



WHAT SHOULD GOOD LENDERS LOOK FOR?

Underwriting has become
a lost art



Everything is Changing





—
**Don't bother
with a wallet.**

ALL 2020 CHEVROLET MODELS

NO MONEY DOWN + NO PAYMENTS FOR 6 MONTHS

Or Cash Back equivalent up to \$5,000



CAMARO RS



TRAX



EQUINOX



TAHOE



COLORADO



SILVERADO



salesmanager@advancechevrolet.com
945 9191 / WhatsApp 925 3968

FIND NEW ROADS




PayPal CREDIT

6 Months No Payments

SHOP NOW. PAY OVER TIME



TRADE-IN YOUR VEHICLE & UPGRADE

WITH ZERO PAYMENTS FOR UP TO 6 MONTHS



- Stop Paying For Your ATV, Motorcycle, Or UTV Today
- No Payments For Up To Six Months
- We'll Pay Off Your Current Loan
- This Is Appointment Only & 95% Can Be Done Over The Phone Or Text

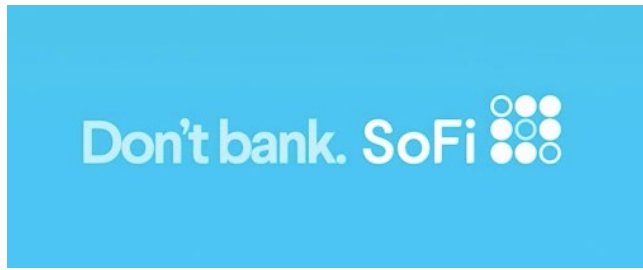
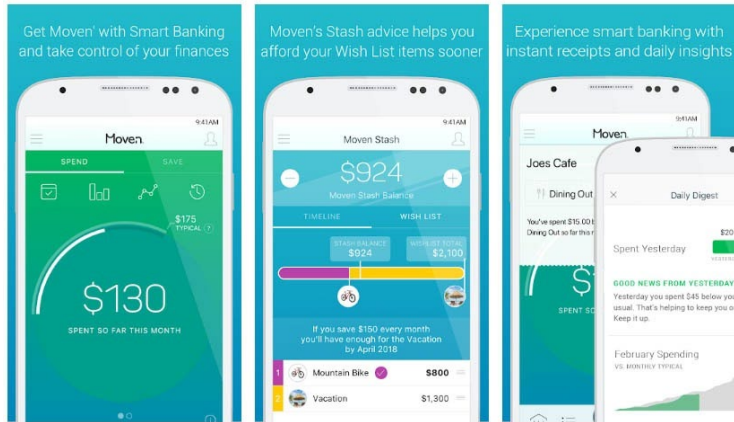
CONTACT US

