

# IMPACT NOTE

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**Christine Pratt**  
+1.617.338.6011  
[cpratt@aitegroup.com](mailto:cpratt@aitegroup.com)

## **Top U.S. Lenders Answer Five Easy Questions: Learn to Dance in the Rain**

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## INTRODUCTION

Unemployment, natural and geopolitical disasters, unstable energy costs, and shaky automobile and real estate markets have caused U.S. consumers to stop spending and borrowing, and sometimes to stop paying creditors. This, along with regulatory interventions (CARD Act and SAFRA, etc.) resulted in a US\$500-billion-dollar drop in consumer loan balances in just two years. And even though the immediate recessionary crisis has abated, continuing high unemployment, soft demand for credit, and concern over embedded risk in mortgage portfolios are strong indicators that loan balances will continue to shrink.

This is not good news for retail lenders, which are used to contributing (through interest income earned) to their institutions' overall financial returns, or for the vendors that supply all manner of credit and risk-related technologies to the industry. In the way of all businesses during tough times, lending budgets have been cut back, cost justification has become inherently more difficult, and compliance has been prioritized over new technology initiatives. Despite all this, there remains a large volume of existing loans to be managed, and evidence of activity by lenders looking to secure technologies in order to manage risk, improve workflows, and launch new credit products; in short, lenders are looking to grow their retail loan portfolios.

## METHODOLOGY

During Q1 2011, Aite Group embarked on a project to gather and analyze information on how this emergence from crisis into an unknown landscape is influencing decision-makers engaged in refining and defining their institution's near-term and long-range strategic plans for retail credit. Twenty-one senior lending executives from the top 50 U.S. banks, thrifts, credit unions, and finance companies with roles in risk, operations, IT, product, and marketing participated. Interviews were conducted in a conversational format (rather than telephone survey format) with participants from the following:

- 16 banks, including seven of the top 10 U.S. lenders
- Three manufacturer-owned U.S. auto finance companies (captives)
- Two of the top 10 U.S. credit unions

Executives were asked the same 12 questions, including five (listed below) designed to elicit answers that would help Aite Group better understand the opportunities and challenges for technology in a rapidly evolving U.S. retail loan market. These five questions are:

1. What do you consider to be the biggest challenge that lending managers face in 2011?
2. Are you able to look beyond 2011—do you have a three- or five-year plan?
3. Where do you see your technology focus for the next three years?
4. On the subject of risk, what are the regulatory requirements that worry you the most for 2011 and the next two to three years?

5. From a technology solutions perspective, what is not available in the market today? What do you wish you could get and why? If it was available, do you believe you could get approval to buy it?

We also reviewed the results of Aite Group's 2010 survey of U.S. credit unions,<sup>1</sup> and, where appropriate, have incorporated our findings.

The primary purpose of these discussions, analysis, and resultant Impact Note is to provide meaningful guidance to the vendor community that is dedicated to serving the retail lending markets<sup>2</sup> with regard to where technology development and marketing efforts should focus, going forward. For retail lenders, the report provides intelligence and insight for comparison to individual institutions' directions in 2011 and beyond. Or, in other words, "what's new, hot, and keeping (other) lenders up at night."

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1. See Aite Group's Impact Report, [The IT Priorities of U.S. Credit Unions](#), February 2011.
  2. Product set includes mortgages, home equity loans/lines, direct and indirect auto loans, bank credit cards, personal loans and lines, small-business loans processed on consumer systems and/or managed by the retail bank, guaranteed student loans (servicing and default only), private student loans, and others. Agricultural loans are excluded.

## IN THEIR OWN WORDS

For most financial institutions focused on the retail landscape in interesting times, moving forward has become very tactical. Lenders with which we spoke were uniformly aligned with their organization's direction—each conversation and every answer revealed commitment to differentiation, simplification, security, and customer/member focus.

