

Consumer lending

Understanding today's
empowered borrower

Experience Radar 2015



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Executive summary

Today's consumer lending environment is highly complex, driven by ever increasing customer demands, regulatory changes, and the digital revolution that is leading to a host of new entrants. Successful lenders need to navigate each of these challenges and recognize that a "one-size-fits-all" approach to customer experience is no longer suitable. Instead, they should develop a set of principles which can be used to build a successful customer strategy.

With this in mind, PwC conducted a second extensive study and analysis in late summer 2015 of what consumers expect from their lending experience across different products, with a particular focus on the loan origination process. We took an in-depth look at customer preferences in four major asset classes—auto, home, student, and personal loans. The results highlight opportunities for lenders to tailor their products, services, and operations to stand out in the marketplace.

Key findings

- **Online all the way.** Unsurprisingly, the majority of consumers now prefer to apply for loans online, especially young borrowers. Since we conducted a similar survey on the mortgage industry just two years ago, the preference for online interactions has jumped considerably (about 30%) among survey respondents.¹ While some segments still prefer human interactions for certain parts of the process, a viable digital process is now a must-have for lenders wishing to compete across all consumer segments and demographics.
- **Reaching younger borrowers.** In addition to a stronger preference for a digital application process, younger borrowers are less satisfied with their current application experience than other consumer segments surveyed. With other industries now typically providing a fast, intuitive, and seamless experience, lenders need to adapt quickly or be prepared to lose share as this segment grows to become the largest in the market.
- **Keep things quick and simple.** Other than economic factors (for example, interest rates and closing costs) or having an existing relationship, borrowers believe the most important factor in choosing a lender is the speed of the process. More sophisticated features such as automated status updates and financial literacy tools are popular but rank lower in importance.
- **Mobile apps could do better.** While the majority of consumers are looking for a digitized end-to-end loan process, the mobile apps currently available on the market are simply not providing important features that consumers say they want on their mobile devices when they are interested in a consumer loan such as the ability to lock in rate, compare products, or calculate affordability of payments. This represents a major opportunity for lenders to differentiate themselves by coming to market with a user-friendly solution that truly addresses consumers' top needs.

¹ For more information, please see our publication, "Lock in loyalty: Coming to terms with the new borrower's needs," 2013, www.pwc.com.

- **Compete on experience as well as interest rate.** Not surprisingly, interest rates are consistently the No. 1 consideration consumers look at when choosing a lender. However, there are still opportunities to win customers with compelling experience features—speed, transparency, channels, and customer service—even where you are not offering the lowest rate.
- **Cross-selling works.** For each asset class, having an existing relationship with a lender was seen as a key referral source for the loan in at least one-in-five cases. While traditional marketing and referral sources remain important, the cheapest way to generate new business may be to target customers that you are already serving.
- **Target the influencers.** Friends and family are consistently rated as an important referral source for all asset classes, along with key “gatekeepers”—auto dealers, student loan representatives, and real estate agents—who are present at the point of sale. Lenders’ strategies should focus on how to win over these key influencers or at least keep them neutral. Our research suggests social media is not an important direct referral source (influencer) in itself but rather an outlet for customers to vent about a negative experience.
- **Financial management tools can add value.** Around 30% of consumers said they have never used financial management tools or financial advice services, primarily because they don’t need, trust, or have access to them. Many of the features that consumers said would be the most valuable to them are also relatively simple to implement—such as online credit score services, payment reminder tools, and budget trackers. In some cases, it seems that lenders could provide instant additional value to their customers with relatively little expense.

What it means

Based on what borrowers have told us about their preferences and our knowledge of where many lenders face challenges today in understanding how to improve their customers’ experience, we have identified the following areas for them to focus on:

- Know your customer base.
- Start with a customer strategy.
- Put money into digital and time into traditional.
- Keep things simple.
- Understand the influencers.
- Make customer experience your differentiator.

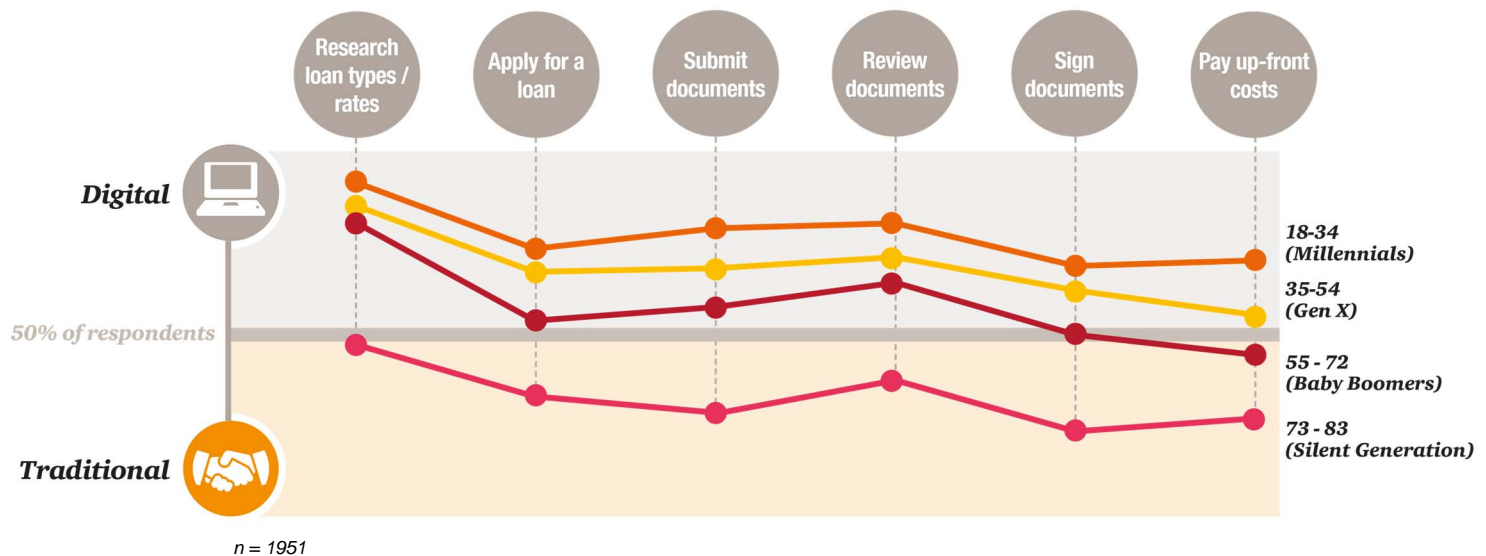
The analysis in this document provides detail on what borrowers want from their loan application process, some example customer types (“personas”) that lenders can tailor their strategies towards and explains why focusing on the above six areas will help lenders to be successful.

What consumers told us

The increasing preference for digital

Across all four asset classes and all phases of a loan application, the majority of consumers now prefer to be online compared to traditional methods such as in person or on the phone. As shown in Figure 1, this is especially true for Millennials (young adults up to the age of 34) but remains the case for all age groups other than the Silent Generation (ages 73 through 83).

Figure 1: Channel preference by loan phase and generation.

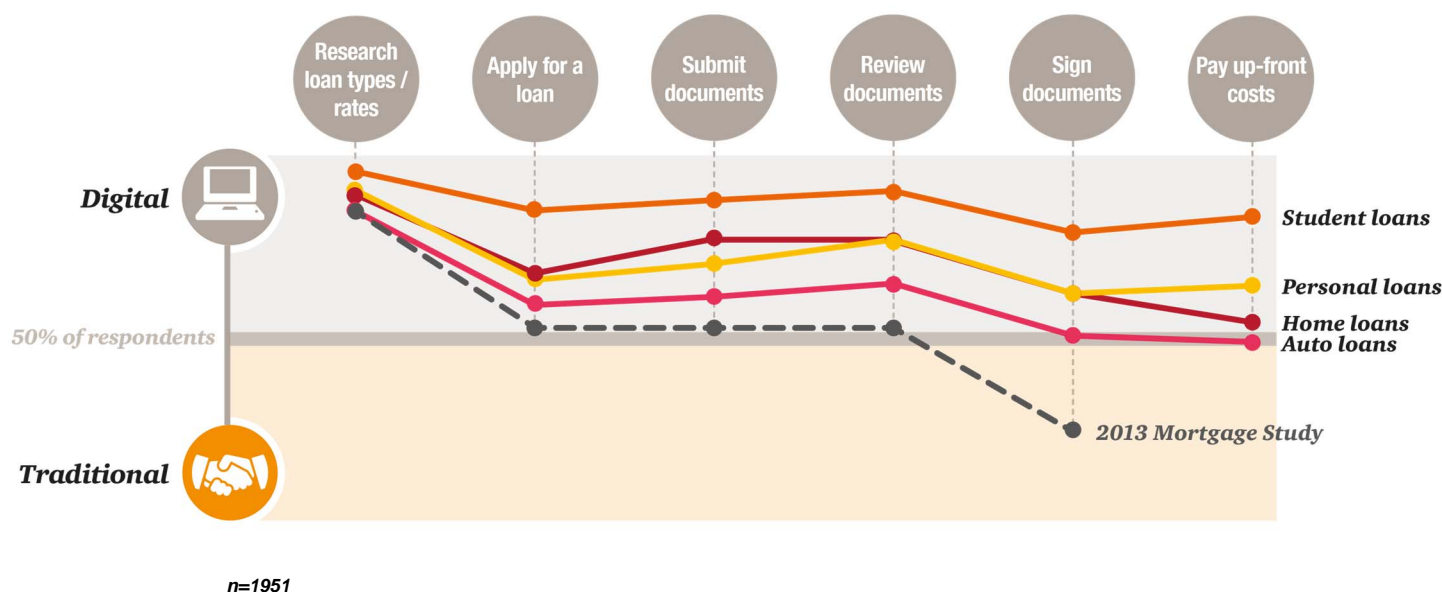


Since PwC conducted a similar survey on the mortgage industry two years ago,² the preference for online interaction has increased considerably among all survey respondents (mirroring the increased popularity of smartphones and tablets in the broader market). In the 2013 study, most consumers preferred beginning the research process online but still favored traditional methods of interaction in the application, submission, document review, and signing stages. Today, however, most consumers prefer to complete the entire process online which is not offered by most lenders.

² Ibid.

While this online preference holds true across asset classes, Figure 2 shows some variation in preferences between them. Student borrowers are the most likely to prefer online applications—reflecting the younger demographic—whereas borrowers of auto loans are most likely to favor a traditional lending application experience—which may be driven by the high propensity for borrowers to complete the loan application in person at the car dealership.

Figure 2: Channel preference by loan phase and asset class.



