CREDIT UNION INNOVATION

HOW CREDIT PRODUCT RATES IMPACT FI SELECTION

Credit Union Innovation: How Credit Product Rates Impact FI Selection, a PYMNTS and PSCU collaboration, examines consumer criteria for choosing credit products, which could determine their choice of FIs. Our findings are based on responses from 4,097 consumers, conducted between April 3 and April 24; 100 credit union executives who have influence over financial management, conducted between April 3 and April 27; and 54 FinTech executives who provide services to most FIs, conducted between April 3 and April 26.

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INTRODUCTION

Consumers in the U.S. may not have to continue to rely on their primary financial institution (FI) for the credit products they use to make major purchases, such as buying a house or a car, financing higher education or even just shopping for goods and services. Consumers have historically obtained credit cards, mortgages, auto loans and personal loans from the banks or credit unions (CUs) where they deposit their paychecks and maintain savings and checking accounts. But they are also shopping for better deals, which has resulted in increased competition from non-bank and non-CU financial entities for these products.

PYMNTS found that more than 75% of account holders say their primary FIs most frequently offer one or more of four major credit products, and 63% of all account holders say they have at least one of these from their primary FI. Yet when it came to mortgages and auto loans, consumers were willing to shop around for the best interest rates and payment terms. Consumers also say rates and

terms, across all credit products, are the most important factors when selecting an FI and the main reasons for moving accounts to another FI with better offerings. CU members, at 32%, were more likely to do so than non-CU members, at 26%.

In addition to considering rates and terms, many consumers also value the speed with which funds become available after they apply for a credit product. CUs have reduced the setup times for many of the products they offer, with 45% saying they had made very or extremely significant progress, but they remain susceptible to competition from FinTechs due to the lack of variety in their products. FinTechs are pitching certain products — for example, installment payment plans such as buy now, pay later (BNPL) — directly to consumers, and these products may become more attractive and popular among younger groups — especially under tightening credit and economic conditions.

These are just a few of the key findings in Credit Union Innovation: How Credit Products' Rates and Terms Impact FI Selection, a PYMNTS and PSCU collaboration. The report examines consumers' criteria for choosing credit products, which could determine their choice of FIs. Our findings are based on three surveys with responses from 4,097 consumers, conducted between April 3 and April 24; 100 CU executives who have influence over financial management, conducted between April 3 and April 27; and 54 FinTech executives who provide services to most FIs, conducted between April 3 and April 26.

This is what we learned.

Account holders rely on their primary FIs for a wide range of credit products, especially personal loans.

Most consumers rely on their primary FI for major credit products, such as credit cards, mortgages, auto loans and personal loans, but this may be changing. While commercial and community banks and CUs have served as primary FIs for most consumers, other financial services entities, such as FinTechs, have begun to offer these products as well.

Our research finds that 83% of consumers say their primary FIs offer credit cards, while 80% say they offer personal loans, 79% say they offer auto loans and 77% say they offer mortgages, rounding out the top four credit products offered. When comparing the breadth of credit products CUs offer with other FIs, CU members are more likely than their non-CU counterparts to believe that their primary FIs provide them with a wider range of credit products — with the exception of business lines of credit.

Our research finds that 63% of account holders have at least one of these four credit products with their primary FI. Among them, personal loans and home equity loans garnered the highest share, at 67% and 56%, respectively. This may speak to the close relationships that consumers have with their primary FIs, which could be a deciding factor when rates and terms are similar across several FIs.

Although consumers' primary FIs offer a majority of credit products in their portfolio, PYMNTS finds that this is not always the case: Banks or CUs other than consumers' primary FIs provide 48% of mortgages and 41% of auto loans to this same audience. This suggests that consumers are willing to shop around for better terms for these loans, likely to make credit more affordable and save money.

