Point of View Paper

Meeting the Increasing Demand for Short-Term Funds

An Opportunity to Deepen Accountholder Relationships

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The uncertainty of the past several years has had a deep impact on consumer finances and financial habits. Since the onset of the COVID-19 pandemic, bank deposits of American households have been at a record high, in large part due to economic stimulus payments, stay-at-home restrictions, limited retail access and a pause on investments. At the same time, a significant group of consumers struggle to maintain a positive bank balance – especially when unexpected expenses arise.

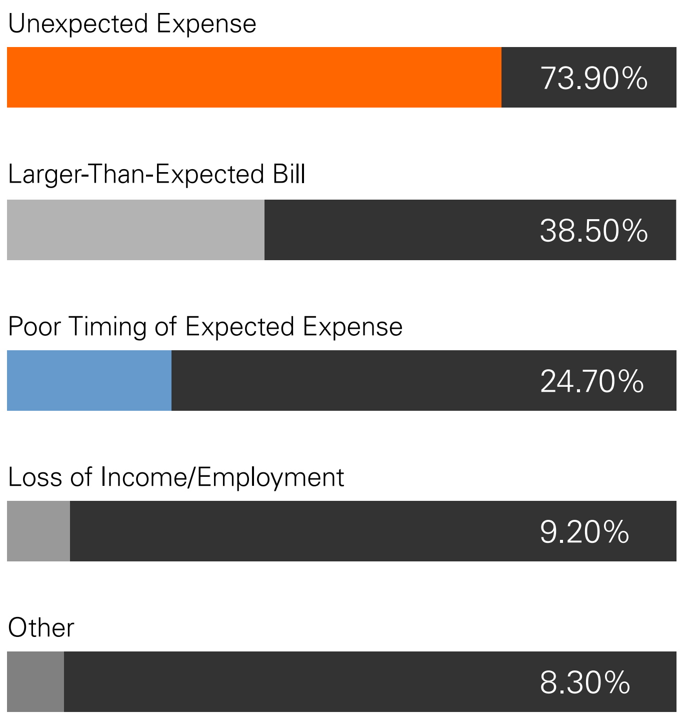
The need for liquidity assistance appears to be growing. According to a 2020 Emergency Funds Survey conducted by SmartBrief and sponsored by Fiserv, 34% of respondents stated they had a need for emergency funds – that is, short-term amounts, needed quickly – at least once per year. Perhaps even more significantly, a 2021 Emergency Funds Survey, also commissioned by Fiserv, showed that just one year later, after the easing of many restrictions and the ending of economic stimulus programs, that need for emergency funds rose to 47%.

A growing number of Americans are looking for greater access to short-term, smaller-dollar loans to bridge the gap when faced with unexpected expenses – and the majority are interested in turning to financial institutions for solutions. As a result, many banks are recognizing the value of offering accountholders deposit-based liquidity options.

Small Amounts, Fast Repayments

Consumers reported a need for short-term funds to cover various expenses, including larger-than-expected bills and poor timing of expenses related to deposits. However, the majority of survey respondents report unexpected expenses such as car, home or appliance repairs as the top factor in their need for emergency funding. This number rose slightly last year, gaining nearly 4% over 2020 results, even as a need for funds to cover loss of income or expense/deposit gaps fell.

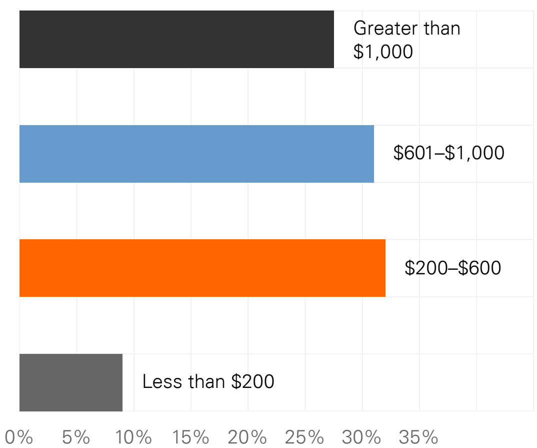
Why Funds Are Needed



Source: SmartBrief, "Emergency Funds Survey: Exploring the Demand for Deposit-Based Bank Lending," June 2021, in partnership with Fiserv

