



## **World Class Lending:**

*What Does It Take & Are You Willing  
to Make the Commitment?*



**Presented by A. Rex Johnson**

## **The 10 Step Process To Ensure World Class Lending**

1. The Hiring Process
2. Training
3. Ask For the Business
4. Steps In Taking a Loan Application
5. Do You Have a Good Loan Application?
6. Taking Good Notes and Documenting Your Work
7. Lending Is a Judgment Business, Does the Application Pass the Smell Test?
8. Watch Out For the Red Flags
9. Test Your Employees To Make Sure They Get It
10. Why It's Important To Do It Right the 1<sup>st</sup> Time Or "The Price of Non-Conformance"

## **STEP 1: The Hiring Process**

**World Class Lending Starts With  
Hiring the Right Employees.**

### **Selecting the Right Employees**

- **HIRING PROCESS**

- Look for candidates with energy PLUS a positive attitude and aptitude. Ask yourself if they really want to work and are they looking for an opportunity.

**Look for the following characteristics in your new hires:**

- They believe in the concept of people helping people
- They have the right attitude --- View every phone call, not as additional work but as an opportunity. They want to save the member money and make life a little easier for the member.
- They are always upbeat and positive --- There are no bad days! Applicants calling in don't care about our problems.
- They love to compete --- Know your results and compare it to others. If someone else is attaining higher results, find out why and challenge yourself, don't be jealous.

## Selecting the Right Employees (Continued)

- They have a "yes we can" attitude --- A good sales person is going to figure out a way to make the loan and a way to cross-sell products. Be creative and find a way to say YES!
- They have a sense of urgency --- Realize the value is not in the application but a closed loan and takes all necessary steps to ensure the loan will be booked. This is accomplished by getting excited about what the member is trying to accomplish, then documenting when the applicant will be in to close the deal.
- They never fill the order --- They seek out opportunities and use the credit report as a valuable work paper/opportunity sheet. Anyone else the applicant owes money to is fair game! They think, "Why does someone else have that business and not us?"
- They never put down the competition --- You are putting down the applicant's when you put down the competition. Remember, the member chose the competitor. If the member wants to speak poorly of the competitor, just smile and agree. It's unfortunate that they had a bad experience.
- They have good listening skills --- Find out the members motivation.

- **Assessment Exams**
  - Assessment exams are conducted prior to the interview (exam includes reading, math, geography, spelling, grammar skills)
  - Typing speed
  - A second interview is completed for qualified candidates.

## STEP 2: Training

Once you hire the right people, you must invest in training them, failure to do so will cost you a lot of money.

- **Classroom Training**
  - Up to 6 weeks are spent in the classroom
  - Training includes: on-line courses
  - Quizzes are handed out on a daily basis
  - Role play applications are completed to ensure world class service, cross-selling, loan building and documenting is done correctly.

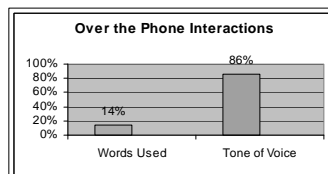
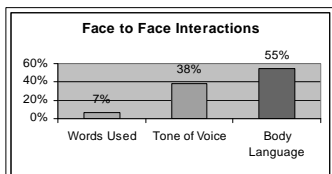
## Basic Phone Skills

- **Why is it important to answer the phone in a steady, clear, and upbeat tone of voice?**
  - The introduction sets the tone for the entire application. We never get a second chance to create a positive first impression.
- **Why is it important to share the moment?**
  - Sharing the moment is one way that we provide world class service! The applicant is more willing to provide information needed for the application if we are positive and share the moment.
- **Why is it important to keep a good pace with the applicant throughout the application?**
  - The applicant will be more comfortable if we pace our questions in a similar pace with the applicant. We should try to slow down our pace if the applicant speaks slower than normal and/or increase our pace if the applicant speaks quicker than normal.

## Telephone Etiquette

Answering the phone	Thank you for calling ____, this is ____, how may I help you?
Initial response	Great choice! We love to make loans! You called the right place!
Sharing the moment	Try to find new and creative ways to share the moment on every screen!
Tone of voice	It is extremely important to have an upbeat and positive tone of voice throughout the entire application.
Use the applicant's name	Try to use the applicant's name on every screen because it personalizes the application.
Placing an applicant on hold	1) Ask permission 2) Provide an estimated time frame 3) Provide the reason for placing the applicant on hold 4) Thank the applicant for holding and thank them when you return back to the line 5) Please keep the hold times to a minimum
Ending the phone call	1) Enjoy your new car ____! We really appreciate all of your business!

