Lemons into Lemonade: How Smart Credit-Decisioning Can Help Customers and Lenders Bounce Back From the Credit Crunch

Written by Bret Gordon, Associate Director, SSA & Company

Monday, 11 May 2009

When toxic assets felled some of the financial services industry's biggest players, the aftershocks rocked all financial institutions big and small. When the dust cleared, consumers were unable to get the credit they need to keep their cars, houses and small businesses.

Now, there is promising news with short-term Treasury rates once again less than long-term rates. Banks finally have a path back to profitability. The return to potential profits, however, carries fresh risks if banks fail to leverage recent hard lessons to create stronger, more resilient organizations.

During this rebuilding phase, there is one thing above all else that financial institutions should be focused on—reducing their exposure in the credit-decisioning process.

Smart credit-decisioning isn't about blindly clamping down on a narrow set of guidelines for borrowers. After all, this is exactly what was so painful about the latest financial meltdown. So what to do?

As the clamp untightens, financial institutions must become smarter and quicker about their credit-decisioning process.

- Many organizations fail to realize the value of the data buried within their own computer systems. Data-mining one's own organization can help model the safest and most profitable customers.
- Just as important is the ability to make rapid lending decisions. Increasing speed will not only give financial institutions a competitive advantage. It will make them more agile in responding to changes in demand.

Financial institutions can make lemons into lemonade by building more intelligence into their credit-decisioning process and extending credit to those who were victims of the credit crunch. The result will be profitable deals and happier customers.