

Save My Credit! Sell Me a Solution.



Webinar 19

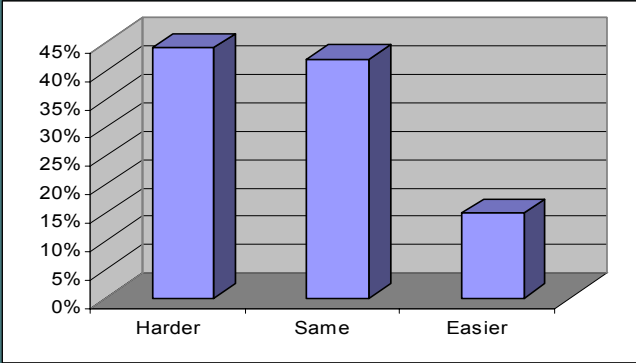
Rex Johnson's Online Institute
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Hosted by Randy Mims & Karin Brown

Saving My Credit Begins With...

**Saving My Car and
Saving My Home.**

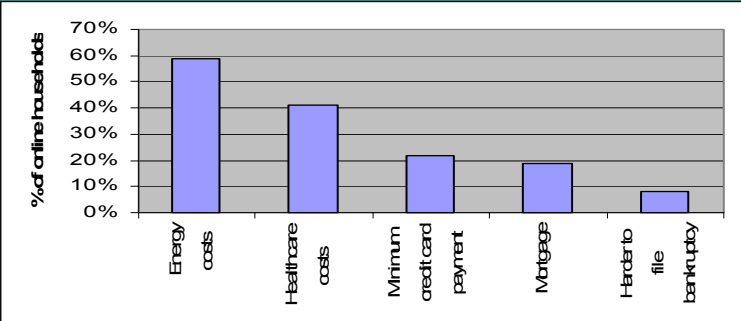


43% of Households Report It's Harder For Them to Meet Their Financial Obligations Than It Was 12 Months Ago



*Online Resources Corporation

Reasons Why It's Harder to Meet Financial Obligations Than 12 Months Ago



Only 19% of households state that their mortgage is the reason why it's hard to meet their financial obligations

*Online Resources Corp

Credit unions still need loans!

You cannot survive on income generated from investments only.

So how do we successfully stay in the lending game AND fulfill member's dreams?



You have never had less competition!

Many banks are scared to make loans.

***Lets get creative and
"see what no one else sees."***



- We must begin to look at the situations for what they are, without trying to make them “fit the old model”. Because today, nothing fits the old model.
- In the “old days”, when a person began to have difficulties paying their bills, it went in reverse order.
- The *first* thing they would let go were their credit cards. Then their toys (jet ski, RV, ATVs).
- Then their primary mode of transportation (the car or truck they drive back and forth to work).
- And the *last* thing they would give up their home.

**This is why we cannot
do business as *usual*.**

To survive you must adapt!
In other words:
LOOK FOR OPPORTUNITIES



Score Depreciation

- We need to educate members and show members the credit union can still save them money.
- We have to show our member how doing nothing may hurt their score even more!
- Do your members *now* know what is affecting their score?
 - Banks are lowering limits on revolving lines
 - Card companies are lowering limits based on who you are doing business with (i.e. at risk mortgage companies)

Is the Credit Union's Credit Card Lowering Your Member's Score?

We should be looking looking at credit card limits to ensure the member has the proper limit per credit score and gross annual income.

- When can this be done?
 - Automated credit card renewal
 - Any time a member applies for a new loan
 - When the member's credit report is pulled

Remember, CAPACITY is KING! 30% of your score is generated from CAPACITY

Be Pro-Active


Reach out to them before they become delinquent or to reverse the negative trends that may be occurring:

Develop Save My Credit Team

Why Do You Need This Team?

- Relationship Building

Engaging In This Practice From the Onset, Will Save You Money In Three Ways:


- Member Retention: Prevent the probability of losing *loyal* members to your competition.
 - Operational Efficiencies: The credit union will not spend operating costs on staffing or processing repeat applications that have no approval potential.
 - Identify "At-Risk" Loans: The credit union will not jeopardize a current "at risk" loan by having to quickly reject the member on another request.
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Could B-U Credit Union


MOTIVATION:

Member's auto financed with ABC Finance has been repossessed and they need the auto to get back and forth to work.