TABLE 1

Most credit products used to meet consumer needs come from primary FIs

Share of consumers citing which type of FI they use for select credit products

	PRIMARY FI	ANOTHER BANK OR CU	NONBANK OR FINTECH	A MERCHANT
• Personal loan	67.2%	18.3%	12.7%	1.7%
• Home equity loan	56.0%	32.2%	8.1%	3.7%
• Credit-builder loan	51.1%	32.8%	12.7%	3.3%
• Business lines of credit	50.2%	31.8%	12.4%	5.6%
• Credit cards	47.9%	43.8%	5.3%	2.9%
• Debt consolidation loan	47.5%	29.2%	21.5%	1.8%
• Payday loan	47.4%	26.1%	24.4%	2.1%
• Student loan	41.3%	37.5%	18.4%	2.8%
• Auto loan	38.7%	41.1%	5.1%	15.1%
• Mortgage loan	35.4%	48.0%	13.3%	3.3%
• Buy now, pay later	24.2%	28.8%	29.9%	17.1%

Source: PYMNTS

Credit Union Innovation: How Credit Product Rates Impact FI Selection, August 2023

N = 3,517: Account holders who made at least one payment related to credit products in the 90 days prior to being surveyed, fielded April 3, 2023 – April 24, 2023

48% Share of consumers who have a mortgage loan with an FI other than their primary one.

Attractive rates and terms are the most critical factor for account holders when deciding where to apply for credit products and may impact whether they switch FIs.

Shopping for the best deal may be related to loss aversion — a phenomenon in which consumers feel losses and potential losses more strongly than gains — deeply rooted in the buyers' psyches. As applied to financial products, this may explain why consumers look for the best deal on interest rates, fees and other terms from any FI.

In fact, interest rates and other terms are most influential when deciding where to apply for credit products, according to 26% of consumers, followed by trust in the FI, at 19%. We found that 32% of CU members are likely to switch accounts based on terms — higher than the 26% non-CU members reported. Shopping for terms may be top of mind for consumers in the current environment of high inflation, rising federal interest rates and economic uncertainty.

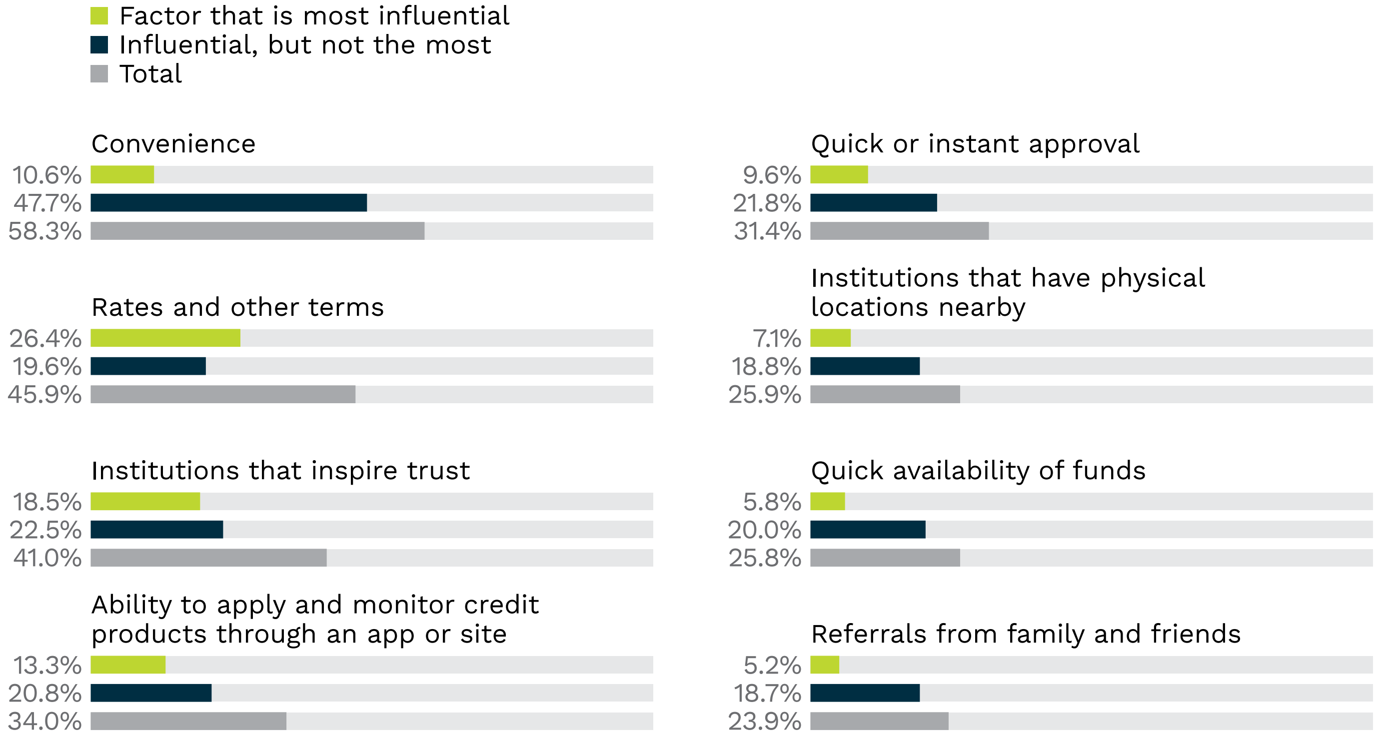
Our research finds that credit products with attractive terms can play a significant role in enticing consumers to switch accounts away from their primary FIs, with 29% of consumers saying they would be very or extremely likely to do so. Demographically, millennials, at 54%, are the most likely age group to switch their primary accounts to an institution that offers better terms on credit products, possibly because they are in their prime earning years and may want to maximize the benefits from the financial products they use.