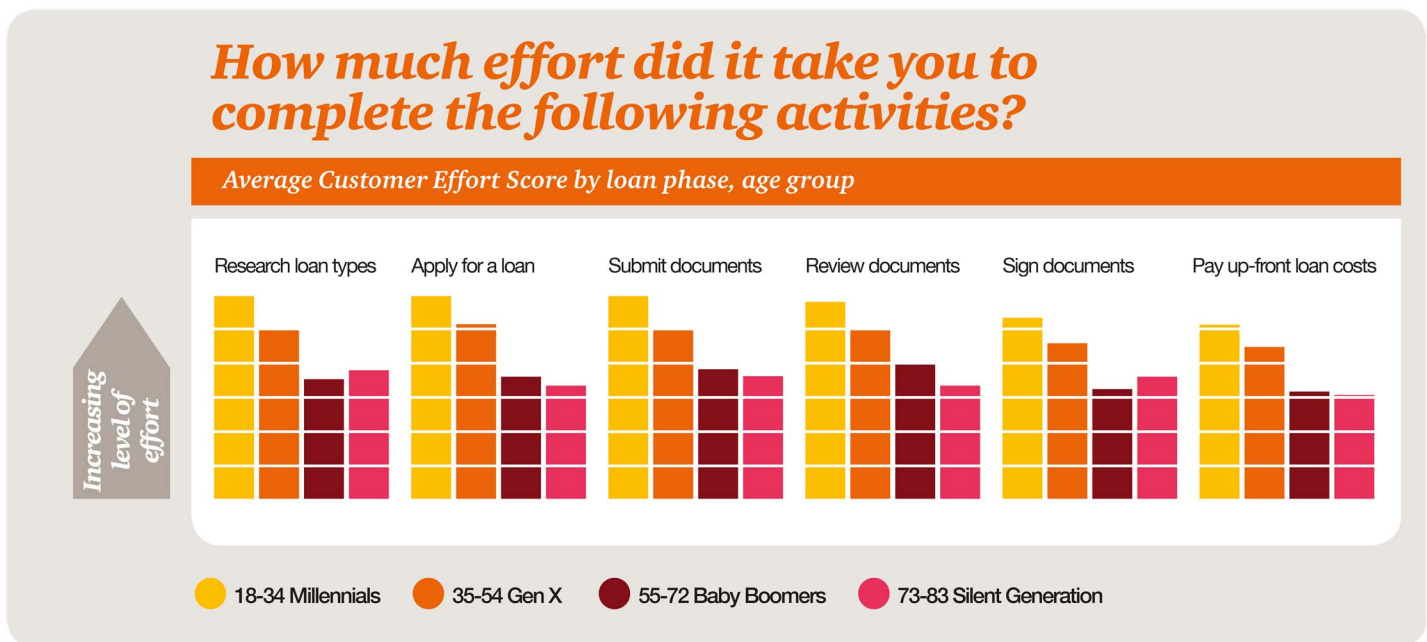
What it means

- Like companies in other major industries moving to digital, lenders hoping to appeal to the new customers need to provide a viable online application process—especially when trying to attract younger borrowers.
- To help with the shift, lenders may wish to consider partnering with some of the new entrants to consumer finance, many of whom have attractive customer experience propositions but lack the customer base or brand presence of traditional lenders.
- Despite the shift to digital, there are still a large number of potential customers that prefer the traditional interaction with a human being (as demonstrated by the importance of realtors, auto sales personnel, and student representatives in loan referrals). Figuring out how to serve these segments can still be profitable and should not be overlooked.
- For lenders hoping to serve a broad spectrum of consumers (such as most national and regional banks), the optimal solution will likely involve a strong online option complemented by a higher-touch, human-driven option for those customers who prefer traditional methods.

Targeting younger borrowers

While we have already seen that younger borrowers have a higher preference for online applications, they are also less satisfied with the overall process of applying for a loan today, as demonstrated by “Customer Effort Scores.”³ Figure 3 shows a clear correlation between age group and perceived level of effort when applying for a loan, with younger borrowers consistently feeling that the level of effort required is higher than older groups. This is most likely driven by the day-to-day experiences of young consumers with other industries, where frictionless online browsing, purchasing, and customer service options come as a standard. Think of ordering a pizza or hailing a taxi through an app—both can now be performed without any human contact.

Figure 3: Average Customer Effort Score by loan phase and age group.



n = 1771

What it means

The younger borrowers of today will become the majority segment of the market tomorrow. The imperative is on lenders to provide the kind of experience that these customers have come to expect from other industries. If not, they may leave for a competitor with a platform that matches their expectations.

³ The “Customer Effort Score” is a popular benchmark that has proven to be an extremely strong predictor of future customer loyalty. Respondents were asked a simple question, “How much effort did it take you to complete the following activities?” Each scored on a one-to-five rating with one being “very little effort” and five being “too much effort”.

The role of mobile apps

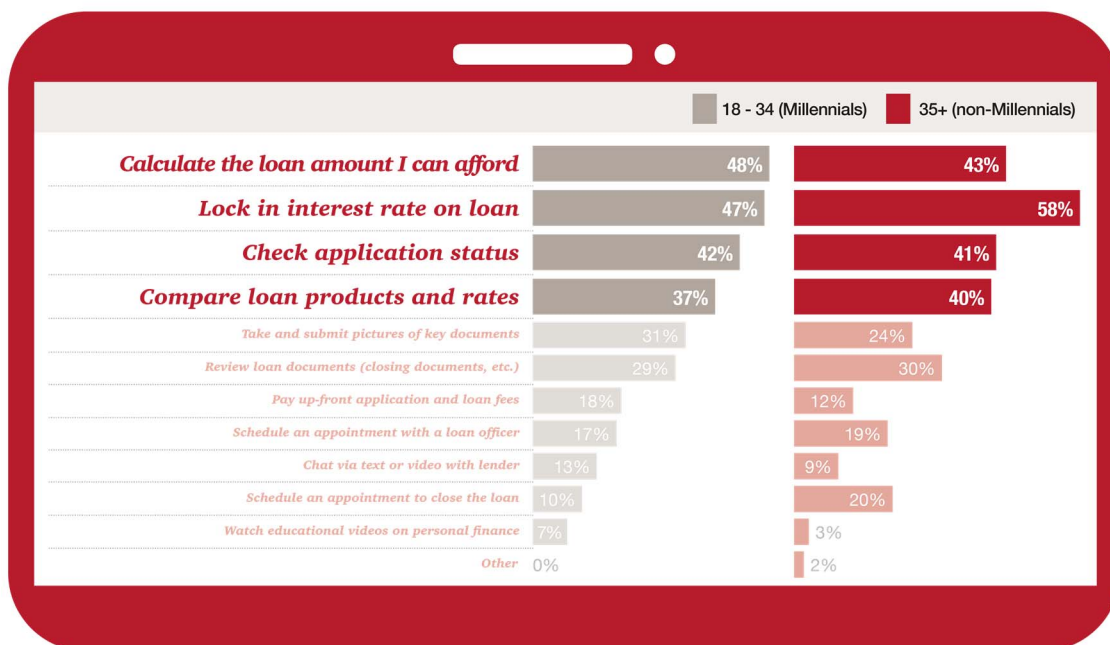
While consumers are looking for a digitized end-to-end loan application process, the mobile apps currently on the market do not seem to meet all their needs. For each asset class, the availability of mobile apps was considered of low importance and provided low satisfaction scores (see loan-specific sections of the report for more details). After further analysis, we believe the reason is because many of the features that consumers would like to see from mobile apps are not available on the market today.

Figure 4 shows the mobile app features that consumers indicated they would like to see, broken out by Millennials versus non-Millennials. Today very few lender apps offer the high-ranking features—including the ability to calculate the loan amount that the borrower can afford and the ability to lock in an interest rate on a loan, suggesting considerable opportunity for lenders to improve.

Both Millennials and non-Millennials were interested in the ability to compare loan products and rates—potentially showing rates from competitors within a lender app. While this may appear to be providing free advertising to rival lenders, the strategy has been used successfully in other industries, such as the auto insurance industry, and could be an opportunity for lenders to differentiate their apps.

Figure 4: Preferred mobile lending app features by generation.

If a lender offered you a mobile application to help you navigate the loan application process, what features would you value most?



Based on 1,095 Millennial and 856 non-Millennial survey responses.

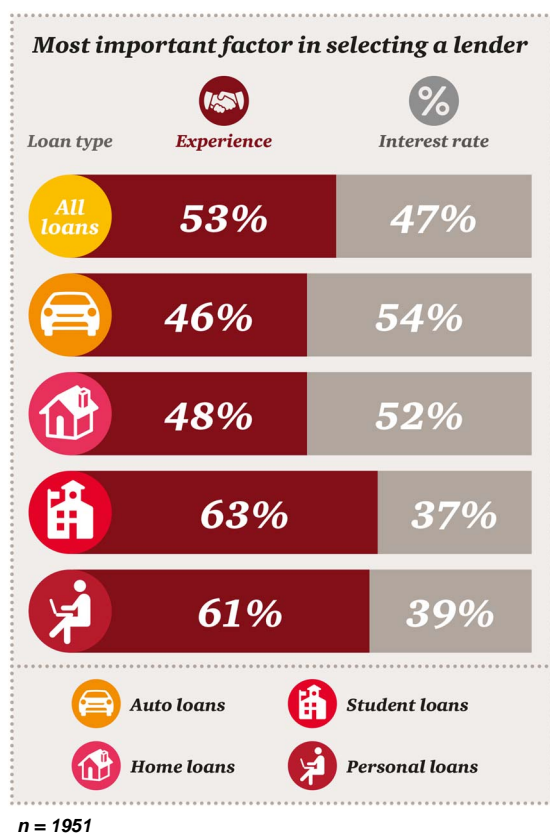
What it means

- Improving mobile apps offers a significant opportunity for lenders to differentiate by providing more features that customers would like to use, many of which are already commonly used within financial services and by other industries.
- Once customers are comfortable using lender apps, there is considerable opportunity to build on this initial interaction by creating apps that can serve them throughout the life of the loan, thus developing the relationship that will be very important in the next financial purchase.

Interest rate versus experience

Unsurprisingly, interest rate consistently ranks as the single most important factor influencing consumers when choosing a lender, across all asset classes. However, when viewed in aggregate, the features that make up a lender's *overall* experience—such as speed, transparency, channels, and customer service—contributed more than 50% to the consumer's decision-making criteria (see Figure 5).

Figure 5: Experiences can trump interest rate, depending on asset class.



The importance of interest rates versus experience also varied significantly between each asset class, with home and auto loan borrowers being the most concerned with rates, likely due to the size of loan balances involved and the fact that repayments begin immediately (as opposed to student loans where repayments often begin several years down the line).

What it means

- While interest rate remains important, in many cases, the overall experience is equally as influential for borrowers when picking a lender. Even if a lender can't fully compete on rate, delivering a compelling overall customer experience can still win market share.
- Sub-scale or niche providers that don't have the lowest price or rate can still compete in each asset class, provided they can deliver a winning experience.

Maximizing customer referrals










As shown in Figure 6, our study found that patterns of referrals are generally consistent, regardless of the type of loan. However, for auto and student loans in particular, point-of-sale advisors or “gatekeepers” are particularly strong influencers on the borrower decision.

While the digital revolution can be seen in the influence of lender websites, internet searches, and online review or comparison sites, these sources are not yet as important in generating leads as the “gatekeepers” or more traditional referral sources—such as friends and family or marketing campaigns via television or print.

For all asset classes (and particularly for home lending), an existing banking relationship is a key driver for the borrower, highlighting that the possibility still exists for delivering additional value through cross-selling new products to existing customers.

Finally, social media is not considered a particularly important referral source in any of the asset classes we analyzed, but the opinions and recommendations of friends and family is an important driver, suggesting a lender’s social media strategy should focus on reputation management rather than actively targeting leads.

