WHITE PAPER | August 2019

THE CUSTOMER VIEW:
HELOC Buyer Behavior Trend Analysis

Implement new strategies that are more customer centric and that engage the client throughout their banking journey.

nomis

Research was conducted on U.S. consumers who have opened a HELOC in the past 12 months, resulting in actionable insights for today's leading lenders.

INTRODUCTION

Marketplace lenders are disrupting the lending industry by making the process easier, faster, and more customer centric. In response, traditional banks are implementing new strategies that are more focused on the customer and that engage said customer throughout their journey with the bank. But… are they doing enough?

Recent research into customer preferences as they relate to home equity lending has revealed that banks need to better engage with customers to truly understand their needs and expectations, and then guide them to optimized Home Equity Line of Credit (HELOC) product offerings that precisely meet their needs.

In this informative white paper, we evaluate U.S. consumers who have opened a HELOC in the past 12 months—either with their primary bank, a traditional brick-and-mortar bank, or with a marketplace lender. Readers will develop insights regarding how they selected their product across competing HELOC offers, as well as how and why they made specific decisions across these competing products. For example, the use of unsecured personal loans, cash-out refinance, etc.

We hope you find these insights actionable in terms of product management, product marketing, customer experience (both in branch and online), and pricing decisions.

SETTING THE STAGE

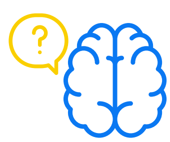
Borrowers have been hit with sequential interest rate hikes in the last few years, with the Federal Reserve raising interest rates nine times since late 2015. Now, it looks like the high-water mark has been reached. At the end of July 2019, the central bank reduced its benchmark Federal Funds rate by a quarter-percentage point and signaled the possibility of more rate decreases ahead. For borrowers, this is good news.

With interest rates on lending products trending downward again, mortgage refinancing will pick up, and HELOCs will become an attractive option for gaining access to cash for home improvement, debt consolidation, and paying off student loans.

Further, with consumers increasingly aware that alternatives to their current bank exist— both locally and on the web—the savvy consumer is evaluating a range of lenders. At the same time, competition from lenders for these loan applications will increase, with banks well-positioned to offer HELOC products to their existing mortgage customers.

But are they prepared to engage with this lucrative market? Do they understand the mindset and purchasing patterns of the Gen X and Millennial homeowner? To find out, Nomis Solutions surveyed a nationally representative group of consumers who had secured a HELOC over the past 12 months.

We asked them about their expectations, experiences, and preferences throughout the lifecycle of the loan.



We sought to understand their experiences and expectations during the HELOC shopping phase, then during the loan application process, and through fulfillment.

We studied utilization of the HELOC, from the initial draw and continuing through additional draws and repayment, up until the point in which the customer makes the decision to pay down the remaining balance and close the line.

Throughout this process, we asked them about the interactions they had with their lender.

In this white paper, we present findings and interpretations of this research. We will also discuss how lending managers can best position their HELOC products and sales team by leveraging the rich data available to the bank as it relates to their customers. We combine this information with other available data sources and apply advanced analytics to inform effective customer engagement strategies, coupled with optimized product pricing to boost HELOC deals.

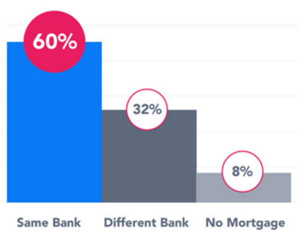
INSIGHT 1: INCUMBENCY & LOCAL PRESENCE MATTER

We asked consumers whether they had an existing mortgage at the same bank with which they opened the HELOC. Of the respondents, 60% who opened their HELOC already had a mortgage at the same bank, which equates to almost double of those who opened a HELOC with a different, competing bank.

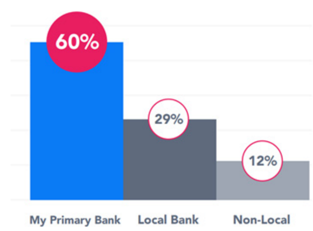
Next, we asked consumers if they opened a HELOC with their primary bank, another local bank, or a non-local bank. We were looking to identify whether an existing bank relationship had influence over these decisions. Again, a two-to-one majority had selected their primary bank when opening a HELOC.

"How many home equity lenders did you apply with?" Our next series of questions found that incumbency played a major role, with 50% claiming they applied to just one lender, thus indicating that one-half of consumers did not price shop for their HELOC.