LOAN

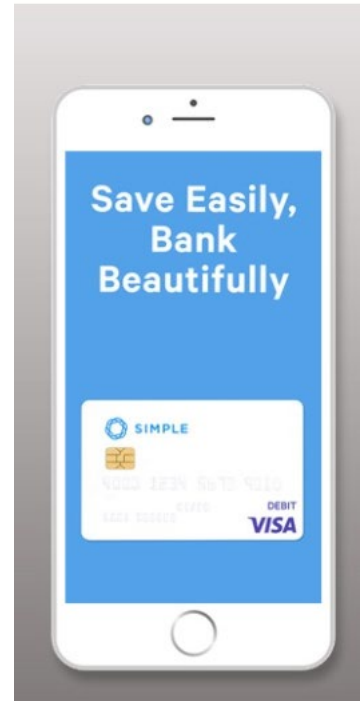
DEFERRAL

CRISIS

Moven bank



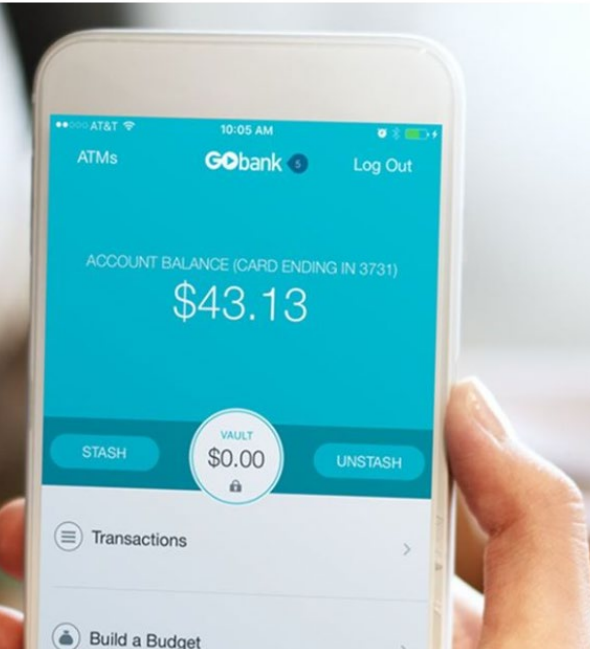
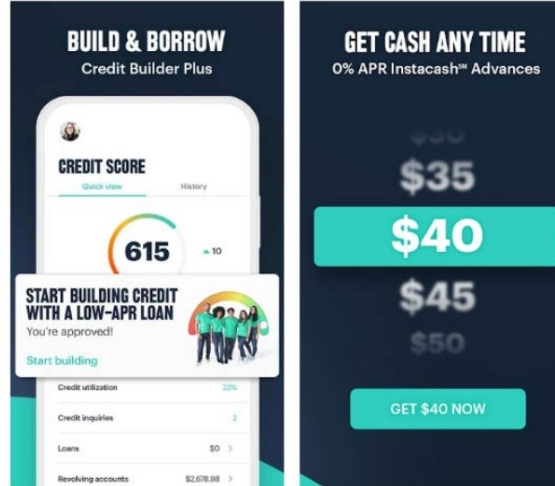
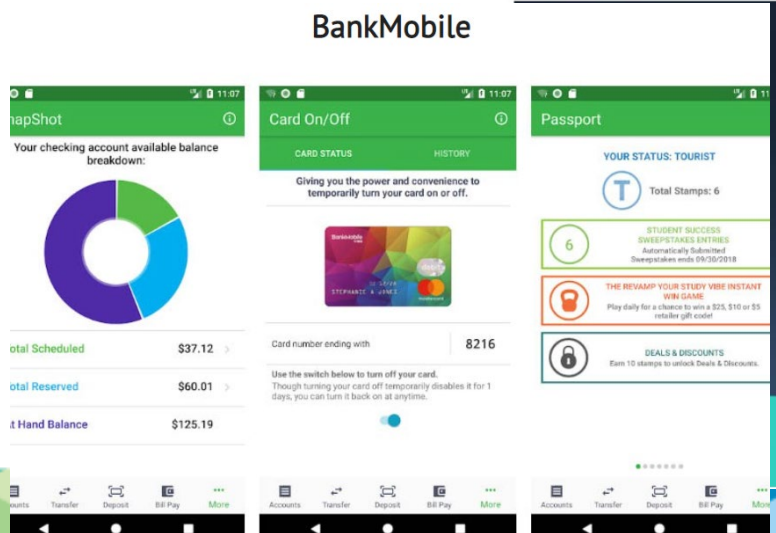
Simple bank



Chime



MoneyLion



Pie Keeps on Growing, But Size of Slices Are Changing

The relative slices of the personal loan pie are shifting drastically. Just look at the table below, and you'll see banks' share of personal loans falling from 40% to 28% over a six-year period. Over the same time frame, credit unions share of the personal loan market was nearly halved — falling from 24% in 2013 to 13% in 2018.

Year	Bank	Credit Union	Finance Company	Fintech
2018	28%	21%	13%	38%
2017	30%	22%	13%	35%
2016	32%	23%	16%	29%
2015	35%	25%	19%	21%
2014	39%	28%	22%	11%
2013	40%	31%	24%	5%

Source: TransUnion

A finance company that
can help you get ahead.

That's SoFi.

