
Making Good Loans to Your Higher-Risk Members

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A Bold Prediction...

- **Every credit union in this country that wants to grow loans 5% to 15% a year on a consistent basis will have to become a good C, D and E-paper lender.**
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D and E-Paper Defined

- **D-Paper**: Beacon, Empirica and FICO credit scores between 550 and 600
 - **E-Paper**: Beacon, Empirica and FICO credit scores less than 550
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Food for Thought Question...

- **Do you know the most important number at the credit union for your members?**
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Food for Thought Question...

- **Where do your members end up borrowing money when you deny them for a loan?**
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Food for Thought Question...

- **If you are a lender at a credit union today, do you know your job?**
 - **The job of a lender is to evaluate risk and make good loans.**
 - **Do you know what your job is not?**
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Our Philosophy on Lending

Lending in my opinion is both an attitude and an approach. You need to change your attitudes and start looking for the positive in your members. You need to focus on what your members have done right versus wrong, and find out what you like about a member versus dislike.

It is our hope that this training will do far more than just teach you good loan analytical skills, sales skills, decision making, etc.; but will truly get you excited on how your life can impact others and how much fun your members are. You have got the best jobs in the world, people helping people. Never lose focus of that and you will be just fine.

Rex Johnson

Founder

University of Lending,

Lending Solutions Consulting, Inc

Learning From Your Collectors

Everybody Pays Somebody!

Reasons to Make More C, D & E Paper Loans

1. These are the members with the greatest need.
 2. These are the members that have the fewest loan options.
 3. Credit unions were formed to serve these members (i.e. the under-served).
 4. If you help D and E members they will be very loyal. Can the same be said of your A-paper members?
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Reasons to Make More C, D & E Paper Loans (Cont.)

5. An aging population will force you to “buy deeper in to the pie” in order to maintain loan growth.
 6. Aggressive dealer financing (0.0% deals and aggressive leases) will cause you to lose many of your Platinum and A-paper member auto loans.
 7. You can actually make money on D and E-paper loans (i.e. there are very thin margins on A-paper loans).
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Real Risk Factors

- 1. Youngsters with no or Limited Credit**
 - 2. Lousy Jobs (Especially Short Time on a Lousy Job)**
 - 3. Renter with no Residence Stability**
 - 4. Currently Delinquent Credit Obligations**
 - 5. Bankruptcy Filer that did not Learn from the Experience (Seven-year Itch)**
 - 6. Escalating Debt**
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Real Risk Factors (Cont.)

- 7. Excessive Unsecured Debt**
 - 8. Credit Cards with Balances that are at their Limit (Capacity)**
 - 9. A FICO Score on the Way Down**
 - 10. Civil Judgments that affect Monthly Cash Flow**
 - 11. Ten Minute C, D, and E-paper Members (especially through the indirect channel)**
 - 12. Debt Consolidation Loans**
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A Very Important Point

- Real risk factors do not mean that you should automatically deny a member's loan request. They mean that you need to work to build a performing loan (i.e. look to start with a secured loan, lend the member a reasonable amount of money, get a payment that will work for them, get cash down or equity in the loan, set it up on payroll payment or automatic transfer, sell your insurance products, price it right, collect it right, etc.)
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Not-So-Real Risk Factors

1. Old (more than a year), Bad Credit
 2. A Recent Bankruptcy Filer and Those Members that have Learned from Filing Bankruptcy
 3. A Public Record that does not Affect Monthly Cash Flow
 4. Medical Collections
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Not-So-Real Risk Factors (Cont.)

5. FICO Scores on the Way Up
 6. High Total Debt Ratio when there are no Bankruptcy Predictors
 7. A Car Loan that is Upside-down
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Description of the Lower Risk D & E-Paper Loans

- Good, stable jobs with good time on the job (3+ years).
 - The members can make the loan payment with either payroll deduction or an automatic transfer from an account.
 - Long-time members (3+ years).
 - The member has made at least 6 on-time auto loan payments to a sub-prime lender.
 - The member's bad credit is old (more than a year ago), it is not currently delinquent.
 - The member does not have the early indicators of bankruptcy.
 - Members that pay the credit union on time, just not other lenders.
 - Members with a significant cash down payment or they have good value in the vehicle.
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Description of the Lower Risk D & E-Paper Loans (Cont.)