While most FIs are faced with similar constraints when it comes to interest rates, they can compete for business via other factors such as fees and commissions, loan duration, the amount of credit offered and the speed with which credit is provided. In fact, quick availability of funds is an important factor for 26% of all account holders.

FIGURE 1

Getting the best deal versus trust and convenience

Share of consumers citing select factors that influence their decision when applying for credit products, by importance



Source: PYMNTS

Credit Union Innovation: How Credit Product Rates Impact FI Selection, August 2023

N = 4,097: Complete consumer responses, fielded April 3, 2023 – April 24, 2023

26% of consumers citing rates and other terms as the most influential factor when choosing a credit product

Reducing the time to access funds from credit products is becoming a key factor in attracting and retaining account holders.

Most consumers submit credit applications because they are in need. Reducing the time between application submission, approval and availability of funds could draw consumers to an FI. CUs are working to shorten the time it takes for members to access funds from credit products, with 45% saying they have made very or extremely significant efforts to cut down credit product setup times.

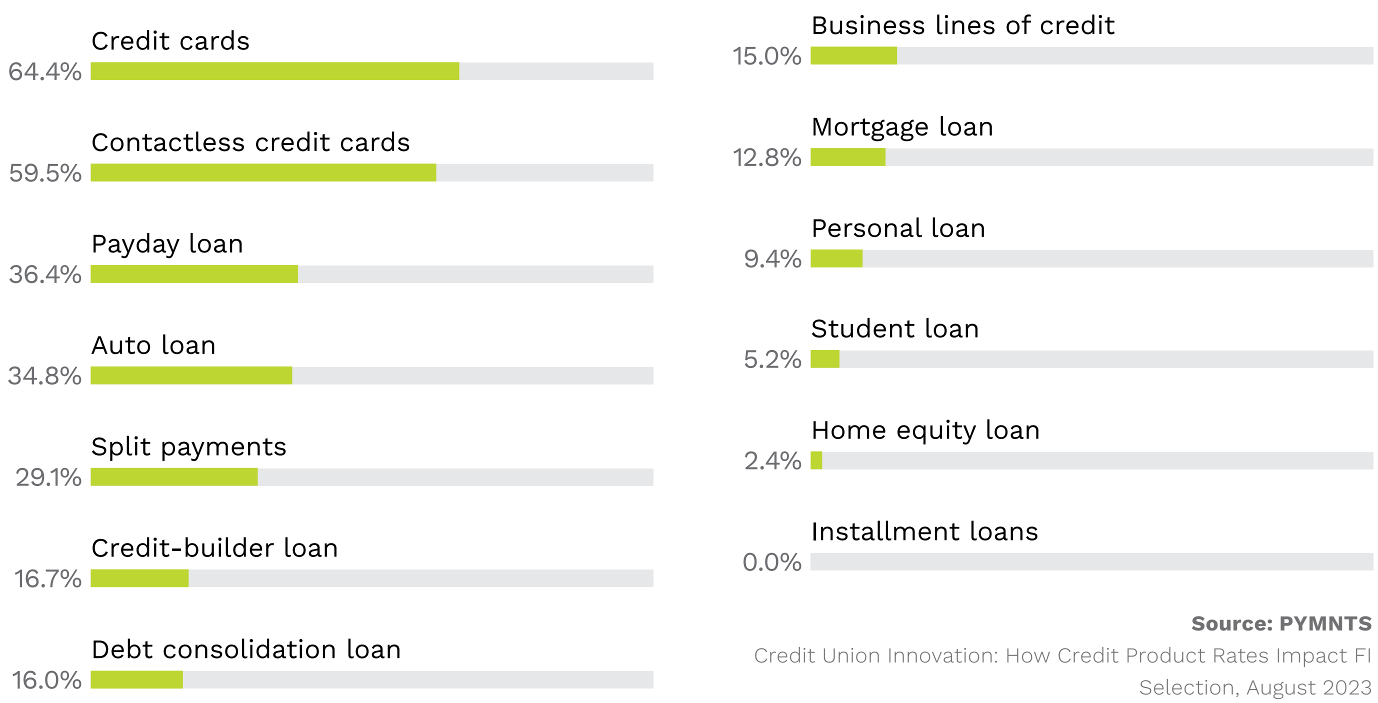
Additionally, 59% of CUs believe that product setup times are highly influential in consumers' decisions to apply for credit products, and our data shows that quick availability of funds is an important factor for more than one-quarter of all account holders. Yet, CU executives may be overestimating the importance of quick setup times, since only 5.8% of account holders say that how quickly they can access funds from a credit product is the most influential factor in deciding where they apply for credit products.

