

# THE POWER

of Smart Pricing Strategies



**Webinar 44**

Hosted by  
Bob Schroeder

**Get Ready to  
Boost Your  
Income!**



# Where have all the Credit Unions gone?



- We lose a credit union or two every day!
- In 1969 we had 23,866 credit unions. As of February 2016 we have 6,187 according to CUNA. A recent article in CU Times predicts less than 5,000 CU's by 2020.
- How many credit unions could have survived with more aggressive pricing?

# Lessons from Apple



- “The theme of the club,” (Regarding Homebrew Computer Club) Woz said, “was give to help others.”
- “I designed the Apple I because I wanted to give it away for free to other people,” said Wozniak.
- “Wozniak wanted to sell them for about what it cost to build them, but Jobs wanted to make a serious profit. Jobs prevailed.”

Excerpts From: Isaacson, Walter. “Steve Jobs.” Simon & Schuster.  
Chapter Five: The Apple I: Turn On, Boot Up, Jack In . . .

# Lessons from Apple



- Steve Jobs steps in to assist Woz with pricing of the Apple I and the World is changed!
- Apple would not have survived if the Woz pricing model was implemented.

# Lessons from an old “New CEO”



- As a new CEO I believed members came to us for value. We always had great rates.
- Numerous surveys told me I was wrong! Members came to us for Service!
- Many CU's try to be the low cost provider! Unless your one of the largest CU's in the country the low cost provider strategy does not work.

# Common Traits of the Most Successful Credit Unions by ROA



- Loan to share ratio of 90% or greater.
- **Loan yields less charge offs of 6.5% or greater.**
- **Other income to assets of 2% or greater.** (ELGA 3.33%, Gulf Coast Community 4.05%, Average is 1.33%)
- Loan growth of 10% annually.
- A large concentration of members with direct deposit.
- Delinquencies and charge offs higher than their peers.
- Incentive plans for all staff.
- Smaller than average loan balances.

# Low Cost Provider CU



Year	Loans Outstanding	Loan Yield	Loan Income
Dec 2011	\$330,060,722	4.59%	\$14,920,968
Dec 2012	\$325,160,176	4.18%	\$13,609,025
Dec 2013	\$344,805,499	3.70%	\$12,381,097
Dec 2014	\$356,923,986	3.47%	\$12,166,081
Dec 2015	\$362,421,442	3.46%	\$12,456,387

\$2.75 million decline in loan interest income despite an increase in loans

# Members First Credit Union

Midland, MI (LSCI Client CU since the fall of 2013)



## Work Smarter, Not Harder

Year	Loans Outstanding	Loan Yield	Loan Income
Dec 2011	\$96,326,646	5.92%	\$5,568,905
Dec 2012*	\$164,084,850	5.73%	\$7,465,206
Dec 2013	\$175,797,252	5.20%	\$8,844,903
Dec 2014	\$198,129,353	5.69%	\$10,641,031
Dec 2015	\$223,927,532	6.41%	\$13,523,441

Magic happens when loan volume and loan yields move up!

\* Merger



# LSCI Recommendations:



- Increase Loan Yields by:
  - Move Unsecured loans to 20% of your portfolio.
    - Limit large unsecured loans to those with an A or B credit grades or C, D and E if the FICO score is trending up.
  - Serving C, D ,E and no score members with secured loans.
    - Basic transportation to and from a good job is a great loan.
    - Focus on how they paid other secured loans.
    - Limit these loans to 50% of Annual Gross Income.
    - Direct deposit is a plus

# Concentration Limit Recommendations



- Focus on increasing loan to share ratios to 90% or greater with the following concentrations:
  - A+, A: Up to 50% of loans
  - B, C: Up to 40% of loans
  - D, E: Up to 20% of loans
  - No Scores: Up to 5% of loans
- Recommended portfolio allocation mix for a loan portfolio
  - Real Estate = 40%
  - Unsecured = 20%
  - Auto = 40%

# Risk-Based Pricing



- In an effort to expand the ability to make more loans, many credit unions and other financial institutions are pricing loans according to default risk.
- Risk based pricing involves setting a tiered pricing structure that assigns loan rates based upon an individual's credit risk.
- Through a carefully planned risk based lending program, lenders may be able to make loans to somewhat higher risk borrowers as well as better serve their more credit-worthy members.

# Benefits of Risk Based Lending and Proper Pricing



- 1) Loans are available to a broader member base
- 2) Increased profitability/capitalization and loan volume
- 3) Allows the credit union to manage versus minimize risk
- 4) Ability to say “yes” to most members
- 5) Enhances the ability to offer individualized service and credit counseling
- 6) Allows marginal borrowers to improve credit-worthiness and credit history
- 7) Improves the image of the credit union
- 8) Improves our competitive advantage
- 9) Enables the credit union to work smarter, not harder



# Two Pieces of Risk-Based Lending



Decision-Making	Pricing
Is there a co-signer?	Measures probability of 60 day default
Is there collateral?	Rate to charge a member
Can we get a down payment?	
Is there payroll deduction?	
Can we insure with the payment protection plan? (remember, C,D, E always insure their loan)	
Do they have the ability to pay?	
What is their debt ratio?	
Have they paid other loans similar in nature?	
Do they pay the credit union?	
Is my loan bankruptcy proof?	