Find My Rate

Confirmation #

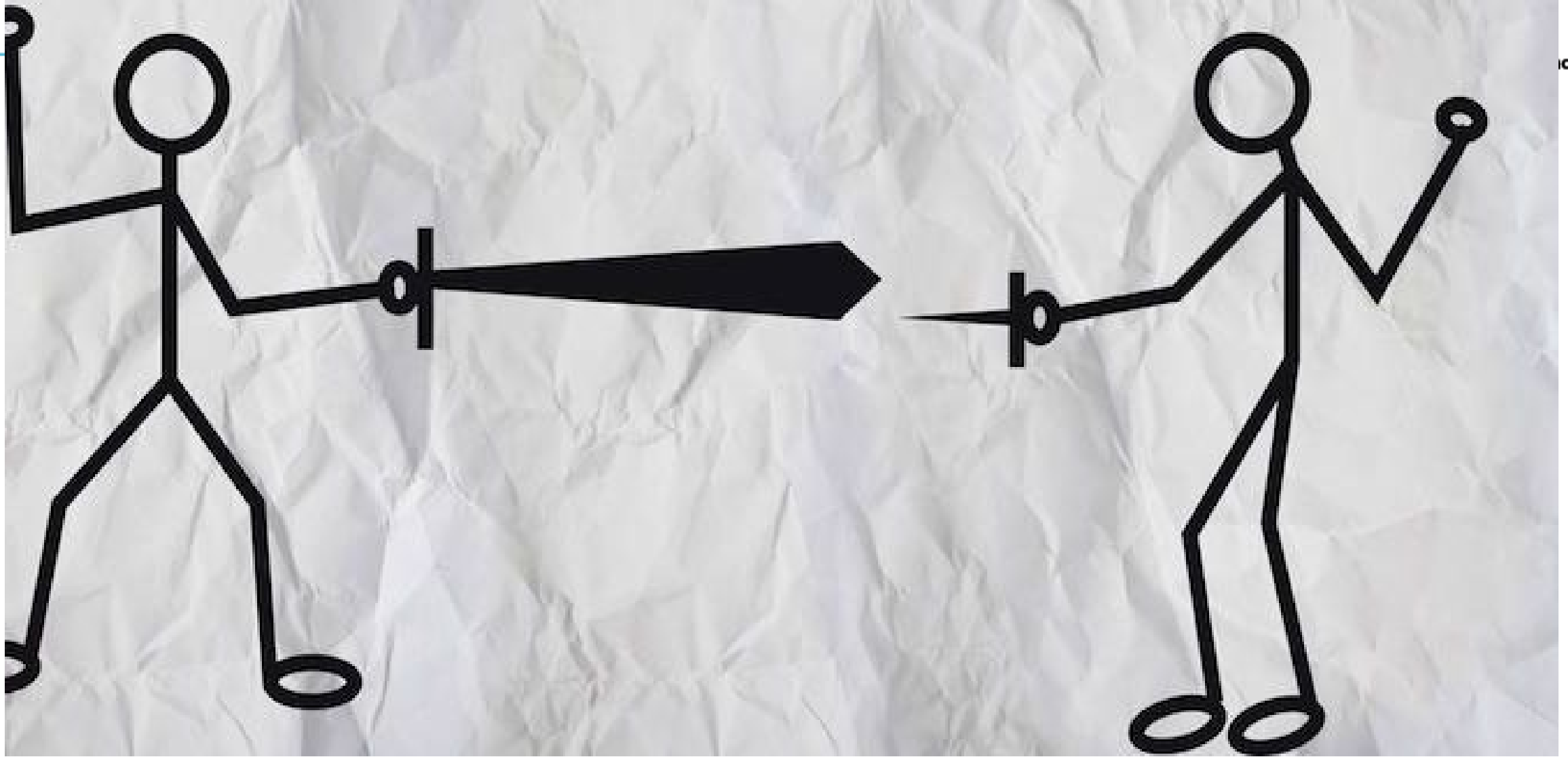
✓ Checking your rate will not affect your credit score.†

SEE PRODUCTS



Get Your Money Right.™

FINTECH'S ARE ROCKING IT!



HOW DO WE COMPETE?



Two primary CU lending areas of lack:

1. LACK OF LENDING LEADERSHIP
2. LACK OF UNDERWRITING EXPERTISE





ESTABLISH A LENDING CULTURE EVERYONE KNOW THE NUMBERS!

- TOTAL APPLICATIONS APPROVED - APPROVAL RATIO
- TOTAL APPLICATIONS DENIED - DENIAL RATIO

- TOTAL APPLICATIONS WITHDRAWN & PENDING
- LOOK TO BOOK RATIO
- APPLICATIONS TAKEN VS. APPLICATIONS FUNDED
- TOTAL APPLICATIONS APPROVED AND NOT FUNDED
- FOR THE CU AS A WHOLE
- FOR EACH PORTFOLIO
- FOR EACH UNDERWRITER

Employee Specific: (Break these reports down by individual Loan Officer/UNDERWRITER)