Scenario

- 5 year members apply to refinance auto
 - Members owns home for 13 years
 - Truck driver for 9 years; Spouse – marketing for 1 year
 - Combined income = \$82,000
 - Up to date on a \$4,000 unsecured with credit union
 - Paycheck is deposited into Credit Union
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Thinking “Inside the Box”

- **Denied Due To:**
 - Delinquent with others
 - Repossession
 - Insufficient Collateral
 - **Probable Outcome:**
 - Member files bankruptcy due to loss of job which occurred due to lack of transportation
 - Credit union charges off \$4,000
 - Credit union closes the door on any future relationships with members
- 

Thinking “Outside the Box”


Find Out:

- Why do they want to keep this auto?
- Does the member like this auto?
- Have we determined the root cause of the delinquency?
- Is the problem that caused the delinquency/repo on the auto now over?

What do you think we can do to help them?


- Pre-approve members for a new loan for a vehicle.

How Can We Make This Work?


- Educate members on how to purchase an auto at low book
 - Member needs to tell dealership that they have CASH and not to pull their credit.
 - Finance low book, automatic payments, and direct deposit.
- 

How To Close This Type of Loan?

“Hard Close”

- Importance of making their payments on-time to enhance their FICO score
 - Importance of keeping payroll deductions intact
- 

What should the specialist be looking for in discussions with members whose credit is at risk?

- **Additional Collateral:** Does the member have any additional collateral where debt can be consolidated lowering total monthly bills?
 - **Additional Income:** Is there additional income in the household?
 - **Is there evidence of escalating debt:**
 - Discussions on how opening additional credit cards will only add to the problem by lowering their FICO and adding to their debt.
 - Many creditors are now increasing rates if consumers open credit elsewhere. A rate can easily jump 10 basis points or greater. This will only compound the member's ability to pay down on debt. (The majority of your members do not know this is occurring. Inform them the credit union does not participate in this.)
 - **Are lower payments going to really help this member?**
 - Is it a benefit to refinance the current loan or extend the term to lower their monthly payment? (The member needs to possess a stable job where communication is open with the credit union.)
 - Review with member how much they can pay monthly and a short and long term solution on how they can regain control over their credit.
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Helping our members and non-members regain financial freedom is one of the most proven strategies in gaining member loyalty and potential referral business.




Characteristics Of Sub-Prime Loans Which Have a High Probabilities of Performing

Secured


1. Good job
2. Probably will continue
3. Payroll deduction
4. Evidence pays car loans
5. Not bankruptcy threat

Unsecured


1. Good job
 2. Probably will continue
 3. Payroll deduction
 4. Always paid credit union
 5. Not a bankruptcy threat
- 

Can We Still Make Young/First Time Borrower Loans?

When it makes sense to say "yes"?

- The loan request should not exceed 50-75% of their member's gross annual income.
 - Direct deposit if possible.
 - Are their parents members?
 - Do they know or did they look up the value of the car they are buying?
 - Do they have a commitment for insurance?
 - Do they know the cost of insurance?
 - Where is their checking and savings accounts?
 - How much money have they saved to put down? Down Payment?
 - What is their level of education?
 - How did they get their last job, did they know someone?
 - What is their performance evaluation like?
 - Do they like their job?
- 

Signs Your Member May Be In Trouble

- Drastic change in spending patterns – Escalating Debt
 - The number of inquiries on a member's credit bureau report
 - The number of new loans with balances
 - The number of total loans with balances
 - High level of unsecured debt – Excessive Unsecured
 - At capacity on credit lines – Maxed out
 - Looking for 100%+ financing
 - Living on inflated income (i.e. credit lines)
- 


- The continual use of cash advances (i.e. abusing courtesy pay)
- Borrowing from one lender to pay another
- A change in repayment habits, cardholders making minimum payments who previously paid more
- Cardholders consistently utilizing a higher percentage of their credit line
- Increased delinquency on important payments like rent/mortgage

Workout Policy


This type of loan would be processed only when it is in the best interest of the credit union. This loan will be used to improve the credit union's position when the collectability of a loan is in doubt. This would include delinquency, deterioration of ability to repay, or high potential for a bankruptcy. The collection manager will recommend to the manager or AVP of Lending when it is in the credit union's interest to securitize its position. All such loans will need to be approved by the credit manager or AVP of Lending. No new monies in excess of what is currently owed to the credit union, except closing costs, may be added to the loan. Loan to value ratios will not be used in this situation as the funds are already owed to the credit union. The situation when this plan would be used is if a member's unsecured debts with the credit union are outside credit union guidelines, and the possibility is high that a member may file bankruptcy. The times when the collection manager may use this plan would be when the outstanding balance on the credit union loans may be delinquent or the member may file bankruptcy. Clear documentation must reflect the reason we are granting the workout loan secured by a mortgage. The collection manager must make a recommendation to the credit manager or AVP of Lending for approval. The member's remaining unsecured debt after a workout loan may not exceed our unsecured lending limits excluding the Extra Equity Loan. In the case of bill consolidation, checks will be made payable to the member's creditors.

