WSFS Case Study

How WSFS Bank Expanded Its Retail Portfolio, Mitigated Risk and Attracted Younger Borrowers Through Student Lending
Financial institutions are reconsidering their product offerings to include ways that better serve the needs of young borrowers. WSFS Bank was looking for a cost-effective option to expand its retail portfolio while mitigating risk and increasing loyalty among young customers. One path to growth was through student loan origination and refinancing, one of the country’s largest and fastest-growing consumer loan segments. Rather than building a student loan program from scratch, WSFS partnered with LendKey for their turnkey solution to launch a successful program in the least amount of time.

In addition to digital origination technology, LendKey provides back-office support for the program while supporting marketing initiatives. The loan programs are fully branded as services of WSFS, who originates the loans, determines the credit underwriting and interest rates, and retains the lending relationship with the borrower. As one executive put it, WSFS created its program as “their loans, their way,” through LendKey.

The student loan programs at WSFS have been successful. Since their launch in 2013, the programs to date have resulted in over 3,500 loans carrying an average balance of $47,000. Nearly 90% of the student loan refinancing borrowers are new Millennial customers to the bank, providing a rich opportunity for cross-selling to younger customers well into the future.

Founded in 1832, WSFS Bank, a subsidiary of WSFS Financial Corporation, is the oldest locally owned and managed financial institution in Delaware Valley and one of the 10 oldest continuously operating banks in the country. As of June 30, 2019, WSFS Financial Corporation had $12.2 billion in assets on its balance sheet and $19.7 billion in assets under management and administration. WSFS operates from 147 offices located in Delaware (49), Pennsylvania (72), New Jersey (24), Virginia (1) and Nevada (1) and provides comprehensive financial services including commercial banking, retail banking, cash management, and trust and wealth management.

In 2013 WSFS saw a need to broaden its consumer loan portfolio in order to increase its asset classes and draw new, younger customers to the bank.

“Our interest in entering the student loan market was based on recognizing that customers were looking for affordable ways to finance or refinance student debt,” Brubaker says. “While we had other consumer products that could be used for education purposes, they didn’t address all of our customers’ needs and none were specifically designed as student loans.” WSFS executives saw potential in LendKey due to the turnkey technology and marketing support the company provides.

The New York City-based technology firm, in turn, saw a bank in which its services were a solid fit, according to LendKey CEO and Founder, Vince Passione. “WSFS is similar to many commercial and community banks,” Passione explains. “A large portion of the bank’s assets are commercial in nature. The bank’s executives saw the need to diversify into the consumer space and attract a younger demographic, in their case through student loans.”
THE PROCESS

In August 2013, WSFS and LendKey partnered so the bank could offer and originate student loans online. The student loan originations and consolidations are branded as a WSFS product and originated in the bank’s name, but operating on LendKey’s platform. Additionally, LendKey provides marketing support, back-office processing, customer support, and loan servicing.

The organizations operate in a true partnership to ensure program success. WSFS provides and controls the underwriting parameters and loan pricing, while LendKey provides a customizable digital loan application. The customer’s digital loan application is submitted and credit decisioned on LendKey’s platform. LendKey’s customer care team works with the applicant on behalf of the bank to answer any questions that may arise. WSFS reviews all of the digital loan applications in a secure administrative portal and can review all decisions made by LendKey, as well as all of the customer information and documentation provided in the loan application process. WSFS approves each loan and provides the funding through the LendKey platform. LendKey then services the originated loans through its platform, remitting borrower payments to WSFS.

RESULTS

Since 2013, WSFS has originated more than 3,500 student loans (including consolidation or refinance loans) using the LendKey platform with an average balance of $47,000 each, for a total of nearly $170 million in loan balances. The student loan programs comprise 12.3% of the overall WSFS consumer loan portfolio. After building trust with LendKey, WSFS saw over 2,423% growth in loan volume from 2014 to 2015 after building trust in the program and adding competitive pricing. Total annual loan growth of the programs is shown in the chart below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth YOY</th>
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<tbody>
<tr>
<td>2014 (from YE 2013)</td>
<td>237%</td>
</tr>
<tr>
<td>2015</td>
<td>2,423%</td>
</tr>
<tr>
<td>2016</td>
<td>117%</td>
</tr>
<tr>
<td>2017</td>
<td>20%</td>
</tr>
<tr>
<td>2018</td>
<td>47%</td>
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Clear goals and preparation have been critical to the continued success of WSFS’ student loan programs. “Most clients have a reasonable sense of loan acquisition costs and their expected ROA on the asset, but deciding how to price the loans is going to shift with market fluctuations,” Passione says. “WSFS came to the table with a good sense of their ROA goals. Plus, they were flexible and trusted our abilities and counsel in helping get their programs off the ground.”

- Lisa Brubaker
EVP and Chief Technology Officer, WSFS Bank
RESULTS

Competitive pricing and the flexibility to change it as needed were central to the growth of WSFS, Brubaker adds. Much of the bank’s success with the program was its ability to move as the market demanded. “Since this was a new partnership for us in 2013, we priced a fair amount of risk into the product, which impacted our ability to attract borrowers and grow our balances,” Brubaker says. “As we gained familiarity with the program and the LendKey team, we reset our pricing matrix in 2015 to be more competitive and quickly gained traction in increased originations.”

LESSONS LEARNED

The financial services market is dynamic, and institutions willing to price loans competitively and adjust as necessary to the market’s ebb and flow will find themselves in a more competitive, and profitable, position. WSFS realized the importance of expanding its consumer loan program, and student loan refinancing proved to be the perfect fit to bring new and younger customers to the bank. WSFS also learned the advantages of partnering with a vendor when it comes to multiple asset classes, including the greater simplicity and management capabilities of a single-vendor relationship.

An effective partnership can create value well beyond that of a mere client and vendor relationship. Trust is key among the partners and acceptance of what each party has to offer. Clear institutional goals, as well as the flexibility to achieve those goals, will yield better results.

“LendKey was the first outside relationship on the lending side that WSFS has had for many years, and it gave us insight into how to structure a successful partnership,” Brubaker says.

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Brubaker stresses that banks interested in such a program need to take the time to allow for planning, execution and subsequent regulatory reporting details. However, the benefits are well worth the cost. “We continue to learn more about the type of customers we are attracting and what other products and services may be of interest to them through our partnership with LendKey. We continue to build out our efforts to expand those relationships and build new ones,” Brubaker says.