- Total applications received / Applications approved / Applications denied / Applications funded / Applications withdrawn &/or pending
- Loans funded \$ amount and loans funded # amount. MTD & YTD
- Applications taken by Person
- Loans Processed by Processor
- Loans Underwritten by Underwriter
- Loans closed/funded by funder
- Average Loan Yield by underwriter
- Number of repos by underwriter
- Number of 1st payment defaults by underwriter
- Total losses by underwriter
- Trends for each category
 - YTY, YTD, MTM & MTD trends with growth %'s
 - Product Mix growth and trends
 - Tier mix growth and trends
 - Delinquency & Charge off growth & trends
 - Avg loss per unit by underwriter
 - Average repos per quarter by underwriter

3 layers of reports

Top layer (Level 1) – Overall CU performance and trends

Middle Layer (Level 2) – Areas/department performance and trends

Bottom Layer (Level 3) – Direct reports and employees performance & trends

All three layers are reports you need to be intimately familiar with and review on a monthly basis. This drives the majority of your decision-making and keeps you on solid ground. Trust but verify!

Credit Union lending as a whole overview:

Loans: - Total Apps received / Approved / Denied / Funded /
Withdrawn / Pending

Loans funded \$ amount and loans funded # amount. MTD & YTD

- Loan Applications taken by person average as a whole
- Loans Processed by Processor average as a whole
- Loans Underwritten by Underwriter average as a whole
- Loans closed/funded on average as a whole
- Trends for each category
- YTY, YTD, MTM & MTD trends with growth %'s
- Product Mix growth and trends
- Tier mix growth and trends
- Delinquency & Charge off growth & trends

Same information as above broken down by channel Broken (Branch, Phone, Online, etc)

STRATEGY IN LENDING

Flexibility in lending policy maximizes opportunities

- **Rate Match Policy**
- **Rate Recapture Policy**
- **Outbound & Follow up Capabilities**
- **Track, Monitor and Report**
 - **Business purpose decision keeps regulators and members happy**

*** DON'T LOSE A SINGLE MEMBER!***

Proven Lending Philosophy

Objectives

Become a great lender!

The importance & focus should always be on:

Ability

&

Stability

- Focus on the relationship not on the loan transaction
- Collateral Lender vs. Borrower Lender vs. A Member Lender
 1. Collateral Based Lender
 2. Borrower Lender
 3. Membership (PFI) Lender vs. Non Member 😊
- Score is last by design

Ability and Stability – The Basis for Lending

#1. Ability

- Number one determination is – CAN THEY PAY BACK THE DEBT?
- Regardless of their score, their job and even their income – do they have the ability to pay back the debt? (Income can be \$500 a month net, or \$50,000)

Ability

- NDI (Net disposable income) - How much money do they have in their pocket after paying for everything they owe, either weekly, biweekly or monthly?
- NDI of \$700 or more after new payment is calculated in means there is hope. Rule of thumb threshold would ideally be \$900 or higher. If you want to approach this conservatively you can incorporate a standard deduction of 300-400 dollars for insurance, repairs, etc, even with those living at home or not paying rent.
- They must have the ability to pay if the loan is to go on.

CASH FLOW – IF THE CASH DON'T FLOW, THE LOAN DON'T GO!

- Net Disposable Income

- Mo. Gross Inc = \$2,950
 - X's 78% = \$2,301 – Gross Mo. cash flow
 - - all debt = \$1,250 – Includes rent & new pymt
- \$1,051 – NDI - Debt Disposable Inc**

Gross D/R = 42%

Net D/R = 54%

\$500 \$800
\$1200
NDI
\$1500
\$2,000+

D/R vs. NDI

39% DR vs. 55% DR ?

- Debt Ratio

- Gross Income = \$1,100 Mo
 - Total Debts = \$ 435 Mo
 - 39% Debt Ratio
- 78% of \$1,100 = \$858
- NDI = \$423**

- Debt Ratio

- Gross Income = \$5,200 Mo
 - Total Debts = \$2,850 Mo
 - 55% Debt Ratio
- 78% of \$5,200 = \$4,056
- NDI = \$1,206**

#2. Stability

Stability comes down to two things:

- Residence
- Employment

Residence - Do they have some roots and are they easy to find and/or contact?

Employment – Do they show a history of continuous employment with same employer?

This is where the questions mentioned earlier come in:

1. What was the date you moved in and the date you moved out?

Make them think to minimize the fudge factor.

2. What was the date you were hired and the date you left?

- Are they moving frequently, have they not held down a job for more than a year?