Sample Approval Language:

\$20,000 car loan approved at D rates with \$2000 cash down in our account or maximum of 85% of retail book value. Be sure it is 1999 or newer. Maximum term is five years. Get VOI showing at least \$30,000 a year. Get three complete references and put the payments on payroll.

Description of the Higher Risk D & E-Paper Loans

- A credit report full of debts that resembles a house of cards that is beginning to collapse (i.e. the three indicators of bankruptcy).
 - A history of job-hopping, brand new jobs, or weak jobs (especially self-employed).
 - Current delinquencies and previous repossessions.
 - No account relationship at the credit union.
 - Youngsters that have not learned any of life's financial lessons.
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Description of the Higher Risk D & E-Paper Loans (Cont.)

Sample Approval Language:

\$16,000 maximum car loan approved at E rates with \$3000 cash down in our account or maximum of 75% of retail book value. Car must be a 1999 or newer, maximum term is four years. Get VOI showing at least \$25,000 per year. Get three complete references and put the payments on payroll.

The Definition of Good D & E-Paper Car Loans

1. Members that work at good jobs and they have great job stability (3+ years).
 2. The loan will be on payroll deduction.
 3. The member is not a bankruptcy threat (i.e. they do not have the three early indicators).
 4. The member has learned to pay the credit union on time.
 5. The member has demonstrated that they will make on-time payments on car loans.
 6. The deal is structured correctly (i.e. reasonable amount borrowed, cash down, insurance, and payroll payments, priced right, etc.)
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The Definition of Good D & E-Paper Unsecured Loans

1. Members that work at good jobs and they have great job stability (3+ years).
 2. The loan will be on payroll deduction.
 3. The member is not a bankruptcy threat (i.e. they do not have the three early indicators).
 4. The member has learned to pay the credit union on time.
 5. You lend the member an appropriate amount of money (up to one times monthly gross salary is a good guideline).
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Could B - U Credit Union

Name: Robert **DOB:** 6/20/1948

Address: 123 Main Street

City: Any Town **State:** USA **Zip:** 12345

Phone #: 555-123-1234 **Housing Status:** Own

Length at Residence: 3 years

Employer: Ford Motor Co. **Start Date:** _____

Position: Welder **Phone #:** 555-123-4567

Income: \$91,000 **Other income:** N/A

Assets:	Value:
<u>House</u>	<u>\$125,000</u>

Loan Request: \$8,500 **Purpose:** Used Auto

Term: 60

Payment: \$164.62 Payroll Deduction

Notes: Auto is 1998 ford Expedition with 57,000 miles: valued at \$15,450
Late payments was due to drop in income (\$156,000 to \$91,000)

ROBERT XXXXXXXX SS: xxx-xx-xxxx E:
3 XXXXXXXXXX DOB: 06/20/48
XXXXXXXXXX XX xxxxx-xxxx

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

PUBLIC RECORDS-----2 PAST DUE AMT---\$4,242 INQUIRIES----10 SATIS ACCTS-----17
INSTALL BAL-----\$77,659 SCH/EST PAY----- \$2,961 INQS/6 MO-----5 NOW DEL/DRG----7
R ESTATE BAL---\$107,069 R ESTATE PAY---\$1,611 TRADELINE--28 WAS DEL/DRG-----4
TOT REV BAL----- \$23,807 TOT REV AVAIL-----11% PAID ACCT---13 OLD TRADE----8-85

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

EXP/FAIR, ISAAC SCORE 2 = 453

SCORE FACTORS:

Serious delinquency and public records collection filed

Proportion of balance to high credit on bk revolving or all revolving accts

Length of time (or unknown time) since account delinquency

Length of time since legal item filed or collection item required

-----PUBLIC RECORDS-----

xxxxxxx Cnty Reg of XX	7-31-03	\$4,098	Fed Tax Lien
xxxxxxx Cnty Reg of XX	7-31-03	\$17,872	Fed Tax Lien