More than one-third of CU members can use funds from auto loans the same day they apply, and 36% of CU members can use payday loans instantly. The urgency to access funds from a payday loan can better be understood by the characteristics of the product: These loans incur high interest rates and often involve a borrower writing a postdated check for their next paycheck to the lender in exchange for upfront access to a portion of their salary in cash.

FIGURE 2

CUs provide several credit products with short turnaround times

Share of CU executives who say CU members can use select credit products instantly or the same day



Source: PYMNTS
Credit Union Innovation: How Credit Product Rates Impact FI Selection, August 2023
N = 100: CU executives, fielded April 3, 2023 – April 27, 2023

36% of CUs allow their members to use payday loans instantly

Most CUs have no immediate plans to offer installment payment plans such as BNPL, which FinTechs are already capitalizing on.

Previous PYMNTS research found that most account holders demand an increased number of payment options and more innovative payment methods from their FIs.[1] For CUs, this means competing not just with banks, but also with FinTechs, which have historically sold their products to consumers through FIs but have begun marketing credit products directly to consumers.

Although CUs are working to reduce credit product setup times and compete with other FIs on rates and terms, they have remained relatively stable in the variety of credit products they have offered their members over the past six months, with personal loans being the most widely offered credit product, at 96%. All CUs not currently offering personal loans are looking to begin offering them within the next year.

Our survey found that 39% of CUs do not plan to offer installment payment options such as BNPL to members, however, even the 41% that plan to do so will not roll out the product in the next year. This is an area in which FinTechs and non-CU FIs may develop a competitive edge over CUs. In fact, installment payment plans and personal loans are the most common products FinTechs offer their customers, at 30% and 28%, respectively. Further, more than one-third of FinTechs are at least somewhat interested in offering several additional products directly to consumers: 41% are considering payday loans, 37% are considering business lines of credit and 35% are considering split payments with monthly installments.

[1] Credit Union Innovation: Staying Ahead Through Payments Innovation. PYMNTS. 2023. https://www.pymnts.com/study/credit-union-innovation-real-time-payments-fintechs/. Accessed July 2023.