These expenses seem to crop up at least once per year, if not more often. More than one-quarter of surveyed consumers reported the need for emergency funds multiple times per year – a year-over-year increase of about 10%. Consumers want funds quickly and fairly frequently, yet the amounts needed are small: less than $1,000 for nearly three-quarters of respondents and less than $500 for more than one-quarter of respondents. Furthermore, more than half (about 60%) pay back these funds within three months; more than 30% repay within a few weeks. These consumers truly are looking for practical, affordable and short-term liquidity solutions.

Average Amount of Funds Needed



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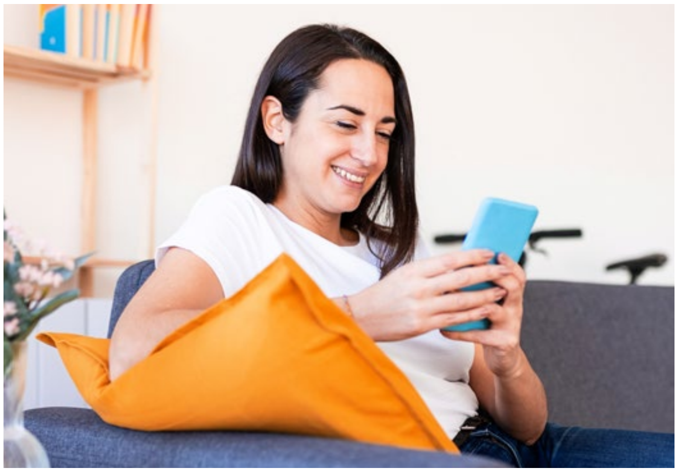
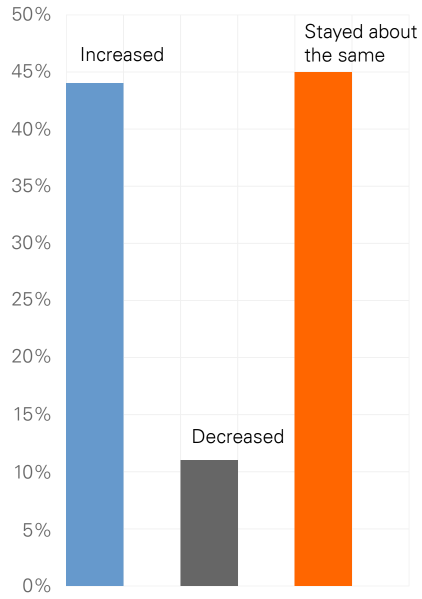


Need Is Steadily Growing

Year over year, there were a few shifts resulting from temporary stimulus funds and pandemic-related consumer habits. The number of respondents who required funds to address loss of employment, for example, dropped from 16% in 2020 to 8% in 2021. And for the small percentage (11%) of respondents who reported a decreased need for short-term emergency funds, nearly one-quarter (23%) credited stimulus funds as the reason; 59% noted that they were simply spending less.

However, with stimulus funding expired, inflation rising and supply-chain issues complicating the cost and availability of goods, such trends are unlikely to continue. Nearly half (45%) of those surveyed reported that their need for emergency funds stayed about the same, year over year. Therefore, the demand for such funds is likely to remain steady despite external influences, even as rising costs and the end of pandemic-related assistance programs reduce funding alternatives.

How Has the Need for Funds Changed Since Beginning of Pandemic?



Source: SmartBrief, "Emergency Funds Survey: Exploring the Demand for Deposit-Based Bank Lending," June 2021, in partnership with Fiserv

Note: For those reporting a decrease, 23% attributed it to stimulus funds.