----- TRADES -----

Subscriber	Open	Amt-Type1	Amt-Type2	AcctCond	Acct Status
Sub # KOB Type Trm ECOA	Bal Date	Balance	Pymt Level	Mos Rev	Pymt History
Account #	Last Pd	Month Pay	Past Due	Maximum	By Month
*Green Tree Servicing	9-98	\$2,677 – O		Paid	30 Was 60
xxxxxxx FP SEC 52 1	1-31-03		1-03	(52)	B1CCCC1CCCC1C
XXXXXXXXXXXXXXXXXXXX				6-99/2	C1CCCCCCCCC

Citifinancial		9-01	\$6,679 – O		Paid	CURR ACCT
xxxxxxx FP UNS 60	1	2-28-03		2-03	(13)	BCC-CCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						
Ford Cred		5-00	\$18,026 – O		Paid	CURR ACCT
xxxxxxx FA AUL 24	1	4-30-02		4-02	(24)	BCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						CCCCCCCCCCCCC
Could B-U FCU		4-93	\$7,500 – O		Paid	CURR ACCT
xxxxxxx FC UNS 12	1	11-30-01		11-01	(13)	BCCCCC--CCCCC
xxxxxxxxxxxxxxxxxxxxxx						
Citifinancial		11-00	\$5,223 – O		Paid	CURR ACCT
xxxxxxx FP UNS 48	1	9-30-01		9-01	(11)	BCCCCC--CCCCC
xxxxxxxxxxxxxxxxxxxxxx						
Citifinancial		6-99	\$4,483 – O		Paid	CURR ACCT
xxxxxxx FP UNS 48	1	11-30-00		11-00	(18)	BCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						CCCCC
National City		2-98	\$44,265 – O		Paid	CURR ACCT
xxxxxxx BB AUT 60	1	6-30-99		6-99	(17)	BCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						CCCC
Citifinancial		6-99	\$4,483 – O		Paid	CURR ACCT
xxxxxxx FP UNS 48	1	6-30-99		6-99	(11)	BCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						
HFC			7-97	\$24,993 – H		Paid CURR ACCT
xxxxxxx FP C/C LOC	1	4-06-99		5-98	(20)	B-----BC
xxxxxxxxxxxxxxxxxxxxxx						CCCCC

Account closed at credit grantor's request

HHLD Bank		11-92	\$2 – L		Paid	CURR ACCT
xxxxxxx BC CRC REV	2	3-31-98		3-98	(37)	B00000CCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						CCCCCCCCCCCCC
Account closed at credit grantor's request						
Ford Credit		3-96	\$40,224 – O		Paid	CURR ACCT
xxxxxxx FA AUT 60	1	2-28-98		2-98	(24)	BCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						CCCCCCCCCCCCC
*HFC		10-96	\$14,961 – H		Paid	CURR ACCT
xxxxxxx FP C/C LOC	1	9-05-97		9-97	(10)	BCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						
Account closed at credit grantor's request						
*HFC		3-96	\$3,033 – H		Paid	CURR ACCT
xxxxxxx FP C/C LOC	1	12-31-96		12-96	(10)	BCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx						
Account closed at credit grantor's request						
*HFC		4-98	\$12,515 – H		Open	Delinq 60
xxxxxxx FP C/C LOC	1	10-25-03	\$12,515	10-03	(67)	21CCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx		7-03	\$303	\$1,001		CCCC1CCCC1CC
*HFC		4-98	\$33,842 – O		Open	Delinq 60
xxxxxxx FP R/O 360	1	10-10-03	\$32,820	10-03	(66)	21-CCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx		8-03	\$400	\$801		CCCCCCCCCCCCC
*Hhld Bank		11-93	\$4,150 – L	\$4,798 - H	Open	Delinq 60
xxxxxxx BC CRC REV	1	9-12-03	\$4,798	9-03	(99)	211CCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxxx		9-02	\$1,360	\$247		CCCCCCCCCCCCC