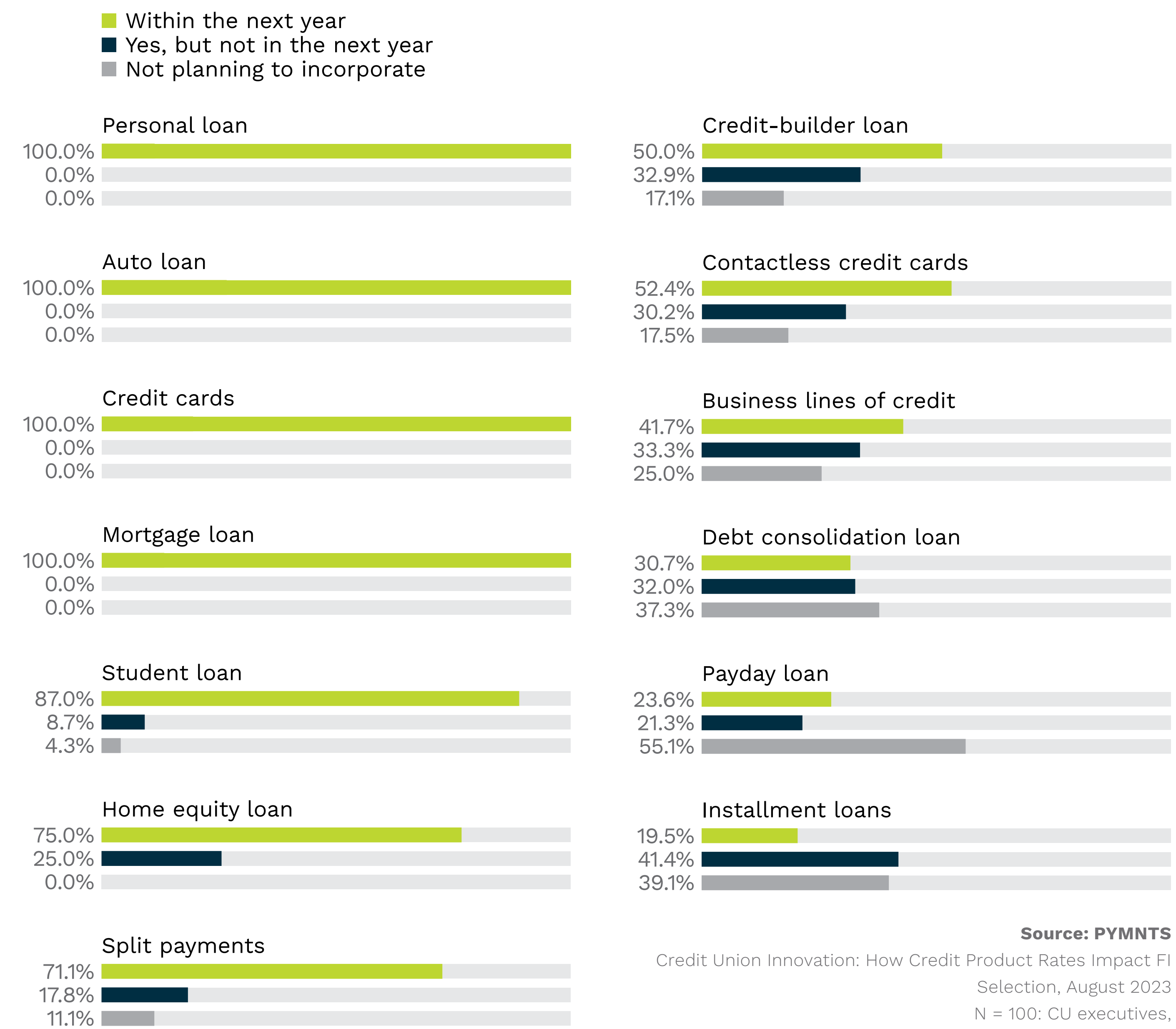
Amid high inflation and the possibility of tougher economic conditions to come, CUs' reluctance to offer products that are in demand among demographic groups that are in the prime earning years may impact their ability to attract or retain members. Reducing account setup times is helpful, but that is best achieved through payment innovation and the use of technology, both areas in which FinTechs have shown greater inclination to adapt than CUs.

39% of CUs do not plan to offer installment loans to their members

FIGURE 3

CUs remain fairly stable in the products they offer

Share of CUs planning to implement select credit products not currently offered, by implementation time frame

