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Banks Boost Growth in Consumer Loan Niche

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While Citigroup Inc. struggles to get rid of its consumer lending unit, some of its smaller competitors are cheerfully bulking up similar businesses.

Banks including Wells Fargo & Co. and SunTrust Banks Inc. are expanding their non-credit card installment lending, finding a new avenue for growth in this relatively obscure corner of the consumer banking business. Customers use these generally unsecured "personal" loans in lieu of home equity or card loans, to cover expenses like home repairs or medical bills.

This type of lending is helping some banks gain business from a broader customer base, including the riskier customers they abandoned during the worst of the financial crisis. Those customers still might not qualify for credit cards or mortgages, but banks are reaping the benefits of reaching out to them with alternative loans: SunTrust, for example, saw a 53% increase in personal loans originated in 2011 versus 2010.

"We expect, quite frankly, that we have not scratched the surface of that opportunity," Jeff Hooper, executive vice president and consumer lending manager at SunTrust Bank, told *American Banker* in an interview this month.

As total consumer lending levels creep up — and falling home prices keep home equity loans largely sidelined — bankers at some companies say more consumers are turning to the niche of personal loans for needs like debt consolidation and home improvements. Customers also use the loans for major life events, like paying for college, weddings and care of elderly relatives.

Increased demand for the products could open up a new income stream for banks, especially in the low interest rate environment, analysts say. Banks tend to charge higher interest rates for personal loans than for other types of consumer products, particularly when a personal loan is not secured with any type of collateral.

"Personal loans lie at the riskier end of the borrowing curve," Jason L. Ware, an analyst with Salt Lake City-based Albion Financial Group, says in an email.

"With a flattening yield curve, higher [increasingly so] capital adequacy requirements, a weak mortgage market, a miniscule Fed discount rate, and tepid demand for debt, banks are looking for places where they can earn some interest on money going out the door," he adds.

Banks also have more flexibility to adjust the terms and pricing of installment loans than they do with their credit card businesses, after the sweeping 2009 Credit CARD Act restricted the fees and interest rates hikes banks can apply on credit cards. As a result, personal loans have become an increasingly attractive alternative for some banks.

"There's a trend away from credit card lending to other forms, including Internet and payday lending ... and a search for new products that are less restricted from new regulation," says Irving Levin, the chief executive of Genesis Financial Solutions, a subprime consumer lender in Beaverton, Ore.

"Installment lending has not had the same additional burden placed on it that credit card did. There is more flexibility there [for lenders] in terms of charging fees and interest rates," he says.

Personal loan terms vary across institutions, from a few thousand dollars to more than one hundred thousand dollars, which can be borrowed for several months to several years.

SunTrust is actively trying to capitalize on consumer demand for these products, and is even pushing down its pricing to do so. The bank is extending the maximum length of a loan from 36 months to 72 months, and is "looking at [interest] rates in the 8-10% range" compared with 12-13% previously, Hooper says.

"To a great degree we're kind of back where we were 20 years ago from a consumer lending perspective," he says, adding that the trend toward personal loans appears to be driven in part by falling home prices. As a result, consumers are increasingly looking for products other than home equity loans when cash is tight.

He adds that the bank is planning to be "a lot more proactive" in its mailings and other promotions to consumers. And it is making deals to bring in more customers: on Monday, SunTrust said it has a deal to acquire FirstAgain LLC, an online lender that makes unsecured loans for \$10,000 to \$100,000 to borrowers with sterling credit histories.

SunTrust is not alone in trying to capitalize on this bright spot in the consumer lending landscape. At Wells Fargo & Co., personal loans have seen "strong double digit growth rates," Brent Vallat, head of the bank's personal credit management business, told *American Banker* in an interview this month.

The bank began ramping up marketing for the products in 2008 and 2009 with a particular focus on debt consolidation.

"We have very clearly seen that there has been an acceleration of growth and demand particularly in last two years," Vallat says.

Going forward, the bank sees "very good momentum," he adds. "The message is getting through to consumers that they do have options."

The uptick has been visible but less pronounced at other institutions.

TD Bank reported a slight bump of 1% to 3% in its personal loans business in 2011, Mike Copley, executive vice president and head of the bank's retail money-out products group, told *American Banker* earlier this month.

"Customers are wanting to have a beginning and an end to their credit needs," Copley says, though he notes that personal loans are not a major focus for the bank.

Capital One has also seen a "slight uptick over the past year in this area," bank spokesman Patrick Mendoza said in an email.

But despite this growth, none of these banks have stepped forward to snap up the consumer lending unit Citigroup has been trying to sell since early 2009. The third-largest bank saw a deal to sell its \$30 billion-asset business fall through in recent weeks, but has remained committed to a sale.

The OneMain Financial unit, previously known as CitiFinancial, offers home equity and mortgage refinancing loans as well as unsecured personal loans. Chief financial officer John Gerspach last week dismissed the unit as "focused on a customer segment that isn't part of [Citigroup's main] strategy."

None of the bankers interviewed for this article would discuss potential acquisitions or their interest in taking OneMain off Citigroup's hands. But Gerspach acknowledged last week that the business, which includes physical branches as well as the loan portfolios, would be a large chunk for a buyer to swallow.

"We're selling one national business, and it's a business of some size," he told reporters during a conference call to discuss Citigroup's earnings.

That same problem plagued Citigroup's efforts to sell its \$45 billion retailer credit cards business, which the bank eventually took off the block late last year. And other industry members said that commanding a decent price continues to be difficult for banks trying to shed consumer assets.

"There certainly could be an issue about price," Levin says. "In the past, Citigroup has put things up for sale but they adhered to a price the market didn't hit."

The real estate that comes along with OneMain's portfolio could also dissuade potential buyers, who "may not like that business as a delivery system," Levin adds. "They may think it's easier to do through the web or through their own branches."

Citigroup declined to comment to separate queries from *American Banker* about OneMain or its personal loans business except to affirm that the bank is "committed to reducing our non-core assets ... in an economically rational manner that is in the interests of our stakeholders."



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