*MBNA America Bank		9-00	\$1,000 – L	\$1,012 –H	Open	30 was 60
xxxxxxx BC C/C LOC	1	11-03-03	\$705	11-03	(38)	1CCCCCCCCCCC1C
xxxxxxxxxxxxxxxxxxxxx		9-03	\$39	\$78		C21CCC1CCCC1
*Waterfield Financial		3-95	\$80,368 – O		Open	30 was 60
xxxxxxx FS R/F 30Y	1	9-30-03	\$74,249	9-03	(99)	1C2-C11CCCC1
xxxxxxxxxxxxxxxxxxxxx			\$1,211	\$1,174		CCCCCCCCCCCCC
*National City		3-01	\$39,028 – O		Open	30 3 Times
xxxxxxx BB AUT 180	1	10-31-03	\$37,492	8-03	(32)	111CCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		10-03	\$437	\$875		CCCCCCCCCCCC
*Capital One Bank		5-00	\$1,324 – H		Open	30 3 times
xxxxxxx BC CRC REV	1	10-19-03	\$1,249	10-03	(42)	1CC1CC1CCCCC
xxxxxxxxxxxxxxxxxxxxx		8-03	\$37	\$66		CCCCCCCCCCCCC
*Ford Cred		4-02	\$12,449 – O		Open	CUR Was 30-5
xxxxxxx FA AUL 38	1	10-16-03	\$6,916	9-03	(18)	CC111C11CCCC
xxxxxxxxxxxxxxxxxxxxx		10-03	\$345			CCCCC
*Fingerhut Corporation		12-99	\$3,586 – L	\$937 - H	Open	CUR Was 30
xxxxxxx QZ CHG REV	1	10-20-03	\$233	9-01	(34)	CCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		9-03	\$11		8/01/1	CCCCCCCCCCCCC
*HHLDBank		11-02	\$750 – L	\$913	Open	CUR Was 30
xxxxxxx BC CRC REV	1	9-20-03	\$913	9-03	(10)	C1CCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		9-03	\$28			

Citifinancial		2-03	\$8,667 – O		Open	CURR ACCT
xxxxxxx FP UNS 60	1	10-31-03	\$8,572	10-03	(9)	CCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		10-03	\$254			CCCCC
Could B-U CU		6-99	\$38,187 – O		Open	CURR ACCT
xxxxxxx FP C/C LOC	1	9-30-03	\$9,227	5-98	(52)	CCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		9-03	\$755			CCCCCCCCCCCCC
Could B-U CU		8-85	\$3,500 – L	\$3,514	Open	CURR ACCT
xxxxxxx FP C/C LOC	1	9-30-03	\$3,404	9-03	(99)	CCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		9-03	\$122			CCCCCCCCCCCCC
Citifinancial		9-01	\$6,679 – O		Open	CURR ACCT
xxxxxxx FP UNS 60	1	12-31-01	\$6,540	12-01	(4)	CCCC
xxxxxxxxxxxxxxxxxxxxx		12-01	\$196			
Ford Cred		5-98	\$15,033 – O		Open	CURR ACCT
xxxxxxx FA AUL 24	1	4-30-00	\$8,912	4-00	(23)	CCCCCCCCCCCCC
xxxxxxxxxxxxxxxxxxxxx		3-00	\$291			CCCCCCCCCCCCC

-----INQUIRIES-----		
HFC		11-04-03
Equifax Mortgage Ser	9-17-03	
The Credit Bureau Inc	8-05-03	
Factual Data	7-10-03	

Keys to Successful D & E- Paper Lending

1. Be positive in the interview and use it to build a performing loan.
 2. Pricing the loans right.
 3. Underwrite the loans correctly.
 4. Collect the higher-risk loans more aggressively.
 5. Management promises not to “freak out” when the first few D and E-paper loans go bad.
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“Decision Making Matrix”
Date TBA (3rd Quarter 2004)

By
Rex Johnson

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