Stability

- 1st loan request, fairly new member less than 12 months on the job, verify, verify, verify.
- 1st loan request, fairly new member less than 6 months at residence verify, verify, verify

Examples:

- Poor credit score (580), some recent slow pay, has ability & stability (60K annual income & 9 years working for government (civil service) do it all day long.
- Excellent credit (780), limited trade lines, short time on the job, income is questionable, regardless of the score probably will not do it.

Scores are just one piece of the puzzle you are putting together.

Member Lender (PFI) vs. Member (non-PFI) Lender

Pay special attention to long time members and treat them as such.

Many members have dual membership – they can go to the competitor.

Watch out for relationship pricing programs from certain credit unions

- If they have been a member for at least 2 years plus and they have all their business with the CU specifically, “Checking and Direct Deposit”, you are they’re PFI.
- You find a way to help these members. Keep them happy, regardless of their credit score. - Match rate policy
- However, you can not adjust their rate simply to keep them happy. That is a violation of regulations. Disparate treatment could lead to a huge fine.

AN UNDERWRITER'S MANTRA:

Relationship Mitigates Risk

START WITH THE RELATIONSHIP, IT BEATS EVERYTHING!

When reviewing a loan request, always review the member's account information in order to have an in-depth view of the member's relationship with the credit

INSTANT DEPOSIT ONLINE



Online Deposits

Month	No. Deposits	Gross Deposit Amount	Net Deposit Amount	Avg. Deposit	No. Of Charge offs	Amount Charged Off	% Charged Off	New Users	Avg. Transit Time
Feb '08	15	\$2,023.91	\$1,623.91	\$134.93	0	\$0.00	0.00%	6	3.6 days
Mar '08	165	\$55,401.11	53,864.16	\$335.76	0	\$0.00	0.00%	82	4.1 days
April '08	264	\$122,350.73	119,749.82	\$487.07	0	\$0.00	0.00%	113	4.1 days
May '08	433	\$152,593.68	140,994.58	\$352.41	0	\$0.00	0.00%	150	4.4 days
June '08	466	\$191,638.57	177,510.43	\$411.24	0	\$0.00	0.00%	103	4.9 days
July '08	615	\$258,929.02	\$250,687.62	\$421.02	0	\$0.00	0.00%	143	4.7 days
Aug '08 *	613	\$230,077.81	\$209,622.29	\$374.72	2	\$924.38	0.40%	125	3.6 days
Sept '08	740	\$274,003.22	\$265,709.85	\$370.27	0	\$0.00	0.00%	115	3.9 days
Oct '08	753	\$272,017.02	\$257,437.18	\$361.24	0	\$0.00	0.00%	75	4.1 days
Nov '08	650	\$254,931.99	\$235,929.51	\$392.20	0	\$0.00	0.00%	50	4.4 days
Dec '08	780	\$321,845.45	\$303,593.29	\$412.62	1	\$300.00	0.09%	63	4.1 days
Jan '09	736	\$283,397.91	\$280,596.58	\$385.05	0	\$0.00	0.00%	52	4.0 days
Feb '09	652	\$247,361.49	\$217,706.46	\$379.39	0	\$0.00	0.00%	47	3.6 days
Mar '09	765	\$291,578.03	\$279,306.29	\$381.15	0	\$0.00	0.00%	44	3.9 days
April '09	700	\$299,577.94	\$291,539.08	\$427.97	0	\$0.00	0.00%	37	3.8 days
Total	8,347	\$3,257,727.88	\$3,085,871.05	\$531.78	3	\$1,224.38	0.04%	1,205	4.1 days

Collateral Based Lender?

Everything we do and use is all based on collateral

Even the systems we use are all based on collateral

- In the credit union movement we lend to someone not to something.
- The collateral does not approve the loan nor does it pay it back
- A poor loan risk with a great piece of collateral is still a poor loan risk.
- A great loan risk with a poor piece of collateral is still a great loan risk

Ability & Stability Strong

=



Ability & Stability Weak



3 layers of review

1. DEPTH of MEMBERS RELATIONSHIP

- Time of membership, Checking Account?, Direct Deposit?, Prior Loans?
- Payment Hist with CU, Reduction in CU loan bal's & outstanding dep bals

2. DEMOGRAPHIC/APPLICATION INFORMATION

1. TOJ, Occupation, Position, TAR, O or R, Monthly Gross, NDI, experience?

3. CREDIT BUREAU DATA

3. FICO, BNI, TOB, # of trades, Revolving Debt Outstanding, Escalating Debt, high credit, auto trades, payment history, Inquiries, high credit, Past Dues, REDUCTION IN BALANCES, This is where approvals live and thrive

Credit Report Score is last by design!