The following list of directives seems to encompass all existing initiatives:

- Increase revenues from existing customers
- Attract new customers
- Enable greater enterprise efficiency
- Protect the profits and the brand

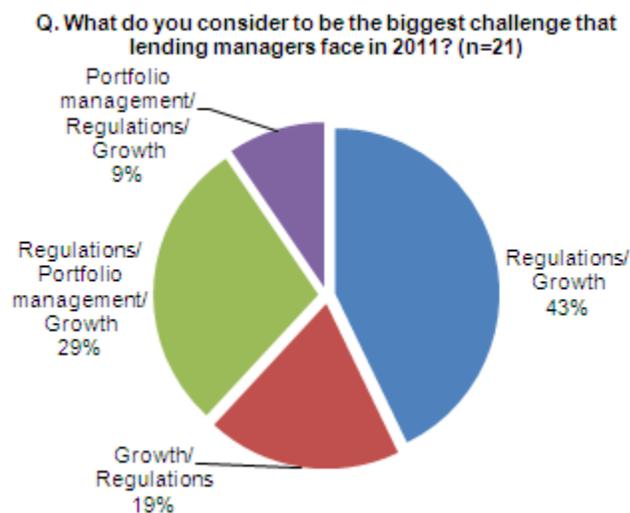
## THE BIGGEST CHALLENGE FOR LENDERS, 2011

The first question, "What do you consider to be the biggest challenge that lending managers face in 2011?" elicited both of these answers from all respondents:

- Regulatory uncertainty
- Portfolio growth

And 40% added a third answer: Managing troubled portfolios. Not surprisingly, these answers continued the pragmatic approach. Figure 1 illustrates the answers given, with first priority given to the challenge mentioned first.

**Figure 1: Lenders Cite Regulations as the Biggest (But Not the Only) Challenge**



Source: Q1 2011 Aite Group conversations with 21 of the 50 Largest U.S. retail lenders

## REGULATORY UNCERTAINTY

Executives found much to be concerned about in the regulatory environment for 2011 and beyond. In particular, the increased attention from state and federal regulators and the tightening of time frames for implementation caused significant disruption and cost to both human and technology resources. Capturing the issues most succinctly are these three responses:

- “We need to adapt and respond to more and more onerous changes.”
- “We know how to deliver for compliance; what bewilders us is the uncertainty and lack of direction—ultimately, who is the regulator? When states get involved, we get boutique rules that make it extremely difficult and costly to comply, particularly for institutions with a multi-state footprint.”
- “Demands for complicated processing changes such as the recent Regulation Z (Escrow for High Dollar Loans) or the short window for changes in mortgage disclosures are examples of requirements that necessitated significant systems modifications and/or strained processing resources at peak times (i.e., January 1st implementations). Everything else was put on hold while these requirements were met.”

The overall consensus on this question is that the industry lacks available solutions to respond to the regulators’ frequent demands for change. Several recommendations were made regarding systems being designed for agility and creativity that could respond to constant change. But when asked whether their institution be willing to make the financial and other investments necessary to secure and implement these if the systems were available, the answer was “probably not,” unless it could be cost-justified based on more than compliance needs.

Overall, with all the uncertainties surrounding the Dodd-Frank Act, the feeling is that 2011 will be a year in which not much gets done, technology-wise, unless it’s a quick fix, work in progress, or a decision (i.e., managed services) that does not impede the availability of IT resources when new guidelines come down.

## FOR GROWTH: PRODUCTS (AND CUSTOMERS) WANTED

Growing new business when no one (or no one that lenders wish to fund) wants to borrow continues to be a challenge. Finding the right people to which to lend is considered by traditional lenders to be the surest way to drive income and revenue. For 2011, the focus is on new product initiatives that can garner new loan balances and new customers. Mentioned as best opportunities are the following:

- **Automobile finance**, since the number of new cars sold in 2010 rose more than 1 million from 2009’s 10.4 million. Ultimately, the auto industry has some way to go before reaching its mid-2000 highs of 16.6 million new cars a year.
- **Unsecured personal loans** may replace some of the balances lost through Home Equity Lines of Credit (HELOCs) impacted by drops in home valuations. Unsecured personal loans are being used to reach out to under-banked consumers as well as to help meet the financial needs of consumers impacted

by regulations that, for example, limit payday lending and refund-anticipation loans.