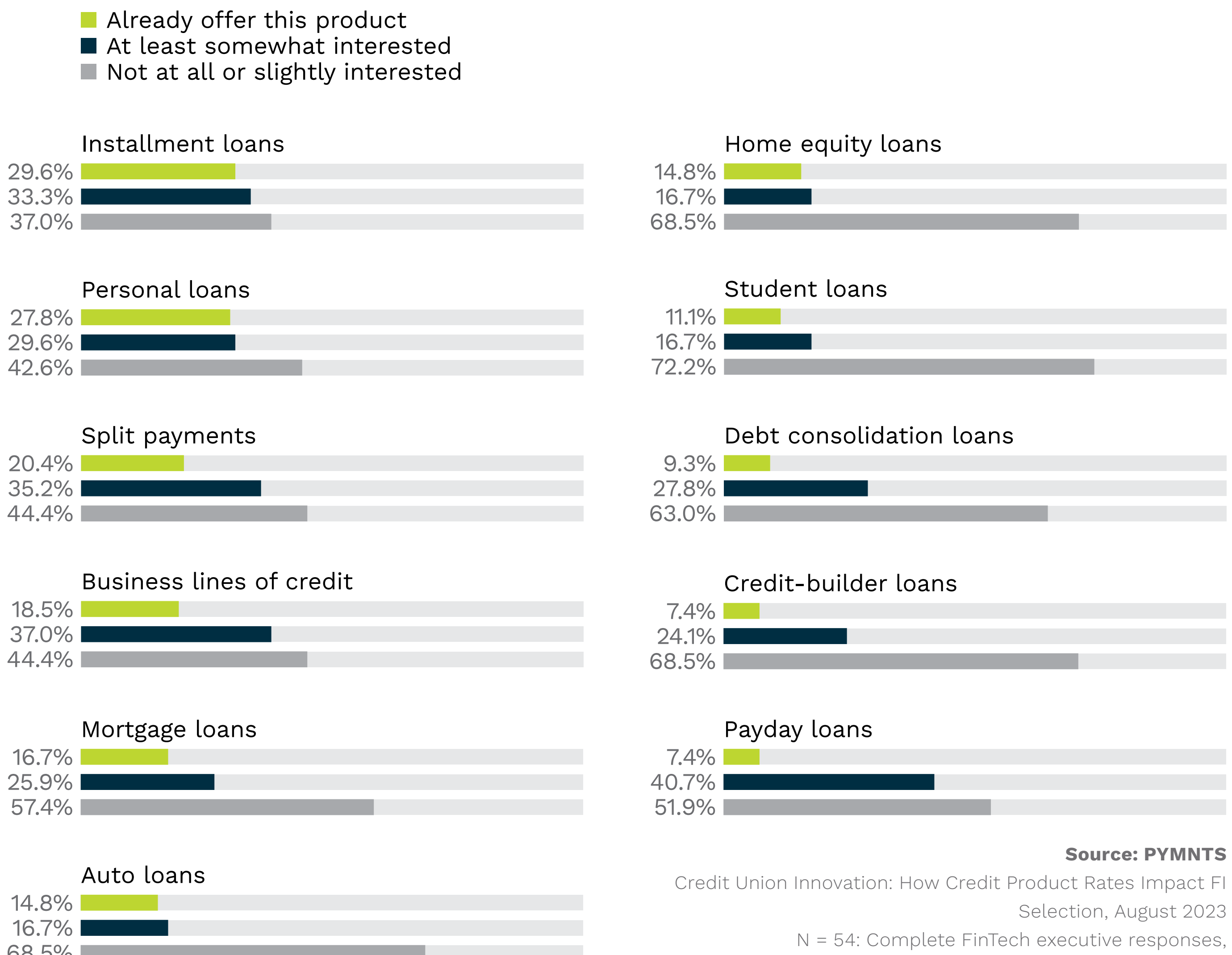


Source: PYMNTS
Credit Union Innovation: How Credit Product Rates Impact FI Selection, August 2023
N = 100: CU executives, fielded April 3, 2023 — April 27, 2023