- We have a tendency of looking at the score and denying the loan before it even makes it to the table. Don't do that!
- The scores primary role is to help price the loan. While it does have some intrinsic value, for the most part it simply by itself is not worth any more than any other criteria.
- As a matter of fact you would have a better yielding and performing portfolio if you paid attention to the ability and stability first when reviewing a loan and ignored the score.
- Don't get me wrong – I love the scores but don't live by them solely. It is primarily a pricing tool first

Pay Close attention to the 4 D's

- **DIVORCE**
- **DISABILITY**
- **DISMISSED**
- **DEATH**

Thin Files

Defined – Less than three trade lines and less than 9 months on the bureau with a high credit of a
\$3,000 or less.

What do you do with them now? How do you price them?

- Should be automatic “C” tier if no score on bureau
- Does not mean they are bad, does not mean they are good – they just are!
- Your job is to start them on the path to success not failure
- I’ve helped people so well that I helped them right into Bankruptcy!

Thin files require Verifications. Verify, Verify, Verify

Credit Bureau – Good Things to Look For:

- Payment history on accounts especially auto pay history
- Pay special attention to reduction in balances. Huge even when file is thin or poor.
- Time in Bureau, high credit, recent payment hist
 - Freshman or Senior
- How long they have had the accounts opened, even if not used
- Old collection accounts – More than 24 mos ignore them
- Medical collection accounts – What, do they really exist?
- Student loans deferred – don't count unless excessive 20K <

BAD things:

Debt Pyramiding

New debt escalating

Credit card balances getting close to max if not maxed already

DANGER! Bankruptcy approaching

Retention vs Acquisition

- 7X's Cheaper to build upon your current customer base
- Rate match/Rate recapture Programs
 - Protect the relationship
- Identify your PFI ratio?
 - Net growth in checking accounts w/ DD
- Relationship Pricing Program
 - Reward loyalty and additional business
- Channel Pricing Program
 - Price for cost effective channel usage

HOW QUICK AND EASY IS YOUR APPLICATION

- THAT IS A LOT OF INFORMATION
- HOW EASY IS IT FOR A MEMBER TO APPLY WITH YOUR CREDIT UNION?
- HOW MUCH INFORMATION DO YOU REALLY NEED?
- WHAT SYSTEM DO YOU USE?
- HOW QUICKLY CAN YOU GET AN APPLICATION INTO THE SYSTEM?
- CENTRALIZED OR DECENTRALIZED?
- WHERE ARE THE MAJORITY OF YOUR APPLICATIONS COMING FROM?
- WHAT ARE YOUR VOLUMES AND PRODUCTIVITY?
- WHO ARE YOUR PEOPLE REVIEWING THESE LOANS
- AUTOMATED DECISIONING OR NOT?