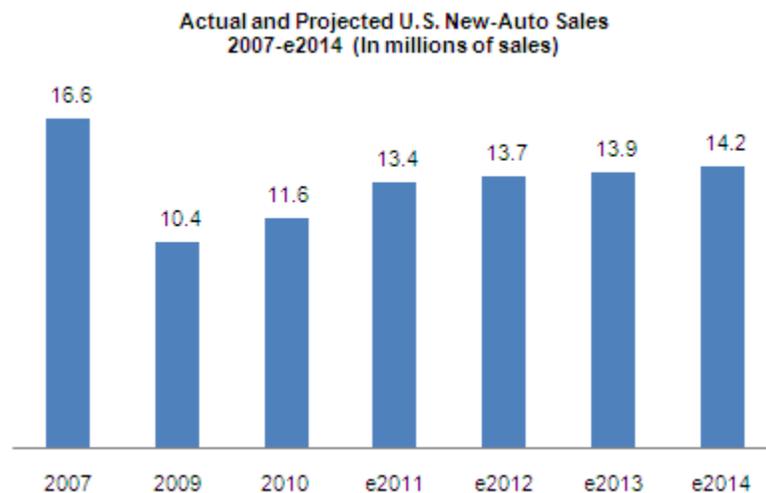
In addition, the need to have the deposit segment matched to the loan segment underscored every conversation, and lends substance to reports that solutions designed to simultaneously open deposit accounts and offer credit products are gaining traction.

The following sections describe in more detail the two credit product initiatives listed above as the best opportunities for attracting new customers and balances.

### Automobile Finance

How one views the slow but steady renewal of the auto finance business, as shown in Figure 2, depends on what type of institution the respondent represents. Captive auto finance companies complain about increased competition from new market entrants and converging players. Banks and credit unions, many returning to a business from which they moved away several years ago, now struggle to price competitively and profitably while delivering quick responses to applicants.

**Figure 2: New Auto Sales Expected to Move Gradually Toward Pre-Recession Levels**



Source: Aite Group and industry sources, including manufacturers' annual reports

Most agree that indirect loan origination solutions have added significant functionality, eliminating paper and moving information quickly between partners while improving overall customer service. Traditional lenders in the space focus on loan decisions and pricing secured collateral so that answers can be delivered quickly to the applicant. Both captive and traditional lenders say that they plan to invest in origination technology:

- Captives continue to look for efficiencies that produce more of a return for the parent,
- Traditional lenders seek analytics to price more competitively and to process more efficiently

Challenging both captives and traditionalists is the emergence of hybrid bank/captives such as Ally Bank (formerly General Motors Acceptance Corp.), which had received significant government funding, tax credits, and consumer deposits totaling US\$30 billion as of year-end 2010. Ally Bank now offers auto loans through diverse dealerships (e.g., Toyota, Chrysler, Honda, etc.), something that other captives typically do not do.

In addition, there is a new player on scene with Canada-based Toronto-Dominion Bank (TD) buying Chrysler Financial. This gives the deep-pocketed bank instant access to a U.S. auto market (and customers) that is significantly larger than the Canadian market (2010 new car sales in Canada 1.68 million totaled, compared with 11.6 million in the United States). Chrysler Financial also brings experienced technical and sales staff, as well as the capability to efficiently process more than 2 million credit applications each year. This positions TD to compete with Ally and other bank auto financiers for a customer group that is tepidly growing and maintains a high 30-day delinquency rate of 3.15%—a percentage that is expected to remain high until the job market corrects.

### Personal Loans

2011 is the year in which lenders have begun the process of re-thinking their product set and customer base. According to lending executives, analytics and data are prioritized in technology spending, and information is critical. Back to basics, particularly in credit policy development, is the watchword. At the same time, old products are being dusted off and re-examined, as is the case with unsecured personal loans and 30-, 60-, and 90-day notes, which may become building blocks for new offerings.

