MacroMonitor
Market Trends

June 2008

MacroMonitor Market Trends is a monthly newsletter from the Consumer Financial Decisions group highlighting topical news and trends of interest to you and your colleagues. If you would like more information about the items in the newsletter or would like to discuss other ways that we can assist you in your research and marketing efforts, contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

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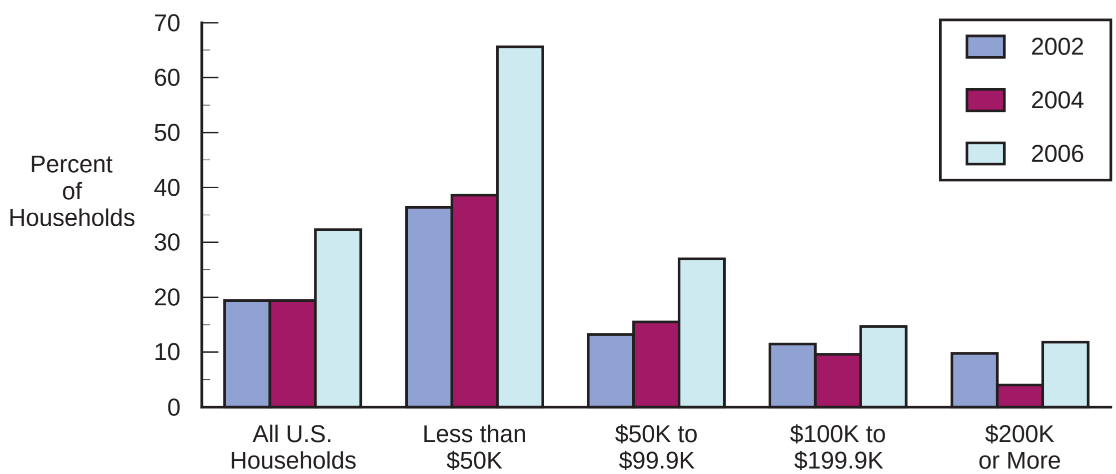
401(k) CONTRIBUTIONS MAY BE IN JEOPARDY

MacroMonitor data show a decline in the incidence of owners' contributing to their 401(k) plans between 2002 and 2006. Because the current economic stress is much worse than it was two years ago, 401(k) contributions likely are taking an even more significant hit now, as households reprioritize and take care of basic necessities at the expense of saving for retirement. Already, various industry representatives are reporting a noticeable increase in employees' taking out loans against their retirement funds and reducing their current contributions.

Among the estimated 52 million U.S. households with a salary-reduction plan (SRP) in 2006, almost one-third indicate that they did not contribute to their plan in the previous year. In comparison, just less than 20% of salary-reduction–plan owners did not contribute in 2002 and 2004. Among owner households with less than $50,000 in household income, the situation is more extreme. In 2006, two-thirds did not contribute to their SRPs during the previous year: an 80% jump from 2002, when only 36% did not contribute.