## Tone of Voice



- A monotone and flat voice says to the member, "I'm bored and have absolutely no interest in what you're talking about."
- A high-pitched voice while using inflection says, "I'm enthusiastic about this subject."
- Slow speed and low pitch communicates the message, "I'm depressed and want to be left alone."
- A sympathetic or empathetic voice says, "I understand what you're going through."
- An abrupt speed and very loud tone says, "I'm angry and not open to input!"
- Train yourself to smile while talking on the phone, practice stressing your words, and exaggerate your tone of voice.

## Sharing the Moment

Loan purpose	Different ways to share the moment! ☺
Auto repair	You called the right place! We will do everything we can to help you fix your auto!
Credit card	Our C/C offers an excellent rate. We are glad that you called us today!
Credit card increase	We really appreciate your business, it's great to hear from you! We would love to start an application to increase your C/C with us! What motivated you to decide to raise your limit?
Debt consolidation	Great idea! It's nice to have fewer payments to mail out each month! When did you make this decision?
Divorce/legal expenses	I'm sorry to hear about your divorce. We can complete the application right away.
Education	Good for you! That sounds like an interesting field of study!
Funeral	I'm sorry to hear about your loss. We will do everything we can to help you out today.
Medical/dental bills	We will do our best to help you payoff your medical bills. I hope everything goes well!
Vacation	How exciting! That sounds like fun! Take me with you! You will have a great time!
Wedding	I'm so happy for you! Congratulations! This is an exciting time for you!

## Step 3: Asking For the Business

### It's not enough just to:

- Answer the phone
- Provide general information

### You must teach your employees to:

- Get excited
- Get involved
- Ask for the business

## Learn to Ask For the Business by Encouraging the Member to Apply for a Loan Now

I'd love to start an application right away! It's a quick and easy process!
It's a great time to apply because we offer great rates!
We can start a pre-approval right over the phone!
I'd be more than happy to start an application right away! It's a great time to go car shopping!
We would love a chance to earn more of your business today! I can conveniently start an application right away!
There is no fee to apply for the loan and it's a quick and easy process!
Our rates are very competitive! Let's start an application and get you pre-approved right over the phone!
Our home equity loans offer really low rates! There are many benefits to this loan product. I'd be more than happy to start processing an application right now!
Shopping for a new car is very exciting! We can start a pre-approval right over the phone today!
You called the right place! We love to make loans and I'd be more than happy to start an application right away!
Our goal is to approve this loan for you today! I can start the application for you right now! It's a quick and easy process!
We would definitely love the chance to earn more of your business! Our goal is to approve this loan for you today! I'll be more than happy to take your application and get you approved in minutes.
How exciting! I'd be more than happy to process an application for you right now!

## Step 4: Steps in Taking an Application

Teach your employees how to take an application and what to look for, not to just collect data.

### Steps are as follow:

1. **Find the motivation, not just the purpose**
  - Why now
  - Why this amount
  - Why us

*Finding the motivation is the single most important thing you can do. This will lead to many, many opportunities. The more motivated the member is, the easier it is to close the deal.*
2. **Get the basics**
  - Name, date of birth, address, etc...
3. **Find out how you can always reach the member**
  - Cell phones are very important
  - Extension numbers at work
4. **Order a Credit Report at once while you're talking to the member.** This will speed up the entire process and eliminate a lot of extra work. High scores and great credit can lead to an instant approval.
5. **Get at least five years of residency/address**
  - Don't get the number of months and years
  - Get the exact month and year
  - Compare the address the member gave you with the credit bureau's address, this is often overlooked.

**6. Get five years of employment**

- Don't just get the number of months and years
- Get the exact month and year and make sure you connect the jobs. There could be a gap in between jobs and this suggest the member might have been out of work.

**7. Google the company if no one has ever heard of them.**

**8. Get the job titles at each job to see if the member stayed in the same line of work, if not explore why the career change**

**9. Get their hourly, weekly and annual salary at each job. Make sure they work 40 hours and if less, explore. Pay special attention to members who changed jobs for less money, this won't automatically deny the member but it should be explored.**

**10. Focus on the distance between work and home.**

- The cost of fuel comes into play
- The miles they will put on the car you are financing
- The fact that all this windshield time gets old and does little to increase job satisfaction.

