How to Differentiate Your CU in a Crowded Lending Space

Don Arkell- CU Lending Advice

Santander

Credit Karma™

WFB
World's Foremost Bank

LendingClub

WELLS FARGO

CHASE

Bank of America

State Farm®

THE HOME DEPOT

Capital One

Quicken Loans®
Engineered to Amaze℠

TITLEMAX®
TITLE LOANS

lendingtree℠

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Lending Attitude Check

The best lenders learn that lending is both an attitude and approach. Step back for a minute and consider your lending **ATTTUDE**:

1. When you look at a member's credit report and application, do you begin by looking for positives or do you begin by looking at negatives?

2. Don't Forget, as a lender you have the best job at a credit union. You are in the "Feel Good" business!

3. Do you know the job of a lender?

   The job of a lender is ____

EVERY LOAN IS AN OPPORTUNITY

Every Member is Unique

A B C D E

- ACCOUNT RELATIONSHIP
- CREDIT REPORT
- JOB & INCOME

[**Direct Web] 11/04/15 07:29** My credit score is a 604 and am working so hard to rebuild. I currently have a loan with Chrysler which I have had for eight months and have never been late and will never be late and have attempted to purchase the car last night from Central Chevrolet with my current car and loan getting traded in and paid off. I want out of my current 19 percent loan and got approved last night by Ally and Capital One but only at 16 percent ***and I am praying XXXFCU will give me a chance*** despite my past credit problems. I also have been paying my current loan on time for almost a year and hope that my two jobs that are listed with a combined income of $4280 per month makes up for my past credit issues pre 2012. I hope to hear from you today. Thanks.

[[UNDERWRITER] 11/04/15 08:31 Request denied - delinquent credit, outstanding collections and short time with new employer.

[[LOAN OFFICER] 11/04/15 09:26 Informed of decision.