Who Should Be Working These Loans?

Collection Specialists and Loan Officers should work closely on accounts that shows the following signs:

- Bankruptcy
 - High level of unsecured – 30% of annual income
 - Accelerating spending (member has been living off of inflated income)
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Requirements of the Team Position

- A vast understanding of the credit score and the direction it may be headed. Level 3 Loan Authority on LSCI matrix.
 - Very strong personable skills were they can talk to members in a supporting and not a degrading manner about their credit.
 - **BONUS:** Strong real estate background; this is because if these members are homeowners and owe us unsecured money, we are going to try to restructure this debt immediately.
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Could B-U Credit Union

Scenario

- Applying for a vehicle loan - \$32,500
- Trading in current auto
- Homeowner for 3 years
- Plumber for 3 years
- Income \$120,000

Raul XXXXXXX SS: xxx-xx-xxxx E: DOB: 11/25/62
 123 Main Street
 Anytown, USA 12345
 RPTD: 4/10/08

----- PROFILE SUMMARY -----
 PUBLIC RECORDS-----0 PAST DUE AMT-----\$0 INQUIRIES---31 SATIS ACCTS---35
 INSTALL BAL-----\$44,180 SCH/EST PAY-----\$3794+ INQS/6 MO---27 NOW DEL/DRG---0
 R ESTATE BAL---\$279,000 R ESTATE PAY---\$1,826 TRADELINE--35 WAS DEL/DRG---0
TOT REV BAL---\$121,688 TOT REV AVAIL---10% PAID ACCT---15 OLD TRADE---1-99
 ----- SCORE SUMMARY -----
 EXPERIAN/FAIR, ISAAC SCORE = 607

SCORE FACTORS:
 10 Ratio of balance to limit on bank revolving or other rev account too high
 08 Too many inquiries last 12 months
 05 Too many accounts with balances
 14 Length of time accounts have been established

----- TRADES -----

Subscriber Subscr # KOB Type Term ECOA Account #	Open Bal Date Last Pd	Amt-Type1 Balance Month Pay	Amt-Type2 Status Date \$Past Due	AcctCond Mos Rev Maximum	Acct Status Pymt History By Month
Note: 15 non-active trade lines preceded					
GEMB/GE Money xxxxxxx FF C/C LOC 1 xxxxxxxxxxxxxxxxxxxx	9-07 4-09-08 3-08	\$20,500 - L \$20,420 \$455	\$20,670 - H 4-08	Open (7)	CURR ACCT CC00000
Wells Fargo Bank xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxxxxx	8-03 4-09-08 3-08	\$9,000 - L \$8,770 \$291	\$8770 - H 4-08	Open (56)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
Discover Fin xxxxxxx CS CHG REV 1 xxxxxxxxxxxxxxxxxxxx	8-04 4-09-08 3-08	\$8,000 - L \$8,115 \$161	\$8,115 - H 4-08	Open (44)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
AMEX xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxxxxx	9-00 4-05-08 3-08	\$7,300 - L \$4,099	\$4,099 - H 4-08 UNK	Open (1)	CURR ACCT C

CIT Bank xxxxxxx FF CHG REV 1 xxxxxxxxxxxxxxxxxxxx	3-08 3-31-08	\$2,000 - L \$0		Open (1)	CURR ACCT 0
RC Willey Home Furn xxxxxxx HF CHG REV 1 xxxxxxxxxxxxxxxxxxxx	3-08 3-31-08	\$3,000 \$3,021 \$121	\$3,021 - H	Open (1)	CURR ACCT C
Bank of America xxxxxxx BC C/C LOC 1 xxxxxxxxxxxxxxxxxxxx	1-08 3-26-08	\$6,000 - L \$5,180 \$132	\$5,180 - H	Open (3)	CURR ACCT CC0
GEMB/Pep Boys xxxxxxx BC CHG REV 1 xxxxxxxxxxxxxxxxxxxx	9-07 3-26-08 3-08	\$2,500 - L \$1,872 \$94	\$2,254 - H	Open (7)	CURR ACCT CCCCCCC
Sears/CBSD xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxxxxx	1-03 3-25-08 3-08	\$800 - L \$476 \$11	\$476 - H	Open (26)	CURR ACCT CCCCC000000 00000000000C
CITI Flex xxxxxxx BC C/C LOC 1 xxxxxxxxxxxxxxxxxxxx	2-08 3-25-08	\$0 - L \$24,164 \$489	\$24,164 - H	Open (2)	CURR ACCT CC
Bank of America xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxxxxx	6-05 3-22-08 3-08	\$29,100 - L \$28,531 \$469	\$28,531 - H	Open (34)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
GEMB/JCP xxxxxxx DC CHG REV 1 xxxxxxxxxxxxxxxxxxxx	5-05 3-21-08	\$2,000 - L \$1,168 \$58	\$1,168 - H	Open (35)	CURR ACCT C000000000000 000000000000
GEMB/JCP xxxxxxx DC CHG REV 1 xxxxxxxxxxxxxxxxxxxx	10-03 3-19-08	\$1,000 - L \$841 \$42	\$841 - H	Open (54)	CURR ACCT C000000000000 000000000000