**11. Find out where their checking and savings are with:**

- The name of the financial institution
- The type of accounts
- The amount they keep on deposit

**12. Find out about other assets**

- The purchase price of their home
  - The amount they paid down (This is extremely important)
  - The rate of interest
  - The term
  - The current value of their home and what that is based on
- The type of car/truck they currently own
  - Year, make and model
  - Where financed
  - Miles
  - Value, does it represent an opportunity for the credit union to:
    - Refinance or...
    - Pre-approve the member for a new car loan



## Step 5: It Starts With a Good Loan Application

- **If you do a good job on the front end, you will end up:**
  - Making more loans
  - Doing more cross-selling
  - Saving your members a lot of money
  - Building current and future business
- **If your current loan application does not have all the following information then it's time to make a change.**

## Sample Loan Application

	Applicant	Joint Applicant or Co-Signer (please circle one)
<b>Motivation</b>		
Purpose	_____	
Why now	_____	
Why us	_____	
why this amount	_____	
<b>Name</b>	_____	<b>Name</b> _____
<b>Current Address</b>	<b>Current Address</b> _____	<b>Current Address</b> _____
	Street Address _____	Street Address _____
	City _____ State _____ Zip _____	City _____ State _____ Zip _____
	Month/Year Moved In _____	Month/Year Moved In _____
Rent or Own (circle one)	Monthly Payment _____	Rent or Own (circle one) Monthly Payment _____
	Landlord _____ Mortgage Company _____	Landlord _____ Mortgage Company _____
<b>Previous Address</b>	<b>Previous Address</b> _____	<b>Previous Address</b> _____
	Street Address _____	Street Address _____
	City _____ State _____ Zip _____	City _____ State _____ Zip _____
<b>Phone Numbers</b>	<b>Phone Numbers</b> _____	<b>Phone Numbers</b> _____
	Home _____	Home _____
	Cell _____	Cell _____
	Work _____ Extension _____	Work _____ Extension _____

<b>Employment</b>				<b>Employment</b>			
Name of Employer _____				Name of Employer _____			
Street Address _____				Street Address _____			
City _____		State _____		City _____		State _____	
Date Employment month/year _____				Date Employment month/year _____			
Position Title _____				Position Title _____			
Salary _____		Hourly _____		Weekly _____		Annual _____	
What percent of salary is commission? _____				What percent of salary is commission? _____			
What percent of salary is guaranteed? _____				What percent of salary is guaranteed? _____			
How Many Employees Work For the Company? _____				How Many Employees Work For the Compa _____			
<b>Previous Employer</b> (if less than 5 years at current employer)				<b>Previous Employer</b> (if less than 5 years at current employer)			
Name of Previous Employer _____				Name of Previous Employer _____			
Street Address _____				Street Address _____			
City _____		State _____		City _____		State _____	
Date Of Employment month/year _____				Date Of Employment month/year _____			
Position Title _____				Position Title _____			
Salary _____		Hourly _____		Weekly _____		Annual _____	
What percent of former salary was commission? _____				What percent of former salary was commiss _____			
What percent of salary is guaranteed? _____				What percent of salary is guaranteed? _____			

<b>Assets</b>		<b>Assets</b>	
Checking \$ _____	Savings \$ _____	Checking \$ _____	Savings \$ _____
Name of Financial Institution _____		Name of Financial Institution _____	
Checking \$ _____	Savings \$ _____	Checking \$ _____	Savings \$ _____
Name of Financial Institution _____		Name of Financial Institution _____	
Auto #1	Year, Make, Model _____	Mileage _____	
Auto #2	Year, Make, Model _____	Mileage _____	
Auto #3	Year, Make, Model _____	Mileage _____	
Real Estate	Value _____	Real Estate	Value _____
	Purchase Price _____		Purchase Price _____
	Balance Owed _____		Balance Owed _____
	Cash Paid Down _____		Cash Paid Down _____

## **Step 6: Taking Good Notes and Documenting Your Work**

- The employee taking the loan application is the best chance and maybe the only chance many members have of getting a loan. They must be taught how to ask the right questions and document their work.