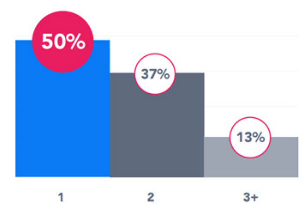
Note: Some percentages have been rounded up or down accordingly.



Do you have a mortgage at the same bank in which you opened your HELOC?



With which type of bank did you open your HELOC?



How many home equity lenders did you apply with?

TAKEAWAYS

These numbers display the challenges that non-incumbents face in wooing customers away from their primary bank, and suggest that specific value propositions—whether price, product features, etc.—will be required to overcome the perceived or actual ease of opening a HELOC at the same bank with which the consumer already holds a mortgage and/or deposit relationship. They also indicate that primary banks, especially brick-and-mortar banks, cannot count on a captive client base because the internet has made comparison shopping increasingly more appealing and accessible to a wider swath of U.S. consumers. Consequently, they will need to emphasize bundling value propositions.

INSIGHT 2: PRICE MATTERS, BUT PRICE SENSITIVITY VARIES

Next, we looked at attitudinal price sensitivity by asking, "If another bank had offered you a better rate on your HELOC, would you have accepted it?" Surprisingly, only 42% consumers responded with an unqualified YES.

Of the remaining, 20% said yes, but only if the rate was 0.25% better. Another 29% explained that the rate would need be at least half to a full percentage point better. Lastly, the remaining 4% stated they would have been lured to another bank by a limited-time promotional rate.

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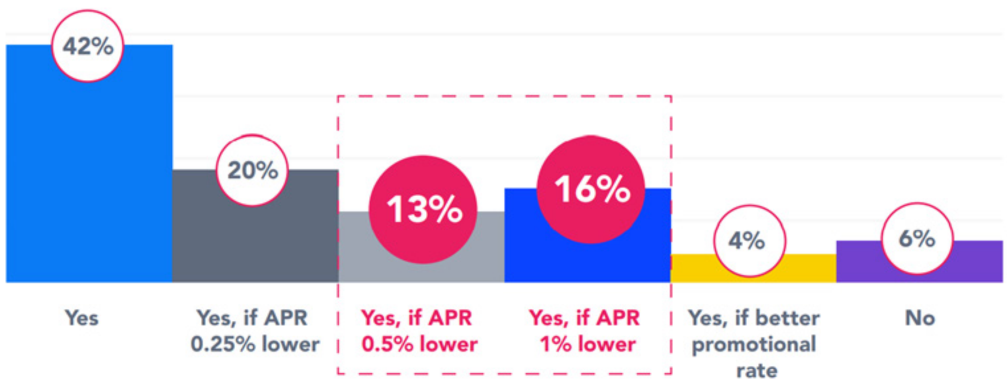

If another bank had offered you a better rate on your HELOC, would you have accepted it?

TAKEAWAYS

Non-incumbent banks will need to try harder than incumbent banks to win new HELOC business. And if you are an incumbent, you may need to bundle in other services or benefits to keep that customer out of the clutches of a competing low-price lender.

That said, beware of new marketplace lenders that are entering this market. Some now offer fast loan turnaround and fewer requirements for consumers with a good credit score.

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HELOC BUYER BEHAVIOR TREND ANALYSIS

INSIGHT 3: SHOPPER BEHAVIOR VARIES

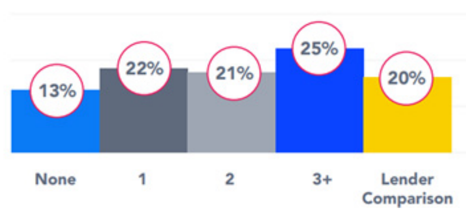
As our research continues, we look at the various ways in which consumers research a source for a home equity line. For example, did they research online or visit a lender in person? For a holistic background on this question, we also look at the impact of age and how it shaped this shopping behavior.

Looking at the results, we can observe a fairly even distribution, from no research (13%) to 25% of consumers who viewed three or more lending sources. 20% conducted diligent research on a comparison website. When we focus on the 35 and under group, we found that these consumers performed some form of research, with a slight tendency to researching three or more lending sources.

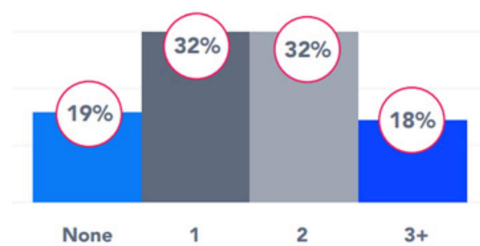
When we asked about visiting a banker in person to discuss a HELOC, we discovered some surprising results. Those that were under the age of 35 were more likely to visit the lender in person—in fact, 60% visited at least two lenders in person.

