direct banks that woo consumers and small businesses with competitive interest rates. Among them are a litany of direct banks that launched as online-only businesses of branch-based mid-sized and regional banks.

But it's not just higher rates that will impact deposits. This time, there's also inflation that stands at a 40-year high due to COVID-19-related monetary policy, supply-chain disruptions and geopolitical conflict. If persistent inflation has a disproportionate effect on consumer spending compared with wages, the resulting lower savings rate can contribute to shorter deposit life.

Additionally, we expect business and affluent consumer segments to reallocate cash balances away from low-earning deposit accounts.

These behavioral changes have an intuitive effect on expected life — or behavioral life — of deposits that treasury departments monitor as part of routine interest rate risk measurement (and profitability measurement). Generally speaking, longer deposit lives translate to more stable funding that is valued more highly through a funds transfer pricing (FTP) framework or other mechanism of profitability measurement. From an interest rate risk perspective, longer lives mean a less liability-sensitive balance sheet, which translates to margin expansion when rates rise.

DEPOSIT LIFE IS ALREADY CHANGING

The expected lives for both consumer and commercial deposits have already shortened measurably since January 2022, according to data from Curinos Treasury Analyzer. Balance decay analysis of more than $4 trillion in deposit balances captured at the account level in our proprietary Comparative Deposit Analytics (CDA) shows that savings weighted-average lives have shortened by 0.8 years for consumer and by a more impactful 2.1 years for commercial since early in the fourth quarter of 2021. (See Figure 1.)

This shortening, combined with the difference observed across segments, carries several implications. First, it means there may be headwinds to deposit growth that isn't captured in bank business plans; Curinos estimates there can be as much as 1%-4% higher savings balance outflows based on the above trend. Second, it suggests banks may be less asset-sensitive than expected, implying a less rosy profitability outlook as rates continue to rise. Specifically, banks will have to replace more runoff balances at prevailing market rates, which will naturally increase through the cycle. Third, the funding value of deposits may decline by as much as 25-35 basis points for savings in FTP terms based on weighted average life (WAL).

Differences in the magnitude of shortening observed across segments — in this case the steeper decline seen in business savings WAL — also confirm the general intuition that different segments of deposits have different funding value to banks. This is critical knowledge for strategic business planning, tactical deposit pricing and product design initiatives.

DEPOSIT ANALYTIC IMPROVEMENTS NEEDED

Bank treasury teams must move quickly to improve the foundational deposit study analytic information that feeds interest

rate risk management. The two most critical areas of improvements should be:

- **Timeliness.** Observations from dated deposit studies, "through-the-cycle" observations that over-index to flat-rate environments or observations that are skewed by COVID-19-era stimulus effects (such as idiosyncratic months of massive inflows from stimulus payments) may be highly unrepresentative of current behaviors and lead to suboptimal internal rates of return. In our view, these metrics should be monitored monthly, including at the executive-level balance sheet management committees such as ALCO, and not on an annual basis as is currently the process for many players.
- **Customer Segmentation.** Overly-aggregated results (those that pool balances from a range of customer types into broad product categories, for example) lead to inaccurate measurement and suboptimal decisions. Curinos believes the most useful deposit studies will segment around customer types, focusing not just across major lines of business, but also on the primacy of customers or clients within each business. This can, for example, capture the behavior of a savings depositor with a direct-deposit activated checking account separately from that of a savings-only depositor. It can also make the distinction between a business with an active treasury management relationship and a business with an inactive relationship.

In an information age where data abound and are available in near real time, critical information around customer deposits — the primary source of funding and arguably the primary driver of shareholder value for the industry — should not be months or years old.

And the stakes are real: the value and stability of deposits — given interest rate and inflationary effects — will be markedly different by the end of the year from where they stand today. Banks that can understand and react to those trends swiftly will have a real competitive and risk management edge.

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Open for Business: How to Benefit from Open Banking Around the World

By Kevin Travis and Michael McCaw

Jerry has been a regular customer of the local bagel shop for years. The workers start toasting his sesame bagel and preparing his coffee when they see him walk through the door. When he forgot his debit card last week, the manager said, "just get us next time." And Jerry can always be counted on to cater a holiday brunch from the store every December.

When a new bagel shop opens down the street, will Jerry be tempted to switch? Sure, he might wander over to the new place to see what they're offering. And it is even a block closer to his home. But chances are that he will decide to stick with the shop that already knows him and has served him so well over the years.

That is the spot that banks find themselves in as open banking takes hold around the world. All of a sudden, customer information and accounts are up for grabs — often with just a few clicks.

While the initial reaction to open banking might be fear, Curinos believes that incumbent providers have a distinct advantage over new entrants. In Europe and parts of Asia, open banking has been fairly well established in recent years and some providers have now embraced it. But to solidify their position and capitalize on this advantage, they must use the power of their data to learn more about their customers, deepen relationships and develop products that fit their needs.

Many financial-services providers around the world are adapting to open banking as it takes hold from the U.K. to India. Some were caught off guard. In the U.S. and Canada, where some form

of open banking is likely around the corner, banks should already be preparing for even more competition from new entrants.

DRIVING DIGITAL ADVANCEMENTS

Open banking may not be ubiquitous, but there's little doubt that the policies aimed at eliminating traditional customer barriers are driving digital advancements around the globe. And so far, many fintechs are leading the way.

From Apple's purchase of a company that helps lenders make credit decisions to a U.K. fintech that allows business to find out which loans they can get, the collapse of limitations in customer data is pushing providers to offer more products, financial management platforms and better payments capabilities.

Institutions that operate in regions where open banking hasn't been adopted are already seeing digital capabilities flowing from schemes in other countries. That means the push to develop savvy digital offerings is likely to accelerate even before (or if) open banking becomes the law of the land.

STILL NEW, BUT ALREADY INFLUENTIAL

At its core, open banking aims to eliminate the longstanding hurdles that occur when a customer wants to share their financial data that sits at one institution with other providers. Customers give consent to their financial institution to share their financial data with third parties — all in the aim of making it easier to take advantage of products and services that are offered by other providers.

Open banking took shape less than a decade ago and is still very much in the adoption phase by customers and providers. There are 4.5 million regular users of open banking in the U.K., including a 60% increase in new customers in the period between December 2020 and December 2021, according to the Open Banking Implementation Entity, which creates industry guidelines in the U.K.

Although the concept of open banking is a global paradigm, widespread differences in the regulatory guidance that motivates banks to engage in customer data sharing means that there is little symmetry among those that have adopted it. That includes the European Union, South Africa, India, Brazil, Mexico and Australia.

In Canada, the government recently named a digital banking expert to oversee and implement key pillars of the country's open banking system. A government committee last year found that technology advancements had spurred more than four million Canadians to engage in some type of financial data sharing even though there wasn't yet a centrally-backed infrastructure in place.

In Asia, authorities in Japan, Singapore, South Korea and Japan have issued recommendations and guidance relating to the open API standards that are the foundation of open banking.

Meanwhile, the U.S. has lagged other countries in formalizing open banking rules. President Joe Biden last year issued an executive order that encouraged the Consumer Financial Protection Bureau to consider rules "to facilitate the portability of consumer financial transaction data." The CFPB is currently exploring ways to reduce barriers to switching accounts and providers.

Needless to say, U.S. fintechs are eager for the change and already making their moves. Fintech challenger Current

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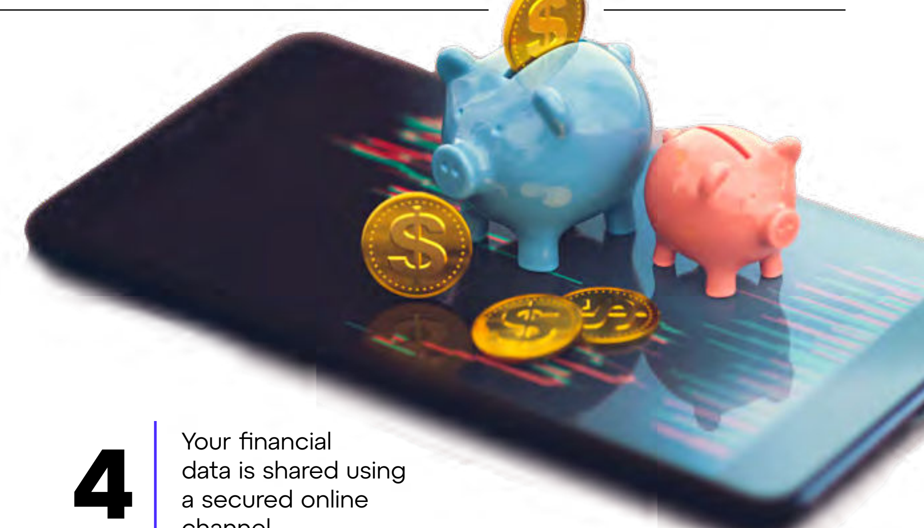
Although Canada hasn't officially adopted open banking, the government's website is preparing residents for what's to come.

How Open Banking Works



1 You find a fintech app that can help you manage your finances

2 The app prompts you to link your bank accounts to access your financial data

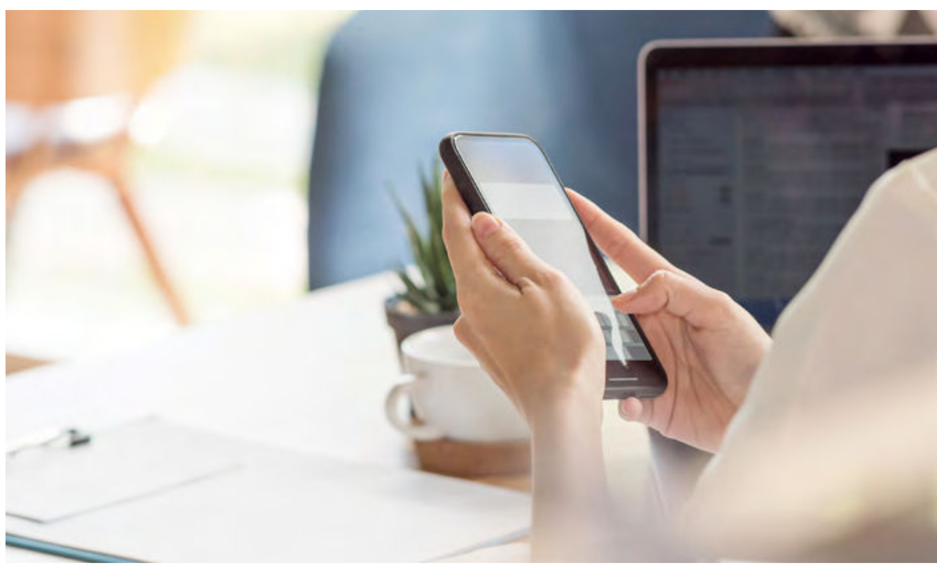
3 You authorize your bank to share your financial data with the app via open banking (your account username and password are not required, keeping you protected in the event of unauthorized transactions, a data breach or fraud)

4 Your financial data is shared using a secured online channel

The app analyzes your data and recommends personalized financial products and services:

- Product comparison tools
- Budgetary tools
- Viewing all your accounts in one place

Source: https://www.canada.ca/en/financial-consumer-agency/services/banking/open-banking.html



recently struck a deal with technology platform Plaid to offer a service that will help customers use other fintech apps.