Unsecured personal loans have been popular with lenders and consumers alike. Lenders with growing portfolios of these loans express concern over inefficient processing and suggest that one solution that will process all consumer loans is needed. Unfortunately, respondents commented that the probability for IT funding is low. Something to consider would be that unsecured personal loans were the foundation of credit card loans, and have been fundamentally unchanged since they were replaced by credit card loans; technologies may be available to help streamline processing without significant IT investment required by the institution.

### PORTFOLIO MANAGEMENT

While first up in prioritization is growth, many lenders are paying significant attention to overall portfolio management. One respondent cited the landscape of treasury changes as a key concern, and went on to explain that it was all about keeping people in their homes, at first, and that it is now embedded risk—foreclosure delays and the end result—that takes everyone's attention. From a budgeting and investment standpoint, Aite Group has taken the following position in a 2011 report on IT spending on default solutions: "There is opportunity in building new modification, foreclosure, and asset management functionality and in delivering it as managed services. There is money on the table."<sup>3</sup> Our executives' answers indicate that

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3. Aite Group Impact Note, [IT Spending on Retail Credit Default Solutions: If You Build It, Will They Come?](#), March 2011.

managing the existing retail loan portfolio (particularly to mitigate future losses) remains high on the list of 2011 challenges.

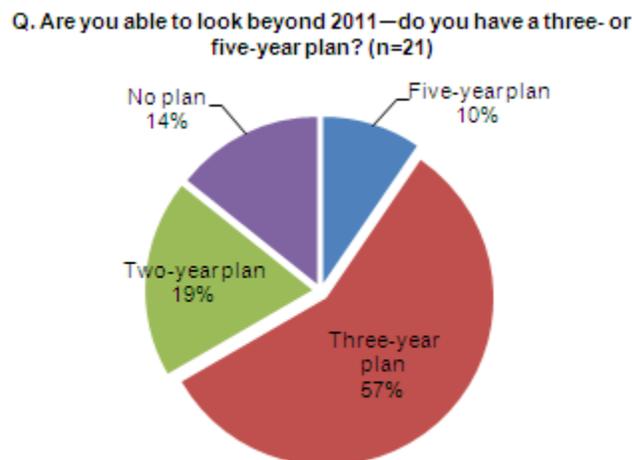
## BEYOND 2011: A THREE- TO FIVE-YEAR PLAN?

Existence of three- to five-year plans in financial institutions, particularly for technology investment, is legendary. So to level set the playing field, we asked the question, “Are you able to look beyond 2011—do you have a three- or five-year plan?” The question elicited many different responses. Following are some of the more colorful:

- “We say we have a three-year plan, but we like to do a lot on the fly.”
- “Bank has a five-year plan; our area plans operate on status quo.”
- “Yes, quarter to quarter.”
- “Not really—mergers trump IT plans.”

When overall responses are aggregated, as shown in Figure 3, it becomes clear that most institutions do have at least a three-year strategic plan—these days, it just doesn’t appear to contain any (or many) new credit initiatives. This is not unexpected, given the recent paucity of returns from the credit portfolio and the lack of confidence that many institutions show in a consumer-driven credit environment not easily understood or anticipated. The 2010 Aite Group survey of credit unions confirms this assessment, with more than 55% of respondents expecting some level of increase in their IT budgets. Among their top 10 technology investments expected 2011 and 2012, however, not one credit-specific priority makes the list.

**Figure 3: Most Lenders Work From a Strategic Plan**



Source: Q1 2011 Aite Group conversations with 21 of the 50 largest U.S. retail lenders

## 2012 THROUGH 2014: A TIME FOR CHANGE?

Setting the stage for this next question—“Where do you see your technology focus for the next three years?”—is one executive’s answer to the previous one: “The last few years have been about can you get by with what you’ve got; now seeing a shift to what would you like to do. Let’s plan and budget—funding will still be tough.”