Bank of America xxxxxxx BC CRC REV 3 xxxxxxxxxxxxxxxxxxxx	2-08 3-19-08 2-08	\$2,000 - L \$2,000 \$20	\$2,000 - H	Open (2)	CURR ACCT CC
GEMB/Care Credit xxxxxxx BC CHG REV 1 xxxxxxxxxxxxxxxxxxxx	9-05 3-14-08 3-08	\$6,000 - L \$2,975 \$90	\$2,975 - H	Open (30)	CURR ACCT CCCCC0000000 000000000000
Wash Mutual/Provid xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxxxxx	1-99 3-11-08 3-08	\$12,378 - L \$10,056 \$252	\$10,056 - H	Open (99)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
Wells Fargo Bank xxxxxxx BB NTE 60 1 xxxxxxxxxxxxxxxxxxxx	2-08 3-09-08	\$26,750 - O \$26,750 \$598		Open (1)	CURR ACCT C
KIA Motors Finance xxxxxxx FA AUT 60 1 xxxxxxxxxxxxxxxxxxxx	4-06 2-29-08 12-07	\$26,714 - O \$17,430 \$491		Open (23)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
Countrywide xxxxxxx FM R/C 30Y 1 xxxxxxxxxxxxxxxxxxxx	9-05 2-29-08 2-08	\$279,000 - O \$279,000 \$1,862		Open (27)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC

-----INQUIRIES-----


27 Inquiries from January to April 2008

What Did We Miss?

- Job industry versus stated income
 - Opened up 6 new accounts in past 12 months
 - Unsecured debt is \$121,000+ (100% of member's income)
 - Credit cards are maxed out
- All Three Warning Signs of Bankruptcy**
- 27 inquiries in 4 months – who is pulling their credit?
 - Shopping for credit
 - Finance companies were saying “no”

How to Minimize Our Losses?

Could B-U Credit Union

- **Scenario:** Members call in looking for a band-aid because struggling to pay their mortgages. Credit Union may lose \$60,000
 - Longtime members
 - Reduced income
 - Credit union has a 3 month past due \$60,000 2nd mortgage
 - ABC Finance had 1st mortgage with a balance of \$330,000 (3 months past due and possible foreclosure)
 - Combined income is \$2,500 per month
 - Combined housing payments = \$3,100
 - Value of home depreciated to \$220,000
- 

What Are Our Workout Options?

1. Giving them a band-aid loan to stay in their home that will quickly dry up
2. Invest an additional \$330,000 to buyout the 1st mortgage and be \$170,000 upside down on home
3. Charge-off \$60,000
4. Finance new home

What Option Would You Pick?



LSCI's Answer: Option 4

How can the credit union fulfill the member's dream of being a homeowner?

1. Have member let 1st mortgage go.
2. Credit union would approve members for new home loan that will fit in their new monthly budget.
3. Original home equity loan would be built into the new home loan.
4. Members will slide from the foreclosed property into a new home within 9 months. Why would a member keep this home when you can help them buy a new one for half the price giving them a lower mortgage payment?

How Should This Be Tracked?


Workout loans will be coded differently than other loans so the credit union can track the results. The credit union realizes that many of the loans would have been charged off had the credit union done nothing. We also understand we can expect higher delinquencies and charge offs than with other loans but overall our losses will be lower than if we had done nothing.

What Do You Do?

Do not make a commitment without the facts.


- Get a new credit report and an updated loan application.
- Compare the new information to the original information, have things gotten worse?
- What is the source of the problem?
- Is there a solution?

The average foreclosure cost lenders \$58,792 and requires approximately 18 months to resolve.



Do they want to keep their home, but can't afford the payments?