Figure 1
HOUSEHOLD DID NOT CONTRIBUTE TO ITS SALARY-REDUCTION PLAN IN PREVIOUS YEAR, BY HOUSEHOLD INCOME



Base: Household Owns Salary-Reduction Plan

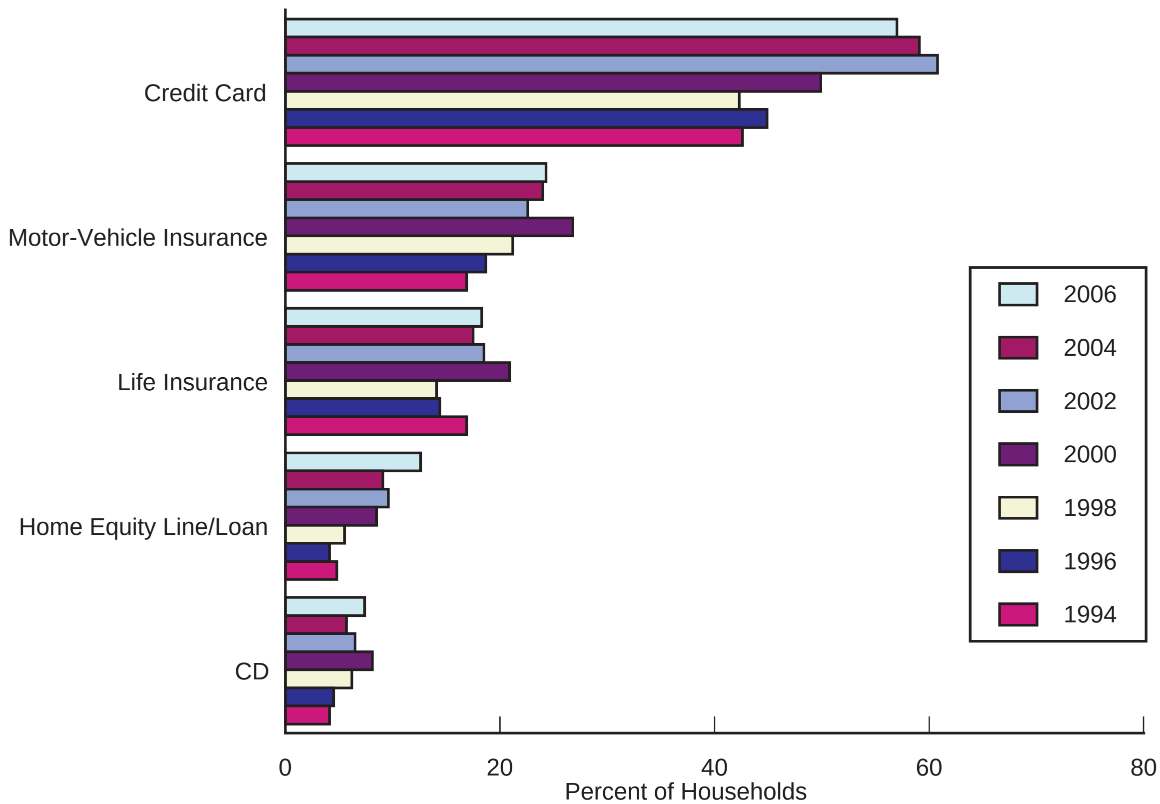
Source: The **MacroMonitor**

DIRECT MARKETING DEVOLVES

In their never-ending quest to sell more products while spending less, financial institutions use mail, telephone, and Internet offers for marketing their products and services—a practice that has not lost its attraction. However, of the 17 financial products that the **MacroMonitor** measures in its direct marketing section of the biennial questionnaire, credit cards are the only product that consumers obtain in any significant numbers through direct offers. In most recent years, more than half of all U.S. households obtained credit cards through direct offers. And the trend for obtaining credit cards directly, as one can expect of a mature channel, has been declining since 2002. The trends for obtaining other products directly, however, are generally up since 1994.

For some products, the increases are more than for others, even though all the current levels of acceptance are by a mere minority of consumers.