Despite the 2011 technology-initiative holding pattern our lending executives described, most say they expect some measure of technology-development support to resume, beginning in 2012, followed by reasonable growth going forward. Whether speaking from positions in product, operations, or IT management when looking at long-range direction, the answers are surprisingly strategic and similar to one another:

- Increasing focus on customers, data management, and integration
- Analytics as key to almost all initiatives
- Budget dollars will go to commercial loan (including real estate) processing

## GETTING SERIOUS ABOUT CUSTOMER MANAGEMENT

Nearly every answer to this question began with some form of, “we have to know more about our customers.” This is not the lip service of CRM, 360-degree view of the customer, customer delight, or any of the other buzz phrases associated with pre-recession days, but certainty that more and better data management with accessibility across product lines and channels is a critical piece of improving financial performance.

All this speaks to channel, product, and solution integration, the capability to manage knowledge in multiple data bases and ensure delivery and analysis when it is received—and conversely, received when it is needed. While knowing one’s customers resonated through most responses, the greatest urgency on this subject came from the very largest (bank) lenders, and was interspersed with their need to correct regulatory/risk reporting inadequacies.

Lenders also talk about improving data or information management, citing their inability to get at it and their perception that ways of doing so are too costly. The feeling is that core lending technologies are not nimble enough to help institutions move in that direction. Some believe that their institution will get serious about consolidating multiple lending solutions in the 2012 to 2014 timeframe.

## ANALYTICS KEY TO SUCCESSFUL TECHNOLOGY INITIATIVES

Most respondents agreed that in order to be successful in the coming years, lenders would need to embrace technology solutions that could attract business, drive out costs, and take care of the “good” customers. Several respondents talked about pursuing holistic onboarding solutions and origination solutions with the goal of delivering actionable information to portfolio management solutions. These solutions depend on decision analytics for workflow improvements and credit risk management, and have an additional benefit of enabling loan and deposit account opening, meeting the need for deposit and loan segment togetherness expressed in earlier answers. They

spoke of “building up collections capabilities with analytics” as opposed to new, more expensive solution purchases.

Specifically, lenders said they sought tools for pricing in both commercial and consumer credit; credible scores for income verification and collateral valuation—in particular, for home equity. Overall, lenders are looking for more transparency and inclusion of internal data in credit-scoring models, along with more frequent updates. Respondents feel that the integrity of analytic tools is often being questioned by the regulators, consumer advocates, and the like, impeding their ability to carve costs out of the origination process, in particular.

The example of this worry mentioned most often was that banks may no longer be allowed to use Automated Valuation Models (AVMs) in any area of real-estate lending. The concern that in-person appraisals would be required on every real-estate-secured loan, with the costs and delays that would introduce (particularly in the home equity process) was voiced more than once during the interviews.

### COMMERCIAL LOANS TAKE CENTER STAGE

One surprise from this group of primarily retail lenders was the attention placed on technology improvements for commercial loan processing—not only for Basel compliance, but also to get more clients and to price correctly, noted one executive. Many said that they wished commercial loans had the solutions and analytics available that presently automate consumer loan processes. Others believed it is well past time to change and standardize commercial processes, in particular consolidating underwriting and loss mitigation. The next important step for these lenders is automation to achieve a “once and done” capability.

Many pointed out that their most important commercial loan segment is their small-business portfolio (in part because of the fee-based revenue it could generate through cross-sales of fee-based business products). They spoke of planned investments in the years to come, in particular to integrate consumer and small-business data—not only for customer management and cross-sell, but also to improve small-business collections capabilities. Table A lists the 2010 top providers of micro- and macro- small-business loans.