We see a wide spectrum of shopping behavior, from incumbent only to vigorous multi-channel competitor comparison, especially for younger borrowers, as shown in the figures below.

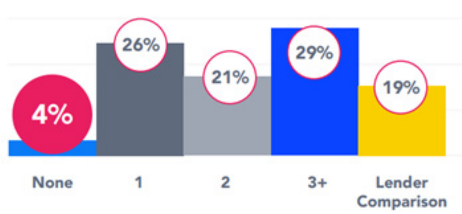
Note: Some percentages have been rounded up or down accordingly.



How many home equity lenders did you research online?

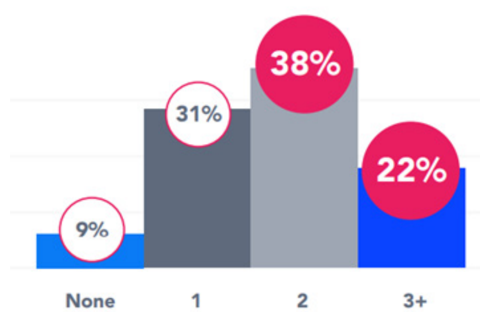


How many home equity lenders did you visit in person?



How many home equity lenders did you research online?

*35 years of age and under.



How many home equity lenders did you visit in person?

*35 years of age and under.

TAKEAWAYS

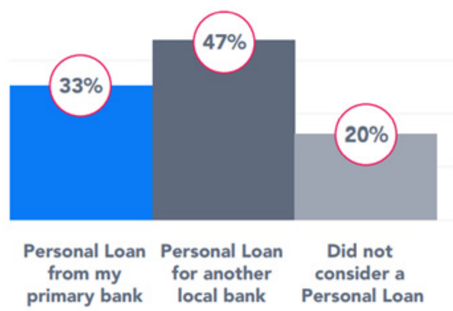
It is clear that certain demographic attributes determine shopping habits, and these habits should inform specific marketing and pricing strategies. To really understand how to optimize their marketing and pricing, banks will need to adopt a sophisticated segmentation approach to tailor their offers to these segments.

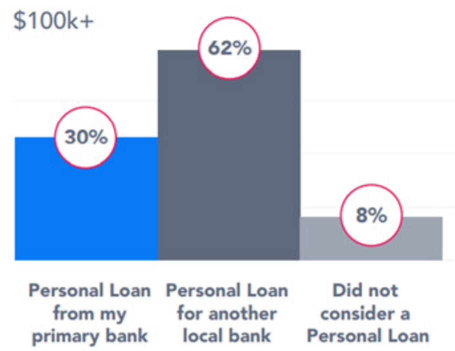
INSIGHT 4: HELOC WINS OVER A PERSONAL LOAN

Depending on the size of the loan and the urgency, a personal loan can make sense for some consumers. In fact, our research shows that 80% did consider a personal loan from their primary bank or another local bank over a HELOC.

When asked why they ended up taking out a HELOC, the lower interest rate and payment flexibility both played a contributing role, with certain emotional factors also coming into play.

Note: Some percentages have been rounded up or down accordingly.





If you considered taking out a personal loan for this borrowing reason, rather than a HELOC, which of these did you consider?

How many home equity lenders did you visit in person?

TAKEAWAYS

The key takeaway here is the need for banks to take a more integrated approach to how they market both types of loans. Train your bankers so they are adept at navigating the customer journey, through the process of assessing which is the right loan for their unique situation. Further, banks would be wise to make sure they offer both types of loans, rather than having specialists who are unfamiliar with the range of loan products available.

INSIGHT 5: THERE IS A TURNAROUND GAP

When we asked consumers how long they expected to wait to receive their money after applying for the HELOC, 62% said up to two weeks. Reliable data provided by ICON indicates that most HELOC loans are funded anywhere between 35 and 40 days after application, while 35% require more than 42 days.

Nevertheless, when asked how long funding actually took, 63% said they waited up to two weeks. We suspect they are mistaken and that this count was the time to approval and not actual funding, or possibly they just don't remember.