ONCE HESITANT, NOW AN EMBRACE?

It goes without saying that traditional financial institutions may be leery of rules that let their customers walk out the door with just a couple of clicks. After all, the pain associated with switching providers typically leaves customers sticking with the same institutions for years. A recent Bankrate survey found that U.S. adults on average have used the same primary and savings account for about 17 years.

But interest rates are now rising, which means some customers will start shopping around for the best rate. For countries that have adopted open banking, that switch will be easier than ever.

That means lenders should be working harder to stay engaged with their customers. Lending and affordability tools are particularly appealing in this environment as both consumers and business grapple with rising inflation. A number of U.K. banks, for example, have teamed up with ClearScore to offer in-app credit rating checks and insights on how to become more financially healthy based on how that consumer is currently tracking.

Others are figuring out ways to woo new customers. India's ICICI, for instance, has opened up access to its personal financial management (PFM) app to non-customers, who can connect their accounts to the tool via open banking. The goal: to demonstrate the value of ICICI solutions and convince non-users to open an ICICI account.

Meanwhile, new providers are getting a piece of the action. Not only did Apple buy Credit Kudo, a U.K. open banking fintech that helps lenders make decisions and deliver credit scores, but Visa last year spent $2 billion for Tink, a Swedish startup that lets banks and other providers share consumer financial data. Is it a leap to think these acquisitions were made with an eye to eventual open banking in the U.S.? Expect more of this from other behemoths that straddle banking and whiz-bang technology.

Commercial banking hasn't been left out, either. The U.K.'s Tide, for example, allows users to connect external business accounts in order to identify potential loan eligibility.

In the U.S., a slew of players like PayPal, Betterment, MINT, Plaid, Finicity and Yodlee have essentially created open banking provisions that have driven competitive and open innovation to market.

NOT ALWAYS A SMOOTH TRANSITION

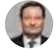
The transition to open banking isn't always smooth. Privacy and security are, of course, big concerns for all providers. There have been calls for greater clarity on API integrity and interoperable technical standards. And some open banking advocates have questioned the technical proficiency of banking regulators. Consumer advocates have spoken up too. In Australia, a consumer group recently told the government it is concerned that non-bank lenders could misuse data or act in a way that is detrimental to consumers' financial health.

The sensitivity of consumer data is also a big issue for the CFPB in the U.S. as the agency tries to unsnarl the thorny issue of how to handle consumer privacy and data protection. Once it is eventually established, the CFPB's rules could essentially create an open banking regime that is overseen by regulators.

That might not be such a bad thing. Around the world, regulatory programs have helped drive widespread innovation. In the U.K., rules that permit variable recurring payments (VRPs) — or sweeping — allow consumers to set up automatic transfers between their own account and other providers. Government-led open banking programs like Brazil's Pix, Australia's New Payments Platform, Singapore's PayNow and India's Unified Payments Interface (UPI) are based on open banking principles and are encouraging competition in digital banking experiences.

But a pure compliance approach doesn't address the innovation that is needed to compete successfully in open banking. Instead, banks should use open banking as an opportunity to do things differently and consider existing customer data as a valuable currency. That means using it to build relationships and re-think sales, marketing and products.

Open banking is still new and evolving, but it is already having repercussions across the industry and the world. Traditional banks would be wise to act like it is the de facto future of the industry.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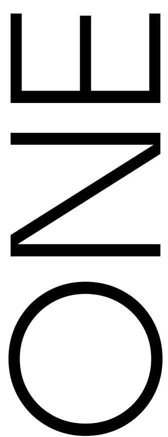
5 Ways to Benefit from a **Home Equity Comeback**

By Ken Flaherty

We are halfway through 2022 and home lending has swiftly shifted in a direction that many didn't predict. U.S. mortgage rates have soared above 5%, ARM volume accounts for more than 20% of all mortgage refinance and purchases transactions. Home equity volume is up more than 40% from 2021. (See Figure 1.)

In fact, the ratio of mortgage cash-out applications versus home equity applications did a complete turnaround in the second quarter. Home equity transactions now make up more than 50% of all cash-out transactions in the U.S., up from less than a third in 2020-2021.

How can lenders capitalize on this shift in demand? Curinos believes lenders can target customers based on their circumstances and likely behaviors.

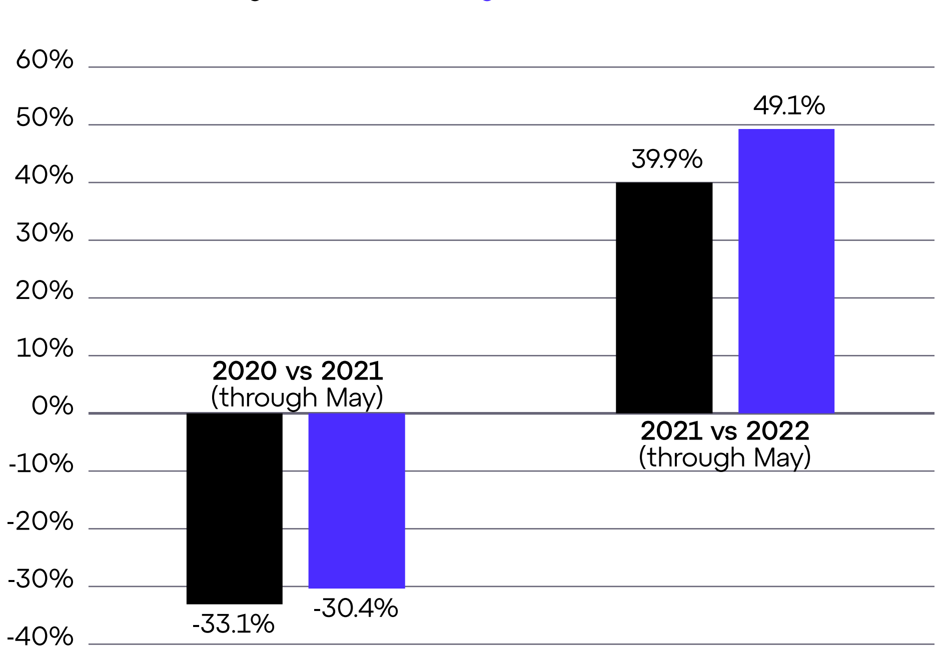


Target Recent Mortgage Vintages

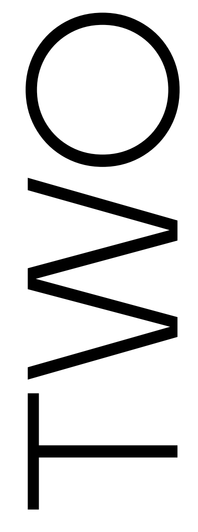
Mortgage rates are rising, home prices are at historical highs and homeowners are eager to start their backyard project or make that large purchase they've been putting off for a few years.

Regardless of the reasons, the one thing that is clear is homeowners who took advantage of the historical low-rate mortgage environment should be prime targets for new home equity acquisitions. With average mortgage rates at around 3% for most of 2020-2021, (and at times even in the upper 2% range), a new junior home equity lien allows these homeowners to preserve their low first-mortgage rate while also allowing them to access the equity in their home for their cash-out needs. While this isn't a new strategy for lenders, what makes it different and easier now is the sheer volume of new and existing mortgage customers who are equity rich with a very low fixed-rate first mortgage.

Figure 1: Home equity booked market volume is up almost 50% YTD vs same period 2021