Figure 6: Summary of most influential referral sources for consumer loans.

Referral source for current loan	Auto	Home	Student	Personal
 Point of sales advisor (auto dealer, school representative, real estate agents)	43%	21%	39%	N/A
 Traditional marketing channels (television, print, etc.)	24%	20%	19%	23%
 Existing banking relationship	24%	29%	21%	25%
 Friends and family	24%	27%	26%	24%
 Lender's website	17%	18%	26%	20%
 Internet search	15%	15%	19%	11%
 Review/comparison site	14%	14%	13%	14%
 Employer	5%	4%	3%	7%
 Social media	2%	1%	4%	4%

Note: Percentages indicate how many respondents ranked the option in their top 3 referral sources. Thus, percentages will not sum to 100%.

n=781

What it means

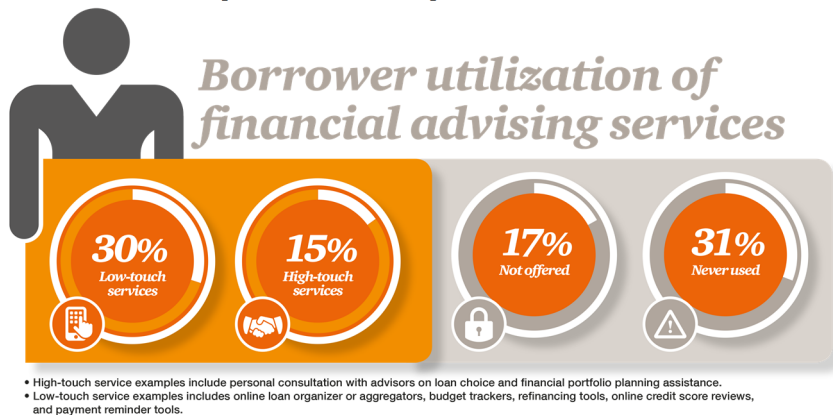
- Striking the right strategic partnerships with the “gatekeepers” of specific asset classes, such as auto dealers, school representatives, and real estate agents, can create sustainable business pipelines, especially if the lender can become first choice for these partners.
- While internet searches and comparison websites are undoubtedly growing in influence, more traditional advertising via television and print is still more effective in generating overall customer referrals.
- Despite the rise of digital media, and in particular the reliance of younger customers on all-things digital, social media leads are not likely to be particularly effective as a customer-acquisition tool. Rather, a social media effort should focus on dealing effectively with customer inquiries and reputational risks to help ensure that negative publicity is minimized and referrals from friends and family—a key source for all loan types—will not be jeopardized.
- Finally, an existing banking relationship is important as a referral source for all loan types. Lenders should be maximizing efforts to cross sell to existing customers.

Financial advice can be a differentiator

Given the increased complexity when applying for a loan and changing socio-economic dynamics, the need for both low- and high-touch financial advising is stronger than ever to help improve borrower financial literacy and to help ensure borrowers know how to properly manage their loans. However, as shown in Figure 7, 17% of borrowers surveyed suggested that they have never been offered any financial advising services, and 31% said they had never used them.

In this context, high-touch services are full-service interactions with financial advisors who provide advice and counsel on managing and planning a person's finances. Low-touch services, on the other hand, are self-service tools that allow customers to better manage their finances on their own.

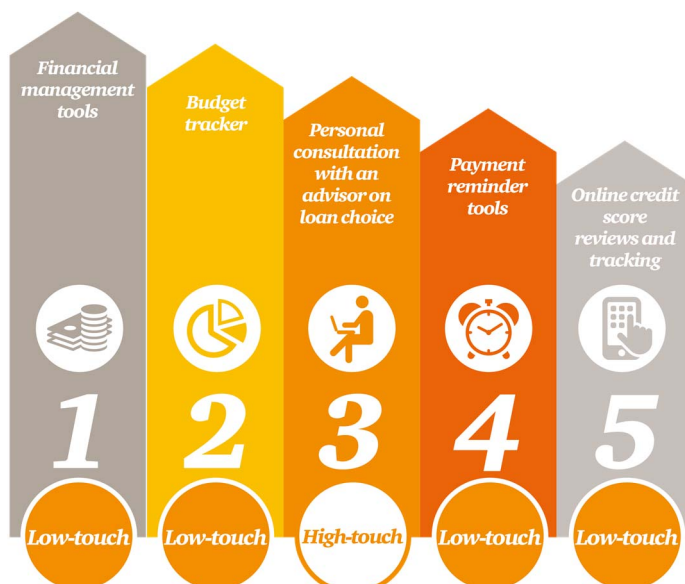
Figure 7: Consumers cited the lack of available service options as the primary reason for not using financial advising services offered.



n = 1951

Further, consumers showed preferences for simple low-touch financial tools that help track credit, stay on top of payments, and manage budget.

Figure 8: Advising services most valued by borrowers who were not offered those services from their lenders.



What it means

- Bundling financial advising services with lending products, including free initial consultations with advisors and simple loan management tools, could improve customer perception of lender value.
- Of the services consumers would value, simple financial tools that help them track credit, stay on top of payments, and manage budgets are at the top of the list. Build or partner with vendors to offer these self-service tools as an entry point to more full-service advising.

Digging deeper—asset class specific findings

Understanding consumer needs, preferences, and views on lending can be key advantages in attracting and retaining customers. While customers tend to have specific preferences based on their age groups, we also identified product-driven differences that lenders should keep in mind as they develop their strategies. To help with this, for each asset class—auto, home, student, and personal loans—we asked borrowers whether certain offered features are important to them and to what extent they were satisfied with these features during the application process for their current loan. Combining these two perspectives provides a view as to which features are “nice-to-have” as opposed to “need-to-have.”

Meet your borrowers

In addition, we explored the typical characteristics of different consumer types—personas—within the four asset classes, gauged their satisfaction with the process, and examined their channel preferences for initiating and completing the loan application process. Consumers' responses, detailed on the following pages, provide example insights that lenders can use to tailor their marketing efforts and the customer experience to meet the unique needs and preferences of each segment within each asset class.

Auto loans—key insights

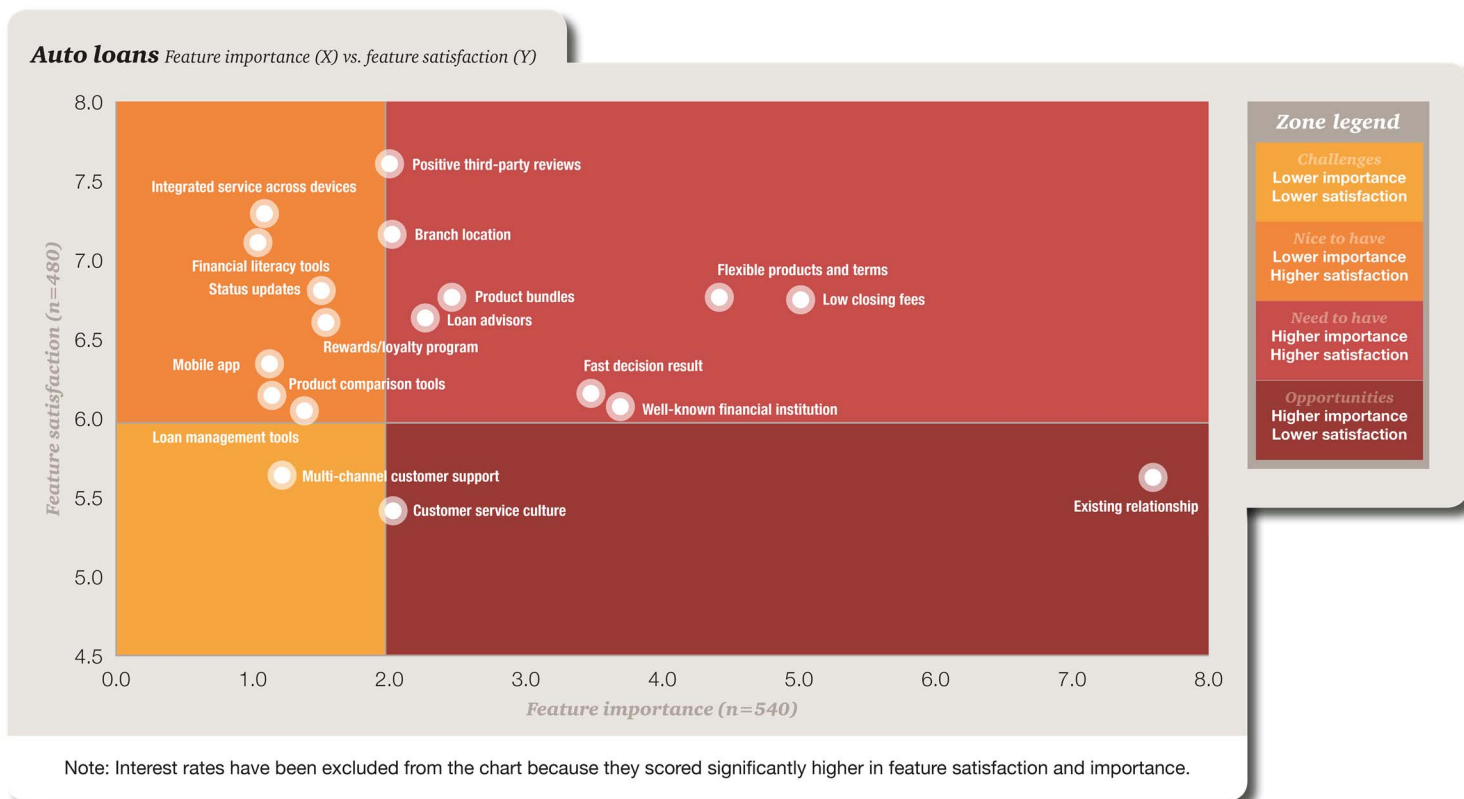


Auto borrowers view existing relationships as a significant factor when choosing a lender. In fact, these borrowers consider relationships significantly more important than any other factor other than interest rate. However, they are somewhat unsatisfied either with the products offered by that lender or the bundled services that the lender provides once additional products are purchased.

Relatively advanced features such as product comparison tools, financial literacy tools, and status updates all received high satisfaction scores from borrowers but are significantly less influential in the final decision than having flexible products and low closing costs (although these are largely driven by product strategy and economics). By far the largest differentiator in loan service is having a fast end-to-end process.

The following graphic depicts auto loan consumers' view on feature importance versus the overall satisfaction with the loan process. Consumers were asked which features were most and least important when choosing their current auto loan lenders (X-axis) and how satisfied they were with the feature aspects of their chosen lender (Y-axis).

Figure 9: Why did you choose your auto lender?



Well-off Walter

Highly educated Baby Boomers

Walters are highly educated Baby Boomers who live in the Northeast or on the West Coast. Retired, they live comfortably off their sizeable savings.