Offer: **Loan Modification**

- Permanent change in one or more terms of a borrower's loan that allows the loan to be reinstated and results in a payment the borrower can afford.
 - A loan modification is negotiated when a cooperative borrower has indicated a desire to retain ownership of the property and a capacity to support a mortgage under the new terms and does not qualify for a refinance of the loan under credit union policies.
- 


Don't Be Afraid To:

- Offer interest rate reductions
 - Waive penalties and late fees
- 

Is it apparent that the members can't or don't want to keep their home?

- Depending on home sales in your state, you may be facing larger losses than originally anticipated to liquidate your REO properties.

ACT QUICKLY

- Consider a Deed in Lieu
 - Consider CASH for KEYS
- 

Fix'er Up & Create a WOW Factor

- The most important thing for a house on the market is that it shows well. (i.e. new paint, flooring, etc...)
- People buy homes based on emotions. It's not 'we don't want the ... oh, I guess we could live here.'
- Staging empty homes helps to reveal their potential.

We want them to open the door and say,...
"I've got to live here. This is mine..."



Expertly Market Your Property

- Advertise Heavily
- Tellers should be handing out flyers and brochures highlighting your REOs with every transaction handled within your credit union.





Offer Creative Terms

- Offer special 100% financing with a special rate for 5 years.
- Consider throwing in “free” incentives like new appliances, home warranties, cash incentives, cash for furniture.


!!Warning!!


We must be careful during these tough economic times.....we can overuse and abuse the use of extension agreements.



Suggested Extension Policy

This solution may be used to assist members who are unable to resolve past due balances

- Past due members must show evidence of an on going ability to meet on-going payment commitments.
 - The borrower should make three minimum consecutive payments before executing a loan modification.
 - An account should not be re-aged, extended, renewed, deferred, or re-written more than once within any 12-month period.
- 

- An account should be in existence for at least twelve-months before it can be re-aged, extended, deferred, or re-written.
 - No more than two re-aging, extension, renewals, deferrals, or rewrites should occur during the lifetime of the account.
 - The re-aged balance should not exceed the pre-delinquency credit limit and,
 - Decisions to re-age sub-prime loans should only be made on an exception basis.
- 

If all efforts to save the member from repossession or foreclosure have failed...

What can you do to lower your loss exposure?



**If Repossession is the only solution...
What are the best ways to maximize
our liquidation efforts?**

- Repossessed units are harder to sell, take longer to sell, and hold less value than non-repossessed units.
- How do your liquidation results compare to other options?



Auction Alternatives

- Try selling your economical cars on your lot and/or website, pricing them attractively and aggressively.
- Have your tellers hand out flyers of all your repossessions with every transaction.
- Be certain to let your members know “we have money to lend!”

If you decide NOT to allow redemption...

Instead of just selling at auction, try:

Offering "cherry", smaller more fuel efficient repos to young first time borrowers

It's a great deal for you AND the young member.

How Much Do I Spend to Recondition a Vehicle?

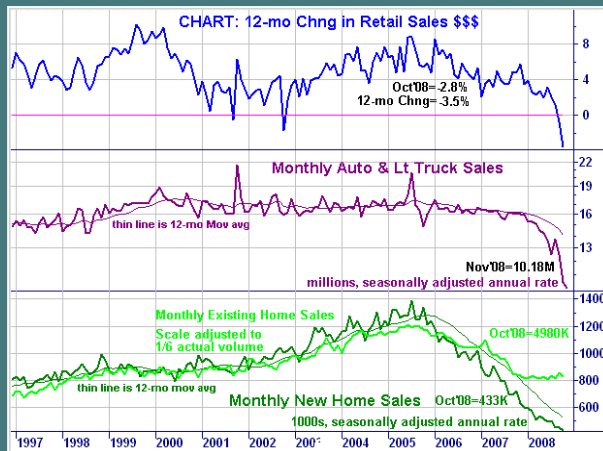


Cost to Sell

- Smart reconditioning increases ROI
- ROI varies by make, model, age and condition of vehicle
- Treat Vehicles independently-every used car is different
- Make smart decisions and you will increase your revenue



Martin Capital Advisors – Sales Activity



http://www.martincapital.com/chart-pgs/Ch_sales.htm

- **Definition of Economic Cycle:** Predictable long term pattern changes in national income. Traditional business cycles undergo four stages: expansion, prosperity, contraction, and recession. After a recessionary phase, the expansionary phase can start again. The phases of the business cycle are characterized by changing employment, industrial productivity, and interest rates. Some economists believe that stock price trends precede business cycle stages.
- Randy and Karin say....."carpe diem"!!!