

## **Q&A Session for Webinar 11:** **Income Explosion - Turndowns are Nuggets of Gold**

Q: Is it legal to make direct deposit a condition of the loan approval prior funding?

A: Absolutely not. While you cannot make it a condition for approval, you can strongly suggest that you have concerns that the credit union will not receive their money on a timely basis without there being direct deposit or payroll deduction and that many of their members with marginal credit elect to do this and find it to be very beneficial since their payments are made on time and they can get future credit. Hardly anyone will turn you down if it is presented that way.

If they refuse to give you direct deposit or payroll deduction, you can also deny them based on their slow payment history. I highly recommend you discount their loan as an additional incentive from a quarter to a half percent which will further encourage them to give you direct deposit.

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Q: Please clarify on the refinance over value on Johns situation did you look at book value or just loan balance did he have equity or are you suggesting financing over book value no matter the score?

A: John's loan was slightly under retail which is unusual. Most members feel like they have to accept what the dealer is offering them because no one else is going to help them and therefore they make poor choices. A good rule of thumb is the greater the risk you are taking, the shorter the term and the larger the down payment you would like to see. Be willing to finance up to retail or retail plus one months gross income if the following requirements are met:

1. they have a good job
2. the job is likely to continue
3. you can get direct deposit
4. it is a bonus if they have paid similar type loans but not an absolute requirement
5. they are not a bankruptcy threat
6. you are not loaning more than 50% of their annual gross income
7. you will inspect the car whenever possible

This is your checklist, now go and start making loans.

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Q: As far as giving members a check for an approved auto loan, is that an internal system or are there companies that you need to go through for these checks? If there are companies, can you provide a few for us to contact?

A: We are sending you a copy of the Capital One setup. I think that once you read through it very carefully it will answer all your questions. I am sure it has probably been copyrighted so you need to make some slight changes to it but it will be a good framework. It is not thing more than a draft against the credit union; call us if you have questions after reading through it. It is a really neat idea how they put it together.

If anyone else would like a copy of the Capital One Auto Plan please email David Johnson at [djohnson@rexcuadvice.com](mailto:djohnson@rexcuadvice.com)

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Q: How are you able to price HELOCs and loans secured with the member's home at those higher interest rates? Our market here in Canada does not seem to accept the higher rates regardless of the paper level.

A: While I am not totally familiar with your market in Canada, I have worked with a number of Canadian credit unions. Everything is based on supply and demand, most lenders including Canadian credit unions tend to turn this business down if there has been issues with the credit and they are non conforming loans, which means they are simply not sellable on the secondary market. People in Canada just as in the US need homes. People in Canada just as in the US have credit issues and have been bankrupt. My guess is, if they find out that you are willing to help them get a home, they will be more than glad to pay a higher rate since no one else even wants to make them a loan. It would not be uncommon that an E paper member would pay you twice the rate of an A+ member. You need to have a process in place so that as the member's score goes up you will look at refinancing their loan at a lower rate and the member clearly understands you are trying to give them a fresh start and help them get a home.

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Q: Rex mentioned a sample loan w/c is called credit rebuilder, is there a min \$ amount requirement for the direct deposit to get the \$1K loan?

A: The dollar amount has to be sufficient to cover the payment which is usually a \$100. the payment tends to run with credit life and disability somewhere between \$95 and \$100 a month at 18%. You are not going to market the rate but you will market the fact that no one will be turned down that gives you direct deposit regardless of their credit history and their payment will only be \$98 a month as an example.

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Q: do you think there is an optimal loan to share ratio? And if we had an opportunity to go over a 100% loan to share ratio and sell loan participations do you think there is more of an advantage for the buyer or seller?

A: I am not big in loan participations. If you can go over 100% and you are pricing your loans the correct way, see our recommendations on our website, you should have incredible earnings. With these earnings you will be able to raise all the deposits you need to raise by paying above market money market and CD rates. You also need a line of credit that you can borrow against which I am sure you have. Get that raised as high as you can. The most well capitalized credit union I have ever had the pleasure to work with was a 120% loaned out. Make sure you put it right in your policy manual that the credit union is not opposed to borrowing money and being over 100% loaned out if you have the earnings to support this strategy.

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Q: how do we know what our members credit scores are unless they have applied for a loan?

A: You can go to the credit bureau, send them a tape of all your members, and they will download the scores directly to your system. Florida Credit Union has this done every quarter so that when they are talking to the member about anything, they will know what their scores are. Once these scores have been downloaded – do a major marketing campaign to members scoring 620 or less and offer them the seminar we talked about on how to buy a car and the fact that you will be willing to help them not only get a loan but also a great deal on a car. Make sure these qualifications are in place and you should be all set.

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