- **Loan types:** In addition to their auto loan, most Walters have a home loan and a small number are still paying off their student loans.
- **Loan terms:** Their most recent auto loan was opened in the last 2-3 years for \$20K-\$25K and good interest rate (<2.0%). It's likely that they purchased this less expensive car to use as a second car for themselves or for one of their children who can't yet afford one.
- **Current satisfaction:** Walters are satisfied with their current lender and will promote their lender to friends and family.
- **Behavior:** Despite their loyalty, Walters value interest rate above all other lender attributes. Thus, if their current lender does not continue to offer them the best possible interest rate, they are likely to switch.
- **Channel preference:** In their quest for convenience, Walters are willing to research loans and submit documents online. However, Walters are still traditionalists in that they prefer to close the loan in person.
- **Rewards:** Given this loan is for their second car, Walters care most about paying it off as quickly as possible. Thus, for a lender rewards program, Walters most value earning points that can be used to pay down their loan.

How to reach them

- Offer pre-qualified low-rate loans, easy loan management mobile tools, and "Loan 101" educational materials for their dependents.
- Offer incentives for opening a second auto loan with the same lender.

Well-off Walter



1.2x

more likely to be extremely satisfied with their lenders



86%

of their lender decision-making is influenced by interest rate (14% by overall experience)



37%

are likely to recommend their lenders (as measured by NPS)



Very likely

to switch lenders if offered a compelling alternative

Demographic overview

Age	55-72
Gender	Neutral
Household income	\$150K+
Education	Post-graduate degree
Employment	Retired
Marital status	Neutral
Region	West Coast and Northeast
Creditworthiness	Excellent

Average auto loan

Lender type	Regional bank
Amount	\$20K-\$25K
Interest rate	<2.0%

Strapped Sasha

Young Millennial singles

Sashas are young Millennial singles just starting their careers. They have low incomes and limited money to spend on a car.

- **Loan types:** In addition to their auto loan, Sashas are often managing a student loan (30%). If they don't already have a car, they're 1.5 times more likely to be interested in an auto loan in the next six months as compared to other potential auto borrowers.
- **Loan terms:** Sashas took out modest auto loans (\$10K-20K) in the last 1-2 years on a referral from their auto dealership. As Sashas are newly out of school and often living with their parents in the suburbs, they need a low hassle car they can rely on for commuting to work.
- **Current satisfaction:** Sashas are not experienced consumers and thus don't have many expectations from a lender. They are ambivalent about their lender satisfaction and aren't likely to go out of their way to recommend their current lender to others. However, their upward ambition and digital savviness could make them strong brand promoters, if provided the proper tools and support.
- **Behavior:** While interest rate is still the top priority for Sashas, having multiple loan options to pick from and getting a quick approval result are as important as getting a great rate.
- **Channel preference:** As a digital savvy Millennial, Sashas prefer a digital end-to-end loan application process.
- **Rewards:** Given their limited credit, Sashas value getting access to other loan products as an extra benefit.

How to reach them

- Offer an all-digital loan application process that touts multiple loan product options and fast decision results.
- Offer access to other lending products as a benefit of opening a loan.

Strapped Sasha



more likely to feel neutral about their lender satisfaction



of their lender decision-making is influenced by overall experience (19% by interest rate)



more likely to not recommend their lenders (as measured by NPS)



about switching lenders if offered a compelling alternative

Demographic overview

Age	18–34
Gender	Neutral
Ethnicity	Minority
Household income	\$25K–\$50K
Education	Neutral
Employment	Neutral
Marital status	Never married
Region	South
Creditworthiness	Fair

Average auto loan

Lender type	Online
Amount	\$10K–\$20K
Interest rate	Neutral

On-the-Rise Rori

Above-average income earners

Roris are above-average income earners with some level of higher education living on the West Coast. They are recently married, have good credit, and looking to start a family.

- **Loan types:** Most Roris are juggling both a home loan and an auto loan as they establish themselves and their young family.
- **Loan terms:** Roris need a higher-value auto loan (\$15K-\$25K), as they can now afford a nicer car and that can support their young family's needs. Their solid personal finances help them qualify for preferred loan terms through their credit union, where they already have an existing home or student loan.
- **Current satisfaction:** Despite a limited credit history, Roris were able to secure favorable loan terms through their local credit union. As a result, Roris are extremely loyal to their lender. They are both highly satisfied and very likely to recommend their lender to friends and family.
- **Behavior:** Managing costs is critical for Roris, so getting the best rate is the most important when picking a lender. However, Roris also need to know that they're with a lender they can trust, so having an existing relationship is a major consideration.
- **Channel preference:** While Roris like the convenience of a digital application process, they can't afford a mistake. As such, they require an in-person, in-branch interaction to finalize loan details.
- **Rewards:** Due to their growing family needs, Roris appreciate discounts on other loan products.

How to reach them

- Offer a compelling in person experience as well as a digital option.
- Give them incentives for recommending you to their friends and families.

On-the-Rise Rori



1.4x

more likely to be very satisfied with their lenders



51%

of their lender decision-making is influenced by overall experience (49% by interest rate)



1.5x

more likely to recommend their lenders (as measured by NPS)



Remain neutral

about switching lenders if offered a compelling alternative

Demographic overview

Age	Neutral
Gender	Neutral
Household income	\$75K-\$150K
Education	Some college
Employment	Neutral
Marital status	Married
Region	West
Creditworthiness	Good

Average auto loan

Lender type	Credit union
Amount	\$15K-\$25K
Interest rate	1.0%-2.0%

Home loans—key insights

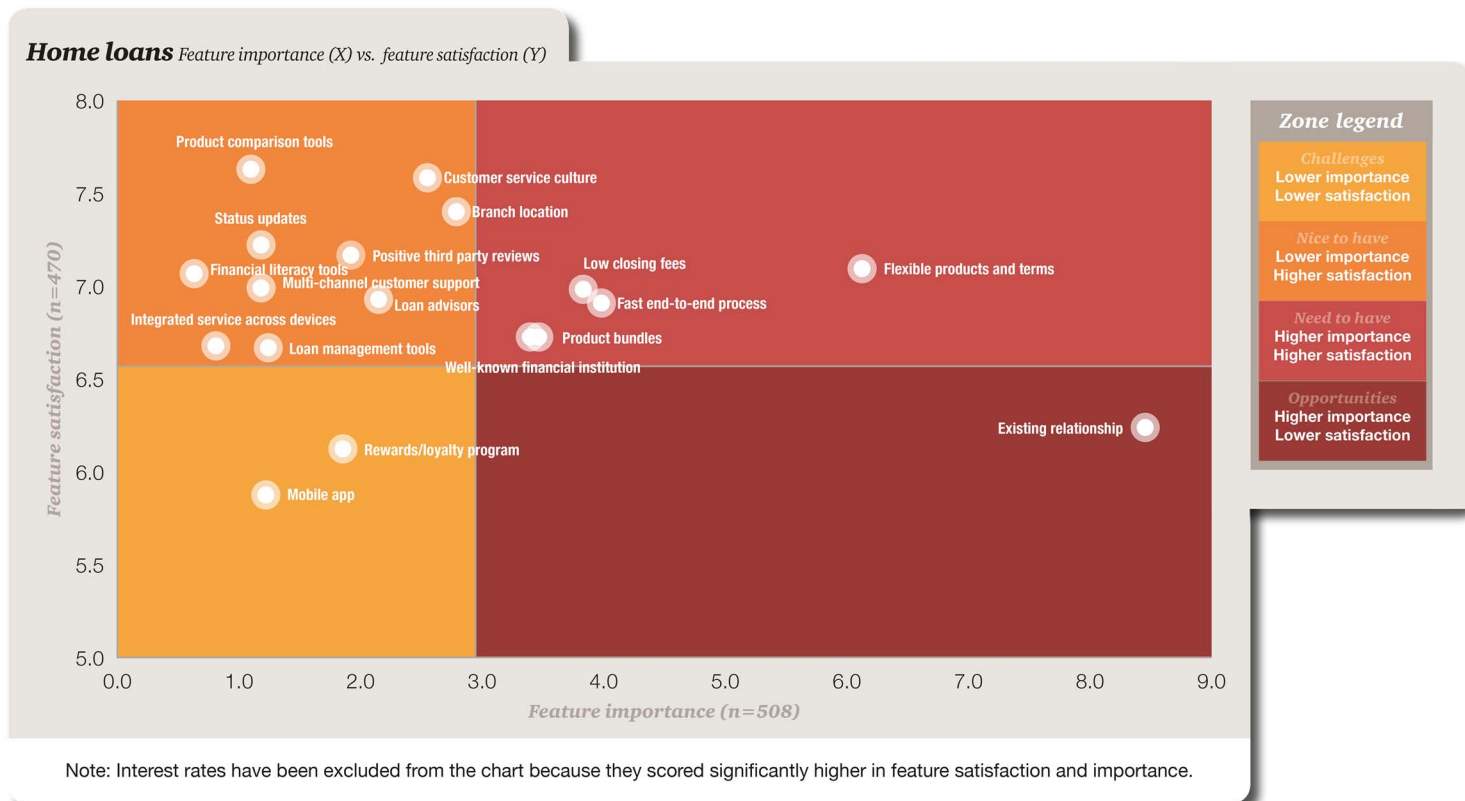


Given the complexity of the mortgage process and the much larger financial commitment that borrowers are making, it is not surprising that flexible products are seen as more important by these borrowers than in any other asset class. Related to this complexity, product comparison tools are rated very highly but are still relatively unimportant in the final buying decision.

Traditional lenders are at a strong advantage when compared to the new market entrants in terms of existing customer relationships and consumer knowledge of the financial institution. Both of these features score higher than branch location, which again reflects the declining importance of traditional, in-person applications. As with auto loans, the most important experience-related feature that home borrowers are looking for is a fast end-to-end process.

The following graphic depicts home borrowers' view on feature importance versus overall satisfaction with the loan process. Consumers were asked which features were most and least important when choosing their current home loan lenders (X-axis) and how satisfied they were with the following feature aspects with their chosen lender (Y-axis).

Figure 10: Why did you choose your home loan lender?



Planner Pat

Well-educated Gen Xers and Boomers

Pats are well-educated Gen Xers and Boomers who are supporting a family on a mid-to-upper level income. They are financially stable and fiscally responsible with excellent credit.

- **Loan types:** Pats usually carry an auto loan in addition to their home loan, but with their shrewd money management they either didn't need or haven't paid off their other loans (student, personal, etc.).
- **Loan terms:** Pats healthy financial behavior has made them a prime borrower, giving them access to great loan terms. Pats often have interest rates below market average and they are 1.3 times more likely than the other segments to have a shorter loan term.
- **Current satisfaction:** Pats are satisfied with their lender but will not necessarily promote them. They do most of the work in managing their mortgage, and, as such, they see their lender as only a provider of a commodity product.
- **Behavior:** Pats value interest rate 10 times more than any other feature when considering a lender, and almost two times higher than any other segment. If given better rates by another lender, Pats are 1.2 times more likely to switch.
- **Channel preference:** Pats appreciate the convenient tracking and documentation of a digital lending application, but prefer in-person interactions at closing to answer any questions they have.
- **Rewards:** Pats' financial acumen makes a points-based rewards program appealing and can potentially keep them as a customer.

How to reach them

- Offer loan consolidation plans at competitive rates.
- Offer "best-rate guarantees" to prime borrowers.
- Offer a points-based loyalty program that rewards top customers.