$4,280 Monthly Income

$700

Credit Union was PFI, Direct Deposit

Chrysler paid on time, traded 7 months on time $305, 19.3% , 72 Months

New Payment $400

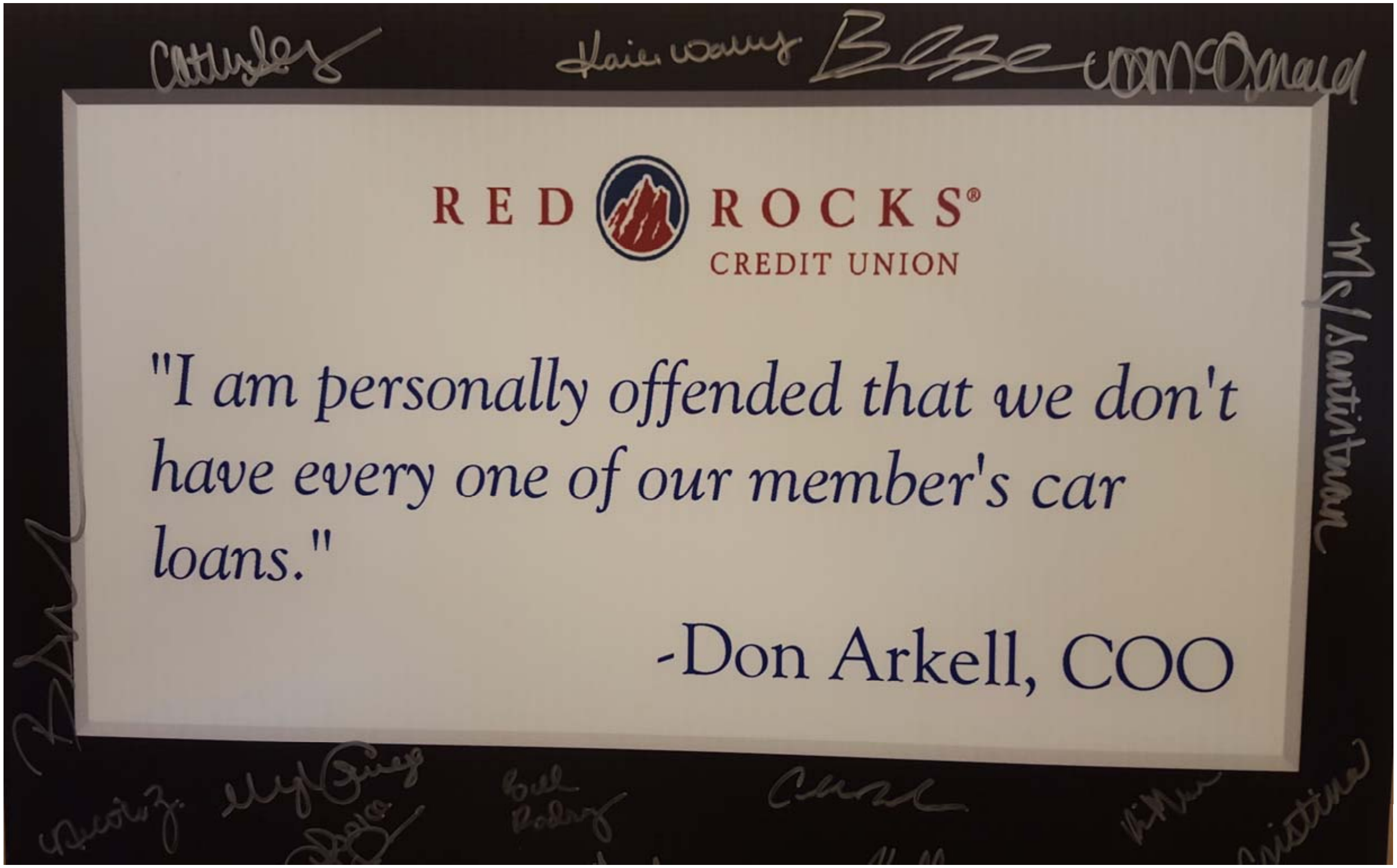
Payments for Chrysler have been coming out of member's checking account

2013 Hyundai Genesis 19k

9 trades

works two jobs

AUTO RECAPTURE IS YOUR BUSINESS


RED ROCKS®
CREDIT UNION
"I am personally offended that we don't have every one of our member's car loans."
-Don Arkell, COO