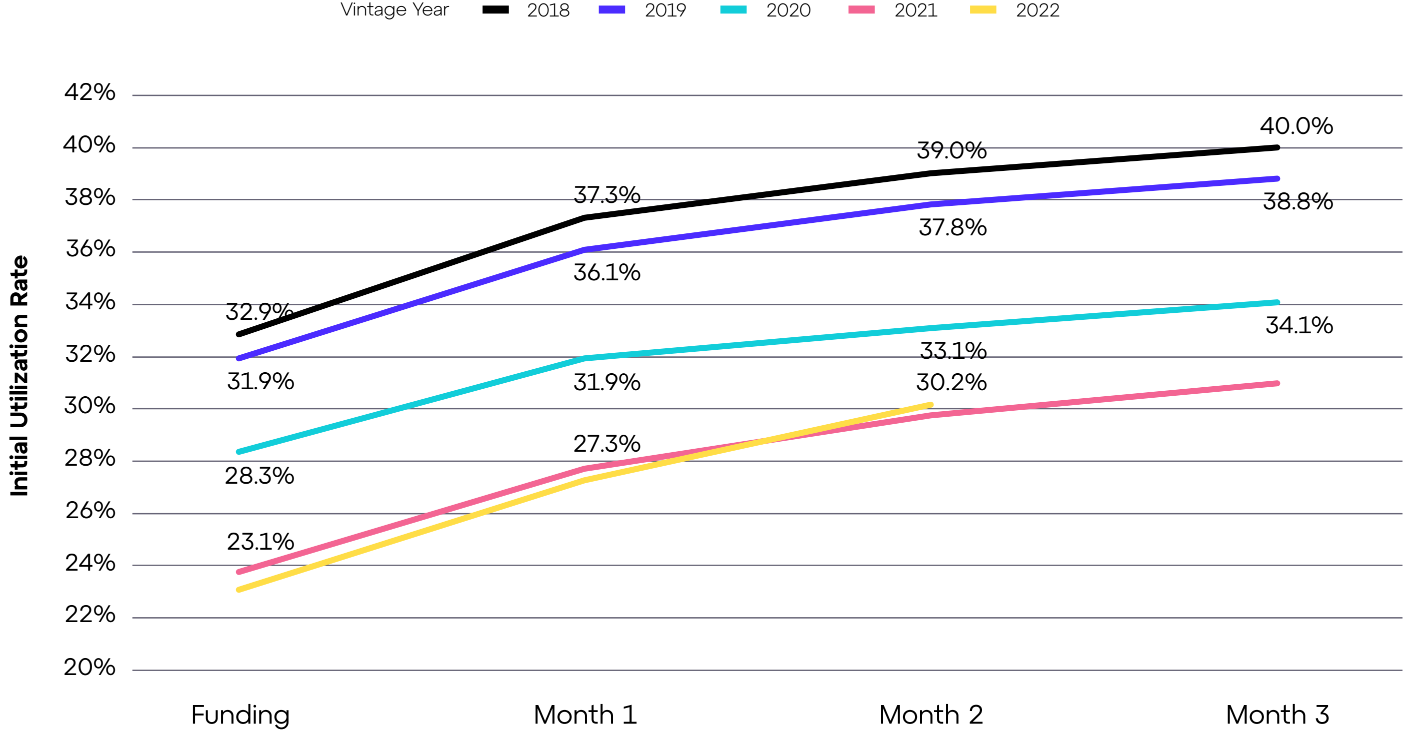
Source: Curinos consortium data



Prioritize Your Existing HELOC Portfolio

While it's important for lenders to capitalize on the current lending environment and capture as many new home equity originations as possible, lenders shouldn't forget about the existing HELOC customers who are already on their books. The average utilization (drawn balance-to-line commitment) on a new HELOC originated *prior* to 2020 was approximately 37% after 90 days on the books. But the average utilization on a new HELOC originated *after* 2020 has averaged less than 30% after 90 days on the books. This signals both a shift in borrower usage of HELOCs and very real opportunity for lenders with these portfolios to incentivize utilization on these recent vintages. (See Figure 2.) Finding ways to incentivize underutilized HELOC customers will be key for lenders, not only to drive lifetime profitability, but to help offset lost mortgage revenue. This can be accomplished through the unique feature of HELOCs that drives new, incremental interest income dollars throughout the entirety of the customer's draw period. Home equity understandably took a back seat to mortgage originations the last few years, making this a perfect time to reeducate the workforce on HELOC features, benefits and usage functions to those HELOC customers. With many households experiencing cash flow strain due to rising inflation, high gas prices, declining savings accounts and the potential of reduced spending, it may be wise to remind customers that HELOCs can be used as a source of cash for virtually everything from home improvements to debt consolidation, tuition expenses and more.

Figure 2: Initial Utilization Rates — First 90 Days



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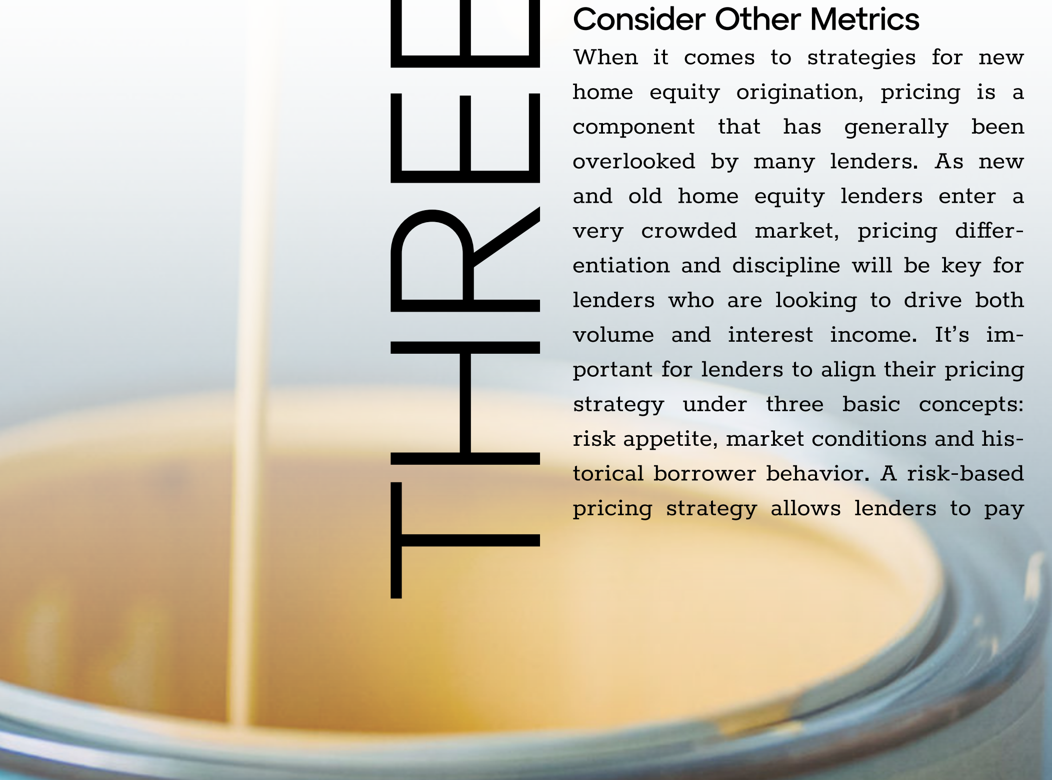


Adopt Risk-Based Pricing and Consider Other Metrics

When it comes to strategies for new home equity origination, pricing is a component that has generally been overlooked by many lenders. As new and old home equity lenders enter a very crowded market, pricing differentiation and discipline will be key for lenders who are looking to drive both volume and interest income. It's important for lenders to align their pricing strategy under three basic concepts: risk appetite, market conditions and historical borrower behavior. A risk-based pricing strategy allows lenders to pay themselves for the risks associated with each segment of the lending landscape that covers their risk exposure, market competitiveness and, most importantly, how a customer will perform. That means taking into account the customer's likelihood of utilization, pre-payment speeds, delinquency and other behavior. Far too often we see lenders fall victim to an underperfoming HELOC portfolio, both in utilized dollars and net interest margin (NIM). Segment-based pricing that recognizes and rewards different customer behaviors and risks will be essential for optimizing the book going forward.

Figure 3: Lenders are still facing home equity challenges.

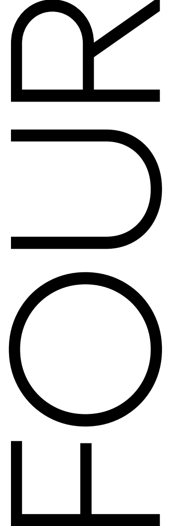
More than **70%** of all open HELOCs have an active balance of less than **$50k**

Only **22%** of open HELOCs have a line of credit of **$50k** or less

More than **1/3** of open HELOCs have a **$0** balance

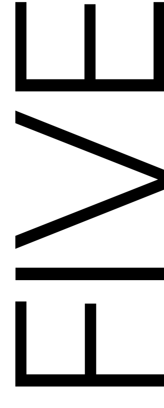
Commitment size ranges	$0-50k		>$50k	
	22.1%		77.9%	*% units in portfolio*
Balance ranges	**$0**	**$10-50k**	**>$50k**	
	37.6%	33.7%	28.7%	*% units in portfolio*
	71.3%			

Source: Curinos consortium data



Overhaul Sales Strategy

While demand may be strong for home equity now, the age-old sales strategy by most lenders to drive the highest possible line amount that the borrower qualifies for isn't necessarily the ideal sales approach. Although these practices are common, they generally create a mismatch in borrower's actual immediate needs, strain the lenders by almost forcing low utilization and higher capital expense costs for the unused portion of one's credit lines. (See Figure 3.) More than 70% of HELOCs sitting on lenders' books have an active balance of $50,000 or less, but only 22% of HELOCs have a line up to $50,000. This means that close to 80% of HELOCs sitting on lenders' portfolios have a line size that exceeds the borrower's actual drawn balance. In an environment where driving NIM is so much more important to lenders who want to offset lost revenue from the drop in mortgage originations, it's apparent there is an opportunity for lenders to shift the sales strategy. Lenders can incentivize day-one HELOC utilization, longer-term utilization and eliminate excessive line sizes that end up costing capital expense charge. Re-training sales teams can admittedly be challenging. Management can start with the basic sales concept of drawn balance incentives versus line amount incentives. This can be quickly understood and implemented to make a material difference in a lender's portfolio composition.



Improve Customer Experience

As more non-banks enter the home equity market promising cycle times of less than 10 days and a fully-digitized application process, traditional banks and credit unions are scrambling to do the same. It has been encouraging to see a high number of existing home equity lenders recently turn their attention on their operational components, putting the magnifying glass on the application process, origination system and fulfillment processes. These are all necessary steps to align origination processes with customer demand, putting the customers in direct control. This includes not only inputting their application through a digital portal, but also allowing them to navigate each step of the fulfillment process and know exactly where their loan stands each step of the way. Additionally, lenders should look at ways they can allow customers to access the funds on their HELOC digitally such as online transfer functionality and credit card access rather than relying on paper checks or in-person branch visit to draw funds from their HELOC. In an environment where balances are essential to maximizing interest income, creating a HELOC customer journey that is digitally driven and easily accessible could change the landscape for lenders and keep home equity in the forefront for years to come.

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Deposit Behavior **Can Predict HELOC Utilization**

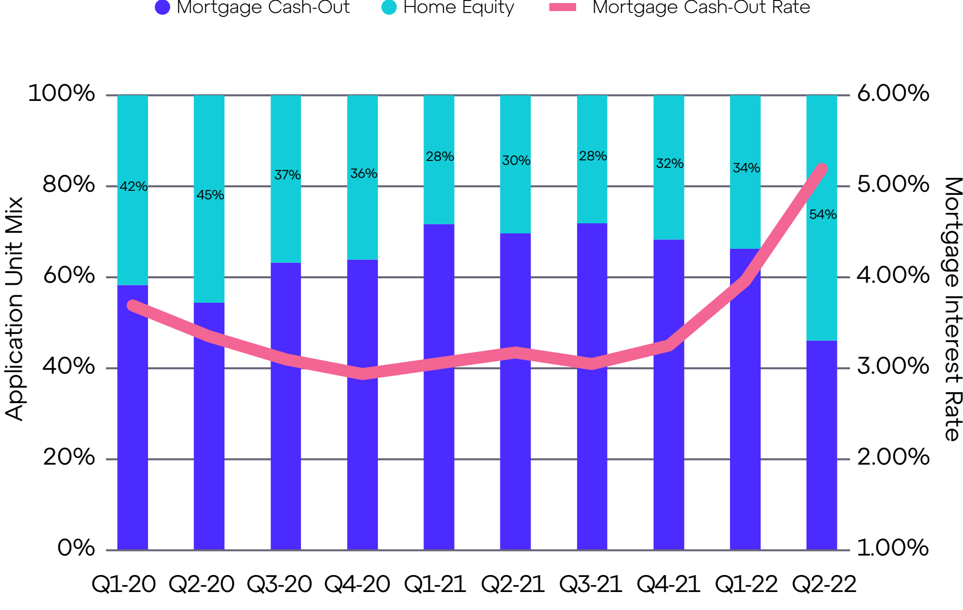
By Zachary Kaplan, Ken Flaherty, Shelly Photiades and Rutger van Faassen

The home equity market is roaring back to life, with more growth expected through this year and beyond. Cash-out refi is shifting back to home equity as mortgage rates rise and customers seek to preserve low first-mortgage rates. At the same time, high home prices have created new equity to tap, both for current and new home equity borrowers.

Indeed, home equity already makes up more than half of new applications this year and originations are up 40% from 2021. (See Figure 1.)