## **Training Your Employees On How to Document Their Work and Make Life Easier For:**

- Decision Makers
- Collectors

## Why Are The Application Taker's Notes So Important?

- It's the only way a decision maker, who is not talking to the member, can get a clear picture of what the member is trying to accomplish
  - The notes should suggest the member's motivation; why now, why us why this amount?
  - The application taker should clearly spell out how they feel about the deal. It's important the application taker has ownership in the deal.
  - What they like

## Why Are The Application Taker's Notes So Important? (Continued)

### FIRST

- What the application taker is concerned about and did they clear this up with the member?
- Given the member's credit, why did they think we might approve a loan for them?
- The last thing we need is the application taker telling us the FICO score and what it means
- Why the application taker feels the credit union won't get paid, plus evidence that the application taker has covered this with the member.

### **The application taker must say:**

*"Help me out"*

*"I want to make you the loan"*

*"We have plenty of money to loan out; however"*

*"I'm afraid we won't get paid back and this is why"*

- If the decision maker is inclined to say no and the application taker likes the loan, then the decision maker needs to talk to the member

## On Every Loan Request Identify the Following:

### **Low Risk Borrower**

#### **A & B Paper**

- Established Credit History Minimum 2 years
- Established Trade Minimum 4 Trades
- Established Amounts Over \$10,000
- Lots of Capacity on Credit Cards
- No Evidence of Escalating Debt
- Assets with Equity
- Payroll Deduction or Direct Deposit
- Very Stable Residence & Employment

### **High Risk Borrower**

#### **C,D,& E Paper**

- Weak Job/Residence Stability
- Limited or No Established Credit
- No Meaningful Established Trade Lines
- No Assets or Assets with No Equity
- No Capacity on Credit Cards
- Debts are Escalating
- No Savings/Checking
- NSF's
- High Unsecured Debt Over 30% of Annual Income

### **Low Risk Loan Type**

- Savings Secured
- 80% Equity Loans
- Car Loans 80% LTV or Wholesale/Good Down Payment
- Share Secured Credit Cards
- Low Mileage Car

### **High Risk Loan Type**

- Unsecured Debt Consolidation Loans
- Credit Cards
- 90-100% + Equity
- Car Loans 100% MSRP or Full Retail (Used Autos)
- High Mileage Cars

**Step 7: Lending Is a Judgment Business; What to Do When the Application Just Doesn't Pass the Smell Test.**

Smell Test ???

**What's That?**



*Developing the Application*

**Asking Questions!!!**

## **Questions To Ask Yourself On Every Loan:**

- What is the probability I will get my money back?
- How do I improve the odds?
- Will I be compensated for my risk?
- Do both parties benefit?

## **Age**

- How old is the applicant?
- Does their age correlate with the amount of credit history you would anticipate?
- How does the purpose of the loan relate to the age of the applicant?
- Is the applicant's income consistent to their age?
- Is it what you would expect?

## Income / Position

- Is the applicant's income consistent to their position?
- Is the income guaranteed or commission based?
- Can the income be easily duplicated if the applicant changed jobs?
- Do they have a degree and does the line of work require higher education?
- Note: If you hold a position that requires a degree or higher education the likelihood of your income increasing is somewhat higher.

## Annual Income Compared to Assets

- Always focus on their annual income in relationship to their assets, the higher the income, the more assets you expect to see.
- Has their annual income been consistently increasing, decreasing, or staying the same?
- **NOTE:** The more assets an applicant has, the more options borrowers and lenders have in restructuring or liquidating debt, thus they are less likely to end up in bankruptcy.

## Step 8: Watch Out For the Red Flags

You must teach your employees that certain loans can easily end up costing the credit union a lot of money and what to look out for.

## Signs of Bankruptcy

A key area to making a good decision is being able to detect the possibility of the applicant claiming bankruptcy. In these tough economic times, bankruptcies are rapidly increasing everywhere as members have no choice.

### Watch for these 4 signs:

- 1. Unsecured debt** – 30 to 35% of the members annual gross income in unsecured debt. Be sure to include the amounts the members are upside down on with their car loans and mortgages.
- 2. Escalating debt** – How much debt has the member accumulated in the past 12-18 months?
- 3. Capacity**—revolving accounts are maxed out, the member has used up 75% or more of their available capacity.
- 4. Inquires**-If the member has accumulated substantial unsecured debt and is still shopping, you should be concerned.



## **Signs of Bankruptcy Continued**

- Note: Even if a member has too much unsecured debt, you can still make the loan provided your loan will survive bankrupt.