**Table A: Top 10 Lenders of High- and Low-Dollar Loans to Small Businesses**

	Lending institutions with largest portfolio of micro-loans (<US\$100,000)	Lending institutions with largest portfolio of macro-loans (>US\$100,000 to US\$1 million)
1	American Express	Synovus Financial
2	Capital One	First Citizens Bancshare Inc.
3	Ally Bank	Zions
4	GE Money Bank	B.B. & T.
5	JPMorgan Chase	Fulton Financial
6	Wintrust Financial	Wintrust Financial

	Lending institutions with largest portfolio of micro-loans (<US\$100,000)	Lending institutions with largest portfolio of macro-loans (>US\$100,000 to US\$1 million)
7	U.S. Bancorp	People's United
8	Bank of America	Bancorpsouth
9	Lauritzen Corporation	Popular Inc.
10	B. B. & T.	Regions Financial

Sources: Aite Group and Small Business Administration from call report data

## TOP REGULATORY WORRIES, 2011 TO 2012

Our group of 26 lending executives had no dearth of responses when asked, "On the subject of risk, what are the regulatory requirements/changes that worry you the most?" The purpose of this question was to take the industry regulatory risk pulse, and at the same time raise awareness of any interdicts not widely viewed as disruptive.

In addition to the specifics chronicled below, some executives look at the subject from a higher-level perspective. They believe that the true concern is the ongoing delivery of new regulatory changes to the customer. Ensuring that the institution has the correct interpretation of any given regulation and that all is delivered correctly and consistently to customers across multiple channels (with the capability to measure and report) is mission-critical to maintaining reputation and trust.

### FCRA (FAIR CREDIT REPORTING ACT)

The FCRA is a pillar of the platform upon which the U.S. consumer credit industry is built. It prevents states from regulating institutions on an individual basis with regard to consumers' access to credit. The theory is that credit should be available equally to all consumers, and that credit should not be administered state-by-state as insurance is today. In effect, when it comes to specific issues such as privacy and other uniform credit provisions, states are not allowed to take unilateral action.

States (via the person of a state attorney general) do attempt to seize regulatory control from time to time, but the courts have thus far not allowed it. The concern is that the Dodd-Frank Act—and more specifically, its Consumer Financial Protection Bureau—will be able to lift these exemptions. Lenders based in more than one state told us they believe that the results of lifting the exemptions would be extremely disruptive.

### THE DODD-FRANK ACT

It comes as no surprise that fallout from Dodd-Frank is on everyone's mind, with most citing the uncertainties of implementation and the lack of leadership and direction as cause for concern. One executive summed that up best: "Tell us what to do and we will do it; that is what we expect. It is also what is not happening."

Others worried about new Dodd-Frank changes that could bring unforeseen results. A few saw the Durbin Amendment as a game-changer in their institutions as well as their lending groups. And some expressed concern about how Dodd-Frank would impact acquisitions integrations.

**S.A.F.E. ACT, ET AL.**

The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the S.A.F.E. Act) and all of the others associated with real estate lending are highlighted by multiple respondents as “disconcerting.” Of particular concern were the never-ending changes to disclosures and mortgage documents, the arbitrary ban from use of credit-related tools such as AVMs, and foreclosure moratoriums. Our auto lenders weighed in here, as well, noting unwarranted complexity in changes to documents on collateralized loans. In addition, new and overwhelming paperwork associated with some new government programs in mortgage and small-business lending have inhibited adoption attempts and frustrated already-strained resources. Table B details some of the more challenging disruptions of 2010, as measured by the number of times respondents spoke about them in our survey.

**Table B: Significant Regulatory Pain Points for Lenders in 2010**

High impact: 6-10 mentions*	Medium impact: 1-5 mentions*
Loan modifications	CARD Act
Real-estate policy changes, including the S.A.F.E. Act, Reg. Z	ID verification and anti-money laundering (auto finance and HELOC)
Real-estate procedural changes and disclosures	Non-real-estate changes to collateral management rules on secured loans
Dodd-Frank Act	Durbin Amendment
	Service Members Civil Relief Act (SCRA)

Source: Q1 2011 Aite Group conversations with 21 of the 50 Largest U.S. retail lenders \* Listed by most to least number of mentions