FIGURE 4

FinTechs plan to market to consumers directly

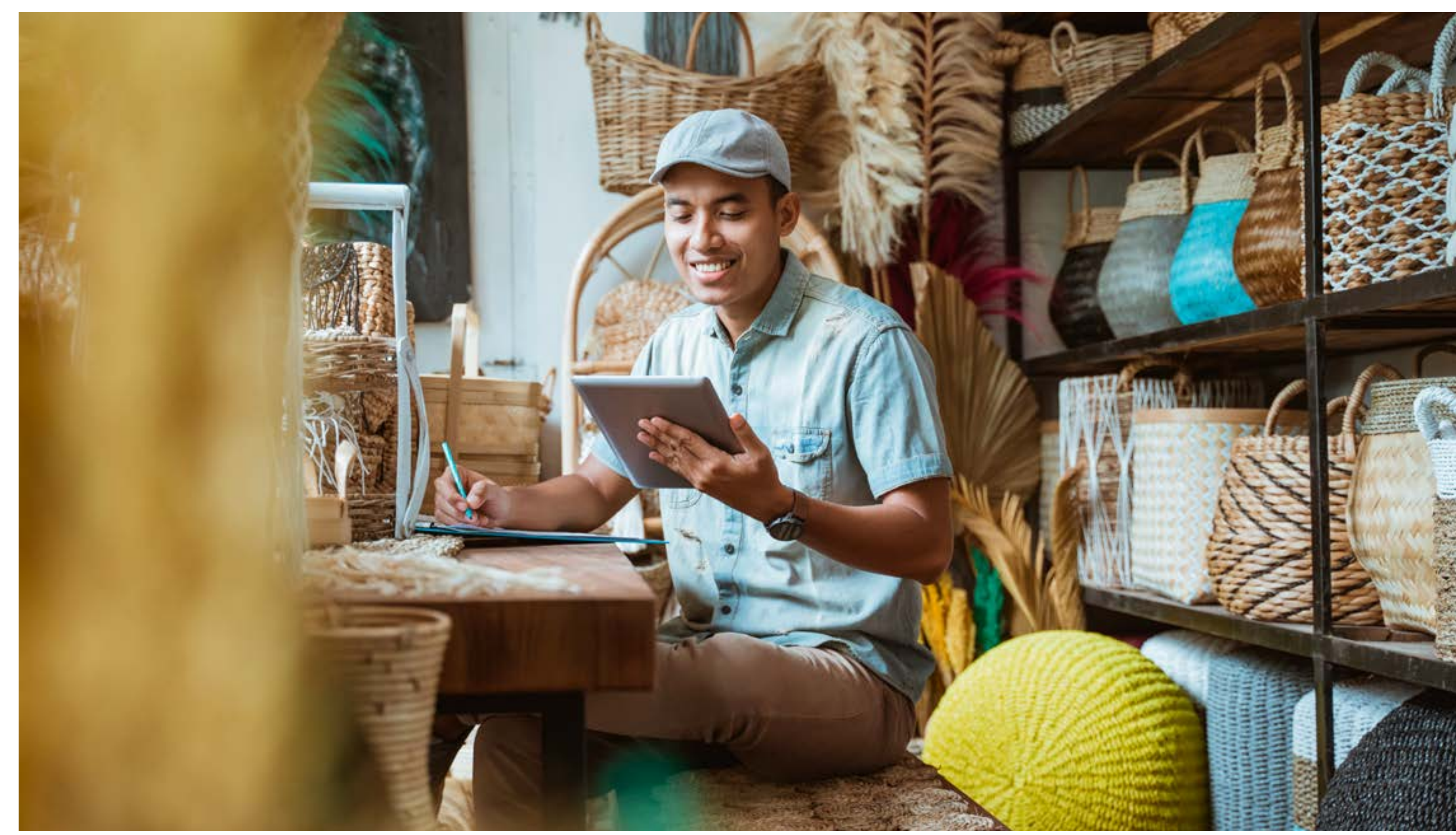
Share of FinTechs citing select plans to offer credit products not currently offered



Source: PYMNTS
Credit Union Innovation: How Credit Product Rates Impact FI Selection, August 2023
N = 54: Complete FinTech executive responses, fielded April 3, 2023 — April 26, 2023

37%

of FinTechs plan to offer business lines of credit directly to end customers



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CONCLUSION

Rates and terms are among the most important factors for consumers when choosing an FI and may even test their loyalty toward their current primary FI. CU members are more likely to switch accounts based on these criteria, but they also value the speed with which funds are made available after they apply for credit. While CUs work to reduce their account setup times, they nonetheless remain somewhat inflexible in the types of products they offer, which could make them vulnerable to competition from FinTechs. The latter have shown an inclination to invest in technology to provide installment payment products like BNPL directly to consumers and are increasingly circumventing their previous FI partners to do so.

METHODOLOGY

Credit Union Innovation: How Credit Products' Rates and Terms Impact FI Selection, a PYMNTS and PSCU collaboration, examines consumers' criteria for choosing credit products, which could determine their choice of FIs. Our findings are based on three surveys with responses from 4,097 consumers, conducted between April 3 and April 24; 100 CU executives who have influence over financial management, conducted between April 3 and April 27; and 54 FinTech executives who provide services to most FIs, conducted between April 3 and April 26.

ABOUT

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

PSCU, the nation's premier payments CUSO and an integrated financial technology solutions provider, supports the success of more than 2,400 financial institutions and processes nearly 7.7 billion transactions annually. Committed to service excellence and focused on continuous innovation, PSCU's payment processing, fraud and risk management, data and analytics, digital banking, strategic consulting and real-time payments platforms, along with 24/7/365 member support via its contact centers, help deliver personalized, connected experiences. The origin of PSCU's model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 45 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscu.com.

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