## **Decision Making: Other Considerations to Keep in Mind**

- Applicants who buy a new home almost always purchase a new auto within 15 months and have an increase in their credit card debt.
- A member discloses they are moving or changing jobs, it's important to congratulate them but ask more questions.
- Look for applicants who are purchasing a new car and need to trade in a car they bought within the last year, especially if the trade-in is financed with a higher risk lender.
- Applicants going through divorce endure financial hardships and are more likely to end up in bankruptcy court.
- Applicants who borrow from finance companies (lenders of the last resort) are usually in trouble.
- Watch for applicants who have received a home equity loan in the past two years to consolidate debt and have continued to spend.
- Look for evidence the applicant has paid other loans similar in nature plus pay attention to high mileage vehicles and vehicles that aren't very fuel efficient.
- Determine if the purchase is a necessity rather than a luxury item.

## **Decision Making...Continued**

- Use the "Report Card Methodology" when reviewing delinquent credit.
- We should focus less on a 30-day late payment on a small \$500 credit card compared to a late payment on a mortgage loan.
- Make sure the loan fits the request.
  - If the applicant is looking for a \$5K unsecured loan for debt consolidation yet they only have \$2K out in debts, then ask what the extra money is going to be used for and note this on the coversheet.
- If an applicant is claiming they will have a down payment, make sure there is evidence of this (i.e., do they have savings with the credit union).
- If a credit card is new and has a sizeable balance or is already maxed out find out what happened.
  - Were balance transfers completed, was there a large purchase, or did they go on a shopping spree?

## **Step 9: Testing Your Employees to See if They Get It**

Employees need to be tested on what they've learned once they go through training. This testing is for all new employees, plus existing employees. There are a series of questions you can test them on.

# Tests You Can Give Your Existing Employees & Your New Hires

List the 4 signs of Bankruptcy and their definitions.

- 1.
- 2.
- 3.
- 4.

List four traits of a High Risk Borrower

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List four traits of a Low Risk Borrower

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List four types of High Risk Loans

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List four types of Low Risk Loans

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As a decision maker, we may limit the \_\_\_\_\_ of a loan and \_\_\_\_\_ of a loan based on the risk of the borrower.

As a general guideline, we will use \_\_\_\_\_ of an applicant's gross income for a secured loan.

Open collections, judgments, tax liens will be inquired about and documented if the applicant is currently making payments. This will also be included in the debt ratio.

Yes            No

## **Which of these statements best describe the purpose of a co-signer?**

- A co-signer will help you get the loan when you have bad credit
- A co-signer will help you get a higher loan amount
- A co-signer will help even if they have bad credit
- A co-signer will help when you have limited credit

## **How would you describe a "Fragile A" borrower?**

**Which way is the score likely headed on a "Fragile A"?** Explain your answer.

**Can commission and bonus income be added to the loan application?** What determines how comfortable you are in considering this type of income?

List four Loan Products You Should Look For On Cross Sells.

- 1.
- 2.
- 3.
- 4.

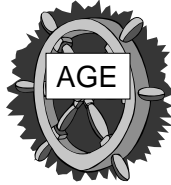
## **List an alternate suggestion when a loan is denied for the following reason.**

The Member's Income Won't Support the Request:

There Is Insufficient Collateral:

Fill in the empty boxes below


In your own words, explain the theory behind the above picture.

Match the percent of the credit score with the appropriate category on the right

- |             |                         |
|-------------|-------------------------|
| 35% = _____ | A) Length of Credit     |
|             | B) Capacity             |
| 30% = _____ | C) Mix of Credit        |
|             | D) Accumulation of debt |
| 15% = _____ | E) Payment History      |
| 10% = _____ |                         |
| 10% = _____ |                         |

Please provide the definition for each of the following reasons for denial and suggestions to "Build the Loan".

- Escalating debt:
- Excess Debt to Income:
- Excess Request to Income:
- Excessive Unsecured Debt:
- Insufficient Collateral:

Read each statement below and select which way you think the score is headed.