This all seems like good news for lenders, but there are headwinds. Curinos believes that lenders who hold the HELOC applicant's deposits will be well-positioned to navigate these challenges because they can better assess the customer's financial well-being and credit need.

Figure 1: Cash-Out Refi and Home Equity Application Mix



Source: 2022 Curinos Benchmarks and Analysis

THE CHALLENGES FACING HOME EQUITY

Despite its growing popularity, home equity has challenges. For one thing, it can be a tougher sell than unsecured loans because the average closing time is a prohibitive 45-60 days.

That means lenders must figure out how to position the product's value (i.e., better interest rates) against the customer's need for money now.

Furthermore, the frontline salesforce has historically targeted super-prime credit customers (credit scores above 740) with large home equity lines of credit, even though many customers don't even need the product. This is partially due to misaligned sales incentives that are tied to unit production rather than utilization.

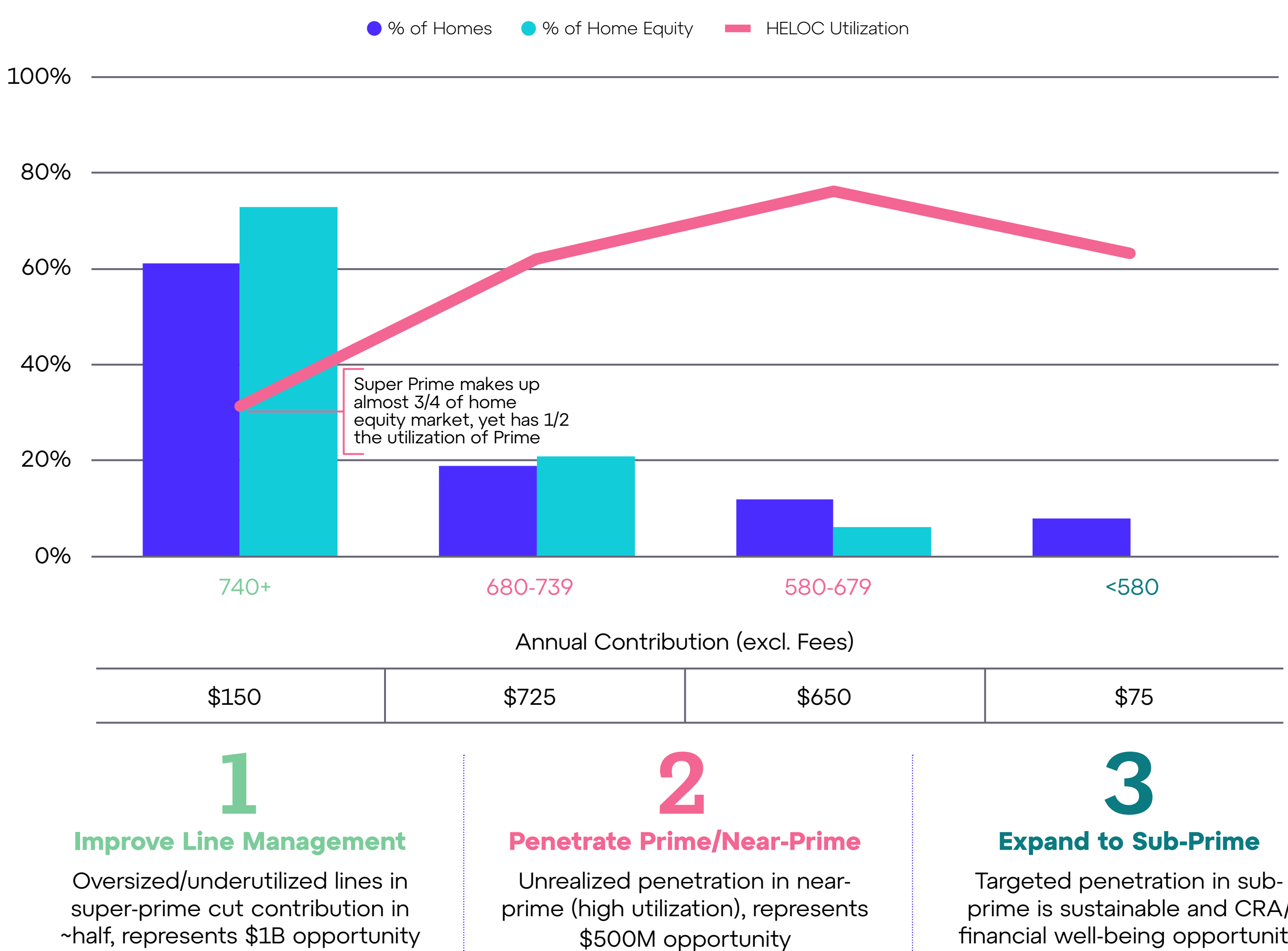
As a result, super-prime customers make up the bulk of existing portfolios, but they only use half as much of their lines as prime credit customers (scores between 680-739). This means a super-prime customer has one-fifth the annual value of a prime customer, driven by low utilization and large unused lines that cost lenders millions in capital charges each year. (See Figure 2.) Meanwhile, customers in near-prime and sub-prime have been historically underpenetrated even though they have the greatest credit need and represent potential profit for lenders.

Lenders are starting to realize this opportunity. Curinos benchmark data show originations are increasing in the less-frequented segments of the credit buy box, with weighted average CLTVs and FICO scores shifting modestly year-over-year. While this shift to a more balanced credit buy box is likely to impact lender's stellar performance on delinquency rates (the industry has hovered under 100 basis points in active delinquencies over the last 24 months), it will also result in materially higher utilized balances.

Against this context, Curinos sees three tactical opportunities for lenders:

1. **Improve Line Management** — Target marketing and sales investments to traditional HELOC customers

Figure 2: HELOC Penetration and Utilization



Source: 2022 Curinos Benchmarks and Analysis

who will actually use the product, improving gross margins while decreasing unused capital charges.

2. **Expand Buy Box** — Increase penetration outside super-prime credit, driving utilization while simultaneously improving financial well-being and CRA compliance.
3. **Innovate Product and Process** — Improve both product and process to better meet customer credit needs.

VALUE OF ON-US DEPOSITS

Home equity providers with deposit relationships have a head start to capture these opportunities. On-us deposit behaviors are a key source of proprietary data that have been historically underutilized in credit. Lenders who hold deposits have expansive views on an applicant's financial well-being and credit need. This data is FCRA-compliant and already sits within the lender's firewall. This on-us data is also more reliable than self-permissioned data, presenting a unique information advantage for deposit-holding lenders compared with fintechs or other non-primary providers that don't have the deposit relationship.

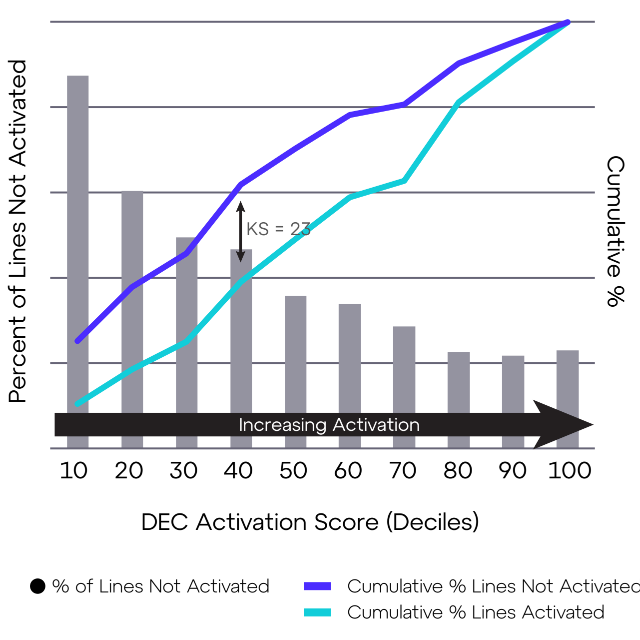
Research from Curinos' Deposit-Enhanced Credit (DEC) and client experience show that advanced deposit behaviors are highly predictive of HELOC usage. The behavioral drivers that explain changes in balance movements provide insight into both product need and risk. As one example, understanding how much discretionary savings a customer has relative to daily cash flow provides a strong indicator of how likely the borrower is to use the product. By using only deposit data that is available prior to HELOC application, lenders can discriminate which customers will activate their line (KS = 23) and how much they will utilize (R2 = 99%). (See Figure 3.)

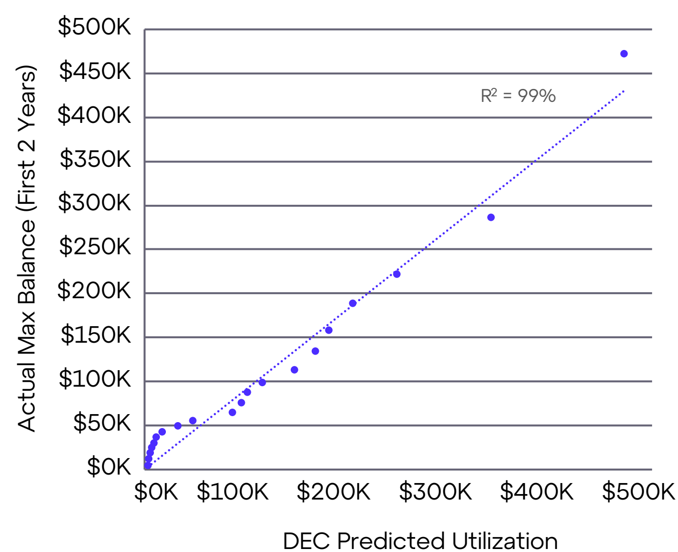
Leveraging these analytics, lenders can target customers most likely to use a HELOC, while avoiding or reducing line sizes for those that have been sold a "rainy day" fund without ever intending to activate it. Lenders can also tailor line sizes to actual expected usage, further reducing unused capital costs.

These same advanced deposit behaviors are also highly predictive of credit risk. This enables lenders to expand their buy box by identifying on-us customers with lower risk than indicated by traditional credit scores. This simultaneously deepens the customer relationship ("we can say yes because you bank with us") and further improves utilization by providing credit to those who need it most. On-us deposit insights are a great way to drive financial well-being and CRA compliance while profitability growing utilization.

Ultimately, on-us deposit insights provide tactical new analytics that enable lenders to prioritize marketing and sales resources in the traditional super-prime/

Figure 3: DEC Activation and Utilization





Source: Disguised Curinos HELOC client data; Curinos analysis
Activation defined as any draw within first 2 years on book.