Why Existing Options Are Not Enough

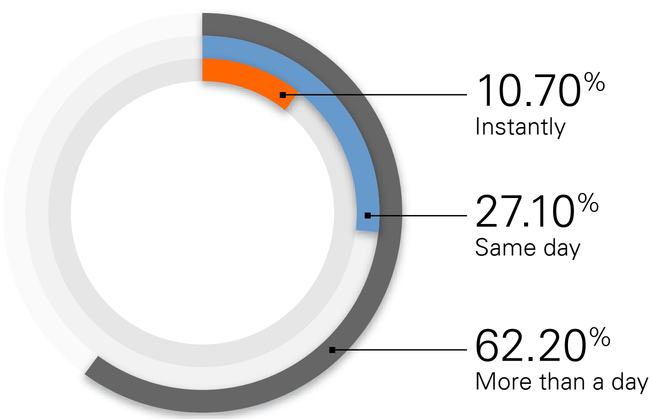
Today, consumers are turning to several sources when the need for emergency funding arises. Slightly more than 40% ask friends and family for short-term loans.

Many others use credit-based bank products (including, overdraft services and personal lines of credit) or turn to payday or online lenders. A growing number of consumers (33% versus 29% a year earlier) turned to credit card cash advances, an often-punitive option with the potential to negatively affect credit scores.

Yet for younger consumers – many of whom either aspire to a credit-less lifestyle or have yet to develop extensive credit histories – such options can be difficult to access. Furthermore, many lenders have slashed available credit over the past few years, hoping to stem losses before they start. Credit standards are unlikely to loosen any time soon.

Another issue for consumers who need short-term liquidity is speed of access. For about 62% of surveyed consumers, gaining access to funds required more than one day.

How Long It Took to Get the Funds



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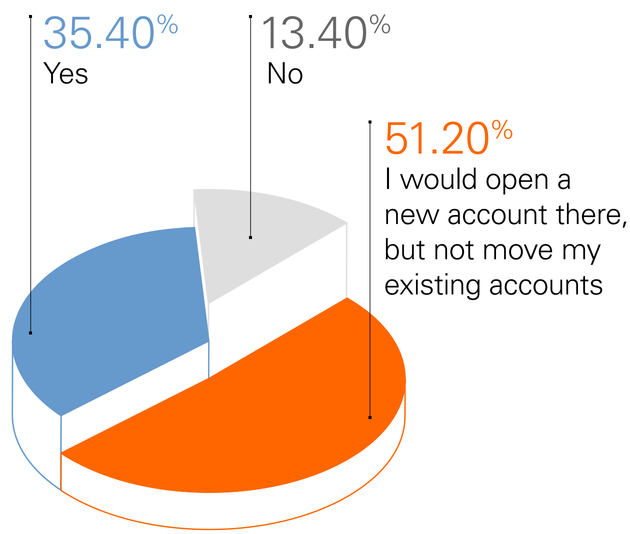
An Untapped Opportunity

The need for deposit-based liquidity provides a clear opportunity for financial institutions to strengthen relationships with accountholders, especially those with higher-than-average incomes. More than a quarter of those surveyed reported annual household incomes of $100,000 or more.

In the past, regulations prohibited financial institutions from offering small-dollar lending. New guidance now makes it easier for financial institutions to issue short-term, small-dollar loans. Many banks, however, do not offer such options. And if they do, many consumers might be unaware of them.

Nearly 88% of survey respondents said that they would use a fast, pre-approved, credit-check-free short-term loan from their financial institution to meet their emergency needs if such an option existed. Perhaps more significantly, 85% would open a new account – or even switch banks – to access such a solution.