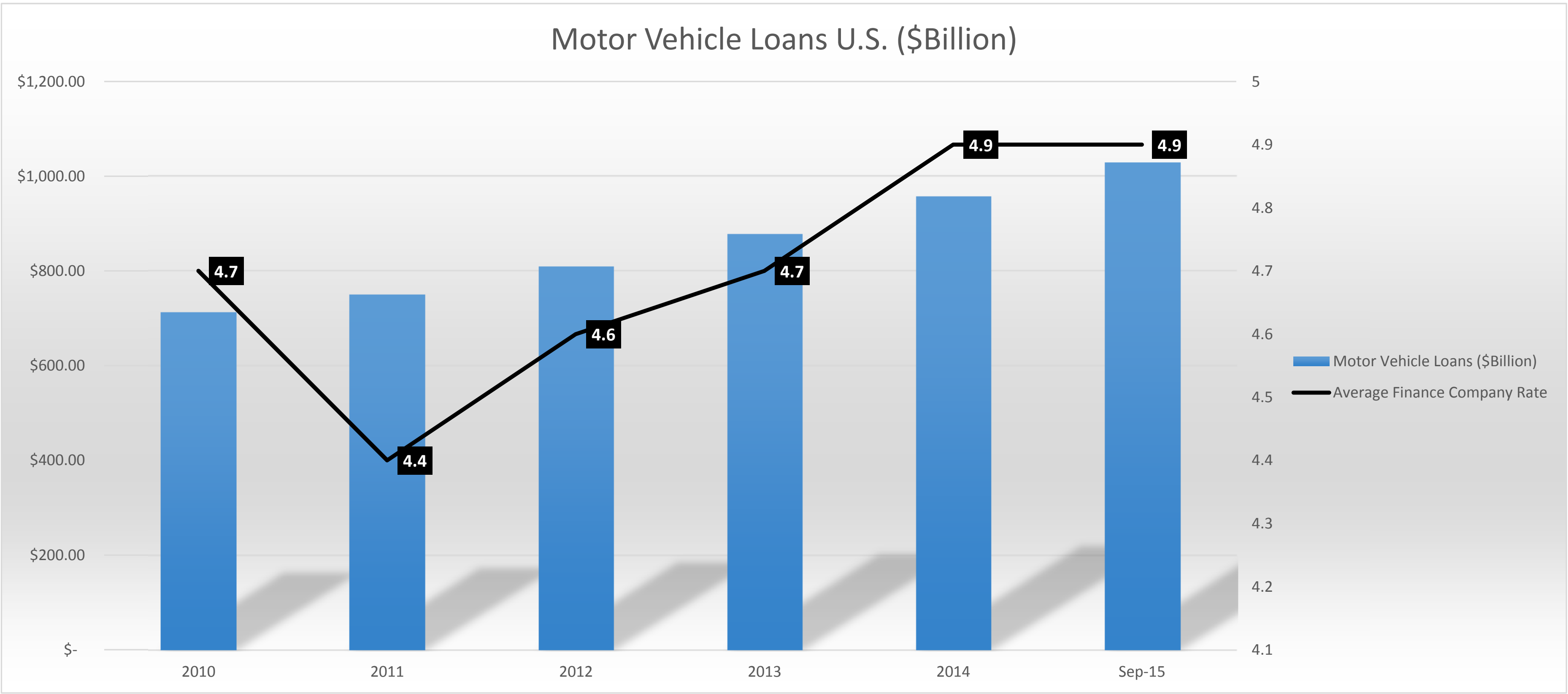
- Auto debt owed by U.S. households in the second quarter this year rose above $1 trillion for the first time, fueling car purchases and a Lazarus-like revival for an industry brought down by the 2007-2009 financial crisis.

- While the size of individual auto loans has grown 15% in the past five years to $29,184, down payments have increased by 10% to $3,257, meaning debt accounts for a greater share of each purchase, according to Edmunds.

- Loans to households with poor credit records, known as subprime, make up a roughly a fifth of auto loan balances, according to Experian Automotive, which tracks industry financing. Outstanding subprime loan balances among American households more than doubled since 2010, to about $176 billion, roughly on par with the growth of balances among households with the best credit ratings.

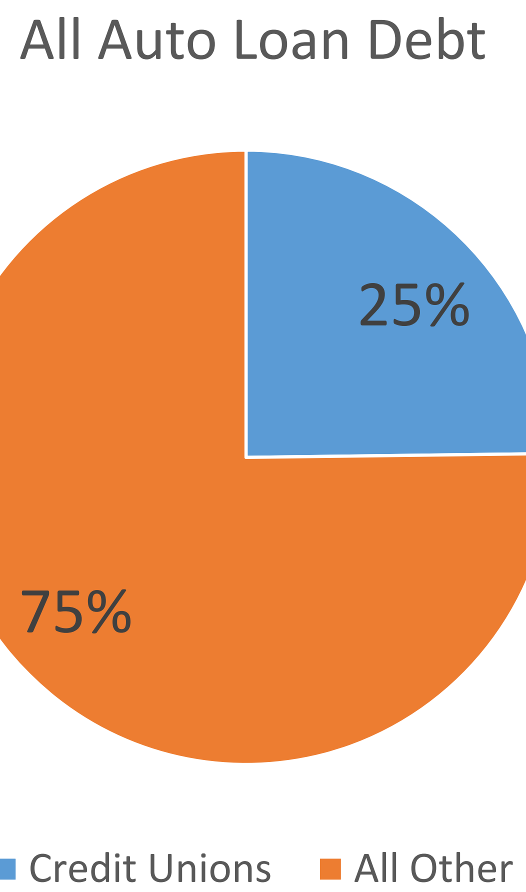
- Subprime lending is both a blessing and curse for households. Many consumers shut out of mortgage refinancing and home purchases because of low credit scores can still secure auto loans, but at rates of 15% and higher.

