Valley Banking & Finance Focus

Installment Loan Delinquencies Fall Across the Board for First Time Since 2012

In a good sign for the economy from both business and consumer perspectives, the fourth quarter of 2017 saw a broad-based decline in delinquencies, with delinquencies in closed-end loans (like personal or auto loans) falling across the board and bank card delinquencies declining significantly, according to results from the American Bankers Association's Consumer Credit Delinquency Bulletin. Overall, delinquencies fell in 9 of the 11 individual consumer loan categories tracked by ABA.

The composite ratio, which tracks delinquencies in eight closed-end installment loan categories, fell 4 basis points to 1.64 percent of all accounts and remained well below the 15-year average of 2.14 percent. For the first time since early 2012, delinquencies fell in all eight closed-end loan categories. The ABA report defines a delinquency as a late payment that is 30 days or more overdue.

"It's rare to see delinquencies fall in nearly every category, and the levels continue to be very low by historical standards," said James Chessen, ABA's chief economist. "The steady creation of new jobs has been essential to keeping delinquencies low, and we've seen more than 10 million jobs filled in the past four years. Greater job stability and increased take home pay have allowed consumers to make more purchases while keeping balances low relative to their income."

Delinquencies in bank cards (credit cards provided by banks) fell 16 basis points to 2.46 percent of all accounts, significantly below their 15-year average of 3.60 percent and the lowest quarter-end level in more than three years.

"Consumers are supported by a robust economy, and they continue to make judicious decisions when managing their debt levels," Chessen said.

Delinquencies fell in two home-related categories and rose slightly in one. Home equity loan delinquencies fell 14 basis points to 2.28 percent of all accounts, dipping further below their 15-year average of 2.92 percent. Property improvement loan delinquencies fell 4 basis points to 1.04 percent of all accounts, remaining well below their 15-year average of 1.32 percent. Home equity line of credit delinquencies rose 8 basis points to 1.16 percent of all accounts, holding just under their 15-year average of 1.16 percent.

"The positive trajectory of home-related delinquencies goes hand-in-hand with a growing economy and an improving housing market," said Chessen. "Rising property values boost wealth, increase confidence in the ability to meet future obligations and give homeowners an extra incentive to stay current."

Delinquencies in indirect auto loans (those arranged through a third party such as an auto dealer) fell 6 basis points to 1.78 percent of all accounts, well below their 15-year average of 2.18 percent. Delinquencies in direct auto loans (those arranged directly through a bank) fell 5 basis points to 1.07 percent of all accounts, remaining well under their 15-year average of 1.55 percent.

Chessen believes delinquencies will hover at very low levels for the foreseeable future as the economy continues to gain momentum and consumers remain financially disciplined.

"Tax reform has put more money in Americans' paychecks, which makes it a little easier for them to meet their obligations each month," Chessen said. "Consumers have done a remarkable job of managing their finances over the last several years, and we expect that will continue as the growing economy reinforces their financial footing."

For borrowers having trouble paying down debts, ABA advises taking action – sooner rather than later -- to solve debt problems. Proven tips are listed below. Additional consumer information on budgeting, saving, managing credit and more is available at ABA.com/Consumers.

- Talk with creditors – the sooner you talk to them, the more options you have;
- Don't charge more purchases until your problems are solved;
- Avoid bankruptcy – it's a short-term solution with long-term consequences; and
- Contact Consumer Credit Counseling Services at 1-800-388-2227.

The American Bankers Association is the voice of the nation's $17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend nearly $10 trillion in loans.

Discussing the Current Business Banking Landscape: A Q&A with Tamara Gurney of Mission Valley Bank

At the San Fernando Valley Business Journal, our ears are always to the financial ground, and there are a number of questions that we've been hearing repeatedly from readers navigating the business banking space. To take a closer look at the latest concerns and trends in banking, we have turned to leading expert, Tamara Gurney, President and CEO at Mission Valley Bank. She graciously weighed in for a discussion and shared some insights on the state of business banking thus far in 2018.

◆ What are the new banking opportunities for businesses currently in 2018?

GURNEY: Driven by advancements in technology, commercial banks are working harder than ever to identify new business niches, develop customized services, implement innovative strategies and ultimately capture new market opportunities.

This trend toward niche marketing provides business owners and managers the ability to select a Banker that truly understands their industry as well as the unique challenges and opportunities they may face – ultimately identifying and delivering financial solutions specific to an individual client's needs.

While the basics of banking remain constant – cash management, financing and deposit products – it's the delivery, specialization and target approach of these services that sets one bank apart from another.

◆ Looking to the future, what new banking trends do you think businesses should expect in the coming few years?