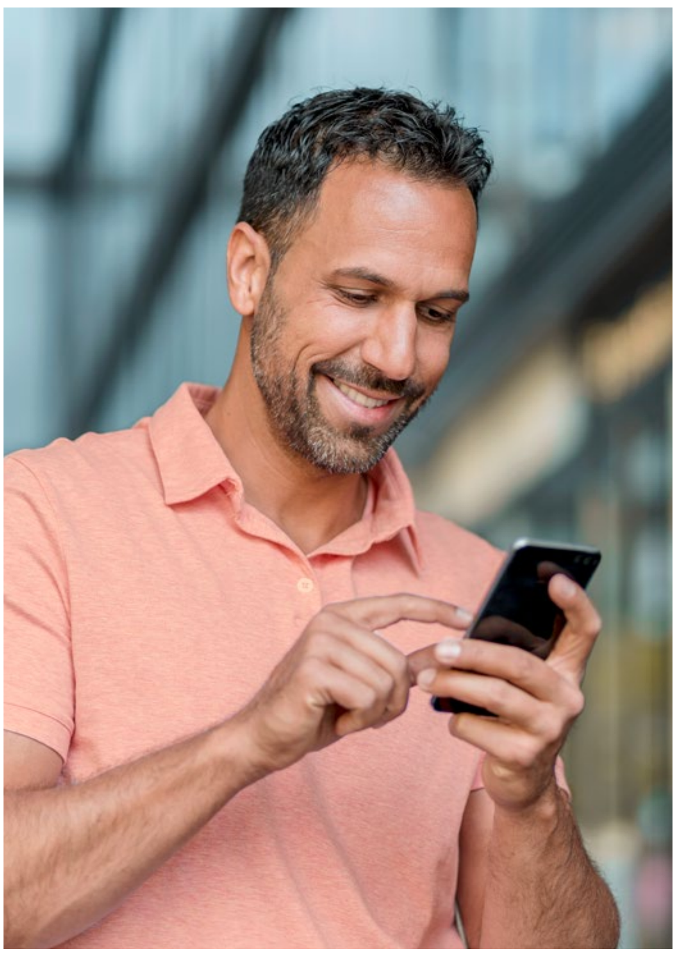
If Another Financial Institution Offered Short-Term Lending, Would You Switch?



Source: SmartBrief, "Emergency Funds Survey: Exploring the Demand for Deposit-Based Bank Lending," June 2021, in partnership with Fiserv

Financial institutions are beginning to realize they have many credit-worthy accountholders, even those who do not have a robust or stellar credit file. Solutions that eschew the traditional "credit score" path to evaluate propensity to repay and instead focus on how the accountholder has managed their deposit-based relationship, will make more consumers eligible for these bridge loans, as well as reduce underwriting costs for lenders.

Short-term, deposit-based liquidity solutions can also help accountholders avoid undesirable options, like selling stock or facing an early withdrawal fee on a CD. Financial institutions can reposition borrowing as convenient, rather than punitive. By prequalifying accountholders based on account history, deposit-based liquidity solutions can rapidly expedite the underwriting process and eliminate uncertainty. In-app, in-session solutions can be especially competitive, as consumers often prefer fast access through mobile and digital options.



Deepening Relationships, Driving Revenue

Providing greater access to short-term liquidity resources can deliver many advantages for financial institutions as well as consumers. These solutions are quick to bring to market, easily customizable and provide convenient self-service for accountholders. Through targeted promotions, the availability of deposit-based liquidity solutions can be advertised to qualified accountholders.

With their existing real-time, secure mobile banking apps, financial institutions can drive an integrated, automated, short-term funding solution that enables accountholders to borrow and repay directly from their bank account – when and where consumers need funds.

The Emergency Funds Surveys commissioned by Fiserv reveal clear opportunities for financial institutions: Those willing to offer proactive, lower-risk lending solutions can promote better account management behavior, strengthen consumer financial health and deepen accountholder relationships.

About the Author

Victoria Dougherty, Senior Director of Product Management, Deposit Liquidity Solutions at Fiserv, has over 25 years of experience in the financial services industry. Her expansive background includes management roles at financial institutions and technology providers. At Fiserv, she is responsible for oversight of the deposit liquidity suite of solutions that makes access to future funds a reality for forward-thinking financial institutions and their customers.

Connect With Us

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