

MARKET COMMENTARY

Predications for 2020: Lending and Portfolio Strategies

As 2019 winds to a close, we've sat down with Finastra leaders to talk about the future of credit unions and community banks in the upcoming year. In this discussion, Steve Hoke, Vice President, Product Management for Finastra, talks about economic drivers for lending and portfolio strategies, differences in digital adoption according to lending portfolios, and technology and other trends to expect in 2020.



Steve Hoke

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What economic drivers in the next 18 months could impact lending strategies and portfolios, and how will Finastra respond to those impacts?

"From the mortgage perspective, interest rates will remain low through the election. There will be some uncertainty there, but the continuance of low interest rates remain means the continuance of origination volume. If there are protracted low rates, especially if they are historically low, we may see a continuation of the uptick in refi that's been happening in the last couple of months.

"With strong volumes anticipated on the mortgage side, Finastra's obligation is to continue to ensure our cloud software is highly available and ready for our clients to handle those volumes.

"We're also looking for new ways to drive efficiency through the mortgage lending process. Our recent roll-out of Fusion Mortgagebot Data Insights on Fusion MortgageBotPOS, which is our point-of-sale platform, and our pending roll-out of the solution on the Fusion MortgagebotLOS will help our clients improve cycle times, improve time to funding, and drive efficiency through the process so they can have a scalable platform and direct their resources to serve increased volume on the mortgage side."

Traditionally, we've seen differences in digital adoption between different types of lending portfolios. Will that change in the next 18 months?

"Community banks and credit unions started their digital journeys by focusing on low-complexity, high-volume transactions, like account transactions and credit card applications. Those were the easiest and most obvious places to start, and doing so relieved their other channels from having to provide those services.



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“The natural next step for financial institutions was to move into more complicated mid-volume transactions, like mortgages. In most community banks and credit unions, these areas are pretty well-tuned.

“Ultimately, credit unions and community banks will have to digitally execute highly-complex, low-volume transactions, like commercial lending. These are the most challenging to tackle during a digital transformation. But most credit unions and community banks already have the scale and ability to handle these really complicated low-volume transactions, and they should turn their attention to doing so.

Today’s commercial borrowers are also consumer technology users, and they have certain expectations for their financial institutions that are based on their interactions with other providers in their daily lives as consumers. So, if they have a great experience with big online retailers in their personal lives, they connect the dots and want that same great experience from their banking relationships in their professional lives.

“We do hear a lot of interest from our commercial clients around providing more digital tools and experiences for their commercial borrowers, and that’s something we’re working to support as well. We’re working on more digital origination and digital self-service tools to support those commercial relationships.”

Speaking of digital tools, what do you think the biggest tech trend will be in 2020?

“There are two. The first is not very glamorous: it’s the drive toward privacy. The regulations around privacy have the potential to become codified at a national level next year. California, spurred on by the European Union regulations, has implemented the [California Consumer Privacy Act \(CCPA\)](#), and I think we’ll see broader consumer privacy rights elsewhere as well.

“This trend forces Finastra and other fintech providers to be mindful of privacy rules and how we manage customer data – something we already do today and continue to be committed to doing in the future.

“The other big trend for 2020 is APIs and integration. APIs are a tool, but what are bank clients really after? They want to simplify and integrate their tools to reduce inefficiency in their processes. For example, I visited a financial institution yesterday that had audited 165 disparate systems. Their goal for next year is to integrate those systems together to reduce their overhead burden and streamline their workflows. They were asking the questions all community banks and credit unions should be asking: How will we integrate? What tools do we provide our employees and account holders or members? What help do we need to be more efficient with the tools we have?



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"Finastra is committed to being the #1 open provider, and we are well poised to participate in the broader ecosystem with our collaborative development platform, FusionFabric.cloud. We've already released a number of APIs for mortgages and commercial lending, and we're continuing to focus our efforts on making data available to both our clients and other fintech companies who want to integrate into our systems through the platform.

"Our commitment to openness guides every product decision we make. We are always seeking to make products more extensible and able to integrate with other providers through the FusionFabric.cloud platform. We have the right focus and the right tools to meet next year's demand for integration adoption, so the all systems of our credit union and community bank clients can work together."

What else do you see ahead in 2020?

"On the economic side, with the pending election, 2020 could be an interesting year for the economy. It's been so strong and so robust for the past few years that there is some under-the-surface belief that we're due for a recession. I think we are seeing though that the recession may not be nearly as significant as what we saw in 2008 and 2009. Larger corporate businesses are dialing back on their planned capital outlay for 2020, which certainly has a trickle-down effect in the economy. But on the flip side of that, reports show us that small and mid-sized businesses are much more optimistic. They are planning for growth and expansion, which leads to more jobs, more financing opportunities and better deposits for our community banks and credit unions."

"In the fintech space, there could be some market consolidation. There's been such a frenzy of startups that a lot of providers that have overlapping capabilities. There's sure to be some opportunity for consolidation there."

About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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