Figure 4: Deposit-Enhanced Credit Risk: Bad Rates within Prime Traditional Score Bands

Risk as Indicated by Deposit Behavior
20 40 60 80 100
Decreasing Risk
Traditionally Declined Populations
Approve previously rejected applicants with lower risk as indicated by their deposit behaviors
Bad Rate (90+ Day Delinquency)
650-679
680-699
700-719
720-739
Traditional Risk Score Bands

Source: Disguised client HELOC/ULOC and deposit data, Curinos Analyses
Bad definition: ever 90 days past due next 24 months; Good: never more than 5 days past due next 24 months

prime buy box toward audiences that will be more likely to use it (while avoiding those who won't). These insights also help lenders to selectively expand the buy box in near-prime by identifying customers with relatively limited risk, but high potential for utilization. (See Figure 4.) This ultimately translates to significantly more utilization with large reductions in unused capital charges.

DEPOSIT INSIGHTS ALSO SUPPORT PRODUCT INNOVATION

In addition to better analytics, HELOC is ripe for product and process innovation to meet customers' needs. As already noted, long cycle times (from application to disbursement of the funds) are among the biggest challenges facing prospective borrowers when considering home equity versus other forms of credit (e.g., unsecured). Owning the deposit account can help here too.

For example, home renovation remains one of the most common uses for HELOC. Borrowers often need an initial down payment for their contractor, who likely can't wait 45-60 days for a HELOC to close. Lenders are already starting to reduce cycle times by improving appraisal process and better managing the customer journey. They should also consider hybrid products to specifically address customer needs. A small, unsecured loan can be quickly underwritten to pay a contractor's deposit. This unsecured loan can then be converted once the HELOC is approved. The initial unsecured loan can be underwritten even faster by using deposit insights to assess credit risk, quickly approving the loan using only data already within the lender's firewall.

Lenders can also train frontline staff to better understand the product and improve their ability to match it to customer needs. Training can improve these customer-facing conversations to focus on the purpose of the credit need and determine whether a loan or a line is a better fit.

There is little doubt that lenders can capitalize on home equity's resurgence. But they need to better understand their customers to target the right prospects based on expected activation, utilization and risk. Fortunately, deposit-holding lenders have huge amount of proprietary data about their customers to enable better decisions. On-us deposits are highly predictive of HELOC usage, before someone applies for the line. The right combination of analytics, benchmarking and innovation will ensure success in 2022 and beyond.

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Wealth Customers Won’t Wait Around

Most traditional U.S. banks have been slow to raise rates, but the wealthiest customers are already demanding — and receiving — more yield. After all, they are the customers whose checking accounts remain stuffed even as other Americans feel the pain of inflation.

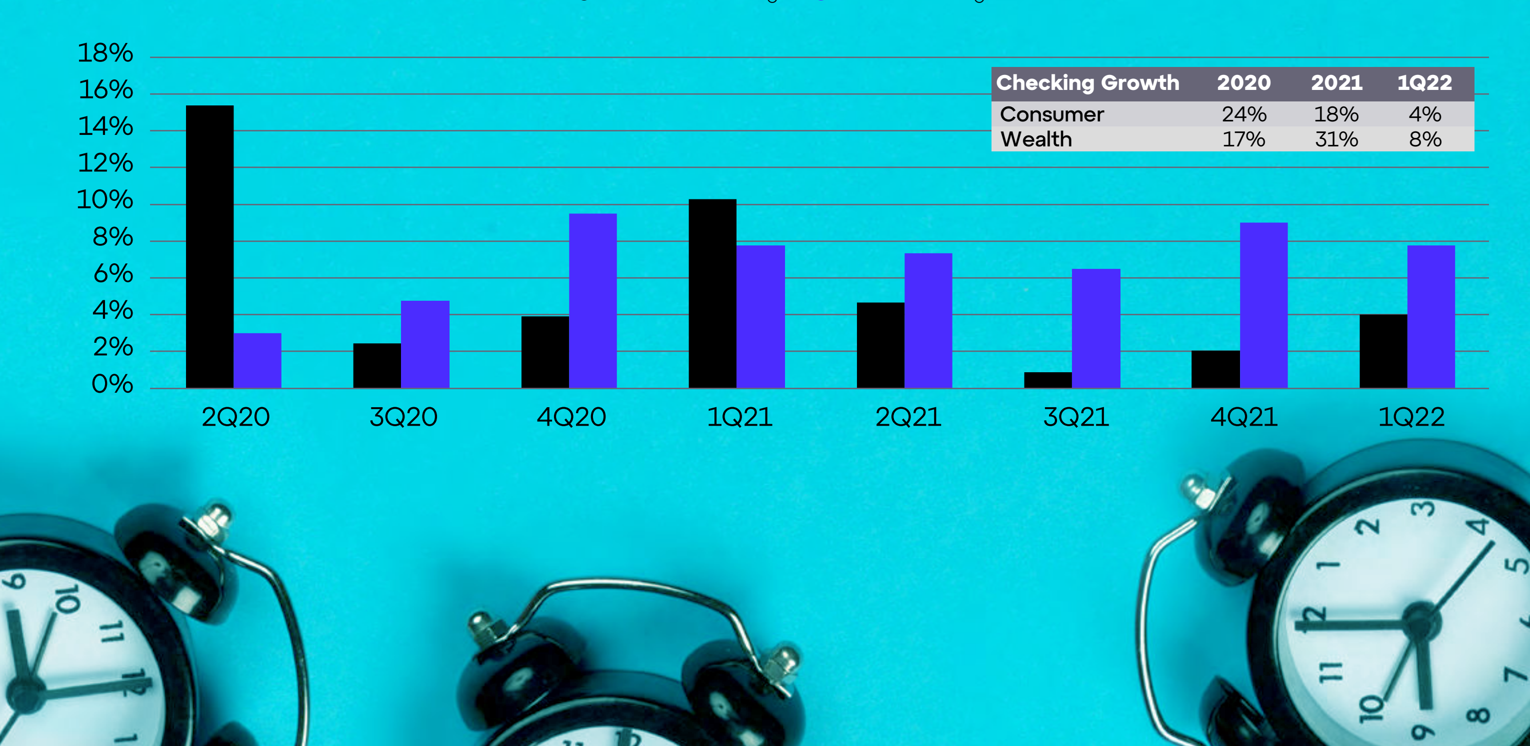
They also are sophisticated enough to gravitate toward other financial products where they can receive better rates.

The challenge for institutions will be analyzing the value of these customers, what it will take to retain them and how to get an even larger share of their wallets.

Checking account growth remains elevated for wealth customers even as consumer growth has slowed.

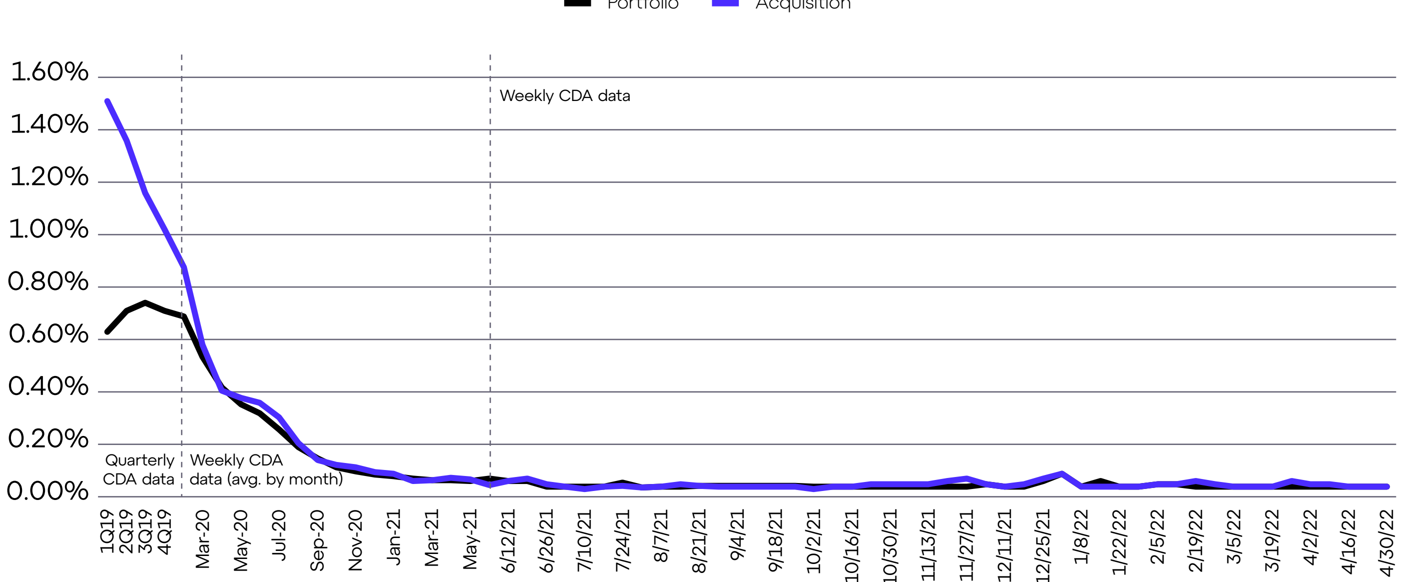
Checking Growth by Quarter by Segment

● Consumer Checking ● Wealth Checking

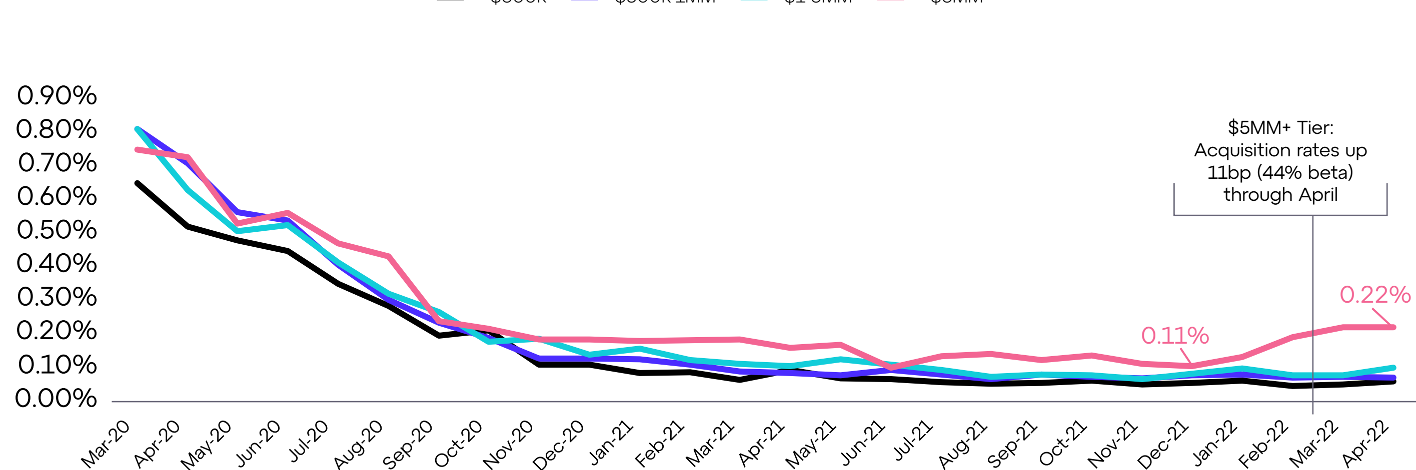


Checking Growth	2020	2021	1Q22
Consumer	24%	18%	4%
Wealth	17%	31%	8%

Consumer savings/MMDA rates haven't yet increased and are likely to continue to lag higher Fed rates, but...