# Earnings Breakdown by Credit Tier



*Sample:*

Loan Amount	Term	Credit Tier/ Score	Rate	Payment	Total of Payments	Finance Charges	Additional Earnings
<b>\$20,000</b>	60 mos.	A+ 730 and above	2.95%	\$359.00	\$21,540.42	\$1,540.42	\$0
<b>\$20,000</b>	60 mos.	A 680-729	3.95%	\$367.95	\$22,077.29	\$2,077.29	\$536.87
<b>\$20,000</b>	60 mos.	B 640-679	5.95%	\$386.26	\$23,175.78	\$3,175.78	\$1,635.36
<b>\$20,000</b>	60 mos.	C 600-639	11.95%	\$444.45	\$26,666.71	\$6,666.71	\$5,126.29
<b>\$20,000</b>	60 mos.	D 550-599	14.95%	\$475.33	\$28,519.82	\$8,519.82	\$6,979.40
<b>\$20,000</b>	60 mos.	E 549 and below	17.95%	\$507.38	\$30,442.60	\$10,442.60	\$8,809.18

# FICO Score Basics



- What is a FICO score and what does it mean?
  - The fico score is a score derived from Fair Isaacs that predicts of the probability of a 60-day default within the next 24 months.
- Following the score, the credit bureau shows four score codes that will tell you how the score can improve.

Note: Even on the best credit scores, the credit bureau will provide four score codes/reasons why its not higher. The first code listed has the most weight.

# What it Takes to Get a Score



- One trade line with a payment history of 6 months + activity reported in the last 6 months.
- LSCI recommendation to validate the score:
  - A minimum of 4 trade lines
  - A minimum of 2 years
  - A minimum of \$5,000 cumulative limits on credit report

*LSCI recommends if the score is not valid to price the loan at 'C' paper. If there is any derogatory trade lines in addition to the above criteria not being met, price the loan at 'D' paper.*

# Scoring Models



## FICO - Weight of Five Factors That Make Up Scores

Type 1

35% = Payment History

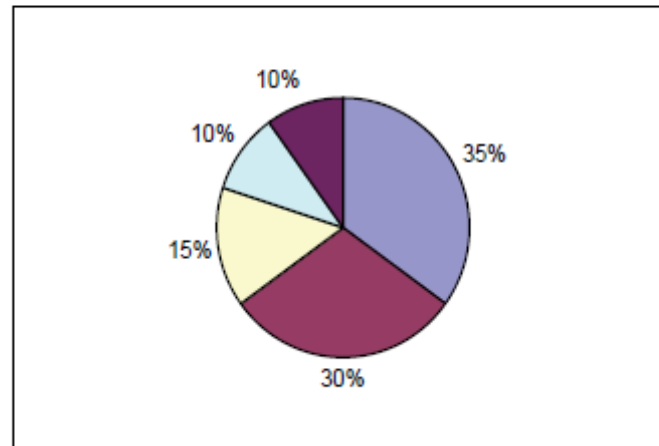
Type 2

30% = Amount owed (on revolving)

15% = Length of credit

10% = New credit (accumulation of debt)

10% = Types of Credit (revolving, installment & real estate)



# How Fast Does Your Score Change?



- Your score can change whenever your credit report changes.
- Your score probably won't change much from one month to the next.
- In a given three month period, only 1 out of 4 people have a 20 point change in their credit score.
- Bankruptcies and other public records or collections can have a major impact on your score and it takes time to recover.
- Simply missing a payment can also impact your score.  
However, you can recover quickly if you pay your account current, provided your credit report has substance.

# Approximately How Many Points Can a Member Lose?



- Bankruptcy up to 250 points
- Foreclosures up to 150 points
- Short sells up to 80 points
- Collections between 75 and 100 points
- Repossessions up to 100 points
- Deed in lieu of up to 80 points
- Current delinquencies up to 60 points

# What Happens to a Score Once a Member Files for Bankruptcy?



Score at Time of Loan	Grade of Paper	Approximate Loss of Points	Approximate Score After BK	Grade of Paper
750	A+	200	550	D
700	A	175	525	E
650	B	150	500	E-
600	C	125	475	E-
550	D	100	450	E-
500	E	75	425	E-

Note: If there is a bankruptcy on the credit report and the score is in the high 600s or higher, its old news and things are improving!

# What Road To Choose

## Understanding the Credit Score

*Turn Your Score Around Faster Than You Ever Thought*



### 1. Range of Scores:

- 730-830=A+ or Platinum
- 680-729=A
- 640-679=B
- 600-639=C
- 550-599=D
- 549 & Below=E



### 2. What Makes Up Your Credit Score?

- 35% = Payment History (i.e. on-time pays or delinquencies)
  - More weight on current pay history
- 30% = Amount Owed (a.k.a. Capacity)
- 15% = Length of Credit
- 10% = New Credit (accumulation of debt in the last 12-18 months)
  - # of inquiries
  - Opening dates
- 10% = Type of Credit
  - Installment (can raise) vs. revolving (can lower)
  - Finance company loans can lower your score

### 3. What Actions Will Hurt Your Score?

- Missing payments
- Credit cards at capacity (i.e. maxing out credit cards)
- Shopping for credit excessively
- Opening up numerous trades in a short time frame
- Having more revolving debts in relation to installment debts
- Closing credit cards out (this could lower available capacity)
- Borrowing from finance companies

### 4. How Can You Improve Your Score?

- Pay off or pay down on your credit cards
- Do not normally close credit cards as it may decrease your capacity. The exception to this is when you have had a bad experience with credit cards and you don't want to go down that road again.
- Move your revolving debt into installment debt
- Continue to make payments on time (older late pays will become less significant with time)
- Slow down on opening new accounts
- Acquire a solid credit history with years of experience

### 5. Approximate Credit Weight for Each Year:

- 40% = Current to 12 months
- 30% = 13-24 months
- 20% = 25-36 months
- 10% = 37+ months

This is an excellent summary and its good to have out when you're on the phone or your members come in.