Auto Market Reflect Fed's Dilemma
WSJ 9/15/2015



2015 Average Amount Financed: $27,700 Average Term: 65.5

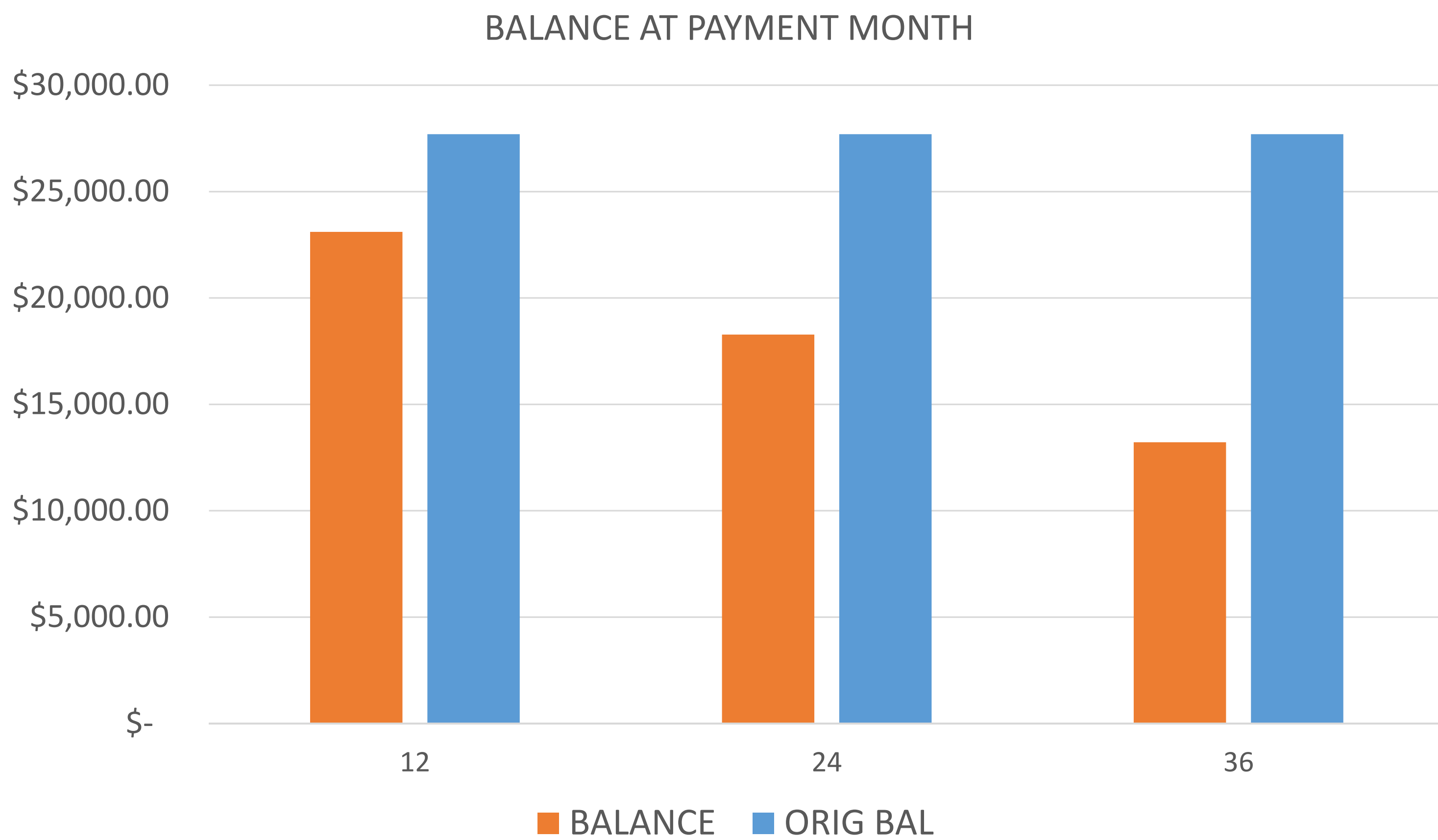
federalreserve.gov
December 7, 2015 Release