...we are already seeing early signs of competition in wealth. High-balances customers are expecting (and receiving!) exception rates.



Source: Curinos Consumer CDA, Curinos Wealth CDA

The Need **for Speed**

By Sarah Welch and Shelly Photiades

The world of financial services has never stood still, but the pace of change today is positively blistering. The disruption caused by the global pandemic continues to drive rapid digital adoption. At the same time, consumers have more options today than ever before — upping the ante for legacy providers and fintechs alike. In this hyper-competitive landscape, the winners will be those who can move quickly to either lead the market or adapt on a dime to deliver the personalized mix of relevant experiences that consumers have come to expect. And with rates rising faster than anticipated just a few months ago, the pressure is on.

Many marketers are aware of this need for speed and are frustrated by the roadblocks that prevent it. They know that faster learning and execution lead to better results but are hamstrung by old processes and budget constraints.

The essential ingredient to achieving this pace of adaptation is experimentation. The faster your teams can learn, the faster they'll be able to move towards impact. There are two particularly crucial windows where financial institutions need to get the pace of experimentation right: digital relationship building and lead velocity. How many tests are your product and marketing teams running in these two areas in a calendar year? If the answer isn't in the thousands, you're already falling behind.

Examples of a Rapid Testing Framework

Audience	Objective/KPI	Treatments to Test
New checking customers	Establish primacy and deepen relationships with new customers	Diversified range of financial guidance, products and service-related messages relevant to customers' money-management needs and preferences Different sequence and cadence of onboarding messages
Super-prime HELOC prospects	Improve both cross-sell and utilization	Different offer and condition constructs; e.g. a traditional promotional rate with required initial draw or a lower overall rate if they agree to line being adjusted to max outstanding over the first 180 days up to the assigned limit Different versions of the HELOC value proposition (focus on convenience, overall cost or tax benefits)
Credit card customers who accumulate rewards points	Improve rewards engagement and ongoing spend	Rewards engagement messages when customers reach various points thresholds (25K, 50K, 75K points) Personalized redemption choices (cash back, retailer gift cards) based on observed or derived preferences

Source: Curinos analysis

SPEED BUMPS ABOUND

So what's getting in the way of productive experimentation today? Curinos has identified a few major speed bumps:

- **Marketing departments are still largely campaign-driven.** This approach, which is geared towards large blasts, puts a premium on planning and approval cycles in order to maximize the impact of one message. That makes it difficult to adapt to rapid changes in the market and consumer behavior. For example, in a rapidly rising rate environment, the market is likely to move on — maybe even twice — in the time it typically takes to get a campaign out the door.
- **Current personalization processes force the manual end-to-end creation of experiences for each segment.** This quickly hits a point of diminishing returns. Instead of dynamically adapting to individual attributes and behaviors, today's "personalization" efforts mostly yield one-size-fits-all experiences for very large segments (e.g. mass affluent). For example, marketers might set up different trigger-based deposit retention programs for mass affluent and mass market customers whose deposits the institution wants to retain as rates rise rapidly. But we know that neither segment is monolithic when it comes to deposit behaviors and attitudes about rate. How much is lost because it's too time- and labor-intensive to target much more granular segments?
- **The long-standing tension between relationship-building and units sold gets in the way.** On one end of this struggle are the product teams whose performance is evaluated on product profitability and unit sales. This can sometimes result in strategies that create experiences many customers perceive as "pushing product" rather than supporting financial success. On the other end are marketers who are taking steps to become more customer-centric in their engagement strategies, but KPIs that are focused too heavily on response and engagement will fall short of achieving sustainable business results.
- **Internal data siloes make it tricky to orchestrate rich experiences at the customer level.** It's essential to be able to identify and continuously provide the most value to customers as they research, select and use your financial products and get advice. But too often data take months and significant engineering resources to extract from warehouses and fuel execution engines. Adding insult to injury, analytics teams are often stretched too thin to support more than a dozen tests in any given month.

HOW TO OVERCOME HURDLES

Banks need to break free of these slow, linear processes and begin to embrace always-on testing and iterative optimization. Curinos has identified three steps that can help the process.

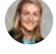
The good news is banks are at an advantage when it comes to the raw material needed for smarter and faster adaptation: access to extensive first-party transactional and interaction data.

Step 1: Invest in expanded customer scoring. Score customers based on their likely response to behaviors that you are trying to influence. The goal is to improve the response rate of the most attractive current customers and prospects. Financial institutions need to leverage insights generated from the full breadth of deposit and lending data to better predict customers' potential value and evolving financial needs and preferences. Overlaying third-party non-financial data can offer greater insight into customers' lifestyle and personal motivations. These insights are critical for presenting products, value propositions, guidance and support in ways that are relevant to each customer. Banks should fast track their testing by scoring customers for propensities to engage in specific value-based behaviors, such as acquiring a new product, activating new services or increasing utilization.

Step 2: Fine-tune the breadth of data that you use. Ensure your executional engines are equipped with relevant enrichment algorithms out of the box. Algorithms that clean and enrich customer data — in effect generating new and useful attributes that drive differential marketing decisions — are one of the most important determinants of speed because building them is both technical and time-consuming. Some examples of enrichment algorithms include days since last app login, average daily balance and loan-to-deposit ratio. The extent to which your marketing engines include a robust library of battle-tested metrics for financial services data will dramatically speed up your launch dates — and your speed to return on investment.

Step 3: Improve cycle time by adopting continuous testing. Start with a high-impact use case. Identify a specific outcome, such as improving quality of customer engagement at certain points of the customer journey. Then develop a set of hypotheses to test within high-value potential segments. Hypotheses can test different treatments based on audience attributes, incentives offered, channels employed or creative messaging. Dynamically assemble experiences from an existing library of treatments rather than creating each experience whole cloth. Leverage scores and AI to optimize treatments against a meaningful KPI to reduce the optimization timeframe from months to days. Break down barriers within the bank to speed approval processes.

While it may seem daunting, these steps can be taken in one leap with AI-driven marketing. Institutions that move away from manual test-and-learn and hard-coded trigger rules or campaigns to automated continuous learning cycles will be in pole position in these challenging times. ■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Why You Should Invest in Your Branch Workforce

By Andrew Hovet

It may seem counterintuitive, but this is the right time to invest in your branch workforce.

Yes, fewer customers are visiting the branch and there is little doubt that much of the pandemic-inspired shift to digital banking will only increase. And yes, there are still too many branches around the world and more should be shuttered.

But branches aren't going away anytime soon. With associate attrition so high and digital transformation so robust, now seems to be the right time to transform the purpose of your branches and role of your staff.

Curinos believes that banks need a new vision to address the evolving needs of customers, attract and develop deep customer relationships and boost market share. It is time to hire the best and brightest people and deploy them in the branches with new roles and new performance metrics that can be funded by reduced attrition. The goal: a higher return on investment that is generated by deeper customer engagement.

In short, a well-paid, engaged workforce will pay off for the bank.

PRODUCTIVITY DECLINE AND COST ACCELERATION

It has always been difficult to maintain a quality branch workforce. The staff is often inexperienced, salaries are low and attrition is high. With current wage pressure, costs are escalating without an improvement in quality. These challenges, combined with customer behavioral shifts towards digital engagement, are creating a complicated situation.

A recent Curinos survey of retail branch teams affirmed that teller attrition levels are running above 40% and banker attrition ranges between 25-40%. Even more surprising: the average branch manager attrition rate is above 20% for a position that historically has been very stable.

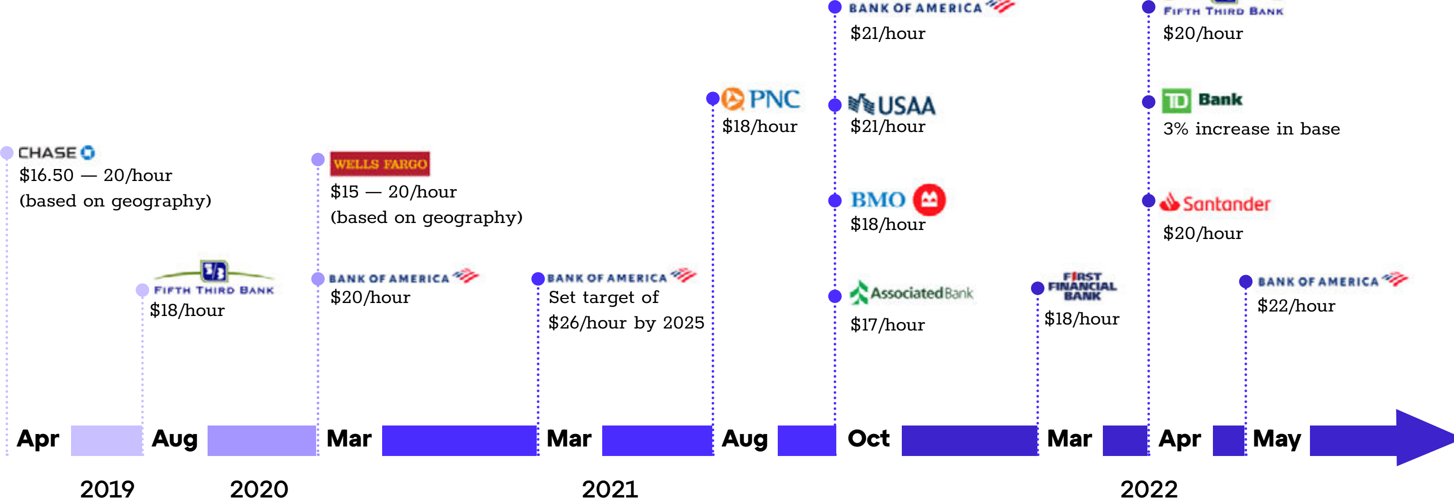
At the same time, competition for talent, inflation and wages are increasing branch staffing expense without commensurate improvements in quality. (See Figure 1.) We have all heard about The Great Resignation and branches aren't immune. Making matters worse, many surveys show that more than 50% of your talent expects to be looking for a new job within two years.

Finally, banks are seeing wide variations in teller and sales productivity. (See Figure 2.) Teller transaction volume is down by more than 25% from pre-pandemic levels, creating more sub-scale branches across the industry.