**TECHNOLOGY WISH LIST**

The fifth and last question is, “From a technology solutions perspective, what is not available in the market today? What do you wish you could get and why? If it was available, do you believe you could get approval to buy it?” Again, there were some very similar answers; Table C lists and prioritizes by the number of requests the IT solutions cited by all as being currently unavailable, and for which funding would be secured if it were available:

**Table C: What Lending Executives Really Want**

Respondents’ Technology Wish List, 2011
1. One loan origination solution for all consumer loans and leases
2. Intelligent workflow tracking and reporting for enterprise risk management
3. True multi-channel seamless integrated platform

Respondents' Technology Wish List, 2011
4. Quality, accessible enterprise data for analysis; inclusion of internal data in internal/external analytics models
5. Solutions and analytics for consumer and commercial asset management, enterprise-wide
6. Predictive analytics for consumer account management activities
7. Collections activity workflow tracking
8. One processing system for all loans
9. Improved analytics for small-business loan origination and collections
10. 100% virtual environment for funding

Source: Q1 2011 Aite Group conversations with 21 of the 50 Largest U.S. retail lenders

### MOST WANTED: ENTERPRISE RISK DASHBOARD

The premise here is that it is beyond U.S. institutions' capabilities to achieve a holistic view of risk across the institution—and this is due to many issues including silos, lack of integration of systems and channels, and multiple data repositories. Reduced to its lowest denominator in the universe of risk, the question bewildering most is, "Who is in control?" There remains a large group of regulators, and new regulators with undetermined agendas are emerging. Retail and commercial sectors within most banks have numerous regulations, responses, and actions to track, such as the Bank Secrecy Act from the deposit side; FCRA from lending, internal, and external audits; and many more. Thus, the "What if There Could Be" award goes to middleware that enables open applications to exchange data, then turn data into information, which is then managed in transparency. Ultimately, actionable information available in real-time would be presented to the risk executive and other C-level management on personalized dashboards.

### SOLUTION MOST WANTED: LOAN ORIGINATION

From respondents large and small came the request for one loan origination solution to cover all consumer and commercial product types. Right now, different solutions exist for different products, and that increases complexity in processing and inhibits similar treatment of customers. Solution would need to be adaptive, end-to-end, and with expanded functionality to eliminate workarounds. Solution should also be flexible so that the user could respond to most regulatory changes without IT intervention. And origination processing would deliver information at the account level to servicing and collections-processing solutions.

### OTHERS OF NOTE

**A true multi-channel seamless integrated platform** that is another multiple response under the category "solutions lenders don't think exist." They want all information to be available at the call centers, online, and operations; in fact, at every touch point. According to survey participants, this would be the piece that would enable lenders to really build customer relationships and allow customers to deal comfortably with the lender.

**More data and predictive analytics** for individual products and processes, specifically:

- For the product side is lack of information around small-business loans
- From the default management process side:
  - Integration of consumer data with consumer-based small-business data
  - For mortgages better modeling, scoring on strategic defaulters, in particular pro-active, risk-based segmentation, and proactive predictability
- For commercial lending, specifically designed tools to:
  - Know how the book is going
  - Understand the total borrower exposure
  - Increase convenience to the customer
  - Improve the sales efforts (Salesforce.com is viewed as the best example of a desired system by two bank lenders)

## RECOMMENDATIONS

Responses to this Aite Group survey were candid and thoughtful, and provide insight for lenders and vendors struggling to function effectively in this far-from-normal retail credit market. Despite having too much work, too many regulations, and not enough technology, budget dollars, or time, our credit executives share a belief that people and technology can still make a difference. There is a saying that life isn't about waiting for the storms to pass; it's learning how to dance in the rain. And "Learn to dance in the rain" is exactly the sum total of the answers that we heard.