Planner Pat



more likely to be satisfied with their lenders



of their lender decision-making is influenced by interest rate (22% by overall experience)



more likely to remain neutral about recommending their lenders (as measured by NPS)



to switch lenders if offered a compelling alternative

Demographic overview

Age	35–72
Gender	Neutral
Household income	\$75K–\$100K
Education	Post-graduate degree
Employment	Employed
Marital status	Married
Region	Neutral
Creditworthiness	Excellent

Average home loan

Lender type	Credit union/Community bank
Amount	Neutral
Interest rate	1.0%–4.0%

Combined Court

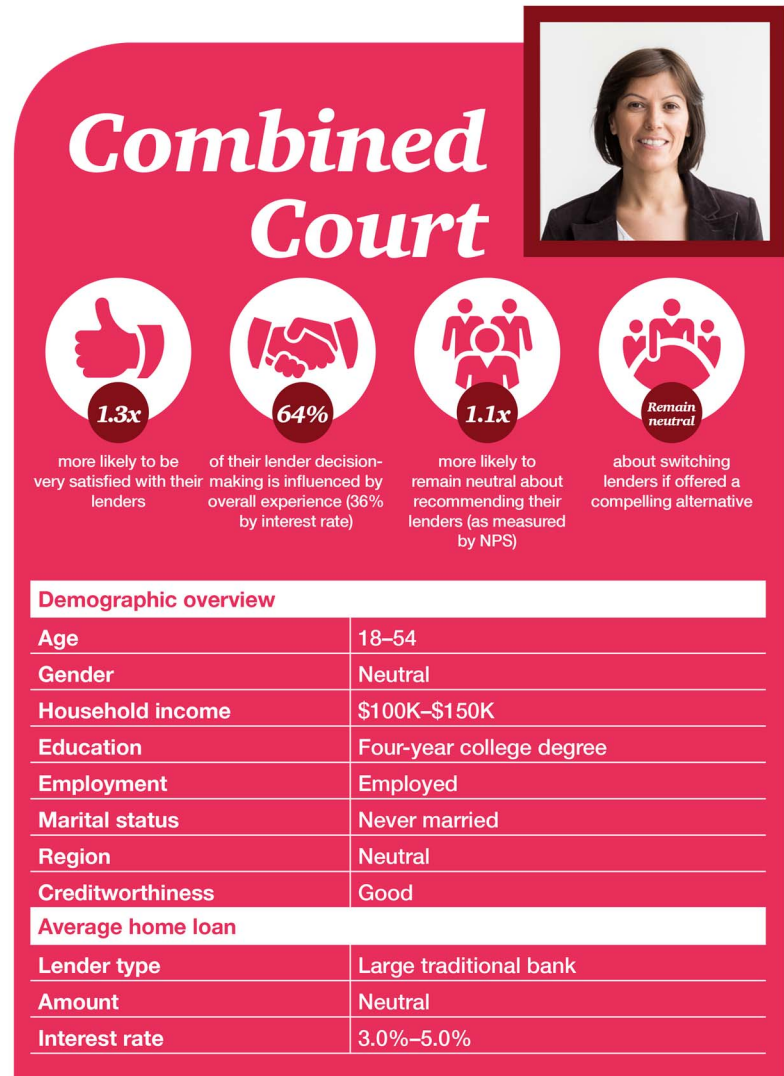
Single, career-driven Millennials and Gen Xers

Courts are single, career-driven Millennials and Gen Xers. They are well educated, affluent, and buying their first home.

- **Loan types:** Courts are often familiar with the lending process, as some of them also have an auto loan and they are 1.5 times as likely to have a student loan. This is their first home loan, so they are cautious about making such a large investment as a single income earner.
- **Loan terms:** Given their existing loan debt, Courts wouldn't typically get competitive rates for a stand-alone mortgage. However, they often consolidate their loans with the same large bank, and therefore, can get better rates.
- **Current satisfaction:** Courts are very satisfied with their lender, but they are too busy to actively recommend them to friends and family. If given incentives and/or easy-to-use tools to facilitate advocacy, they would likely be a more vocal promoter.
- **Behavior:** While Courts value rate most when picking a lender, they also want simplicity and help managing their growing loan portfolio. Thus, they consider having an existing relationship with their potential lender and great customer support tools almost as important as getting a great rate.
- **Channel preference:** Courts appreciate the convenience and transparency of a digital process, but prefer the comfort of in-person interactions during the final phases of closing the loan.
- **Rewards:** Courts appreciate a points-based loyalty program that helps them generate additional monetary value from their loan.

How to reach them

- Prime target for cross-sell. Offer improved rates and incentives for repeat business/opening multiple loans.
- Promote your customer support culture along with simplified self-service tools and loan management dashboard.



Digital Dan

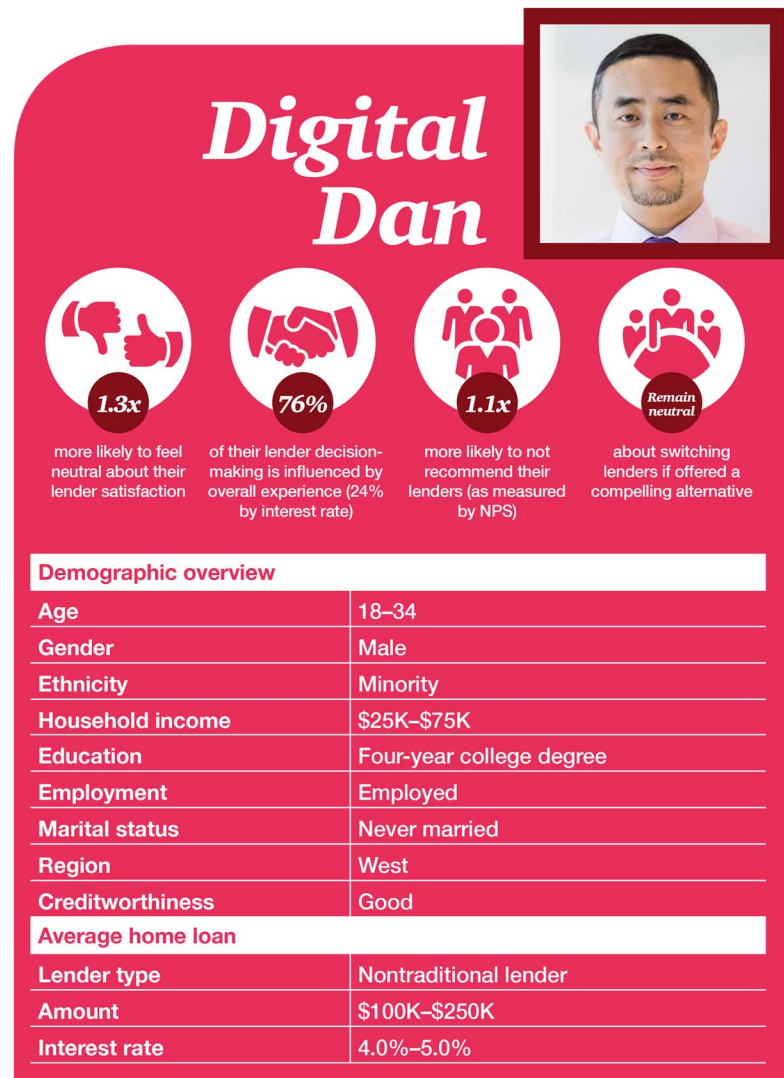
Young, single, college-educated males

Dans are young, single, college-educated males, who are purchasing their first home on a modest income. They live their lives online and prefer the same from a loan process.

- **Loan types:** Dans are in the early stages of their careers, and they are trying to establish a stable lifestyle for themselves. Dans may have student loans, personal loans, or some combination of the two.
- **Loan terms:** Dans are highly leveraged, and, despite good credit, their limited job history precludes them from accessing the best loan terms (Dans may have interest rates at or above market rates). Despite this, Dans' high income allows them to purchase a modest home on a 30-year fixed mortgage for a reasonable monthly payment.
- **Current satisfaction:** Dans are generally neutral towards their lender, but they are likely to be detractors because the complex, paper-driven mortgage process is frustrating for these digital savvy Millennials.
- **Behavior:** Dans still rank interest rate as their top priority, but having an existing relationship, low closing costs, and fast decision making are together almost equally as important. Therefore, lenders who can't compete on rate can still win Dans' business with a compelling and slick application experience.
- **Channel preference:** Dans prefer an entirely digital experience and are 1.2 times more likely to prefer submitting closing payments online.
- **Rewards:** Dans appreciate exclusivity, so rewarding their loyalty with access to special products strengthens the lender relationship.

How to reach them

- Develop relationships through other loans.
- Offer a digital application process and slick self-service tools.



Newlywed Nancy

Young, educated, Millennial females

Nancys are young, educated, Millennial females who are starting a family. They are engaged in the lending process and will promote a lender who helps them achieve their goals.

- **Loan types:** Nancys recently got married which required both a new home and a new car. Some Nancys are also paying off their college or post-graduate student loans and personal loans (for example, wedding expenses and credit card bills).
- **Loan terms:** Nancys have managed their high expenses well and have access to good loan terms. They are in dual income households which allows Nancys and their partners to handle a higher monthly payment (\$1,000-\$1,500) and can potentially pay off the loan before term.
- **Current satisfaction:** Nancys are more likely to be extremely satisfied with their lender as compared to other segments, and they are strong promoters making them powerful brand advocates.
- **Behavior:** Nancys rank interest rate above all other features when picking a lender. However, multiple loan options and existing banking relationships constitute 15% of their decision-making criteria, indicating the potential strong influence of a customized, relationship-oriented lending experience for Nancys.
- **Channel preference:** Nancys busy family life means they prefer the convenience of an all-digital experience, from shopping to closing.
- **Rewards:** As Nancys want to get as much value as possible out of their loan, they would prefer a points-based rewards program as appreciation for their loyalty.

How to reach them

- Offer a traditional, in person approach with an institution they trust.
- Give them tools to promote your brand through social media.

Newlywed Nancy



1.7x

more likely to be extremely satisfied with their lenders



60%

of their lender decision-making is influenced by overall experience (40% by interest rate)



1.5x

more likely to recommend their lenders (as measured by NPS)



Remain neutral

about switching lenders if offered a compelling alternative

Demographic overview

Age	18–34
Gender	Female
Household income	\$75K–\$100K
Education	4-year college degree or post-graduate degree
Employment	Employed
Marital status	Married
Region	Neutral
Creditworthiness	Good

Average home loan

Lender type	Large traditional bank
Amount	\$100K–\$250K
Interest rate	3.0%–5.0%

Student loans—key insights



The student lending analysis provides a fascinating glimpse into the future borrower market since the majority of those surveyed are within younger demographics. Also, perhaps not coincidentally, student lenders received much lower satisfaction ratings overall than the other asset classes.