LEGACY BELIEFS AND ACTIONS

Although bank leadership is aware of these trends, the problem isn't being addressed in a way that suits these times. For the past 50 years, branches have been managed as unit-driven, transac-

Figure 1: Minimum Wage Announcements by U.S. Banks



Source: Curinos analysis, Fifth Third, Chase, Wells Fargo, Bank of America, PNC, USAA, BMO Harris, Santander, First Financial, Associated Bank, TD Bank

tion-oriented factories that focus on how to do more with less. Curinos believes that many are losing the war on talent because their response is caught up in this legacy structure that just doesn't fit today's needs.

Curinos has identified new approaches to common problems:

1. "Digital banking is driving the future of sales and service so if we over-invest in the branch, including people, tools and analytics, aren't we taking away from our investment in digital?"

   Problem: While investments in digital are necessary to maintain parity with competitors, most regional and community banks are unlikely to achieve a winning digital strategy. Most banks ultimately win or lose based on local market execution, which is built on strong talent with clear expectation and performance management.

   New Approach: Reframe the role of branch team members around customer engagement (digital migration, account usage/primacy and relationship depth) with associated KPIs and empowerment around the daily routines that are successful in driving engagement and achieving better outcomes.

2. "We keep our compensation brackets up to date, which keeps us competitive with face-to-face sales and service."

   Problem: These brackets ensure you compete for legacy, traditional talent that turns over at 40% for some banks today. A continued focus on this approach may lead to adverse selection, filling your organization with the shallow end of the talent pool over time.

   New Approach: Break out of front-line compensation brackets and target people who excel at client engagement and aspire to a high-salaried position. Increase base pay, establish two-year "stay and perform" incentives. Establish rotating programs with other geographies and parts of the bank to encourage mobility.

3. "Although 80% of our workers prefer remote work, branch banking is a face-to-face business and we don't have the flexibility to offer hybrid work opportunities for our retail teams."

   Problem: This approach inhibits creative ways to accommodate work while addressing employee needs.

   New Approach: Create better integration with traditional branch roles and other functions and explore the location required for certain activities. Can branch team members focus on proactive outreach activities while working from home? Can branch team members remotely cover shifts within the customer contact center? Do your digital origination and support systems enable more human remote engagement?

4. "Sales and, more importantly, sales coaching is best served through face-to-face work. Tracking and coaching sales remotely isn't efficient and won't get us better results."

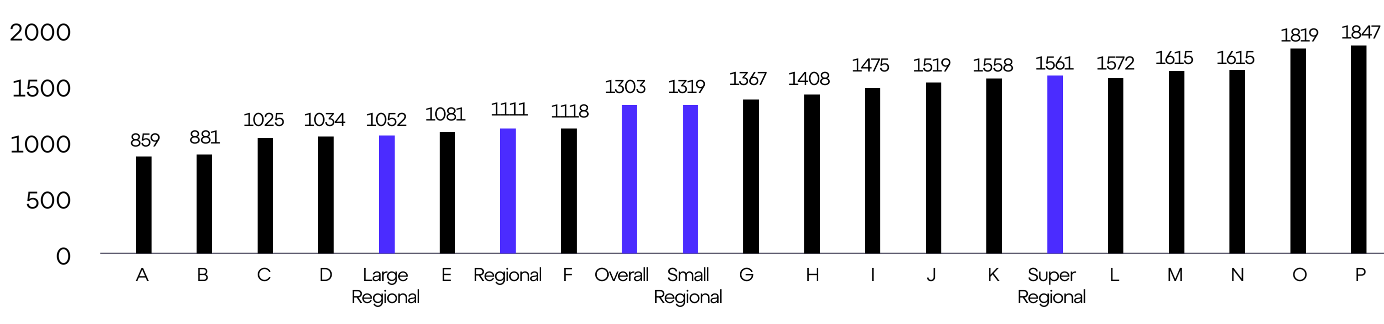
   Problem: While face-to-face, live interaction still plays a role in sales, it is unrealistic to coach hundreds or thousands of people at scale in a typical branch environment.

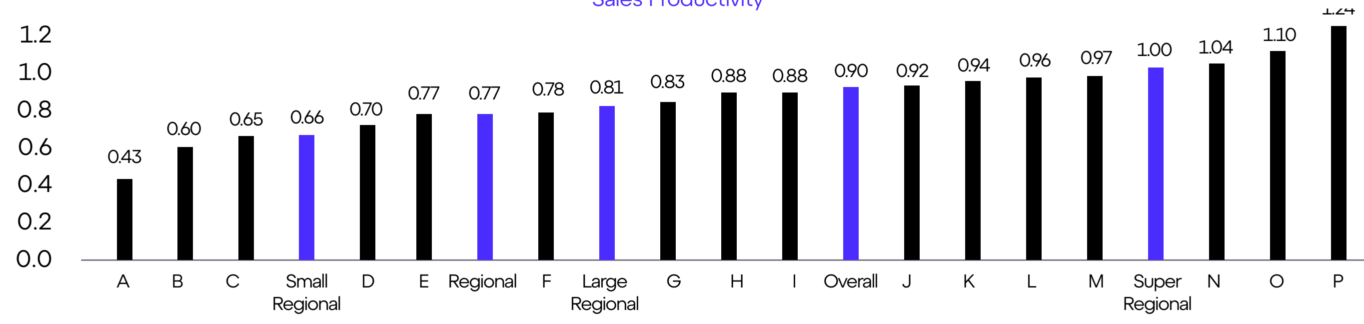
   New Approach: Role playing and practice is the most effective way to improve performance. Audio and video recordings are effective and efficient for practicing sales approaches and responses. Remote coaching at scale represents the next generation of training and development.

THE BUSINESS CASE FOR CHANGE

With the shift in consumer needs away from transactions toward advice, Curinos believes there is an opportunity to create a self-funding mechanism for this investment in talent. Using a sim-

Figure 2: Teller Productivity — Transactions per Month per Teller FTE, Jan 2021 — Dec 2021





Source: SalesScape Comparative Analytics

Figure 3: Improvement Opportunities

	Production Model	Customer Engagement Model
Staffing Expense	6 FTE ($335k)	5 FTE ($350k)
Attrition Expense	$31k	$14k
Combined Expense	$366k	$364k
Teller Transactions	-5%	-25%
Branch Sales	2%	7%
Digital Engagement	↔	↑
Relationship Depth	↔	↑
Net Promoter Score	↔	↑

Source: Curinos analysis

ple branch complement of 6.0 full-time equivalent (FTE) employees (2.5 tellers, 2 bankers, 1 manager), we believe a shift to 5.0 FTE (4 bankers, 1 manager) can be paid for through a 50% reduction in attrition costs by implementing these new strategies. (See Figure 3.)

There is an opportunity to drive improvements across multiple customer engagement dimensions, including digital usage, relationship depth and net promoter scores.

LOOKING AHEAD

These types of changes can't happen overnight and — depending on network size — they may be only suitable for segments of branches and/or segments of people. But for most organizations, the field-based people costs still represent a massive amount of invested operating expenses and capital on an annual basis.

Initial steps can be taken now, including radically changing performance metrics to focus on customer engagement rather than production. Adopt better analytics for human resources to help identify the best potential employees. Experiment with new hiring sources and pay scales. Other early actions include developing new remote digital training/coaching systems and testing new models for branch roles.

With the challenges of The Great Resignation and impact of wage inflation, organizations are battling to keep up. Those that continue to implement legacy approaches are missing opportunities to improve efficiency and productivity. Organizations that will lead the industry a few years from now are already looking to test their way into more advanced workforce models.

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How to Support Small Business Lending in a Time of Economic Uncertainty

By Lindsay Burkhalter

With record levels of inflation and a trajectory of continued rate increases in the foreseeable future, small businesses continue to be challenged. And owners want loans to help support their businesses and plan for future growth. Lenders can help, but they also must be sure not to hurt themselves during this period of uncertainty.

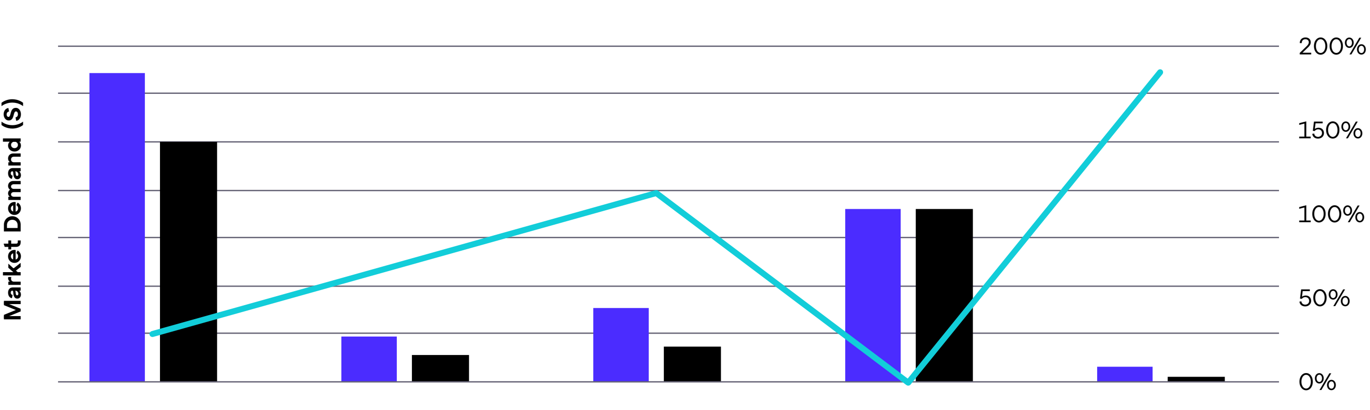
How can financial institutions best understand the concerns small businesses face in the lending arena today and how can they identify ways to present financial products and solutions to best meet their needs? Or more simply, how can they maximize the client experience? Curinos believes that lenders will need extra focus when analyzing client behavior to mitigate risk amid the current economic volatility.

RISING LOAN DEMAND

Although the worst of the pandemic is likely behind them, small business owners remain concerned about the future. The Small Business Optimism Index measured 93.2 in April, the fourth consecutive month it stood below the 48-year average of 98, according to The National Federation of Independent Business (NFIB).

Despite their concern about the future, owners feel like it's a good time to expand. The NFIB survey found that more than a quarter of them plan capital outlays in the next few months. That comes as demand for small business loan and line of credit products has increased nearly 30% year over year, according to

Figure 1: Small Business Lending — Market Demand ($) — May YTD



Notes: Consortium participant list is comprised of 10 lenders with the following coverage amongst U.S. banks: 6 of the top 10; 9 of the top 40; 10 of the top 70. Consortium product set includes Unsecured Loan and Line of Credit, Secured Loan and Line of Credit and Overdraft Line of Credit, as applicable.
Source: Curinos consortium data

data from the Curinos Lenders Benchmark for Small Business consortium. (See Figure 1.)

