Strategies To Mitigate Credit Crunch

lending business customers credit risk

Summary: As you work with your customers during these tough times, we have five strategies that may help mitigate the credit crunch.

During his lifetime, Vincent Van Gogh only sold one painting for the equivalent of about $109. Not only that, but it took 20Ys after his death to be recognized as a gifted painter and get the credit he was due. These days, bankers everywhere are grappling with another kind of credit -- helping their customers through the current crisis.

For the week ending August 9th, 3.6MM homeowners were in forbearance with the total number of loans in this category dipping to 7.21%, according to the Mortgage Bankers Association. While this number has decreased, the pain for some may not be ending. Some people will be able to resume making payments when forbearance ends; others will still struggle. As you work with your customers during these tough times, we have five strategies that may help mitigate the credit crunch.

1. **Make decisions based on data.** Standard credit scores and other outside data sources may not offer a full picture of customers' respective abilities to repay loans. Community financial institution (CFI) bankers are renowned for their personal relationships with customers. As your institution owns those relationships, your employees are in an ideal position to mine those connections for data that can help inform decisions around credit.
2. **Put data in context.** Your customer information needs to be detailed, consistent, and in context to make the most use of it. As an example, perhaps you decide to consider account cash flow to help determine customer creditworthiness. Of course, knowing whether that cash comes from wages, investments, business income, unemployment benefits, or pawnshop loans tells you much more about customers' financial health than the dollar amounts ever could.
3. **Understand that data lakes are limited.** The idea of using a central source of consolidated data is a seductive one, in part because it seems to offer a single, clear direction. Unfortunately, so-called data lakes don't offer the analysis and modeling you need to make good decisions. Consider a group of borrowers that all received mortgage payment deferrals. Which of those borrowers took the deal because it was convenient, and which of them actually needed it? Some of your customers received federal stimulus payments. Which of them put the money in a savings account or used it to pay down debt, and which immediately converted the cash to groceries? That level of granularity offers the insight bankers need. Predictive models that look at customer behavior, cash flow, income sources, and risk can help you adjust your credit offers appropriately.
4. **Get your message to your customers.** The pandemic has made communication more difficult, When you identify at-risk customers, also identify ways to reach them. If you used to reach someone at a work telephone or email, that channel may no longer exist. Also, a cell phone number may have changed when a customer sought a cheaper plan.
5. **Review, communicate, and repeat.** Without a vaccine, the world's economic turmoil is likely to continue. You'll need to keep reviewing, communicating, and adjusting credit as you navigate the continuing situation.

ASSESS PROFITABILITY THROUGH THE CRISIS

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