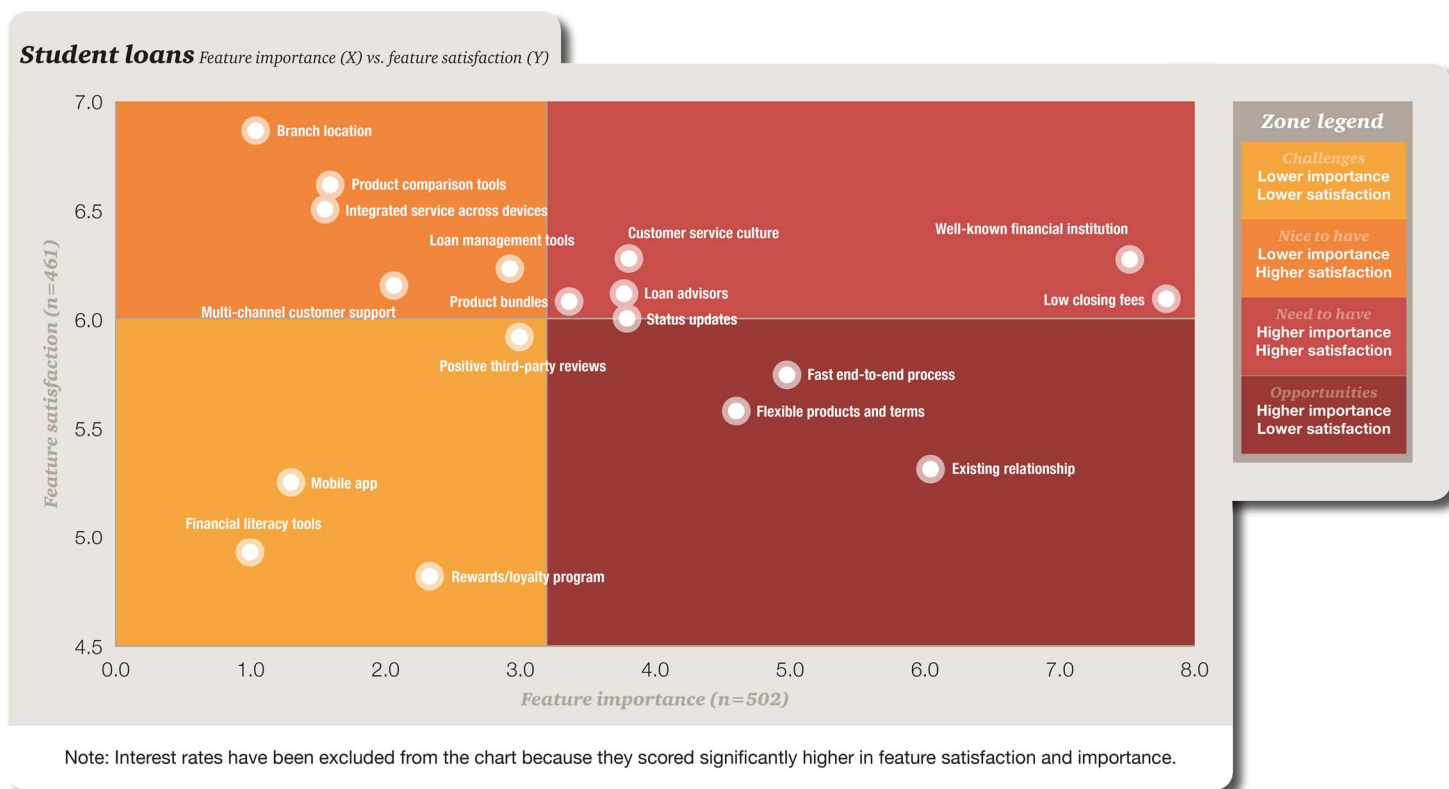
Having an existing relationship with an institution is less important here, probably because student borrowers often have limited choice of lenders through their school's financial aid office, and this is often their first major financial debt.

It is important for lenders to provide a fast end-to-end process, quick decisions, and frequent status updates through the research and application phases. In this case, the importance of newer, sophisticated features such as loan management tools and status updates are more highly valued than any of the other asset classes as well as online research and third-party reviews.

Finally, having low closing costs is more important for student borrowers than those in other asset classes, likely a result of younger, cash-strapped students having less disposable income than other borrowers.

The following chart depicts student loan borrowers' view on feature importance versus overall satisfaction with the loan process. Borrowers were asked which features were most and least important when choosing their current student loan lender (X-axis) and how satisfied they were with the certain feature aspects associated with their chosen lender (Y-axis).

Figure 11: Why did you choose your student loan lender?



Career Cam

Young professionals, recent college graduate

Cams are young professionals who recently graduated from college. They landed a good job upon graduating and are either establishing a long-term career or preparing for graduate school.

- **Loan types:** Cams encountered additional expenses while in college and thus they are 1.2 times more likely than other segments to carry a personal loan. In addition, some Cams have an auto loan to facilitate transportation to a new job.
- **Loan terms:** Cams likely worked in high school and college which helped them demonstrate fiscal responsibility and gave them access to good loan terms. Their college job is also likely to have helped them manage higher monthly payments on a shorter term loan.
- **Current satisfaction:** Cams see their lender as providing a means to an end. They are not particularly engaged with their lender, but they do expect them to meet their basic needs. If their lender does not meet those needs, Cams are certain to vocalize their disappointment.
- **Behavior:** Although interest rate is the most important feature to Cams, the combined importance of lender brand and flexible products and terms is equal to that of interest rate. This indicates an opportunity to win over this segment with the proper product and experience design.
- **Channel preference:** Cams are busy professionals who value their time. As such, they prefer an efficient, digital process from start to finish.
- **Rewards:** As Cams try to establish themselves in society, they appreciate being acknowledged with exclusive products and offers.

How to reach them

- Provide digital tools for loan processing and management.
- Offer exclusive products including loan consolidation services.

Career Cam



are neutral about their lender satisfaction



of their lender decision-making is influenced by overall experience (16% by interest rate)



are not likely to recommend their lender (as measured by NPS)



about switching lenders if offered a compelling alternative

Demographic overview

Age	18–34
Gender	Neutral
Household income	\$75K–\$100K
Education	4-year college degree
Employment	Employed
Marital status	Neutral
Region	Midwest
Creditworthiness	Good

Average student loan

Lender type	Neutral
Amount	Neutral
Interest rate	3.0%–5.0%

Family Fran

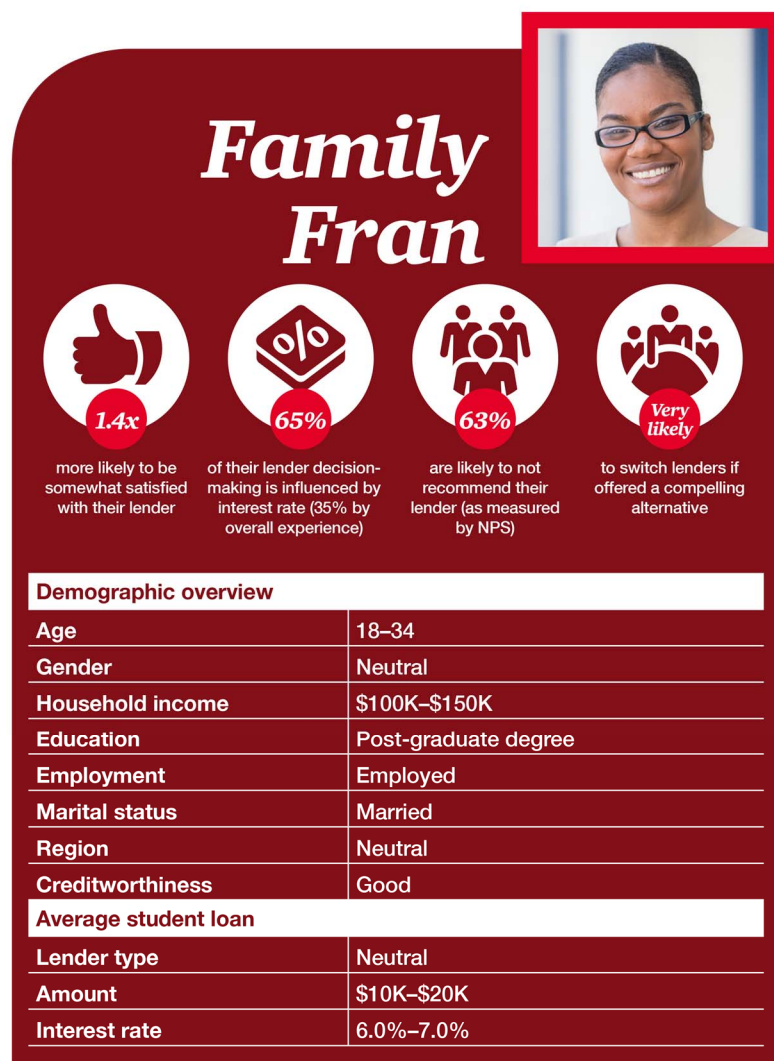
Well-educated Millennials

Frans are well-educated Millennials in their early thirties. They are out of school, married, and focused on starting a family.

- **Loan types:** Frans are 1.2 times as likely as other segments to have an auto loan and 1.5 times as likely to have a home loan. Their transition into married life likely necessitated a home purchase and either a new car or a second car for the family. They are trying to juggle these expenses in addition to their graduate school loans.
- **Loan terms:** Although Frans are fiscally responsible, they are highly leveraged, which precludes them from getting the best loan terms. In turn, they are forced to take a longer term loan at a higher interest rate, which affords them a more reasonable monthly payment to manage.
- **Current satisfaction:** Frans are somewhat satisfied with their lender; however, managing multiple loans has resulted in a “halo effect” of frustration with the lending process. They are quick to vocalize their disappointment if their needs are not met.
- **Behavior:** For Frans, interest rate is 10 times more important than any other feature when choosing a lender. Frans have too many loans to manage to worry about experience elements, and lenders who cannot compete on rate, “need not apply.”
- **Channel preference:** Frans want a digital experience from all of their lenders so they can manage all loans from one device.
- **Rewards:** Since Frans biggest concern is financial stability, they would want a rewards program that helps them pay down their loan.

How to reach them

- Offer loan consolidation services and/or product bundles at a discounted rate.
- Offer a rewards program that helps them pay down their loan.