Figure 2
FINANCIAL PRODUCTS AND SERVICES THAT HOUSEHOLD OBTAINED DIRECTLY*



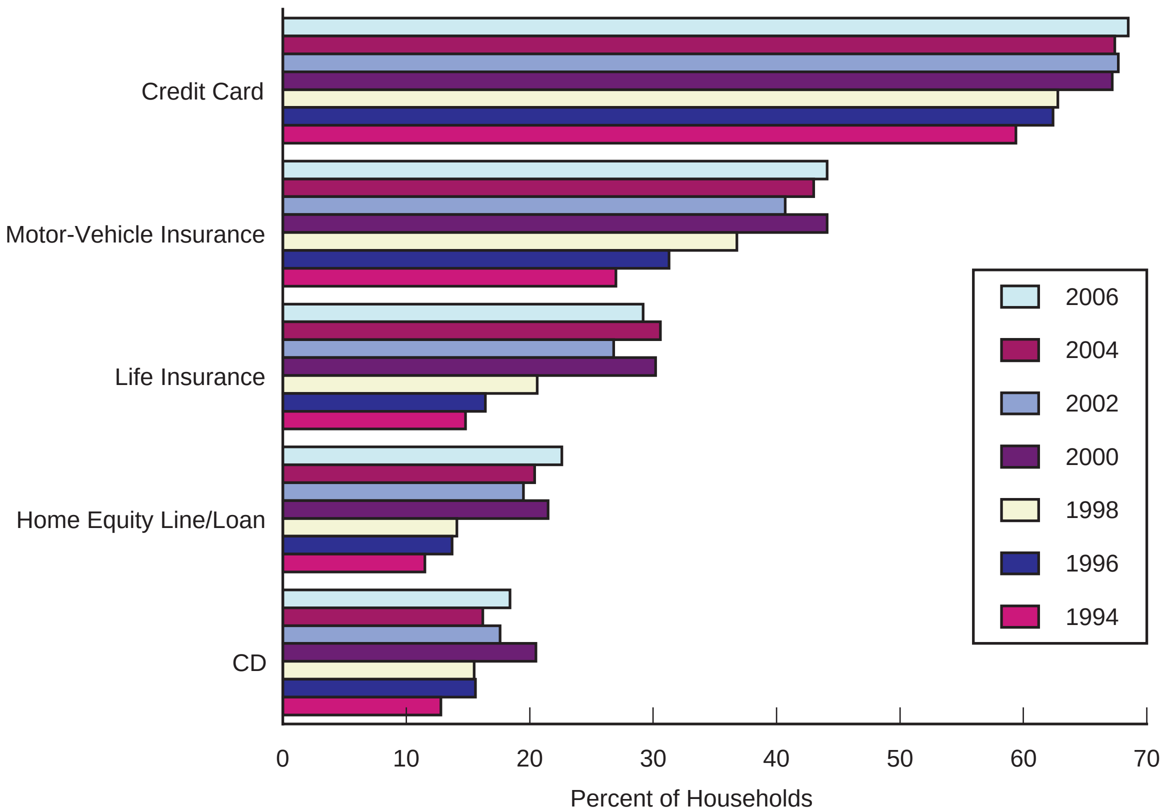
Base: All U.S. Households

* Before 2002, data cover obtaining products and services by mail and phone in the past five years. From 2002 on, data are for obtaining them by mail, phone, and the Internet in the past two years.

Source: The **MacroMonitor**

As the pervasiveness of financial offers continues unabated—via weekly telephone solicitations (typically at dinner time), via mail almost daily, and via the Internet virtually hourly—consumers' receptiveness to direct marketing has gradually increased. This receptiveness is led by credit cards, for which, in 2006, more than two-thirds of consumers would consider accepting a direct offer. None of the other 16 financial offerings, however, have achieved this level of receptiveness. Considerably fewer than half, and in most cases fewer than a quarter, of households would consider obtaining any one product or service through direct means in 2006.