Our conversations with lenders indicate that small businesses are attempting to get "back to business" as the pandemic eases. Consequently, they are looking for sources of funding after depleting the funds they received from the Paycheck Protection Program. And high inflation is generating the need for additional small business funds to achieve their business goals.

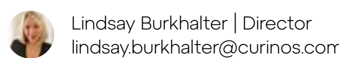
SATISFYING THE SMALL BUSINESS LENDING NEED

The pressure and financial strain that small businesses experienced throughout the pandemic is still prevalent on their balance sheet today. When financial institutions analyze the company's balance sheet during the loan application underwriting process and the impact of the pandemic is still apparent, the odds of that business being approved for the loan/parameters as requested are slim. This creates a strained relationship between the business and the lender. In addition, a poor client experience often leads the small business to look for alternate sources of funding via a non-traditional online lender.

When partnering with small business lending clients, financial institutions should consider the following to ensure they are both underwriting the client fairly, but also adequately mitigating risk:

- Re-evaluate the credit box. Are there more constrained rules that were put in place during the pandemic that can now be reviewed and potentially loosened in certain areas to best optimize the client's lending experience?
- Ensure all deposits (on- and off-us) are being considered in the underwriting process to get the most well-rounded picture of the client's financial position. Partner with a third party to develop the ability to pull off-us data within your originations system in an automated fashion to optimize the underwriting process.
- Evaluate the current rate structure on lending products. Can the lender increase rates to adequately cover risk while still remaining in the "sweet spot" (below average rates in the digital lending/fintech space)?
- Review the client's relationship with the lender. Do they have primacy? If the borrower doesn't have the business performance to justify the credit, the lender can assess the underwriting based on the entire banking relationship. Based on deposit balances/scoring, can the lender comfortably make a loan to the client that otherwise may not have been considered due to the client/lender relationship? More so, can the client receive a loan rate discount as a result of the primacy relationship?

This challenging economic environment isn't going away anytime soon. In fact, it will likely become more challenging throughout the remainder of 2022 and into 2023 as inflation remains high and interest rates rise further. In order for financial institutions to best serve small business clients, an ongoing review of lending underwriting process and procedure is necessary to ensure lenders are helping small businesses meet their lending needs and overall business goals. ■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At the Podium with Curinos

We are delighted to have resumed some live events in the past few months as we also continue participating in virtual events. Here is a sampling of them. Please reach out to the session leaders or *Curinos Review* Editor Robin Sidel if you missed any of these events and would like to know more about the content that was presented.

Brandon Larson, EVP, and Eric Edwards, head of partnerships, discussed the optimization of digital banking at the PSCU Member Forum in Las Vegas, Nevada on April 27. ■

John Sayre, head of customer success for real estate lending, discussed the re-emergence of ARM lending on the Rob Chrisman podcast on May 2nd. He also discussed mortgage lending at the ACUMA Deep Dive Workshop in Nashville on May 3. ■

Brandonn Dukes, EVP, joined Flagstar Bank for their monthly series called FLEX (Focused Learning, Education & Experiences) to discuss how to thrive in a raising-rate environment on May 12. ■

Olivia Lui, director, appeared at the SIFMA Operations Conference and Exhibition in Phoenix on May 16 and led a session called "Deposits and Cash Management with Rising Rates in the Wealth Landscape." ■

Rutger van Fassen, head of market and product strategy, moderated a panel titled "Harnessing New Tech to Meet the Needs of Consumers and Small Businesses" and presented "How Will Payment Experiences Evolve Into The Future?" at Finnovate Europe in San Fransisco, California on May 18 and May 20, respectively. ■

Lindsay Burkhalter, director, spoke on the state of consumer lending at the LendIt Fintech Conference in NYC on May 26. ■

Rutger van Faassen, head of market and product strategy, joined Nasdaq TradeTalks on May 31 to discuss the impact of the housing market and higher mortgage rates on consumers. ■

Ken Flaherty, senior consumer market analyst, joined mortgage analysts Rich Weiner and Christian Parry on a June 1 Curinos webinar to discuss "How to Transform Your Home Loan Product Solutions." ■

Olivia Lui, director hosted a Curinos webinar titled "Proving (and Improving) Your Marketing ROI" on June 9. ■

EVP Brandonn Dukes spoke about margin management at the Arizona Mortgage Lenders Association annual event on June 21. ■

Jacob Nygren, principal, discussed how to "Gain Control of Your Bank Fees Under Inflationary Pressure" in a June 22 webinar with GTreasury. ■

Directors Lindsay Burkhalter and Adam Stockton, and EVP Brandon Larson discussed "How are Consumers Responding to Higher Interest Rates?" in a June 23 webinar. ■

News you may have missed

A snapshot of relevant developments in recent months

APRIL

The FDIC said that any institutions it oversees must notify the agency prior to engaging in a crypto-related activity. The agency said it will request that the institution provide information so it can assess safety and soundness, consumer protection and financial stability implications. ■

Step, a digital banking app aimed at teens and young adults, announced plans to allow customers to invest, trade and accrue rewards in cryptocurrencies and stocks. ■

Cross River Bank said it was partnering with Revolut to offer personal loans for Revolut customers. ■

American Express announced a new program in which some of its cardholders will have access to a new financial-advice service from Vanguard. ■

SWIFT said it will enable institutions to connect to its financial messaging network and applications through public cloud providers Amazon Web Services, Google Cloud and Microsoft. ■

MAY

Swedish "buy now, pay later" fintech Klarna laid off 10% of its 5,000-member workforce, blaming the war in Ukraine, souring consumer sentiment, inflation, the volatile stock market and the increased chance of recession. ■

Agility Bank announced it had received approvals to open as the first U.S. bank that is primarily owned and led by women. The Houston-based bank aims to focus on serving women and small-to-medium businesses. ■

A Federal Reserve study conducted at the end of 2021 found that reported financial well-being reached its highest level since the survey began in 2013. The report, titled "Economic Well-Being of U.S. Households in 2021" also found that 6% of adults did not have a bank account, with higher numbers for Black (13%) and Hispanic (11%) adults. ■

A report from the Center for Retirement Research at Boston College found that retirees who have defined benefit pension plans draw down those savings more slowly than those with a 401K. ■

The CFPB said that lenders must explain credit denials to applicants even if they are using credit models that rely on complex algorithms. ■

JUNE

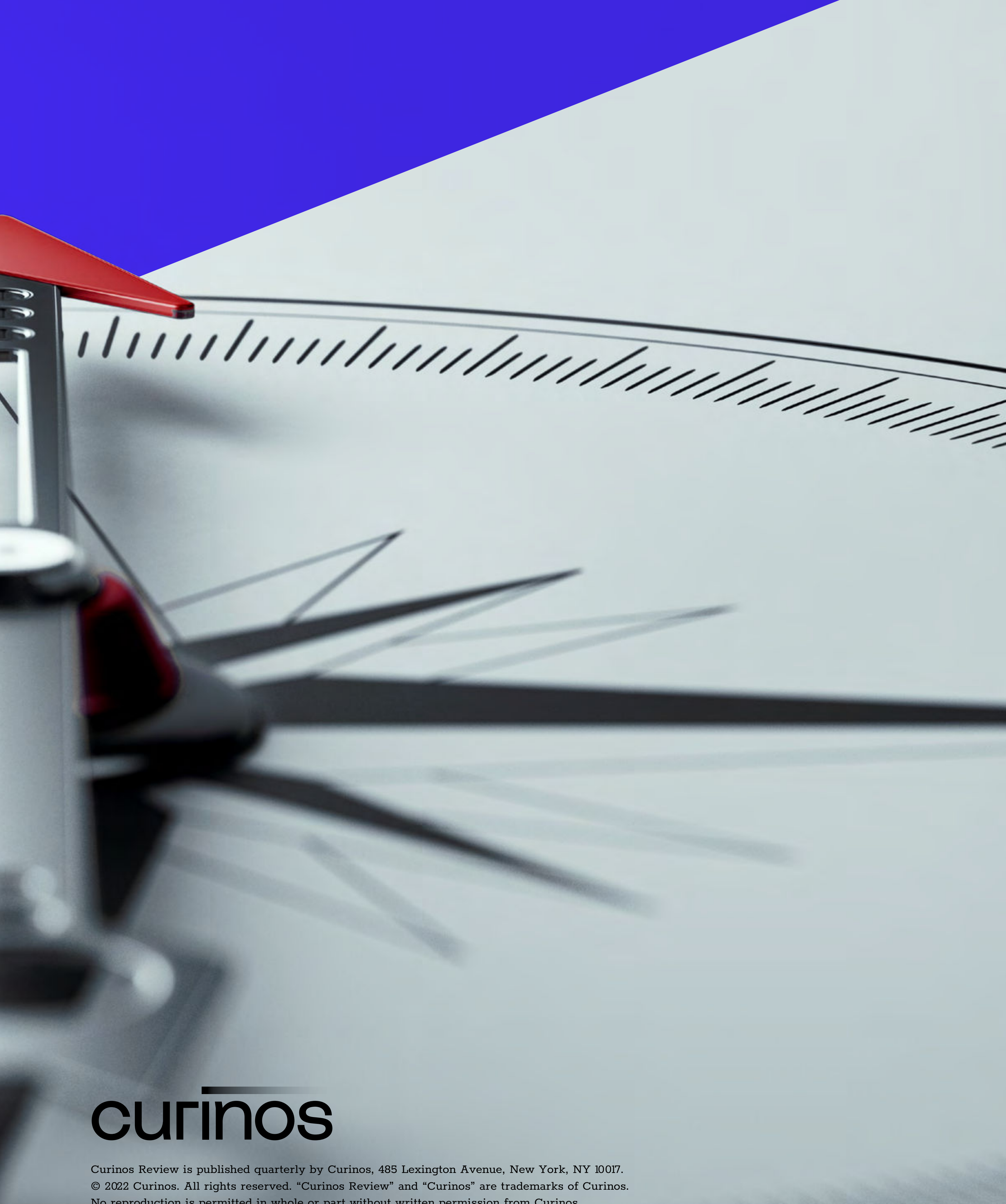
A report from PYMNTS and Lending Club found nearly two-thirds of U.S. consumers lived paycheck to paycheck in April, up 9 percentage points from the same time last year. It also found that slightly more than one in three consumers earning $250,000 or more annually are living paycheck to paycheck. ■

Online lender Brex is dropping some start-up business customers in order to focus on larger firms. ■

Starling Bank said it added 36 new categories to its spending tool to help address customer concerns about inflation and money management. ■

Zilch, a U.K. "buy now, pay later" company, launched operations in the U.S. The company has no fees or late charges and offers 2% instant cashback rewards. ■

The CFPB is seeking public comment about obstacles that customers receive when seeking information about their accounts at the 175 largest banks and credit unions. ■



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