Building Strong Lending Bonds With Millennials

by Steve Brown

We love root beer, the quintessential American drink whose origins data back all the way to the 1870s. A man named Charles Hires is often credited with concocting the sweet beverage, but evidence seems to suggest otherwise. The Library of Congress reportedly has earlier dated cookbooks with root beer recipes. No matter - Hires still gets credit for being the first to produce and market root beer throughout the US.

Root beer for some is an acquired taste and maybe that is what is going on with millennials and community banks. After all, we have been inundated with reports that bemoan the difficulty of coaxing millennials into banks. Certainly this group is more tethered to technology than previous generations. However, research also shows that millennials have significantly greater demand for loan products than other demographic groups, presenting a prime opportunity for enterprising community banks.

Community banks will have more success in marketing loan products to millennials by first understanding the habits and credit needs of this broad group and how they are different from older customers. Next, it is important to develop a deeper understanding of the demographics and behaviors of this group.

For starters, consider that in their younger days, Gen X strongly preferred bankcards and retail cards. This compares to millennials who are using auto and student loans more heavily, according to Experian research. To elaborate, in 1998 about 46% of Gen X used Bankcards, whereas only 27% of millennials did so in 2015.

By contrast, only 1% of Gen Xers used auto loans in 1998 vs. 14% of millennials. Student loan use also trended upwards from one generation to another. Here 20% of Gen X used student loans in 1998 vs. 24% of millennials doing the same in 2015, Experian research shows.

Next consider trends in the home purchase market. Millennials comprise the largest share of home buyers at 32%, according to a National Association of Realtors report. Millennials also tend to finance larger shares than other generations. Nearly all (97%) of millennial buyers financed their home purchase and the typical down-payment was 7%. By contrast, Gen Xers made a typical down payment of 10% and the Silent Generation was 22%.

Taken together, these statistics should give banks a better idea of where to concentrate lending efforts to reach millennials. Then, try to delve deeper into what makes your target audience tick. Nielsen has even developed an interactive tool that can help by letting users examine segment groups based on demographics and behaviors.

For instance, if your goal is to provide loans to college-educated city-dwellers below the age of 35, it helps to know that 33% of them are foreign-born, they're mostly renters and they tend to read comic books and watch soccer.

On the other hand, if your goal is extending loans to young ruralites, it's pertinent to know that many have a modest education and struggle to make ends meet. They also tend to buy pre-owned vehicles and shop at Walmart, Nielsen data shows.

Certainly knowing more about your customers' preferences and habits can help you in your outreach and marketing efforts. Just like the root beer players, banks too can find success by freshening up their loan products, focusing on a niche customer base and seeking to meet the demands of millennials head on. You may not win every customer, but to garner attention you'll have to offer them something more compelling than flat products of their parents' generation.

BANK NEWS

FOMC Update

As we informed everyone right after the meeting, the Fed held rates where they were and reduced forward rate hike guidance from 4 increases in 2016 to 2. JPMorgan expects the increases to occur in Jul and Dec now, but indicates stronger than anticipated employment and inflation data could push the Fed to raise rates sooner (barring any crazy stuff happening in overseas markets).

Negative Rates

Chair Yellen at the most recent Q&A session following the FOMC meeting did not sound very enthusiastic about the potential for negative interest rates. The Fed follows similar thoughts from other major central banks worldwide who are now hearing from banks that such actions are extremely damaging. As such, look for this experiment to head for the shelves soon in all likelihood.

M&A Activity

1) Guaranty Bank and Trust Co ($2.4B, CO) will acquire The Home State Bank ($877mm, CO) for about $133.7mm in cash (about 26%) and stock (74%) or roughly 1.66x tangible book. 2) Wayne Bank ($749mm, PA) will acquire The National Bank of Delaware County ($370mm, NY) for about $15.4mm in cash (25%) and stock (75%) or about 1.16x tangible book. 3) First Community Financial Bank ($1.0B, IL) will acquire Mazon State Bank ($85mm, IL) for $8.5mm or about 1.15x tangible book. 4) Midwest BankCentre ($1.6B, MO) will acquire Bremen Bank and Trust Co ($172mm, MO) for undisclosed sum.

Branch Activity

The Huntington National Bank ($71B, OH) will close 107 branches in OH, IL, MI, PA and WI.

Bank Stocks

Bloomberg reports a confluence of factors has been hammering bank stocks and will likely weigh on M&A activity (as stock for stock transactions are more difficult to consummate). Negative factors include: uncertainty about oil lending loss exposures, the most recent Fed announcement reducing 2016 rate hikes from 4 to 2, concerns over corporate profits, a doubling of equity market volatility this year, shifts in technology, consumer strength and a host of concerns around overseas events and the risk of potential spillover.

Raising Cash

CNN reports foreign central banks sold $57B of Treasury debt in Jan vs. $48B in Dec. The level was the highest monthly decline in history (going back to 1978 when records were kept) and points to stresses overseas and the need for foreign countries to stimulate their own economies.