# Determining the Direction of the Score

## *Perfect Credit*



*The score is often going down if the score is in the low 700s or high 600s and you see these reasons. Focus on the four credit bureau factors right under the score.*

### **Trans Union Code**

- 10** - proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 3** - proportion of loan balances to loan amounts is too high
- 30** - time since most recent account opening is too short
- 14** - length of time accounts have been established
- 12** - length of time revolving accounts have been established
- 9** - too many accounts recently opened
- 11** - amount owed on revolving account is too high
- 8** - too many inquiries last 12 months
- 6** - too many consumer finance company accounts
- 5** - too many accounts with balances
- 1** - amount owed on accounts too high



# Determining the Direction of the Score

## *Colorful Credit*



*The score is often going up if the score is in the 600s and you see these reasons. Focus on the four credit bureau factors right under the score.*

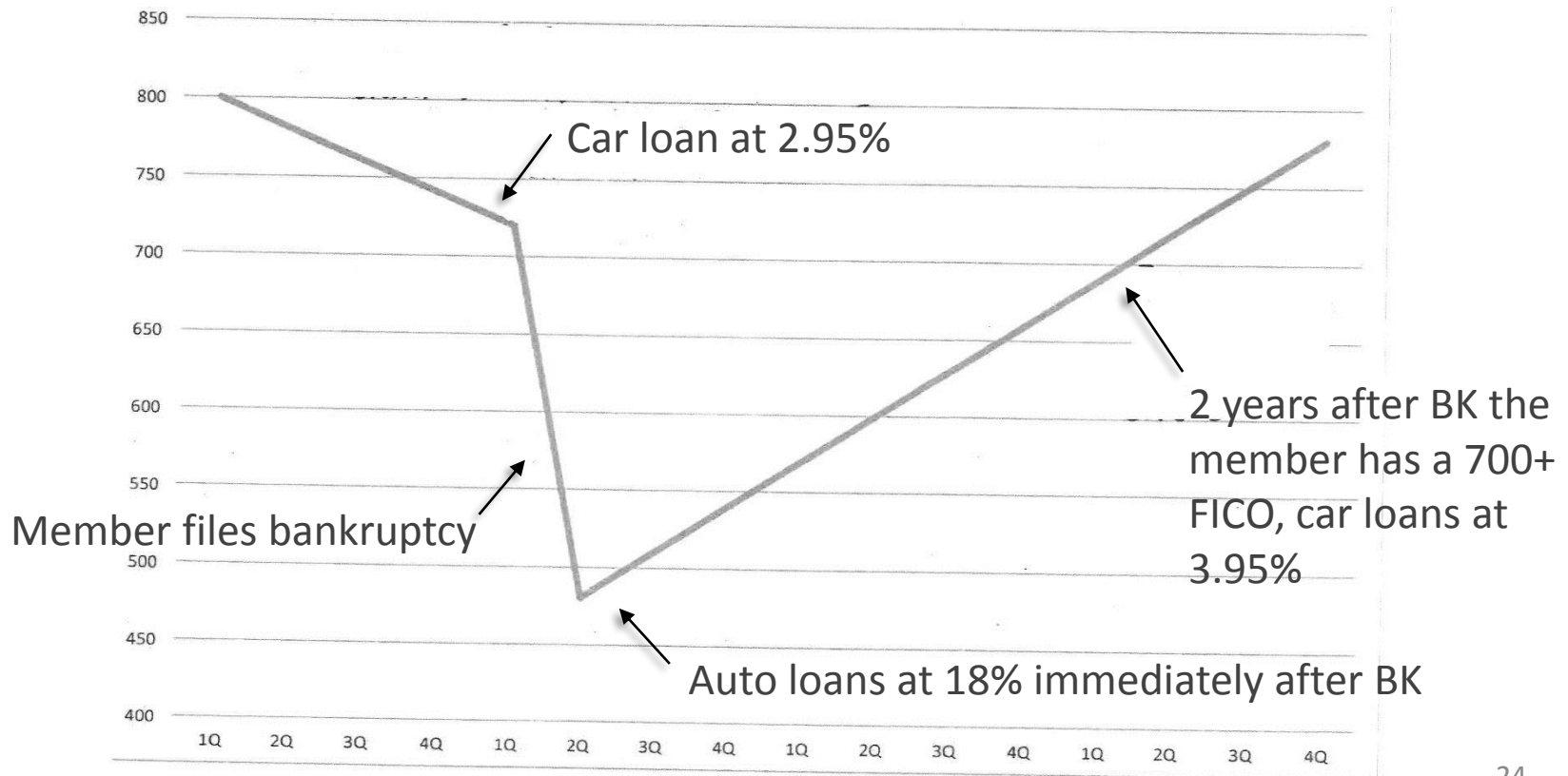
### **Trans Union Code**

- 40** - derogatory public record or collection filed
- 39** - serious delinquency
- 38** - serious delinquency, and derogatory public record or collection filed
- 31** - amount owed on delinquent accounts
- 21** - amount past due on accounts
- 20** - length of time since derogatory public record or collection is too short
- 27** - too few accounts currently paid as agreed
- 18** - number of accounts with delinquency
- 16** - Lack of recent revolving account information
- 13** - time since delinquency is too recent or unknown
- 2** - level of delinquency on accounts

# Common FICO Score Pattern



Member has a great FICO. Never misses payments.  
Starts to max out cards (Code 10). Opens new accounts.