Aite Group makes the following recommendations to lenders of all sizes:

- **If your institution is focused on CRM initiatives, maybe you can play.** Discretionary budget dollars are not easy to find, and will most likely be directed to profit centers. Still, credit areas have forward-thinking, experienced leadership that can be involved in, for example, enterprise activities to identify, keep, and market to profitable customers. Deposit accounts have seen a large influx of funds over the last year, and onboarding new deposit accounts might be another IT initiative willing to expand the scope to credit accounts for assistance from experienced project staff. Just be certain that the project fits your needs.
- **Do not overlook that which might impede your forward progress.** While we heard concerns about compliance and technology inhibitors, there was little to no awareness expressed about competition for loan customers, particularly from online brokers (e.g., Biz2Credit, Boefly). The aggregator's goal is to disenfranchise, and they can make traditional lenders look slow and inflexible. Online brokers are a favorite tool of convergence, and have recently taken aim at the small-business loan market. Lenders' usual (and poor) response to this type of threat is to lower standards in order to compete; the better way is to study what they do and learn from it, and then do it better.
- **Look beyond new car sales in the auto finance space.** With the rise of HELOCs and cash-out mortgage refinances, the U.S. consumer learned to self-lend. With the decrease in home valuations, HELOCs and/or mortgage refinances are no longer viable options. There has been a rapid growth in the auto refinance market in the last two to three years as consumers learned to deal with this economy and a need for cash (e.g., private school tuition, college, a leased car to be bought) that can't be met by smaller loans. There is a market for automobile refinancing, so tap in; no obvious technology investment needed.
- **Remember that certifications do not mean the disappearance of fraud.** Sometimes the problem with regulations is that they bring a sense of security for processors. Licensing third-party brokers should be the beginnings of channel vigilance in mortgage and home equity markets—not the end. Indirect auto lending solutions have long had built-in fraud analytics to guard against third-party fraud and compliance risk. These analytics are extensible to the real estate market; mortgage and home equity lenders should take the time to investigate both their exposure and available mitigation tools.

Aite Group makes the following recommendations to technology vendors:

- **Focus on the customer is no longer lip service.** What Aite Group hears from the smallest to the largest lenders is the need to find new customers and identify (and keep) the profitable ones. No longer are loans just rolling in, anywhere. If your solutions are geared to improving satisfaction and retention levels or new customer acquisitions, there should be some opportunity for you. Take the time to target lenders (those involved in mergers and acquisitions are best) with large volumes of loans to process, and work with them to build the cost justification.
- **Stop shopping the big picture.** This Impact Note details the tactical focus not only of retail banks, but of lenders as well. If this is your space, then target your audience and tailor your presentations to what they need. If you have an onboarding solution—which is generating interest, according to our findings—search out those lenders that don't have the capability to open deposit and loan accounts at the same time. But remember that you'll lose them if you pitch a core-replacement initiative.
- **Play to your strengths and their needs.** If your company can design and build a loan modification solution (and if you have a credible origination workflow and decision engine already, that's a good start) then find a lender partner, get it done, and offer it as a managed service. It is a real need, not disappearing soon, and lender after lender said that they can easily justify the purchase.
- **Analytics providers: There is much need for tools.** Many lenders spoke about analytics: predictive, pricing, adaptive, as well as real-time delivery and product-specific processing support. Mortgages and small business are two loan products that are consistently referenced with specific examples in this report. Of course, analytics rely on data, so be prepared for questions about transparency, refreshes, and inclusion of internal data.
- **Commercial loans are suddenly very hot.** And what lenders are asking for is a straight-through processing system. No one seems to expect a big R&D effort, and it may be that what they really want is better analytics to help in the decision and portfolio management process. Nevertheless, it is the first real technology interest in this area in many years.

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## CONTACT

For more information on research and consulting services, please contact:

**Aite Group Sales**

+1.617.338.6050

[sales@aitegroup.com](mailto:sales@aitegroup.com)

For all press and conference inquiries, please contact:

**Patrick Kilhaney**

+1.718.522.2524

[pr@aitegroup.com](mailto:pr@aitegroup.com)

For all other inquiries, please contact:

[info@aitegroup.com](mailto:info@aitegroup.com)