Figure 3
FINANCIAL PRODUCTS AND SERVICES THAT HOUSEHOLD MIGHT OBTAIN DIRECTLY

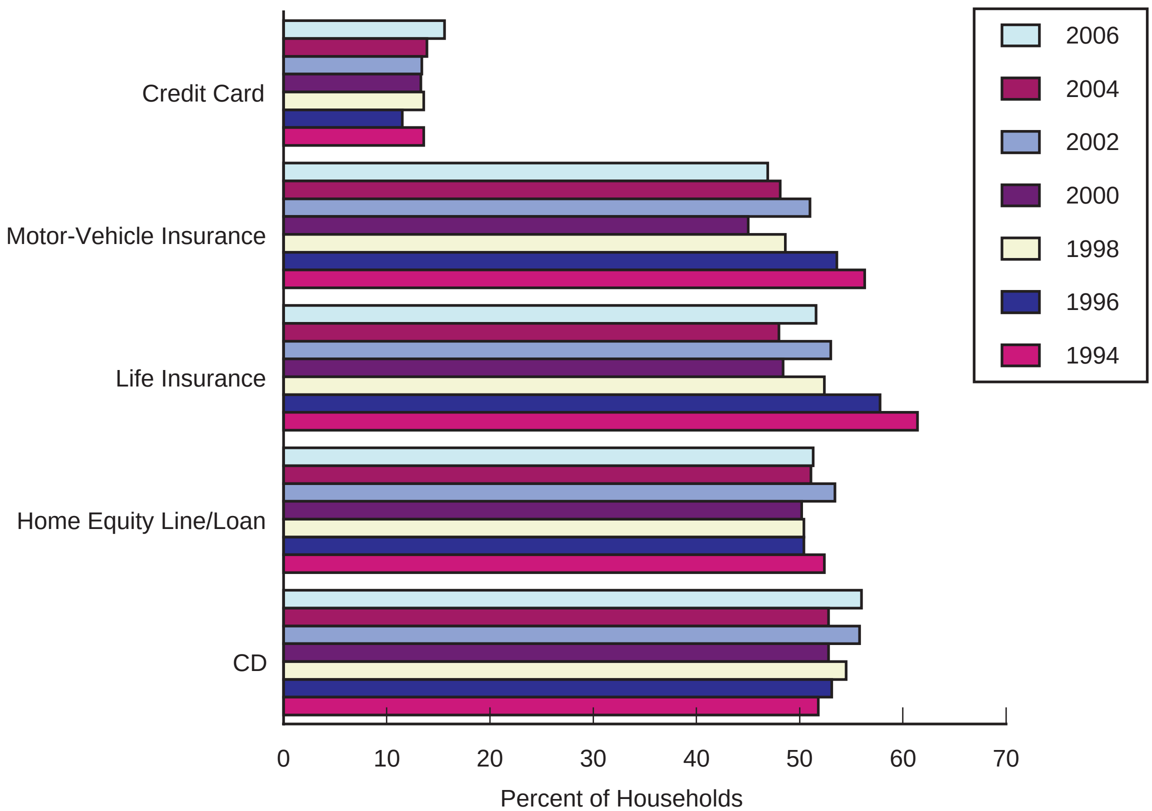


Base: All U.S. Households

Source: The **MacroMonitor**

Perhaps most revealing is the fact that, for most of the 16 financial products and services other than credit cards that we measure, data show that consumers' insistence on face-to-face contact has resisted massive direct marketing efforts by financial companies. The need for in-person contact in order to obtain a financial product or service has diminished only very gradually and remains necessary for more than half of all households.

Figure 4
FINANCIAL PRODUCTS AND SERVICES THAT HOUSEHOLD WOULD OBTAIN FACE-TO-FACE ONLY



Base: All U.S. Households

Source: The **MacroMonitor**

In the current economic environment, consumers' reticence about and resistance to dealing with their financial needs, except when those needs become immediate, remain high. It is easy for consumers to ignore direct marketing efforts. Financial institutions that rely on direct marketing may be willing to incur the cost of being pervasive, just to be certain that the offer is in front of the consumer at the moment when the need becomes evident and immediate. However, the generally assumed cost advantage of direct marketing—in comparison with the more expensive cost of in-person marketing—may be disappearing along with its effectiveness. In the current mature market environment—as many institutions examine the advantages of bundling, cross-selling, and redesigning marketing methods to gain consumers' acceptance—judicial use of personal-contact marketing may prove an effective differentiator. The dynamic of using personal interaction to elicit what the consumer's immediate needs are and then providing a solution to meet those needs increases the likelihood of making a sale and enhances the quality of the interaction and the reputation of the intermediary and the represented institution—all key differentiators for a mature marketplace offering commodity-like products.

PEER-TO-PEER LENDING: WHICH WAY WILL IT GO?

As traditional lending institutions tighten the tourniquet on credit, consumers seem to have found a new market at peer-to-peer lending sites such as Prosper.com, Circle Lending, and Zopa. In the upcoming 2008–09 wave of data, the **MacroMonitor** will capture households' knowledge and use of peer-to-peer lending and borrowing. This market came to life in 2005 in the United Kingdom when Zopa first acted as an intermediary between consumers looking for more affordable rates on consumer loans and lenders looking for more attractive returns on their money. This platform has the added attraction for many lenders of controlling where to lend their money.

How large this dynamic marketplace will grow and how it will mature remain unclear. Recently, Prosper.com announced that it would allow institutional lenders to bid on loans. The impact that this decision will have on peer-to-peer lending and borrowing is unclear, but it certainly changes the dynamic of the marketplace.

Peer-to-peer lending has made strides in the student-loan marketplace. In this arena, a considerable gap exists between private-loan market rates and what most students can afford to pay. Both Prosper.com and Virgin Lending are packaging student loans or marketing existing offerings to students. This niche could be perfect for peer-to-peer marketers because the borrowers tend to be young, educated, and Internet savvy. Data from the 2008–09 wave of the **MacroMonitor,** which we will release later in 2008, should provide some interesting insights.