68% USED

----- PROFILE SUMMARY -----

PUBLIC RECORDS-----C	PAST DUE AMT-----\$0	INQUIRIES--15	CNT 00/00/00/00
INST/OTH BAL---\$14,477	SCH/EST PAY-----\$432	SATIS ACCTS---5	
R ESTATE BAL-----N/A	R ESTATE PAY-----N/A	INQS/6 MO---5	NOW DEL/DRG---0
TOT REV BAL-----\$1,858	TOT REV AVAIL-----32	TRADELINE---5	WAS DEL/DRG---0
		PAID ACCT---0	OLD TRADE--7-13

----- SCORE SUMMARY -----

FICO RISK SCORE 2 = 627

SCORE FACTORS: 10, 14, 05, 08

----- TRADES -----

SUBSCRIBER	BALDT	BALANCE	MOPAY	PYMTLEV	ACCTCOND	PYMT STATUS
SUB# KOB TYP TRM ECOA OPEN	AMT-TYP1	DEL 1	MAXIMUM	PYMT HISTORY		
ACCOUNT # LSTPD	AMT-TYP2	P/DUE	DEL 2	MOS REV	30/60/90/DRG	
WF CRD SVC	3-16	\$415	\$25	3-16	OPEN	CURR ACCT
7 BC CRC REV 1	7-13	\$500-L				CCCCCCCCCCCC
	3-16	\$535-H	maxed		(32)	00/00/00

- Credit Summary -----
- ↓ 10 – Proportion of balance to limits too high on Revolving
  - ↓ 14 – Length of time accounts established
  - ↓ 5 – Too many accounts with balances (5)
  - ↓ 8 – Too many inquiries in last 12 months (12/8)

Average age 11.2 months

$$\frac{32 + 9 + 5 + 3 + 7}{5} = 11.2$$

SUBSCRIBER SUB# KOB TYP TRM ECOA OPEN ACCOUNT #	BALDT LSTPD	BALANCE AMT-TYP1 AMT-TYP2	MOPAY P/DUE	PYMTLEV DEL 1 DEL 2	ACCTCOND MAXIMUM MOS REV	PYMT STATUS PYMT HISTORY 30/60/90/DRG
SANTANDER CONSUMER USA FP AUT 73 1	2-16 5-15 2-16	<u>\$14,477</u> \$15,503-0	\$332	2-16	OPEN	CURR ACCT CCCCCCCC (9) 00/00/00
CAPITAL ONE BANK USA N RC CRC REV 1	2-16 9-15 2-16	<u>\$837</u> \$1,500-L \$837-H	\$25	2-16	OPEN	CURR ACCT CCCCC (5) 00/00/00
CAPITAL ONE BANK USA N 6 BC CRC REV 1	2-16 11-15 2-16	<u>\$489</u> \$500-L \$496-H	\$25	2-16	OPEN	CURR ACCT CCC (3) 00/00/00
COMENITY BANK/VCTRSSEC CG CHG REV 1	2-16 8-15 1-16	<u>\$117</u> \$250-L \$153-H	\$25	2-16	OPEN	CURR ACCT CCCCCCC (7) 00/00/00

15.82%

WF CRD SVC X	2-16-16
MACYS/DSNB X	12-09-15
*CAP ONE NA	11-10-15
MACYS/DSNB X	10-26-15
*CAP ONE NA	9-21-15
*COMENITY BANK/VCTRSSEC	8-09-15
SANTANDER CONSUMER USA X	6-03-15
SE TOYOTA FINANCE X	5-29-15
SE TOYOTA FINANCE X	5-28-15
CAPITAL ONE AUTO FIN X	5-28-15
*SANTANDER CONSUMER USA	5-28-15
CHASE CARD X	3-24-15
NOWCOM/WESTLAKE FINANC X	9-26-14
SANTANDER CONSUMER USA X	9-26-14
SCREENING REPORTS INC X	4-21-14

INQUIRIES
BC
DZ
BC
DZ
BC
CS
FZ
FA
FA
FA
FZ
BC
FA
FZ
ZT

4 New trades in last 9 months (Code 14)

Like Inquiries

4 Inquiries  
No Accounts -

↑ New trades  
X No account established

# Calculating Inflated Income



Review new unsecured accounts opened in the past 18-24 months:

Creditor	Opened	Mo. Rev	Balance
Cap One	9/15	5	\$837
Cap One	2/16	3	\$489
Victoria's Secret	8/15	7	\$117
Total			\$1,443

Divide the total by the largest number under months reviewed:

$$\$1,443 / 7 = \$206$$

\$206 per month is the amount of the inflated income.