Aspirational Alex

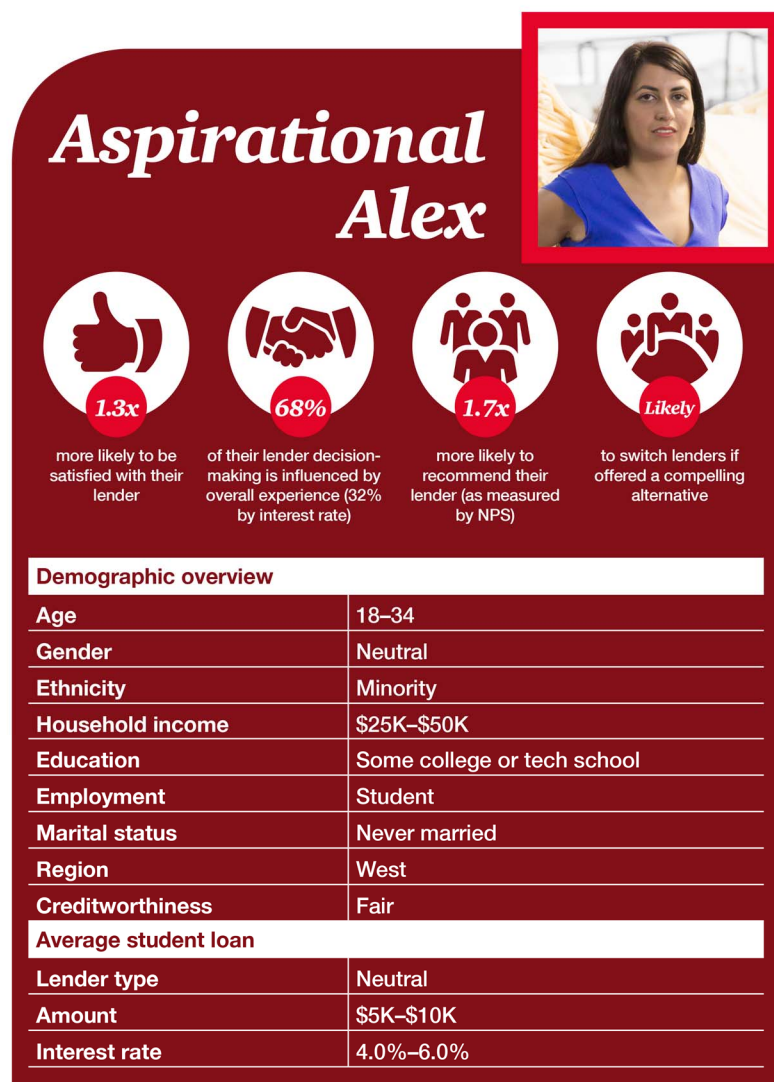
Young, low income, minority students

Alexs are young, low income, minority students who are likely the first generation to go to college. They either currently have a student loan or would like to obtain one to finance their dream of higher education.

- **Loan types:** Although some Alexs already have an auto loan, for most of them their student loan is the first big financial commitment they have ever made. In fact, Alexs are 3.5 times more likely than the other segments to have no current loans, but they are interested in obtaining a student loan within the next six months.
- **Loan terms:** Alexs obtain student loans in smaller amounts (\$5K-\$10K) that support tuition at community colleges, 2-year programs, etc. Despite the smaller loan amount, Alexs don't get access to the best interest rates as a result of bad credit from previous missed financial payments.
- **Current satisfaction:** Alexs are grateful for the opportunity to go to school, and as a result, they are satisfied with and will promote their lender.
- **Behavior:** Since Alexs are managing a small budget, interest rate is a big factor in their lender decision. However, experience features still account for more than 65% of Alexs lender choice and thus a good experience can win them over.
- **Channel preference:** Although Alexs prefer an online process, for many of them, this is their first financial major decision, so some Alexs prefer a traditional closing experience.
- **Rewards:** Alexs would be most appreciative of rewards that help them earn points to pay down their loan and manage expenses.

How to reach them

- Offer "Loan 101" courses and digital loan management tools.
- Offer in-person customer support and closing process options.



Personal loans—key insights

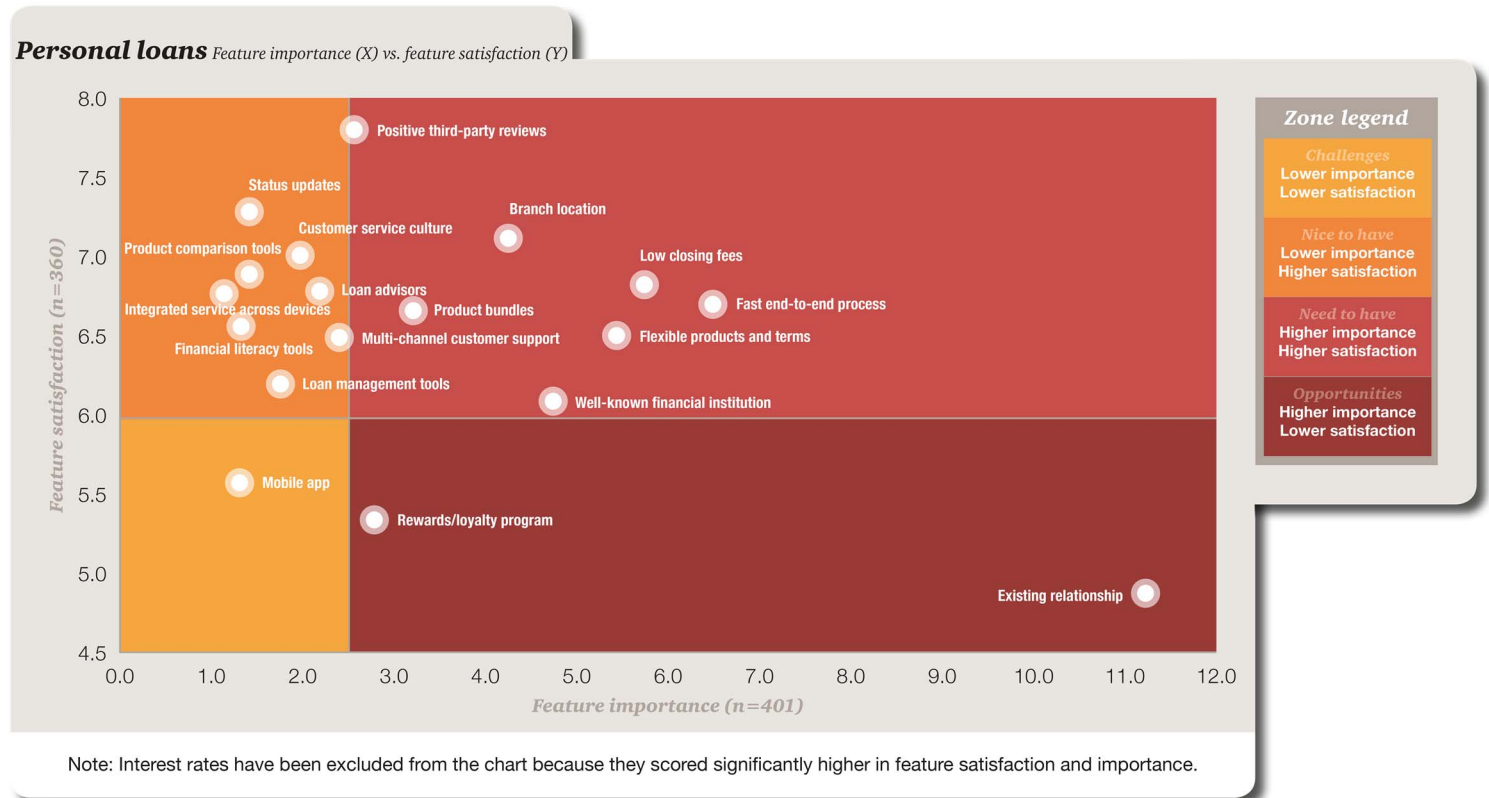


Consumers are searching for quick and easy decisions when it comes to the personal loan application process. This is because personal loans are often ad-hoc sources of funds meant to cover large, everyday expenses in lieu of credit cards. The loans are typically short-term in nature and paid off relatively quickly, making a simple and seamless application process more critical than interest rates, in many cases.

Since new market entrants target this asset class more aggressively than any other, it is interesting to note that having an existing relationship and branch location ranked as more important for personal loans than any other asset class in feature importance, probably as a result of perceived convenience. However, while borrowers often turn to their current banks for personal loans, they are generally underwhelmed by the loan offers or service they receive, as shown by the relatively low satisfaction score.

The following graphic depicts personal loan borrowers' views on feature importance versus overall satisfaction. Borrowers were asked which features were most and least important when choosing their current personal loan lenders (X-axis) and how satisfied they were with the certain feature aspects associated with their chosen lenders (Y-axis).

Figure 12: Why did you choose your personal loan lender?



Stretched Sally

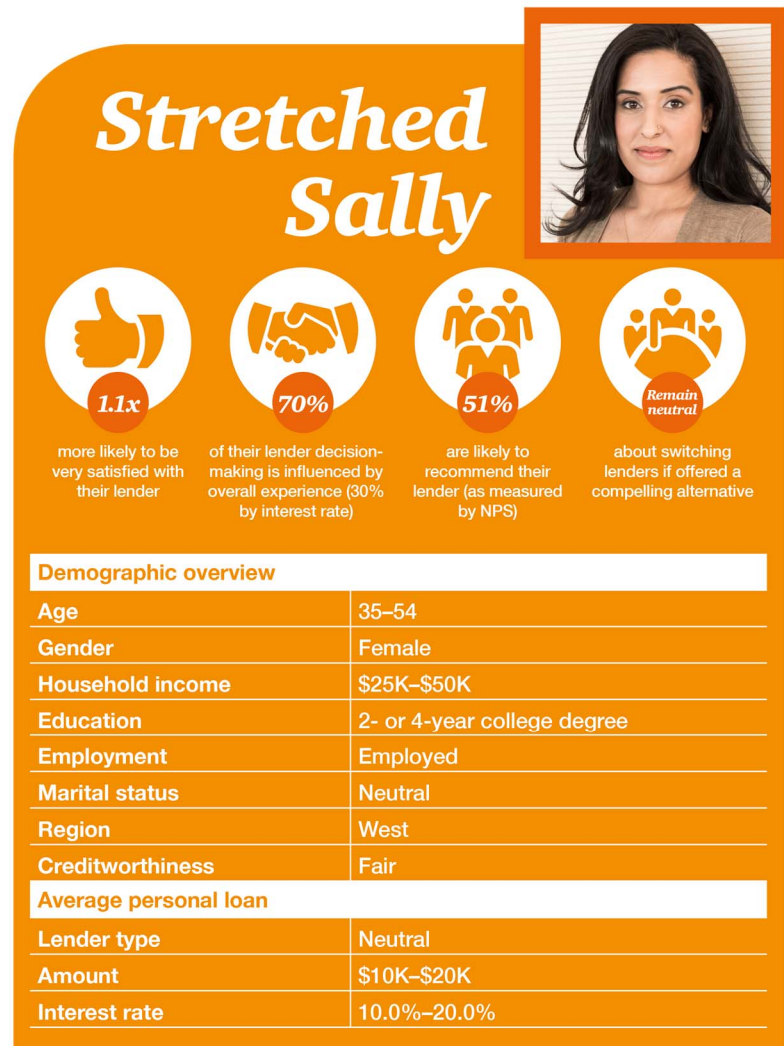
Low-income, Gen Xers struggling to find work

Sallys are low-income, Gen Xers who struggle to find regular work and a steady income. They're using personal loans to cover necessities while they get on their feet and are loyal to their lender because they helped in a time of need.

- **Loan types:** Sallys are likely part of a larger household with dependents—either children, parents, or extended family. In order to provide for them, Sallys require a lot of resources as many of them also have auto, student, and home loans.
- **Loan terms:** The large amount Sallys need to borrow, combined with the number of other loans they already have, make them risky borrowers, resulting in higher interest rates and longer terms.
- **Current satisfaction:** Sallys know they would be in deep financial trouble without personal loans, so they have developed an emotional bond with their lender. Therefore, despite being a risky borrower, they are one of the most loyal promoters a lender can find.
- **Behavior:** For Sallys, the existing relationship with their lender is almost as important as the interest rate they are getting on their loan and they are ambivalent about switching to another lender even if offered a better experience. Thus, while Sallys may look like a risky borrower on paper, they are a more positive, long-term investment than other segments.
- **Channel preference:** Sallys appreciate a digital experience, but many require the assurance of in-person consults for closing since these loans are so important to their livelihood.

