

Lonely Lenders

By Joseph Rosta

As if the banking sector didn't have enough trouble, consumer borrowing will be tepid this year. The picture, according to research from TowerGroup's consumer-lending practice, is dismal: "During 2008, many top-line metrics (lending volume, revenue, profits, home sales, home prices, automobile sales and college costs) will worsen, negative headlines will continue, and regulatory burdens will increase," states the company's 2008 report, "Top Business Drivers, Responses and Technology Initiatives in Consumer Lending."

"The volatility of consumer-lending markets has forced consumer-banking divisions of financial services into a defensive mode," notes Bobbie Britting, senior analyst for consumer lending at TowerGroup. Banks can expect "big volume decreases, in the 20 percent to 30 percent range, in auto loans," says Britting. She points to Mortgage Bankers Association predictions of decreases in mortgage volumes of 14 percent in 2008 and 15 percent in 2009. Home-equity-loan volume is projected to decline five percent to eight percent, while student-loan volume should experience flat to mild growth, Britting adds.

So what's a bank to do? Focus on streamlining and automating. "To combat all these struggles," continues Britting, "banks should accelerate the automating of business processes wherever possible." Price-optimization software would also buoy results, she notes, allowing institutions to use "one thousand different prices points." Auto finance company AmeriCredit has implemented the Nomis Price Optimizer and garnered \$4 million in efficiency gains in the first quarter of its use, for example.

Collection is another area ripe for improvement. Lenders should be "looking at what you can do differently," Britting observes. "Say you have a customer with six accounts who is delinquent in only one. You should use a different kind of collection than for a single account customer." Better targeting would increase success rates. Home-based collection services allows flexible hours and improved response; so does the ability to move customers easily from automated-voice to human-voice interaction. And lenders must show greater flexibility "in rewriting notes. When will a deferment help? When will it simply delay the inevitable," she says.

Britting highly recommends the implementation of service-oriented architecture, noting that segmentation is an option. "A lot of technology vendors can weave in programs here and there. Process pods can be routed to origination, fraud, risk and other applications," she says. Speaking of risk, banks need to automate red flags at the loan-origination stage. While software could accommodate a zero tolerance policy for price overrides, most institutions are unlikely to "implement such a strict policy," believes Britting. But there are fraud detection and prevention that can alert lenders to "multiple loans on a unique property" and other risks.

Taking these steps will help the bottom line, but they won't create borrowers. The decline in consumer lending volume "will flatten out to reverse in 2009," says Britting. But the report raises the specter of continued turmoil: "TowerGroup expects that the subprime mortgage crisis will lead to more losses and layoffs, and anticipates the possibility of new crises emerging in other types of highly leveraged instruments in 2008. ...The adverse impact on consumer lenders and IT vendors would be even greater than outlined here."