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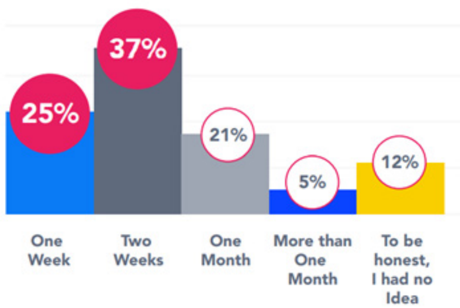
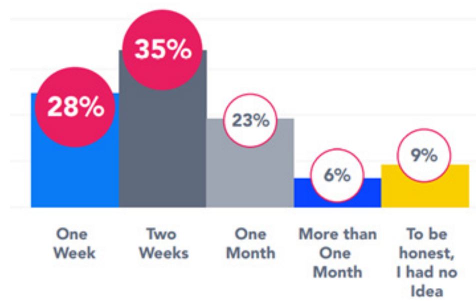


How long did you expect to wait to receive your money from the day you applied for the HELOC?



How long did you actually wait to receive your money from the day you applied for the HELOC?

TAKEAWAYS

There appears to be a striking disparity between how long consumers expected to wait to receive their loan from the date of application, compared to what banks say is possible. We call this the "turnaround gap." If consumers expect money much faster than banks are currently delivering, they may look for alternate lending solutions to achieve their goal.

Conversely, this turnaround gap indicates that a sizeable portion of the consumer base may not be sensitive to the relative slowness of opening a HELOC in comparison to an unsecured personal loan, because they intend to use their HELOC as a rainy-day fund and/or for specific purposes over a longer time period (e.g., for multiple home renovations). This would suggest that banks, even as they try to identify ways to speed things up, emphasize this longer-term purpose and encourage opening a HELOC well before the actual need arises.

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INSIGHT 6: BORROWERS WILL PAY A HIGHER RATE FOR FASTER ACCESS

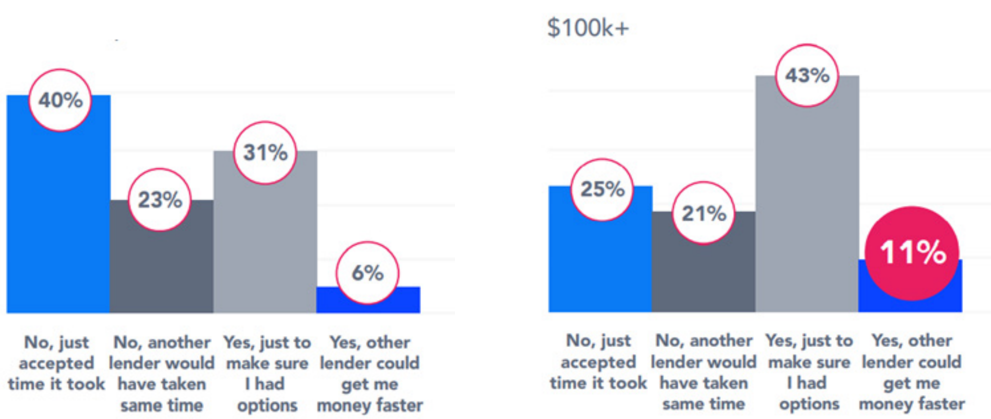
Next, we asked consumers if they would pay a higher rate to gain access to their fund faster. Specifically, we asked, "Because of the time factor to get your loan, did you consider applying with multiple lenders?"

40% said no, not at all. This group of individuals did not care how long it would take. 23% take a somewhat fatalistic view and see all lenders as taking the same time. 31% said they did look at other options to see if there were any differences among lenders, and the remaining 6% noted that they did in fact look for faster solutions.

When we narrowed the survey group to just those consumers applying for a HELOC >$100k, we found that almost twice as many consumers actively searched for a faster solution (11%). So, for larger loans, if you can offer a faster solution, you will find more consumers are interested.

When we added the notion of paying more to receive funds faster, we found that consumers would like to have been offered this option. This was even more important for loans in excess of $100k, with 43% of surveyed consumers noting that they would be willing to pay 0.25% more to receive the loan funds faster.

Note: Some percentages have been rounded up or down accordingly.



Based on this time, did you consider applying with multiple lenders?

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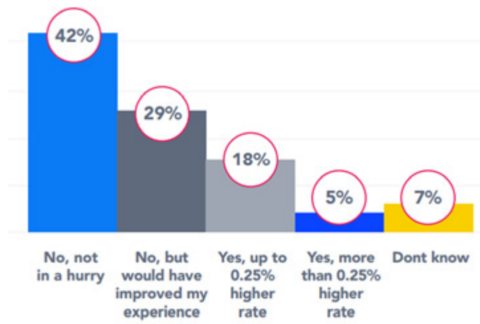
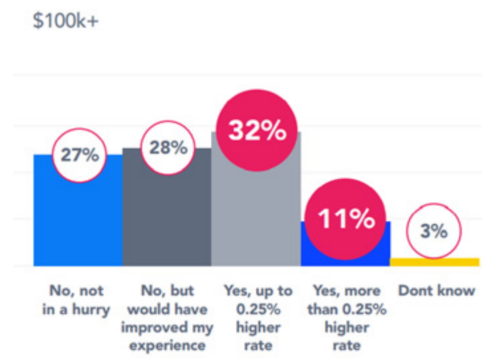




Would you have been willing to pay a higher interest rate if you could receive the loan funds faster?

