

# Market Insight Snapshot

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## **Consumer Loan Process: Adapting to a New Economy**

*Tightening credit market brings changes in consumer needs and lending requirements*

November 10, 2009

The consumer loan process has been transformed at all points due to the ongoing economic turmoil. From the consumer seeking a loan to the underwriting process and bank criteria – all points on the lending continuum are adapting to reflect the new economic realities. The realities manifest in more stringent lending processes designed to better assess risk and manage overall portfolio performance.

The lifecycle for most consumer loans follows a linear process -- from application, data entry, underwriting, customer acceptance, documentation to portfolio monitoring. Each of these elements in the process has taken on more stringent review standards and lending requirements. Both financial institutions and consumers can benefit from an awareness of the shift in lending policies.

Experian Decision Analytics' annual Benchmark Report *Consumer Lending Edition* provides detailed data that supports this shift.

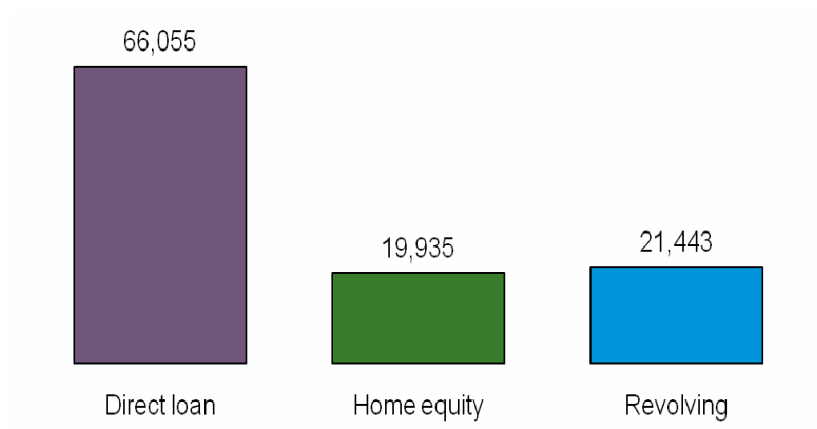
### **Shifting Consumer Demands**

There is an overall shift away from home equity loans to revolving loans across all regions of the country over the past year. This is largely due to the decline of home prices affecting nearly all states.

Applications processed for direct loans were more than triple that of home equity loans in 2008.

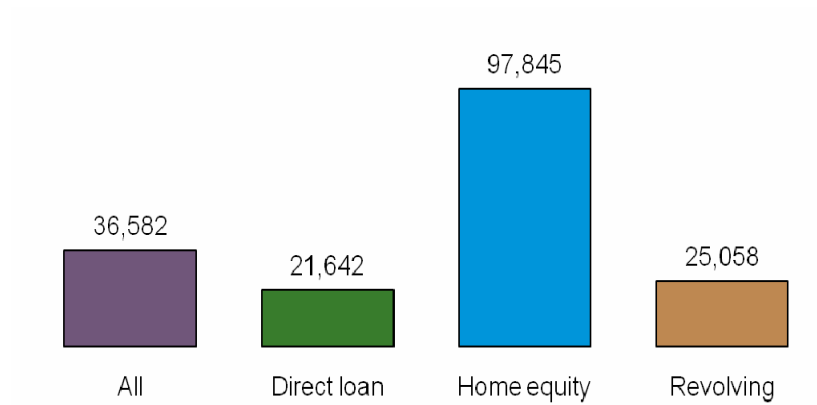
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### Number of Applications Processed in 2008 by Product



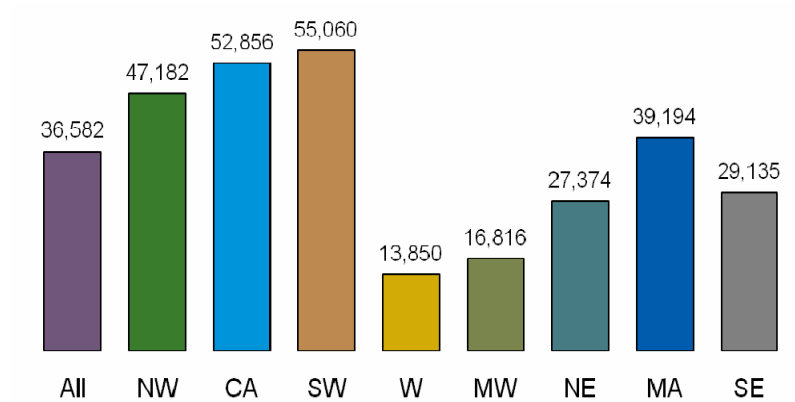
While the number of home equity loan requests declined, the amount requested per application increased by 20.86 percent. The average credit request increased by 24 percent from last year's average. This significant increase is in contrast to the economic environment and the reduction in consumer spending. A possible cause may be small business owners' attempts to maintain the solvency of their enterprises through the utilization of their personal credit.

### Average Credit Request by Product



Average credit request size appears to also be a function of location as there are significant regional differences.