# Determining the Direction of the Score

## *Perfect Credit*



*The score is often going down if the score is in the low 700s or high 600s and you see these reasons. Focus on the four credit bureau factors right under the score.*

### ***Trans Union Code***

- 10** - proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 3** - proportion of loan balances to loan amounts is too high
- 30** - time since most recent account opening is too short
- 14** - length of time accounts have been established
- 12** - length of time revolving accounts have been established
- 9** - too many accounts recently opened
- 11** - amount owed on revolving account is too high
- 8** - too many inquiries last 12 months
- 6** - too many consumer finance company accounts
- 5** - too many accounts with balances
- 1** - amount owed on accounts too high

# LSCI Recommended Rates

RANGE	GRADE OF PAPER	RATES	RATES							
		All Unsecured Loans (Signature and Credit Cards)	All Secured Non-Real Estate Loans (Autos, Boats, Motorcycles, etc.)							
			24 Mo	36 Mo	48 Mo	60 Mo	72 Mo	84 Mo	96 Mo	108 Mo
Suggested Floor Rate	Same as Platinum rates		2.50	2.75	2.95	2.95	3.95	4.95	5.95	6.95
730+	Platinum/A+	9.95%	2.50	2.75	2.95	2.95	3.95	4.95	5.95	6.95
680 - 729	A	10.95%	3.50	3.75	3.95	3.95	4.95	5.95	6.95	7.95
640 - 679	B	12.95%	5.50	5.95	5.95	6.95	7.95	8.95	9.95	10.95
600 - 639	C	15.95%	8.50	9.95	11.95	12.95	13.95	14.95	16.95	17.95
550 - 599	D	17.95%	12.50	12.95	14.95	15.95	16.95	17.95	17.95	17.95
549 or less	E	17.95%	15.50	15.95	16.95	16.95	N/A	N/A	N/A	N/A

## Loan To Value - ADJUST THE ABOVE RATES FOR BOTH LOAN TO VALUE AND VEHICLE AGE

BELOW 80% LTV	80-90% LTV	91-100% LTV	101-110% LTV	111-120% LTV	121%+ LTV
-2.00%	-1.00%	Base Rate	+1.00%	+2.00%	+3.00%

Note: Do not count rebates or dealer discounts when determining the *true* value.

## Calculating Loan to Value

**New:** Use the lower of MSRP or purchase price.  
*Rebates and dealer discounts must be subtracted from MSRP or purchase price to determine real*  
**Used:** Lower of retail book value or purchase price.

## Age Of Collateral

1. Add 1% to above rates on model years 2013-2014.
2. Add 2% to above rates on model years 2010-2012.
3. Add 3% to above rates on model years 2009 and older.
4. **Note:** Federal Credit Unions cannot exceed 18%
5. **Note:** Never go below the suggested floor rate

## HOME EQUITY VARIABLE RATE LOANS

**Prime = 3.50%**

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
<b>Suggested Floor Rate</b>	<i>Same as Platinum rates</i>		4.25%	5.25%	6.25%	8.25%
730+	Platinum	Prime + 1.00%	4.50%	5.50%	6.50%	8.25%
680 - 729	A	Prime + 1.50%	5.00%	6.00%	7.00%	9.00%
640 - 679	B	Prime + 3.50%	7.00%	8.00%	9.00%	11.00%
600 - 639	C	Prime + 5.50%	9.00%	10.00%	11.00%	13.00%
550 - 599	D	Prime + 7.50%	11.00%	12.00%	13.00%	N/A
549 or less	E	Prime + 9.50%	13.00%	14.00%	15.00%	N/A

## 2ND MORTGAGE FIXED RATE LOANS – 0 to 5 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
Suggested Floor Rate	Same as Platinum rates		4.25%	5.25%	6.25%	8.25%
730+	Platinum	Prime + 1.00%	4.50%	5.50%	6.50%	8.25%
680 - 729	A	Prime + 1.50%	5.00%	6.00%	7.00%	9.00%
640 - 679	B	Prime + 3.50%	7.00%	8.00%	9.00%	11.00%
600 - 639	C	Prime + 5.50%	9.00%	10.00%	11.00%	13.00%
550 - 599	D	Prime + 7.50%	11.00%	12.00%	13.00%	N/A
549 or less	E	Prime + 9.50%	13.00%	14.00%	15.00%	N/A

## 2ND MORTGAGE FIXED RATE – 6 to 10 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
Suggested Floor Rate	Same as Platinum rates		4.75%	5.75%	6.75%	7.75%
730+	Platinum	Prime + 1.50%	5.00%	6.00%	7.00%	9.00%
680 - 729	A	Prime + 2.00%	5.50%	6.50%	7.50%	9.50%
640 - 679	B	Prime + 4.00%	7.50%	8.50%	9.50%	11.50%
600 - 639	C	Prime + 6.00%	9.50%	10.50%	11.50%	13.50%
550 - 599	D	Prime + 8.00%	11.50%	12.50%	13.50%	N/A
549 or less	E	Prime + 10.00%	13.50%	14.50%	15.50%	N/A

## 2ND MORTGAGE FIXED RATE – 11 to 15 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
Suggested Floor Rate	Same as Platinum rates		5.25%	6.25%	7.25%	8.25%
730+	Platinum	Prime + 2.00%	5.50%	6.50%	7.50%	9.50%
680 - 729	A	Prime + 2.50%	6.00%	7.00%	8.00%	10.00%
640 - 679	B	Prime + 4.50%	8.00%	9.00%	10.00%	12.00%
600 - 639	C	Prime + 6.50%	10.00%	11.00%	12.00%	14.00%
550 - 599	D	Prime + 8.50%	12.00%	13.00%	14.00%	N/A
549 or less	E	Prime + 10.50%	14.00%	15.00%	16.00%	N/A

We recommend fix rate loans for members who struggle to handle revolving debt.