TAKEAWAYS

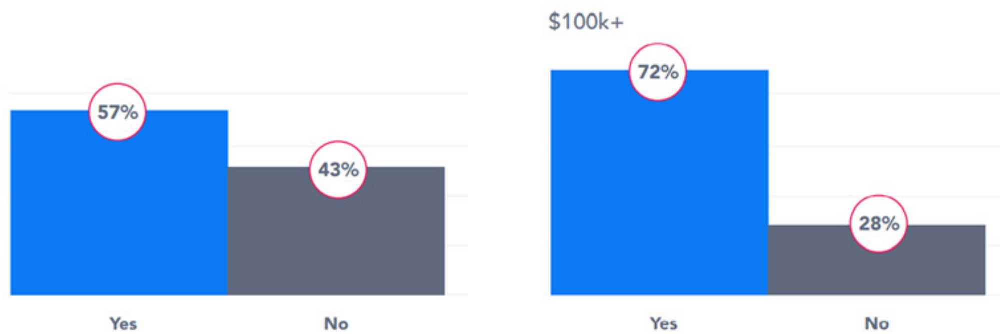
Speed and price are important, and these may determine offering alternate loan products. Banks may need to offer a fast-track product—but they will need to detect this early on in the sales cycle to offer the right product for that consumer.

INSIGHT 7: PROMOS PLAY A KEY ROLE IN DECISIONS

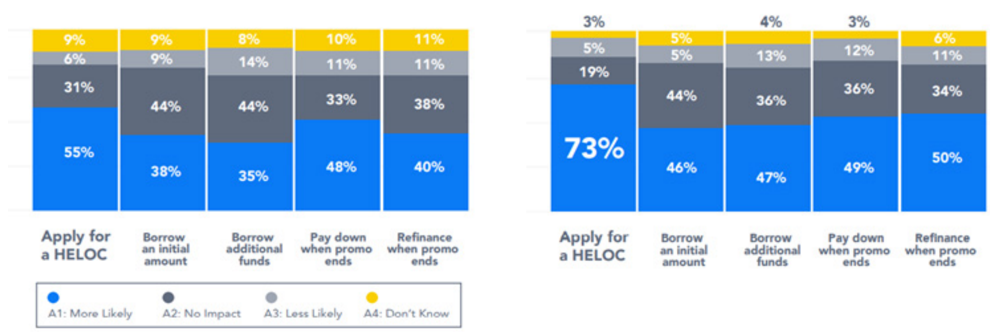
Many banks offer special terms to attract business, so we asked consumers whether the HELOC they applied for offered a promotional introductory rate. We found that promotions do matter, as most borrowers applied for HELOCs with a promotional introductory rate. Nearly three-quarters of those that borrowed more than $100k ended up with a promotional loan rate offer.

Next, we wanted to understand the effect of the introductory rate on specific borrowing activities. Here, 73% reported that a promotional introductory rate made it more likely that they would apply for a HELOC. However, the promotion had less of an effect on motivating the borrower to either borrow against the credit line or borrow additional funds.

Note: Some percentages have been rounded up or down accordingly.



Did the HELOC you applied for offer a promotional introductory rate?



How does a promotional introductory rate on a HELOC impact your likelihood to do each of the following?

TAKEAWAYS

Banks may need to provide additional incentives to get people to actually borrow the funds in their line of credit. For example, waiving fees for the initial draw-down, and then potentially offering further stimulants to drive additional borrowing.

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ABOUT NOMIS SOLUTIONS

Nomis Solutions is a global, industry-leading pricing and profitability management solutions provider that delivers competitive intelligence to bankers and mortgage lenders to facilitate more advanced pricing strategies. The company's analytics platform and end-to-end pricing tools enable retail banks and mortgage lenders to achieve customer- and borrower-centric pricing backed by real-time, actionable data. The platform also supports banks and mortgage lenders in their understanding and anticipation of the evolving demands of customers and borrowers, competitors, and ever-changing market conditions. For more information, please visit www.nomissolutions.com.