federalreserve.gov
Ncua.gov 9/2015

	Average Finance Company
Amount Financed	$27,700
Term	65
Rate	4.9%
Payment	$486.07

	CU Comparison Refi
Amount Financed	$27,700
Term	65
Rate	2.5%
Payment	$456.10


BALANCE AT PAYMENT MONTH
$30,000.00
$25,000.00
$20,000.00
$15,000.00
$10,000.00
$5,000.00
$-
12
24
36
BALANCE
ORIG BAL

- TransUnion expects auto loan delinquencies to remain stable through 2016, ending the year around 1.11%, unchanged from where they are estimated now for yearend 2015.

- In the third quarter, subprime loans accounted for 18.7% of outstanding auto loans, versus 23.7% in the third quarter of 2009, TransUnion said. The credit bureau defined subprime loans as credit scores of 600 or below, on the VantageScore 3.0 scale.

Autofinancenews.com
12/2015

Reasons to Refinance a Vehicle Loan

1. Increase Cash Flow (lower payment)
2. Lower Interest Rate
3. Skip a Payment
4. Improve Credit Score
5. Condolidate Debt

MAKE A DECISION

Unsecured Loan Alternatives

If you are unwilling to make small loans to your members to help them with unplanned expenses, many of your members will turn to alternative financing:

Features	Payday Loans	Title Loans
Typical Loan Size	$350	$951
Fee/Interest	$16 per $100 borrowed	$25 per $100 borrowed
Typical Loan Term	Two Weeks	30 Days
Typical APR	416%	300%
Loan Term	Full payment due on next payday(usually in about two weeks)	Full payment due in one month
Collateral	Secured by personal check or access to bank account	Secured by car title

Source: Driven to Disaster Car-Title Lending and Its Impact on Consumers - Center for Responsible Lending 2/18/2013

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Unsecured Loan Alternatives – Title Loans

- Approximately 7,730 car-title lenders operate in at least 21 states costing borrowers $3.6 billion each year in interest on $1.6 billion in loans.
- The average car-title borrower renews their loan eight times, paying $2,142 in interest for $951 in credit
- Car-title loans' annualized percentage rates (APR) are especially excessive considering the value of the collateral and the relatively low amount of the loan. In our borrower-level data set, the median loan-to-value ratio was 26 percent, yet the APR was 300 percent.
- One in six borrowers in our data set also faced repossession, with repossession fees averaging half of the borrower's outstanding loan balance.

Source: Driven to Disaster Car-Title Lending and Its Impact on Consumers -
Center for Responsible Lending 2/18/2013

Unsecured Loan Alternatives – Payday Loans

Payday loans—high-cost small loans averaging $350 that usually must be repaid in a single payment after two weeks—are designed to create a long-term debt trap. Whether they receive the loans online, in storefronts, or through banks, the vast majority of borrowers cannot both repay the loan and cover all their basic living expenses until their next payday. As a result, they typically take out multiple loans within a short timeframe, paying repeated fees to do so.