# Extending Terms



\$30,000 Loan

Remaining Balances

TERM	REMAINING BALANCE					EXPOSURE
	60	72	84	96	108	108/60
12	\$24,288.58	\$25,396.13	\$26,214.46	\$26,848.32	\$27,355.24	\$3,066.66
24	\$18,482.15	\$20,709.48	\$22,366.71	\$23,660.96	\$24,705.84	\$6,223.69
36	\$12,502.11	\$15,834.11	\$18,324.12	\$20,278.69	\$21,866.34	\$9,364.23
48	\$6,343.25	\$10,763.05	\$14,076.83	\$16,689.61	\$18,823.08	\$12,479.83
60	\$0.00	\$5,487.82	\$9,614.47	\$12,881.05	\$15,561.46	\$15,561.46
72	x	\$0.00	\$4,926.12	\$8,839.59	\$12,065.78	\$12,065.78
84	x	x	\$0.00	\$4,551.01	\$8,319.26	\$8,319.26
96	x	x	x	\$0.00	\$4,303.92	\$4,303.92
108	x	x	x	x	\$0.00	\$0.00
RATE	2.95%	3.95%	4.95%	5.95%	6.95%	
FINANCE CHARGE	\$2,224.20	\$3,633.36	\$5,411.88	\$7,590.72	\$10,198.68	
PAYMENT	\$537.07	\$467.13	\$421.57	\$391.57	\$372.21	

# Knowing the “Cost” of a Down Payment



- *Purchase Price \$10,000*

- *Option 1:*

*Down Payment of 10% or \$1,000 with a loan amount \$9,000 at 9% for 48 months. Finance charges are \$1,750. (\$194.44 per thousand)*

- *Option 2:*

*No Down Payment and loan amount \$10,000 at 10% for 48 months. Finance charges are \$2,174. (217.40 per thousand)*

*The last \$1,000 generated \$424 in additional Finance Charges or 19% APR (10% on the loan plus 1% extra on the first \$9,000). If the member will pay you \$9,000, they most likely will pay you \$10,000. Note: If the member is a bankruptcy threat you may need the down payment to make yourself bankruptcy proof.*

# 1% Cash Back or Beat the Rate by 1%



*Loan amount of \$25,000 with 58 months remaining at 4.5%.*

***Option 1 – 1% Cash Back, same 4.5% rate.***

*\$2,864 Finance Charges at 4.5% if the loan is paid to term*  
*- \$250 1% Rebate*  
*\$2,614*

***Option 2 – Beat the rate by 1%, or 3.5% APR***

*\$2,210 Finance Charges at 3.5% if the loan is paid to term*

*The Cash Back Option earns an additional \$404!*



# A Common “Error” in RBP



Rates are set too low, especially C, D and E paper.

Set higher rates and allow your staff to match or beat rates when it makes sense. Many times I am working with a CU and excited about a loan and when I get to their pricing sheet I lose all enthusiasm because the loan is priced too low. A loan at 10% may be a great loan, however not so good at 3.5%!

# Matching Rates Policy



- The credit union has the authority to match a competitor's rates and terms when it is in the best interest of the credit union. The credit union will not require proof of rates or terms, simply the name of the financial institution and the rate the member was promised and that the member had applied and been approved. The credit union will use good common sense in matching rates such as we do not believe E paper members were approved for A paper rates. Loans will be lowered by:
  - A+ and A paper: up to 1%
  - B and C paper: up to 2%
  - D and E paper: up to 3%

# Income Analysis on Cutting Rates



Increase in Volume		10%	20%	30%	40%	50%
Loan Volume	<b>\$1,000,000</b>	\$1,100,000	\$1,200,000	\$1,300,000	\$1,400,000	\$1,500,000
Loan Yield	<b>2.99%</b>	1.99%	1.99%	1.99%	1.99%	1.99%
Loan Income	<b>\$29,900</b>	\$21,890	\$23,880	\$25,870	\$27,860	\$29,850
Loss of Investment Income (1%)	<b>\$0</b>	-\$1,000	-\$2,000	-\$3,000	-\$4,000	-\$5,000
Income	<b>\$29,900</b>	\$20,890	\$21,880	\$22,870	\$23,860	\$24,850
Number of Loans (\$15,000 avg)	<b>67</b>	73	80	87	93	100

KRIZELLE

SS:  
YOB: 1985

E: WASHINGTON MUTUAL

RPTD: 12-11 TO 6-13 U 11X  
LAST SUB: 8990064

RPTD: 3-04 TO 4-07 I

E: WAMU  
RPTD: 11-05 I

RPTD: 4-03 TO 11-08 U 5X

RPTD: 12-02 U

KRIZELLE

----- FRAUD SHIELD SUMMARY -----

INPUT SSN ISSUED 1998-1999  
FROM 3-01-13 INQ COUNT FOR SSN=1  
FROM 3-01-13 INQ COUNT FOR ADDRESS=3

----- PROFILE SUMMARY -----

PUBLIC RECORDS-----0	PAST DUE AMT-----\$0	INQUIRIES---4	CNT 00/00/00/00
INST/OTH BAL---\$52,037	SCH/EST PAY-----\$1,602	INOS/6 MO---3	SATIS ACCTS--22
F TATE BAL---\$7,380	R ESTATE PAY-----\$155	TRADELINE--22	NOW DEL/DRG---0
TOT REV BAL---\$17,135	TOT REV AVAIL-----50%	PAID ACCT---6	WAS DEL/DRG---0
		OLD TRADE-11-02	

WITEN YOU SEE CODE 10, 60 STRAIGHT TO TOTAL REV. DEBT

FICO RISK SCORE 2

718

SCORE FACTORS:

- 10 RATIO OF BALANCE TO LIMIT ON BANK REVOLVING OR OTHER REV ACCTS TOO HIGH
- 08 TOO MANY INQUIRIES LAST 12 MONTHS
- 05 TOO MANY ACCOUNTS WITH BALANCES
- 09 TOO MANY ACCOUNTS RECENTLY OPENED

Note: 4 Factors Code# 05, 08, 09, 10  
They are all in the same family



TRADES									
SUBSCRIBER					OPEN	AMT-TYP1	AMT-TYP2	ACCTCOND	PYMT STATUS
SMT#	KOB	TYP	TRM	ECOA	BALDATE	BALANCE	PYMT LEVEL	MOS REV	PYMT HISTORY
A	UNT #				LAST PD	MONTH PAY	PAST DUE	MAXIMUM	BY MONTH
*FNB OMAHA					11-02	\$1,000-L	\$1,028-H	CLOSED	CURR ACCT
	BC	CRC	REV	2	2-24-05	\$0	2-05	(27)	BCCCCCCCCCCC
					9-04				CCCCCCCCCCCC
** ACCOUNT CLOSED AT CONSUMER'S REQUEST **									
*CITI					8-03	\$500-L	\$929-H	PAID	CURR ACCT
	BC	CRC	REV	1	7-20-10		7-10	(83)	B000000000C00
					6-09				CCCC00000C00
** ACCOUNT CLOSED AT CREDIT GRANTOR'S REQUEST **									
*CHASE					5-06	\$1,000-L	\$990-H	PAID	CURR ACCT
	BC	CRC	REV	1	8-13-09		8-09	(39)	BCCCCCCCCCCCC
					5-09				CCCCCCCCCCCC
** ACCOUNT CLOSED AT CONSUMER'S REQUEST **									
*CHASE					11-04	\$500-L	\$592-H	PAID	CURR ACCT
	BC	CRC	REV	1	10-12-07		10-07	(35)	BCCCCCCCCCCCC
					11-06				CCCCCCCCCCCC
** ACCOUNT CLOSED AT CREDIT GRANTOR'S REQUEST **									
HSBC/SONY					6-04	\$0-L		PAID	CURR ACCT
	BB	CHG	REV	1	4-28-05		4-05	(12)	BCCCCCCCCCCC
*CHASE					8-03	\$200-L	\$234-H	PAID	CURR ACCT
	BC	CRC	REV	1	1-28-05		1-05	(18)	B00000000CCCC
					4-04				CCCC0
** ACCOUNT CLOSED AT CONSUMER'S REQUEST **									
CAP ONE					12-03	\$5,200-L	\$6,595-H	OPEN	CURR ACCT
	BC	CRC	REV	1	6-19-13	\$4,700	6-13	(99)	CCCCCCCCCCCC0
					6-13	\$47			0CCCCCCCCCCC
GEGRB/BANANA REP					8-04	\$1,024-L	\$805-H	OPEN	CURR ACCT
	CG	CHG	REV	1	6-13-13	\$0	6-13	(99)	0C00000000000
					6-13	\$31			000CC0000000
CHASE					9-04	\$2,000-L	\$2,001-H	OPEN	CURR ACCT
	BC	CRC	REV	1	6-08-13	\$1,495	6-13	(99)	CCCCCCCCCCCC
					5-13	\$45			CCCCCCCCCCCC

++ ++ MORE

KRIZELLE

PAGE 3 DATE 6-21-2013 TIME 12:22:58

SUBSCRIBER	OPEN	AMT-TYP1	AMT-TYP2	ACCTCOND	PYMT STATUS
SUB# KOB TYP TRM ECOA BALDATE	BALANCE	PYMT LEVEL	MOS REV	PYMT HISTORY	
ACCOUNT # LAST PD MONTH PAY PAST DUE MAXIMUM BY MONTH					
UNVL/CITI	3-06	\$4,580-L	\$5,020-H	OPEN	CURR ACCT
BC CRC REV 1 6-06-13	\$0	6-13	(87)	00C0000000CCC	
4-12	\$54			CCCCCCCCCCCCC	
NORDSTROM FSB	1-08	\$750-L	\$712-H	OPEN	CURR ACCT
DC CHG REV 1 6-06-13	\$0	6-13	(65)	0000000000000	
6-10	\$20			0000000000000	
<u>CITI</u>	<u>10-06</u>	<u>\$12,090-L</u>	<u>\$12,628-H</u>	OPEN	CURR ACCT
BC FSC REV <u>3</u> 6-04-13	<u>\$5,625</u>	6-13	(80)	CCCCCCCCCCCCC	
5-13	\$84			CCCCCCCCCCCCC	
<u>FEDERAL CR UN</u>	<u>1-13</u>	<u>\$40,000-0</u>		OPEN	CURR ACCT *
FC AUT <u>60</u> 1 6-01-13	<u>\$37,769</u>	6-13	(6)	CCCCC	
5-13	<u>\$698</u>				
SALLIE MAE	10-08	\$4,500-0		OPEN	CURR ACCT

NOTE  
APPEARS  
TO BE 1ST  
BANK.  
700 is Pymt  
NOT USE TO  
PAYING

So far,  
This is the 1st  
CAR loan we've  
seen.