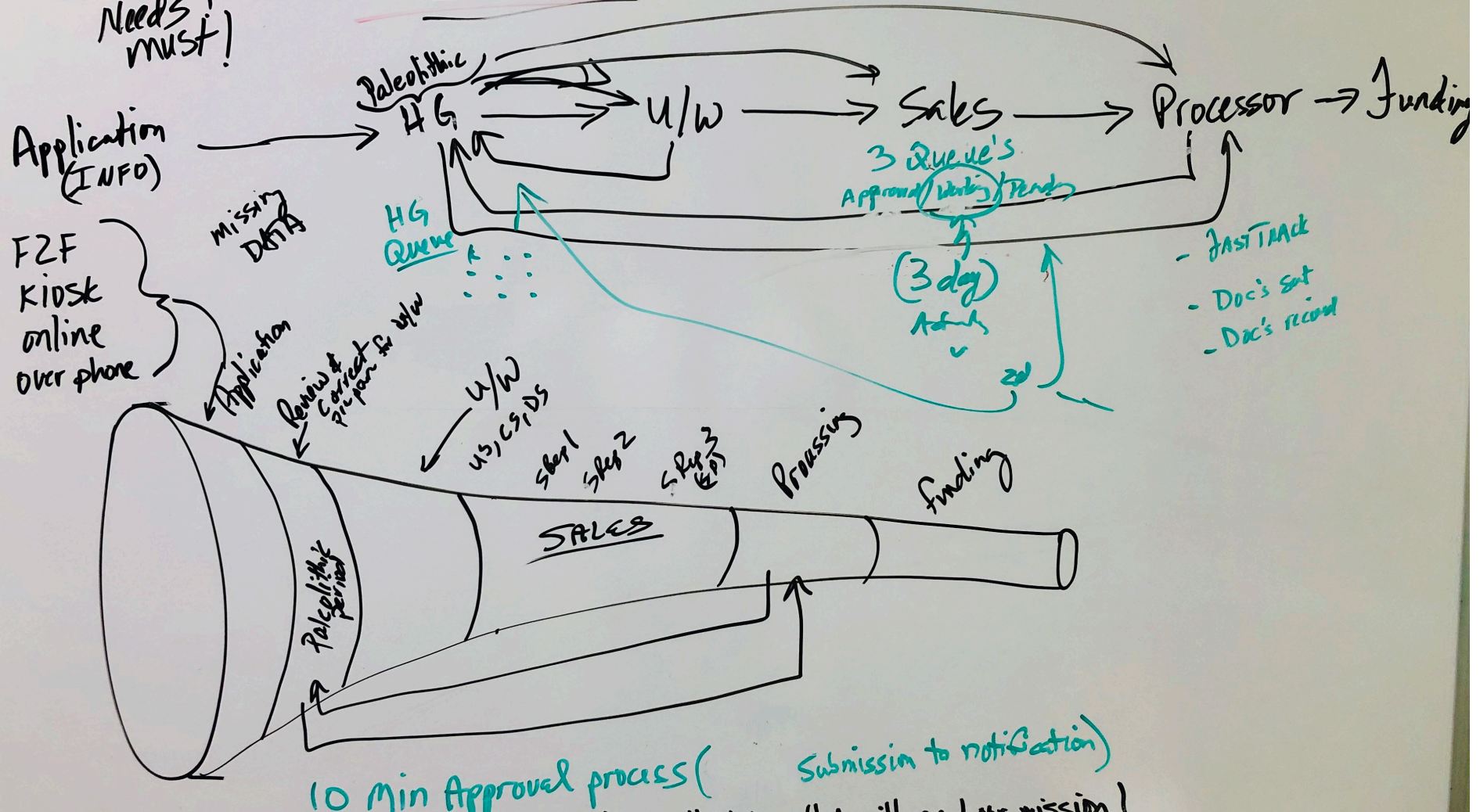
EVERYTHING YOU NEED

1. NAME
2. ADDRESS
3. CONTACT INFO (CELL AND E-MAIL, FACEBOOK/INSTAGRAM)
4. SS#
5. OCCUPATION/POSITION
6. TIME ON JOB
7. INCOME

NOW TO APPLY BEST PRACTICE



ANY FRICTION THAT ISN'T ABSOLUTELY NECESSARY
Should BE ELIMINATED!
Needs must!



It is not legacy Systems that will kill us but legacy thinking that will end our mission!

We set our own Limitations!

- We write the POLICY!
- We set our own restrictions!



Death By Debt Ratio

ratio capitalization
Long-term
total debt

IT IS A DIMENSIONAL, MYOPIC DECISION – IGNORES EVERYTHING ELSE

Are you Losing Loans to LTV Southwest Lending & Collections Conference

Purchase is one thing

150% MSRP - 720 and above Line 5 Max

Standard Indirect 125% MSRP Line 3 720 < ?

How tough does this make it to Refinance?

#1. It is a different Transaction

#2. What is the current LTV condition of your recently finance purchase autos on the books today?

#3. What are the LTV limits for refinanced autos?

Should they be different?

Seasonality mitigates risk



Advanced Loan Structuring

Down-sell – To counter offer with an alternative that is less than they were requesting but if accepted as presented the loan will get funded.

Any Examples?

Up-sell – To counter offer with an alternative that is more than the original request.

Can someone give me some examples?

Cross-sell – To commit to approving an offer of additional products in addition to approving the one requested.

FOCUS ON THE CASH FLOW!!

Payment amounts drive success of a loan to season well

What are you going to do about it?

**WHATCHA
GONNA
DO!?!?!?**

ANY QUESTIONS?



PIERRE CARDENAS

President of IOC

pcardenas@me.com

512-619-0545

President Capitol Credit Union

\$195 Million Assets, 14K Mbrs