



Taking A Crack At Digital Lending?

by [Steve Brown](#) Topics: [lending](#), [digital banking](#), [technology](#)

Summary: Only 38% of banks with assets under \$1B have a digital origination channel, but interest is strong. What you should know before you go down this path.

Scientists still don't know why knuckles crack when you bend them, but some think the size of bubbles around the knuckles may be the reason. We will keep watching to see if more evidence bubbles to the surface, but in the meantime scientists say cracking your knuckles probably doesn't do any harm.

In banking, evidence suggests bank digital lending strategies may not be all they are cracked up to be either. We know that community banks are likely even more reticent in this department, but we thought the [2018 ABA State of Digital Lending survey](#), provided some fresh insight into the latest progress and challenges. Here are some of the highlights.

Interestingly, only 50% of banks with assets over \$1B and 38% of those under \$1B currently use a digital origination channel. This means if you don't have a digital lending channel, you are in good company.

Yet, interest among banks is strong. For example, nearly 75% of bankers say their bank is interested in using a third-party digital platform for consumer loan origination. Not surprisingly, that figure was even higher at 79% for banks with more than \$1B of assets.

For all banks, the strongest interest was in partnering for auto loans and unsecured personal loans, followed by home improvement and student loans. Many community banks may not be supporting these types of loans right now, but if you are considering adding them, this could be an interesting option.

When and if the time comes, there are various models that banks can choose from. You can use software-as-a-service solutions to white label your own digital lending processes, or you can develop a referral relationship with outside partners.

Certainly, partnerships between banks and fintechs can be mutually beneficial. Banks gain the opportunity to provide stellar technology to customers, while lowering the cost per loan. Fintechs, meanwhile, are able to broaden their customer base and benefit financially.

There are still challenges of course. When it comes to implementing a digital lending solution, 60% of banks said they were concerned about integrating such a solution with their core system. Meanwhile, 57% said they were worried about compliance, 53% were concerned about the cost of acquisition and 53% had reservations about the ability to ensure a superior customer experience. These are all valid concerns and should be addressed one by one, if you decide to head down this path.

While community banks may be reticent to partner with a fintech for digital lending, if you provide these lending products or plan to, the risks of doing nothing may not be an option.

As the ABA digital lending study shows above, non-bank digital lending is growing at a torrid pace. The sector experienced YoY growth of 93% in 2015 and 58% in 2016. Estimates are that non-bank digital lending will reach \$122B by 2020 - a ten-fold increase in only 6Ys. Given the right partner, a good strategy and mitigating the risks appropriately, your bank could see opportunity bubble up in the digital lending arena too.

ECONOMY & RATES

Rates As Of: 04/10/2018 11:43AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.72	0.02	0.34
6M	1.92	0.01	0.39
1Y	2.06	-0.02	0.33
2Y	2.32	0.05	0.43
5Y	2.63	0.07	0.42
10Y	2.80	0.06	0.40
30Y	3.02	0.04	0.28
FF Market	FF Target	Fed Disc	
1.69	1.75	2.25	
Prime	Unemployment	Oil	
4.75	4.10	\$66	

[More Market Rates](#)

BANK NEWS

M&A Activity

1) Intercontinental Exchange Inc. will acquire the parent company of Chicago Stock Exchange Inc. for an undisclosed sum. 2) Regions Bank (\$123B, AL) will sell its insurance subsidiary to Branch Banking and Trust Co (\$216B, NC) for an undisclosed sum.

Cyber Budget

Bank Director's 2018 Risk Survey finds senior bank executives report their 2017 cybersecurity budget for banks >\$250mm was: between 1-5% of revenues (52%); less than 1% of revenues (46%) and more than 5% of revenues (2%).

Digital Challenge

[Boston Consulting Group research](#) finds 86% of financial institutions say that their banking technology infrastructure is too complex to quickly enable digital interactions, while 43% consider their organization to be market-leading in digital capabilities.

Expansion

April marks the 3rd longest economic expansion period in US history at 105 months (June 2009 to present). Rounding out the rest of the Top 5: #1 was 120 months (Tech boom from 1991 to 2001), #2 was 106 months (60's boom from 1961 to 1969), #4 was 92 months (Morning in America from 1982 to 1990) and #5 was 80 months (World War II from 1938 to 1945).

Compliance Investment

Accenture research, as reported in the Wall Street Journal, finds 90% of financial institution compliance executives say they will increase compliance investments in the next 2Ys and 25% said technology transformation was their biggest priority.

Mobile Pay

A survey by S&P Global Market Intelligence finds the following ways mobile payment apps are being used: pay for something at a retail store using mobile device at checkout (49.5%); pay a bill through a bank or third party app (43.7%); send or receive money from someone else (42.9%); order food or coffee for pickup (34.3%); send or receive a cryptocurrency payment such as bitcoin (6.2%).

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