How to reach them

- Offer loan consolidation, management, and tracking programs.
- Offer rewards program based on their references and promotions.



Starting Out Sam

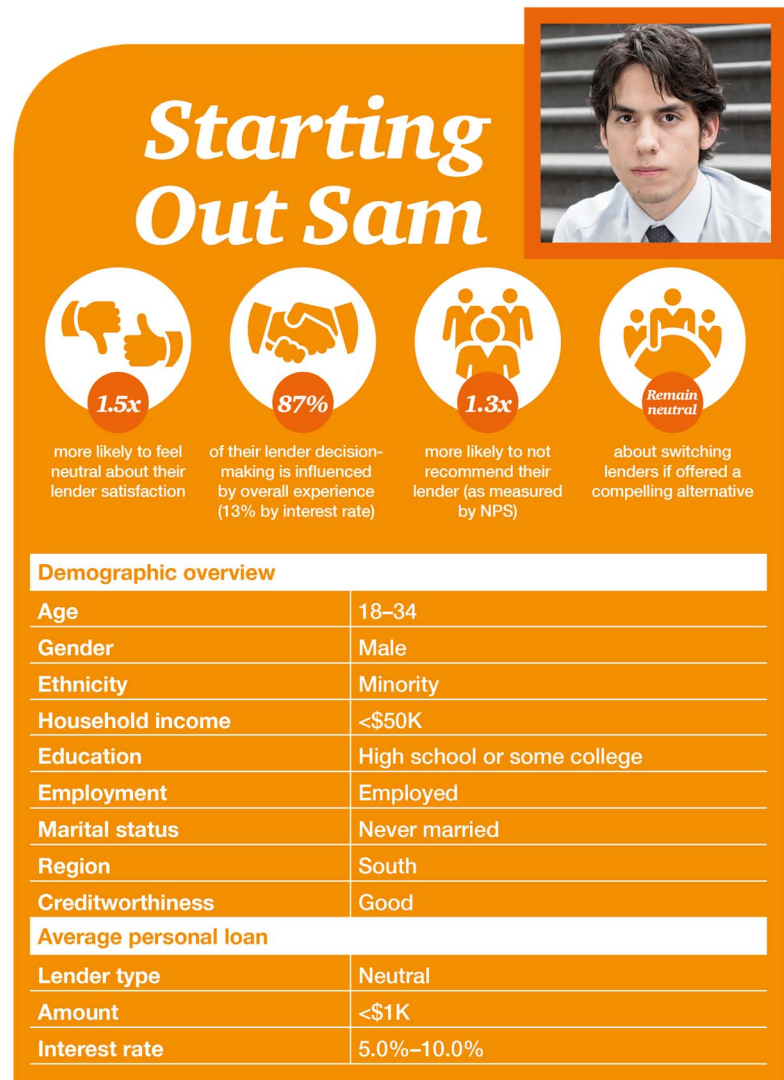
Single Millennials who have finished high school

Sams are single Millennials who have finished high school and are either in their first job or beginning college. They need a personal loan to help them as they start living on their own.

- **Loan types:** Part of the strain on Sams is their need to manage an auto loan and a student loan on a very low income. They may have tried to carry loan payments or life expenses on credit cards and now they want to consolidate that debt and pay it off with a personal loan.
- **Loan terms:** Since Sams tend to only require a small loan amount, their interest rate remains low and their term short.
- **Current satisfaction:** Sams want as simple and painless a process as possible given how little they're borrowing. As such, Sams may find loan applications tedious and needlessly cumbersome. Without any concerted effort to reach out to Sams, lenders will find them indifferent with the potential to become detractors.
- **Behavior:** Sams have to manage a tight budget, so interest rate will always rank as a top feature. However, they are also digitally savvy and trained to expect speed and variety when buying things. Speed of decision result and flexible products and terms are together equally as important to Sams as rate.
- **Channel preference:** Most Sams prefer an entirely digital experience and, for many, this is their first major financial transaction. Thus, lenders should focus on delivering intuitive digital experiences that reinforce peace of mind and make the terms of the loan simple and obvious.

How to reach them

- Offer fast decision making and immediate access to funds.
- Designate a loan advisor to specifically reach out to and close Millennial loans.



Comfortable Carl

Mid-to-upper income well-educated married males

Carls are mid-to-upper income males who are married and well-educated but are likely in the first years of a career out of grad school. Carls do not yet earn enough money to cover sudden, unforeseen events or the occasional luxury.

- **Loan types:** Carls carry both an auto and student loan, but, unlike the other segments, are 1.4 times more likely to carry a home loan.
- **Loan terms:** Despite being highly leveraged, Carls are educated and financially responsible. Thus, Carls have managed their payments well, maintained good credit, and have access to the best interest rates and loan terms.
- **Current satisfaction:** Given the loan terms they were able to secure, Carls are extremely satisfied with their lenders and happy to promote them to friends and family.
- **Behavior:** Interest rate is more than 20 times as important to Carls as the next most important feature when choosing a lender and, even then, the next most important feature is closing fees. Carls consider themselves well-educated and financially savvy, so no amount of experience design will win them over if the rate is not the best.
- **Channel preference:** Carls are a digitally savvy segment and they appreciate having quick, easy access to financial products through digital channels. That said, Carls also want all their questions answered when it comes time to close, with some of them wanting an in-person meeting for the last phases of the loan application process.

How to reach them

- Pre-qualify current prime customers for low-interest personal loans.
- Encourage referrals to friends and family with incentives and referral bonuses.
- Reward loyalty through increasing discounts and exclusive offers.

Comfortable Carl



1.2x

more likely to be extremely satisfied with their lender



86%

of their lender decision-making is influenced by interest rate (14% by overall experience)



1.1x

more likely to recommend their lender (as measured by NPS)



Extremely likely

to switch lenders if offered a compelling alternative

Demographic overview

Age	Neutral
Gender	Male
Household income	\$50K–\$75K
Education	Post-graduate degree
Employment	Employed
Marital status	Married
Region	Neutral
Creditworthiness	Excellent

Average personal loan

Lender type	Neutral
Amount	\$1K–\$5K
Interest rate	<5.0%

What does it all mean?

Based on what borrowers have told us about their preferences and our knowledge of where many lenders face challenges today in understanding how to improve their customers' experience, we have identified the following areas for lenders to focus on.

Key implications for lenders

- **Know your customer base.** A one-size-fits-all approach to lending is not suitable for today's market. Lenders who do not segment existing and targeted borrowers and design a customer experience suitable to each segment will not succeed, given the level of competition.
- **Start with a customer strategy.** Compared to other industries, borrowers have low expectations of their lenders. Breaking this mold can be a key differentiator for lenders and several new entrants have gained significant market share in recent years based on a simpler customer proposition. Keeping the status quo will lead to falling share for lenders targeting the entire market. This does not mean, however, that niche segments based on more traditional service models cannot be profitable for those lenders who do not desire to make that kind of investment or develop partnerships for a digital platform.
- **Put money into digital and time into traditional.** More than ever, consumers want a digital experience, but some also want the comfort of human support when things get risky or complicated. Lenders should spend appropriately on digital capabilities that allow consumers to self-serve where desired. In addition, lenders should invest time in training front-line staff to support consumers through the difficult steps and build true relationships.
- **Keep things simple.** A good process does not have to be complex, and consumers overwhelmingly told us that the most important factor in a loan decision other than relationships and product features is the speed of the process. While fancy tools and features are well liked by consumers (especially the younger borrowers), ultimately these are not as important as low costs and an overall quick process.
- **Understand the influencers.** Consumers are more prone to influence from trusted sources than ever before. When designing products and experiences, consider all potential influences on a consumer. Lenders should showcase positive experiences from friends and family. They should also partner with trusted sources like mortgage brokers, real estate agents, auto dealers, and student loan representatives to become the lender of choice.
- **Make customer experience your differentiator.** Compared to other industries, borrowers have low expectations of their lenders. Breaking this mold can be a key differentiator for lenders, as several new entrants have gained significant market share in recent years based on a simpler customer proposition.

How can we help?

PwC understands that a strong customer strategy is imperative to meet the constantly changing needs and preferences of today's borrowers. With our deep banking and consumer lending knowledge, PwC can assist in designing and executing a customer experience strategy that is relevant for each target segment. We can also help conduct operational assessments and remediation, assist in process and technology integration, and identify opportunities to digitize certain originations and servicing tasks. We provide support and advice on critical decisions to shape a customer-centric strategy and help position you for success.

About our research

Consumer loans: Understanding today's empowered borrower is a consumer study prepared by PwC to investigate how behavioral, demographic, regulatory, and technological disruptions are changing how consumers borrow money.

How we developed our insights

Our findings are based on an assessment of the needs and preferences of lending consumers across the United States. Our methodology combined primary market research, MaxDiff (maximum difference) trade-off analysis, consumer segmentation analysis, and industry knowledge to gain insights into what consumers value most when choosing a lender across multiple asset classes (auto, home, student, and personal loans), and which elements of the lending experience they consider most important.

Who we surveyed

PwC surveyed approximately 2,000 consumers above the age of 18 across the United States. The survey was administered online in June 2015.

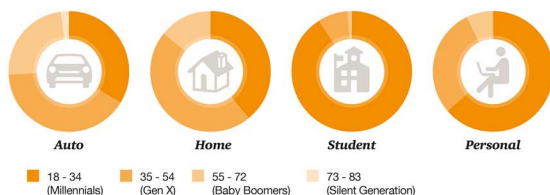
Why these consumers

Respondents were chosen based on their ownership of one of four distinct lending assets: auto loans, home loans, student loans, and personal loans. The distribution of the respondent pool was based on a general population targeting approach, which opens the survey to the overall US population. This allows the respondent mix by asset class to more closely mirror the market for that product type.

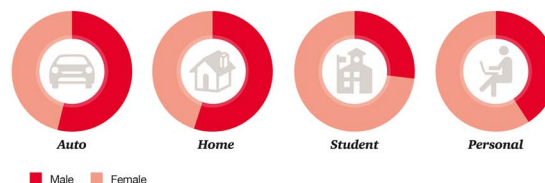
Who they are: Demographic overview by loan type



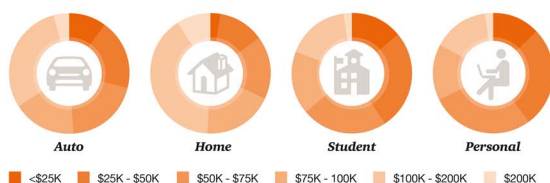
Age distribution



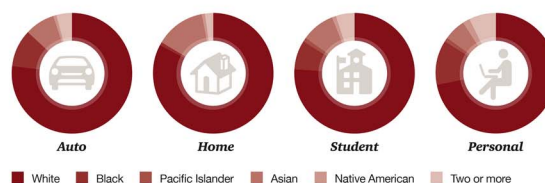
Gender distribution



Income distribution



Ethnic distribution



PwC's Experience Radar

A different class of insights

To learn more about our detailed analysis of lending consumers and how PwC can apply this knowledge or our Experience Radar methodology to your business, contact one of our customer experience practice leads:

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For more information on the Experience Radar and survey methodology, visit:

<http://www.pwc.com/us/en/advisory/customer/pwc-experience-radar.html>

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