Once again, advancements in technology are a driving force behind the trends that we are seeing on the horizon. The acceleration of digitization as it relates to product delivery throughout the financial industry is staggering. Today's business owners and managers have seemingly endless online and offline options for everything from research to the purchase of products and services. All available to them 24 hours a day, seven days a week.

What seemed impossible just fifteen years ago, is commonplace today. Banks large and small continue to explore and develop new applications for artificial intelligence from sales and marketing to fraud prevention and cybersecurity. Fintech firms are also playing a significant role in the evolution of banking. Not so very long ago, financial institutions looked toward Fintech firms with skepticism. Today many traditional financial institutions are exploring varying levels of partnership with Fintech firms, recognizing that the digital capabilities of these nimble counterparts and identifying ways to integrate the two.

◆ Are there any new trends you are seeing in what Valley-based business borrowers are doing with the financing you provide?

Traditional commercial financing remains a staple. Qualified borrowers have a wide variety of lending options to choose from and today's favorable rate environment, paired with the improving economic outlook have more and more businesses considering financing to support growth and expansion.

Small business lending also continues to be a great alternative for many businesses. Small Business Administration (SBA) loans are well suited for businesses looking for capital to grow. SBA 7(a) loans can be used by qualifying borrowers to purchase, renovate or refinance real estate or to acquire fixed assets, such as heavy machinery or other equipment. It can also be used to restructure existing debt, acquire working capital and in some cases can even be used to fund the acquisition of a new business.

While not specific to the Valley, Accounts Receivable (AR) Financing continues to grow in popularity among financially sound small to mid-sized businesses. It offers businesses a great tool because of the unique benefits this type of financing provides to help manage cash flow and grow their business.

◆ What are some of your clients' biggest financial concerns currently, and how are you addressing them?

Cash flow remains one of our clients' biggest financial concerns. Businesses continue to look for help improving and managing their cash flow.

Case in point, Mission Valley Bank sponsors several business management-focused workshops annually. By far, the best attended workshops every year are those focused on understanding and managing cash flow.

In some instances, a line of credit or accounts receivable financing can help alleviate concerns over cash flow issues, allowing the business owner some flexibility to manage seasonal or occasional shortfalls.

◆ What financial services products and programs have emerged as popular among your business clients in the last few years?

Tech-based products, which are widely embraced by consumers, have quickly begun to make inroads into the business banking space. Various applications businesses use to operate are integrating and connecting with banking products to increase efficiency, reduce errors and enhance security.

The expansion of services and leveraging of digital technologies to elevate the customer experience continues to be a focused objective throughout the industry. Because of today's competitive, slow-growth, low-margin environment, banks continue to operate with an eye toward trimming expenses while enhancing the client experience.

The advancement of online and mobile banking has forever changed what customers need from their bank. No longer is it necessary to have a bank location on every corner and bank branch consolidation continues throughout the nation in response to customer preferences, changing behaviors and new systems. As brick-and-mortar branch footprints decline, banks are reinvesting those dollars saved into remote digital services, development of digital channels, and expansion of core financial products and services.

> 'The acceleration of digitization as it relates to product delivery throughout the financial industry is staggering. Today's business owners and managers have seemingly endless online and offline options...from research to the purchase of products and services.'
>
> TAMARA GURNEY

◆ Do businesses have more or less financing options today than they did five to ten years ago? Why?

I would have to say that they definitely have more options due to the sheer number of new players that have come into the market. From Fintechs that provide quick approvals, to the "big box" stores such as Costco, or even online providers such as Amazon—all are entering the financial marketplace.

These new players are less risk adverse than traditional banks so they don't require as much financial information and analysis allowing them to greatly speed up the process. Though this speed and convenience generally comes at a cost and the consumer will pay the price.

Qualified Business borrowers will always have a wide variety of financing options to choose from. By working with their Banker, borrowers can determine what financing option best suits the needs of their company.

◆ What are some common obstacles getting in the way of growing businesses in 2018?

Often referred to as the 'price of sunshine,' it's not all surf, sand and sun. Living and doing business in California comes at a steep cost. Taxes, fees, and regulations drive businesses away. For businesses operating in the Golden State, the cost of living drives people out of the state leaving lack of a skilled labor force. At Mission Valley Bank, we work with many small and mid-sized business clients and understand the difficult challenges they face when trying to grow their business in a climate of seemingly unsurmountable odds. By offering financing solutions tailored to each client's needs, we have witnessed many of our business clients succeed despite the obstacles government and cost of living presents.

Tamara Gurney is President and CEO of Mission Valley Bank. Learn more by visiting missionvalleybank.com