### Average credit request by Region

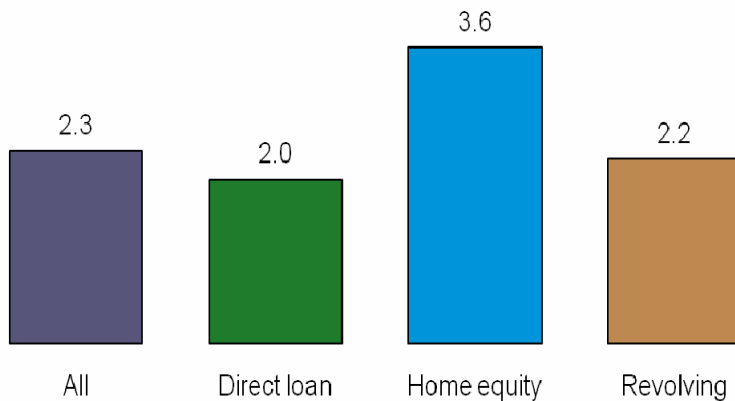


The regional differences are, at least, partially driven by home price stability, which differs from region to region and state to state.

### From Application to Approval: Impacts on Consumers

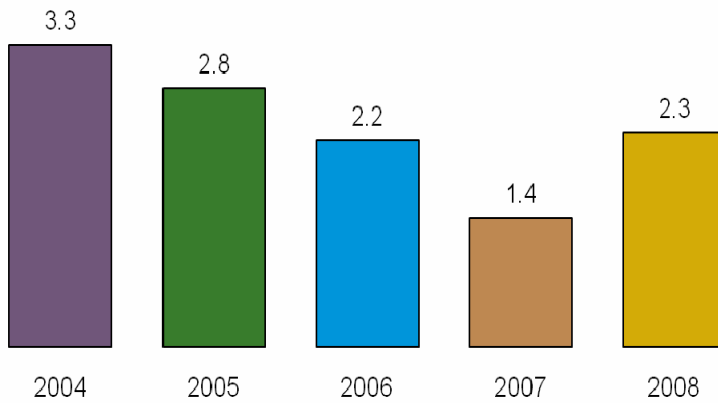
Consumers applying for a loan (non-mortgage) in 2008 waited on average 64 percent longer for an initial decision that just one year ago. In 2008, the average time to initial decision was 2.3 days. This is up from 1.4 days just one year ago. This is indicative of more stringent review and verification processes in place across all financial institutions.

### Application Turnaround Time by Product



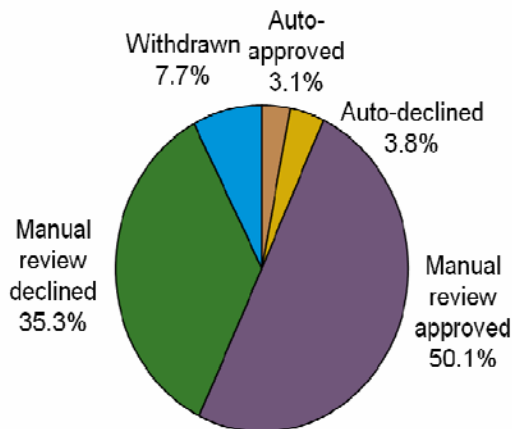
The trend line over the past five year period illustrates the more relaxed lending policies in 2006 and 2007.

### Application Turnaround Time Trend



The mode in which decisions are now rendered has also shifted during this past year. Complete autonomous decisioning is on the decline as more institutions require more thorough reviews by personnel.

### Auto-Decisioning Occurrence



There has also been a shift in the reasons for declination of a loan application. In 2008, the factors of unfavorable financial ratios and unfavorable credit report were most often identified as the reasons for an unapproved loan request. Several factors including increased credit delinquencies, credit line reductions and increased utilization likely contributed to this scenario.

**Top reasons why loans are declined**

Reason	Frequency
Unfavorable credit report	26.2%
Other unfavorable financial ratios	26.2%
Derogatory credit	21.5%
Unfavorable debt to income ratio	13.6%
Ongoing collections action	10.7%
Unfavorable personal characteristics	9.1%
Insufficient collateral	5.6%
Bankruptcy on record	4.7%
Other	1.2%
Incomplete information	0.9%

The economic environment has shifted the behavior of both the consumer and the lending institutions. Both must adapt and prepare for what will likely become the new standards. As lenders continue to manage current portfolio risk, they will continue to be vigilant in minimizing risk associated with continued lending. As is expected, consumers maintaining high credit risk scores and a good credit history will find easier access to lending, although still subject to the increased application scrutiny.

**Methodology**

The data and analysis used for this snapshot are included in Experian Decision Analytics' annual Benchmark Report *Consumer Lending Edition*, based on a comprehensive review of Experian Decision Analytics' proprietary Bank2Consumer electronic database complemented by client survey results. The Bank2Consumer database for this analysis contained data from more than 106,000 consumer loan applications entered by 49 financial institutions.

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