- |   |    |      |
|---|----|------|
| The member accrued a substantial amount of debt in the last 12-18 months    | UP | DOWN |
| The member opened up a lot of new accounts in a short amount of time.       | UP | DOWN |
| Recent late payments  | UP | DOWN |
| The member refinanced their revolving debt into installment debt.           | UP | DOWN |
| The member is "C" paper and has collections in the past.                    | UP | DOWN |
| The member has a lot of recent inquiries                                    | UP | DOWN |
| The member has recent loans through sub-prime lenders                       | UP | DOWN |
| More than 5 bankcard trade-lines with at least 3 years of good history.     | UP | DOWN |
| The member has low balances on revolving accounts opened in the last 3 yrs. | UP | DOWN |
| The member is "C" paper and claimed bankruptcy in the past.                 | UP | DOWN |

**How would you share the moment in the following scenarios?**

*New Truck Loan*

*Debt Consolidation Loan*

*Share Secured Loan*

*Jet Ski Loan*

If an applicant is 50 years old and has no credit, why would this concern you? List two reasons why this could occur.

If an applicant is 20 years old and has three pages of credit, why would this concern you?

Should we be concerned if an applicant is earning \$50,000 a year with \$25,000 in commissions? Explain your answer. List two kinds of jobs that are commissioned based.

Why is it important to know if the income can be easily duplicated if the applicant changed jobs?

What is the significance when someone's line of work requires a degree?

Explain why the applicant's assets are taken into consideration when approving the loan.

Is it better to approve a secured loan or an unsecured loan? Please explain your answer.

What two things typically occur within 15 months after obtaining a mortgage?

When approving an applicant for a credit card, what is a good guideline to follow to determine the limit.

When underwriting an auto loan and the applicant doesn't know how much they want, what is the general rule of thumb when determining the amount to pre-approve someone for a vehicle loan?

Why should we be concerned when we have an applicant purchasing a new auto and they've been paying on their trade for less than a year?

Why do we need to pay closer attention to auto loans with higher mileage (over 100,000)?

Why is it important to find out why a credit card that is new with a significant balance is already maxed out?

List three finance companies that you have seen on credit reports.

**Why should we be concerned if an applicant is borrowing from finance companies?**

Explain why it's important to watch for applicants who have received a home equity loan in the past two years to consolidate debt and have since increased more unsecured debt.

If the applicant is looking for a \$7500 unsecured loan for debt consolidation and they only have \$3K out in debts, why it necessary to ask what the extra money is going to be used? Please explain your answer.

What should we focus on when determining whether an applicant applying for a debt consolidation loan should be approved?

**Which three areas should be checked if the debt ratio is too high?**

- 1.
- 2.
- 3.

**List two reasons why someone would need a co-signer on a loan?**

- 1.
- 2.

**List 4 loan product cross sells that can be offered along with one benefit to having that product.**

- 1.
- 2.
- 3.
- 4.

**How would you handle the following scenarios?**

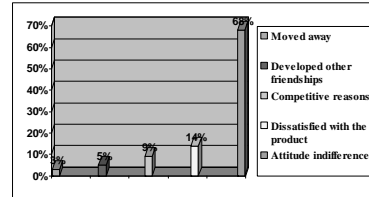
- The member is requesting an individual loan but his debt ratio is 83%.
- The member is requesting an unsecured loan but his unsecured debt ratio is at 55%.
- The member is requesting an unsecured loan but his credit score is 602.

## **Step 10: Why It's Important To Do It Right the 1<sup>st</sup> Time Or "The Price of Non-Conformance"**

Loans are getting harder to come by. Delinquencies and charge-offs are escalating. Earnings are down and the economy appears to be getting worse. Mediocre performances won't get the job done. Your members have a choice, don't drive them away.

## Why Do Members Leave?

- A typical business hears from only 4 percent of its dissatisfied customers. The other 96 percent just quietly go away and 91 percent will never come back. This represents a serious financial loss for credit unions whose employees don't know how to treat members, and a tremendous gain for those that do.
- A typical dissatisfied customer will tell eight to ten people about his problem. One in five will tell twenty. It takes twelve positive service incidents to make up for one negative incident.
- Seven out of ten complaining members will do business with you again if you resolve the complaint in their favor. If you resolve it on the spot, 95 percent will do business with you again. On average, a satisfied member will tell five people about the problem and how it was satisfactorily resolved.
- The average business spends six times more money to attract new customers than it does to keep old ones. Yet the member loyalty is in most cases worth ten times the price of a single purchase.
- Businesses having low service quality average only a 1 percent return on sales and lose market share at the rate of 2 percent per year. Businesses with a high service quality average a 12 percent return on sales, gain market share at the rate of 6 percent per year and charge significantly higher prices. Are you measuring your service?



**Start Serving Your Members, Not Your Examiners**