IT'S  
ALWAYS ABOUT  
THE SCORE.  
Is The BIG  
Dealer Winner  
BRAND  
NEW  
BIG  
BIG  
Pymt

1.95% RATE  
PURCHASED NEW CAR 5mos Ago  
NOW WANTS A  
DEBT CONSOLIDATION. Pymt is 698<sup>00</sup> A/mo



Entity	Account	Term	Rate	Balance	Open	Curr	Acct
SALLIE MAE	EL EDU 120	10-07 5-31-13	\$663-0 \$440	5-13	OPEN (68)	CURR	ACCT CCCCCCCCCCCC
SALLIE MAE	EL EDU 120	10-07 5-31-13	\$2,837-0 \$1,904	5-13	OPEN (68)	CURR	ACCT CCCCCCCCCCCC
EQUIANT FINANCIAL SVCS	FP TSL 84	5-13 5-31-13	\$7,380-0 \$7,380	5-13	OPEN (1) C	CURR	ACCT CCCCCCCCCCCC
LENDING CLUB CORP	FZ (UNS) 36	3-12 5-29-13	\$12,000-0 \$8,566	5-13	OPEN (12)	CURR	ACCT CCCCCCCCCCCC
DISCOVER FIN SVCS LLC	BC CRC REV	4-07 5-26-13	\$5,400-L \$3,200	5-13	OPEN (75)	CURR	ACCT CCCCCCCCCCCC

Handwritten notes:   
 - Look @ TERM   
 - LOOK AT THE TERM: 17.95% APR   
 - NEW   
 - 14.50%   
 - 14.50%   
 - \$64   
 - \$413   
 - \$4,595-H   
 - \$155   
 - \$7   
 - \$32   
 - \$64

+++++ MORE

PAGE 4 DATE 6-21-2013 TIME 12:22:58

*using up capacity*

SUBSCRIBER SUB# KOB TYP TRM ECOA ACCOUNT #	OPEN BALDATE LAST PD	AMT-TYP1 BALANCE MONTH PAY	AMT-TYP2 PYMT LEVEL PAST DUE	ACCTCOND MOS REV MAXIMUM	PYMT STATUS PYMT HISTORY BY MONTH
DISCOVER FIN SVCS LLC BC CRC REV 1	11-04 5-23-13 5-13	\$2,600-L \$2,115 \$43	\$2,417-H 5-13	OPEN (99)	CURR ACCT CCCCCCCCCCCCC CCCCCCCCCCCCC
MCYDSNB DZ CHG REV 1	8-03 5-05-13 4-08	\$100-L \$0	\$1,832-H 5-13	OPEN (99)	CURR ACCT 0000000000000 0000000000000
COMENITY BANK/VCTRSSEC DZ CHG REV 1	8-03 10-22-09 8-09	\$800-L \$0 \$10	\$439-H 10-09	INACTIVE (75)	CURR ACCT 0CC0000000000 00000CCCCCCC

INQUIRIES	
STARPOINT RESORT GROUP 5-13-13	RZ
POWER TOYOTA CERRITOS 1-12-13	AZ
DISCOVER FINANCIAL SER 12-28-12	BC
WELLS FARGO BANK 10-08-11	BM

END -- EXPERIAN



# Net Loan Yield Review



Members First Credit Union	Gross Yield	Charge Offs	Net Yield
725 +	3.96%	0.02%	3.94%
680 - 724	5.21%	0.12%	5.09%
640 - 679	6.56%	0.31%	6.25%
600 - 639	12.04%	0.67%	11.37%
0 - 599	17.18%	1.36%	15.82%



# Pricing for Other Income

# Lets take a look at Other Income



- Courtesy Pay
  - GAP and MRC Insurance
  - Credit Life and Disability Insurance
  - Selling loans
- 
- LSCI recommends Fee and Other Income to Average Assets of 2% or greater.

# Question:



- If a Dealer was offering your member a 7% car loan and you wanted to beat the Dealers offer, what would you offer?
- 6.5%? 6%?

# When a Dealer offers GAP for \$700 to \$1,200 what do you counter with?



- \$299 or 399?
- 7% car loans are countered with 6-6.5%
- \$700 GAPs are countered with \$299. Why?

# Cost Plus Pricing:



- This concept is a classic in the CU industry. After all we are non-profit! You calculate the cost of the GAP insurance and add to it a small “Woz-like” profit.

- Example:

• Cost	\$125
• + Incentive	<u>+\$25</u>
• = Total	=\$150
• + Profit	<u>+\$100</u>
• = CU Price	=\$250

# Justifying Increasing Other Income



- Your best members are coming to the CU demanding services below your cost of operating the CU. Example: Mr. 800 wants a 2.99% auto loan.
- Look at the costs of an average CU:
  - Average Operating Expenses 3.11%
  - Average Cost of Funds 0.52%
  - Loan Losses Varies
- How are you going to make it with 2.99% auto loans?

# “Jobs-Like” GAP Pricing



Market Value	\$700
- Member Discount	- <u>\$101</u>
= CU Price	= \$599
- Cost	- \$125
- Incentive	- <u>\$100</u>
= Profit	= \$374

“Jobs-like” profit \$374

“Woz-like” profit \$100

# Credit Life and Disability



- It's not sexy, but it is powerful.
- I ask nearly every CU I work with, what their reimbursement is before experience sharing. The numbers range from 2% to 40%.
- 2% is “Woz-like” pricing
- 40% is “Jobs-like” pricing
- Move the price up to increase your revenue!

# Final Thoughts



- Don't compare yourself to peer group average. Another word for average is "mediocre".
- Aggressive pricing will help you achieve results and be one of the strongest and most fit credit unions around.

**Thank You for  
Viewing Our Webinar!**



[www.rexcuadvice.com](http://www.rexcuadvice.com)