"Payday loans create a debt treadmill that makes struggling families worse off than they were before they received a payday loan. "

Source: Center for Responsible Lending

Small Dollar Unsecured Loans

Here is a recommendation for Small Dollar Unsecured Loans

- $1,000 Loan Max –
- Regular Unsecured Minimum should start at $1500.00
- Max APR, Regardless of Credit Tier
- Term > 90 Days
- With or without origination fee
- Streamlined underwriting with proof of identity, address, and income, and a credit report to determine loan amount and repayment ability; loan decision within 24 hours

Pilot Program, $40.2 M, 34.400 loans

“Delinquency ratios for SDLs and NSDLs were at least three times higher than for similar types of unsecured loans, but default rates were in line with industry averages. The cumulative charge-off rate for the pilot was 6.2 percent for SDLs and 8.8 percent for NSDLs. These compare to charge-off ratios of 5.4 percent for unsecured "loans to individuals" and 9.1 percent for "credit cards" according to the fourth quarter 2009 Call Report

- Source: https://www.fdic.gov/smalldollarloans/

Five <u>Sales</u> Tips for Making Every Member Contact a Success

1. Connect Emotionally
2. Use the Member's Name
3. Be Positive!
4. Thank them for their Business
5. Ask them for more Business

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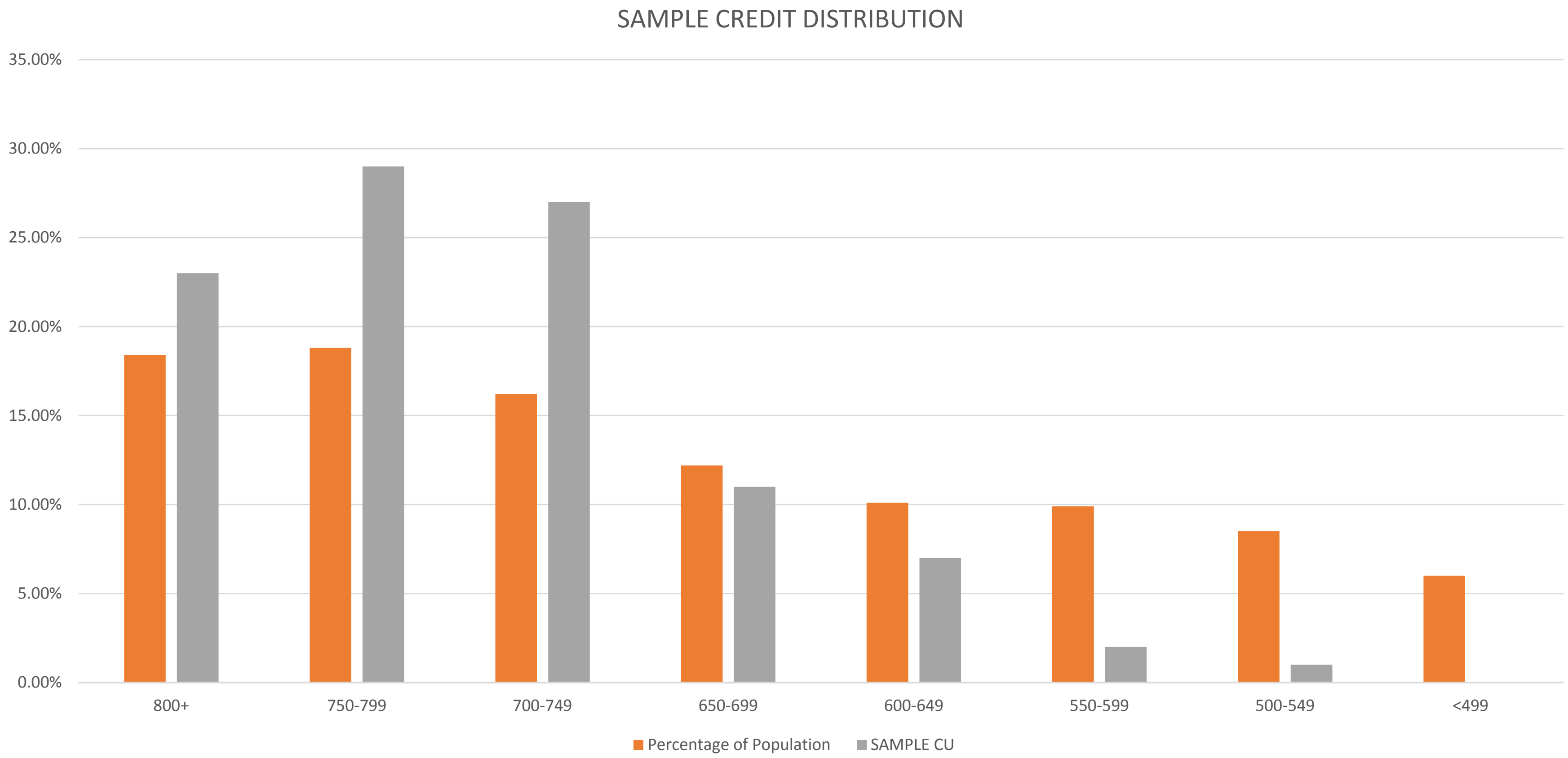
LEND IN ALL TIERS

