'Tis (Not) the Season: Opportunities Abound Even as Lending Slows

By Lisa Freeman

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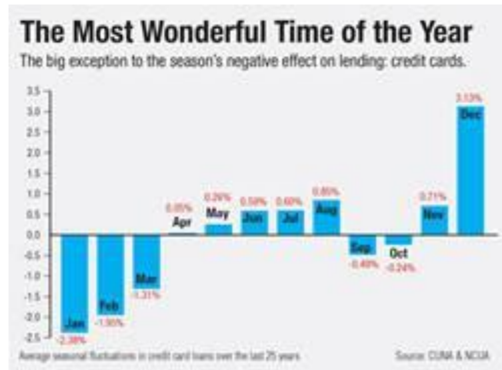
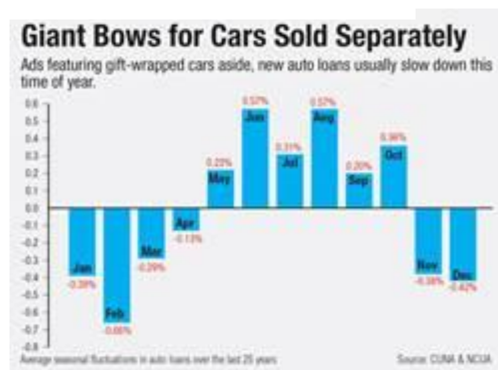
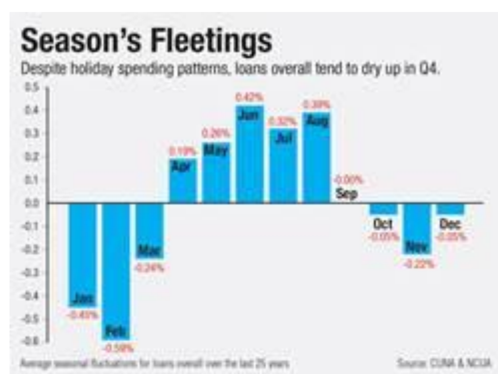


Despite the uptick in spending fueled by the holiday shopping season, credit unions traditionally see lending cool off during the fourth quarter, but three experts suggest there are loan opportunities to be had in the fourth quarter.

While television programming will soon be stacked with commercials featuring images of shiny new cars decked out with beautiful bows waiting to dazzle the unsuspecting recipients of such a lavish gifts, the reality is that the two areas of the loan portfolio that typically take the biggest hit during the holidays is auto lending and home equity lending, according to Steve Rick, chief economist at CUNA Mutual Group, Madison, Wis.



"The underlying credit union trend monthly loan growth – currently around 0.82% - slows in November by 0.22 percentage points and December by 0.05 percentage points due to seasonal factors," Rick said, adding that this year could see an even greater impact due to the elections. "Post-election uncertainty may depress credit union lending further as households and businesses wait for further clarity on future tax, regulatory and government spending policies before spending on big-ticket items like cars and capital equipment. On a more positive note, job creation and wage growth are creating decent income growth for the average American household. This will drive consumer spending going into the next two months."



And there is one aspect of the loan portfolio that usually bucks this trend every holiday season: credit cards. "The one strong lending area at the end of every year is credit card loan growth, which typically increases an additional 0.71% in November and 3.13% in December above the underlying monthly trend growth – currently 0.6% - due to the holiday shopping season. With the Federal Reserve poised to raise interest rates soon, credit union members would be wise to take out their loan earlier rather than later."

Big Boost for Small-Dollar Loans?
Another bright spot in lending could come from an unexpected quarter for much the same reason: small-dollar loans.

"Credit union members often find these loans more appealing during this time of the year, due to the additional costs of hosting holiday parties, travel expenses and holiday shopping. Many families end up stretching their resources and need a small-dollar loan to cover emergency expenses," said Ben Morales, CEO of QCash Financial, a provider of small-dollar lending technology. "Many members need to rely on instant liquidity solutions such as these loans to meet unexpected expenses or covering lost income when certain occupations have reductions in hours during the holidays."

Morales added that members have also been known to use such loans to take advantage of flash sales on gift items, as well. The key to being able to take advantage of such moments, he said, is a combination of promoting these loans and having the infrastructure in place to make quick decisions on them.

"If credit unions are marketing that they offer traditional holiday loans, it is also valuable to promote that they offer small-dollar loans," Morales suggested. "One loan type may be better for a member than another, depending on how quickly the cash is needed, or how long the member would like to take to repay the loan. Traditional holiday loans have longer loan terms and higher values, but require a longer application and underwriting process. Small-dollar loans offer members speed and convenience, but have shorter loan and smaller loan amounts."

Heading into 2017, the Consumer Financial Protection Bureau is getting closer to issuing its final ruling on payday loans, Morales noted, so credit unions need to be thinking about how they may want to revamp existing small-dollar loan programs or ramping up such a program if they don't already have one.

Too Late for MBLs?
One lending opportunity at this time of year that may seem counterintuitive is member business lending – but for some credit unions, it may already be too late to take advantage. "The fourth quarter is busy for commercial real estate borrowers who want to seek tax advantages for their real estate through performing 1031 exchanges, and for others who wish to take advantage of the low interest rate environment," offered Pam Easley, CEO of Extensia Financial, a business-lending CUSO. "Because of the amount of competition for commercial real estate financing, credit unions generally should prepare for the 4th quarter competitive environment in commercial real estate during the summer months, having their 4th quarter plans ready to execute as most commercial loans can take anywhere between two to three months to fund, depending on size and complexity."

With that in mind, Easley suggested credit unions that offer business loans need to be thinking ahead to 2017. "Most credit unions have prepared their 2017 budgets and associated plans. The key is to create a tactical lending plan that not only breaks out the level of consumer, residential lending but also the level of business/commercial lending – in which specific geographic areas and asset classes," she advised. "These should align with the risk profile of the credit union and take into consideration the concentrations already on the credit union's portfolio to ensure that all risks are understood and documented by management. If a credit union is new to commercial lending it is always a good idea to understand where portfolio concentrations are, and to develop a lending strategy that complements the current portfolio or helps to mitigate any risk already on portfolio."