FICO® Credit Scores

Standard FICO scores range from 300 to 850. If all three FICO scores are veiwed on the same day they will typically vary between zero and fifty points. The purpose of the score is to predict the likelihood of 90+ day delinquency over the next 24 months. As of October 2012, the national distribution of FICO scores is as follows:

Score	Percentage of Population
800+	18.4%
750-799	18.8%
700-749	16.2%
650-699	12.2%
600-649	10.1%
550-599	9.9%
500-549	8.5%
+499	6.0%


SAMPLE CREDIT DISTRIBUTION
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
800+
750-799
700-749
650-699
600-649
550-599
500-549
<499
Percentage of Population
SAMPLE CU

4 Undeniable facts

1. There are very thin margins on A-paper auto loans
2. You can make serious money on D and E- paper auto loans
3. Members with bad credit need a car to get to work.
4. Members with bad credit can choose to pay their credit union on time

EDUCATE YOUR MEMBERSHIP ABOUT THEIR FICO® SCORES

Items that Hurt a FICO® Score

1. Late payments and derogatory public records.
2. A low level of “percent available” on individual revolving accounts and total revolving accounts (i.e. capacity).
3. Closing revolving accounts.
4. Having a lender lower the limit on a revolving account or not properly reporting the limit on a revolving account.
5. Multiple new revolving accounts in a short period of time.
6. Settling a debt for less then the full balance (because the settled date is more recent than the original date).
7. Having loans at “second tier” finance companies.

Strategies that Will Improve a FICO® Score

1. Ensure credit bureau data is accurate and dispute legitimate errors.

2. Focus on bringing currently delinquent loan accounts current. Don't allow current loans to go delinquent or to go further delinquent while using cash flow to pay on old collection accounts.

3. Comparison shop for mortgage and auto loans within the 14-day period of time to minimize score impact.

4. Pay off and close "second tier" finance company trade lines.

5. Pay down the credit cards first that are near their limits.

6. Pay down total revolving balances, but do not close these accounts.

7. Move revolving balances to installment debt; but again do not close the revolving accounts.

8. Minimize new accounts.

ENGAGE YOUR INDIRECT CUSTOMERS

As a general rule, it Is hard to convert Indirect members into multiple services with your credit union.

Industry statistics show that the best credit unions convert 6% of their Indirect loans into multiple services.

You'll never convert any of these loans into more business <u>if you never try.</u>

- Have your Sales team reach out to every new Indirect member with a phone call welcoming them to the credit union confirming their loan details.
- Reach out with an offer for a free car wash for completing a survey about their dealership experience.
- You bought the rights to market to this member and your efforts will be commensurate with the results.

YOUR STAFF IS YOUR DIFFERENTIATING FACTOR

People

1. Commodity
2. It’s not enough to be “Friendly, Courteous, Prompt and Accurate”
3. Your latest……
4. Like every other business, you need a dedicated Sales effort
5. Software systems are last 10-15% of your strategy

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