



LENDING AND COLLECTING TODAY FOR A BETTER TOMORROW

WEBINAR 24

HOSTED BY ED SWANSON & KARIN BROWN

How Are Credit Unions Measuring Up?

Credit Unions & Trust

A recent CNNMoney.com Survey asked,

"In Which Institution are your Savings the Safest?"

Regional Banks 10%

Community Banks 18%

National Chain Banks 21%

Credit Unions 51%



Key Credit Union Trends

Credit unions ended 2009 with record share growth and loan originations, positioning the industry for success heading into 2010, even as other lenders return to the market.

End of December Highlights:

- Assets increased 8.9% over the last twelve months to \$896.8 Billion
- Record loan originations of \$271.9 Billion during the course of 2009
- First mortgage sales more than doubled over the past year as credit unions sold \$51.4 Billion in first mortgages to the secondary market
- Share balances continue to grow at a record pace, increasing 10.4% over last 12 months



Credit Union Landscape

Year End 2009



Number of CU's	7708
Loan Growth	1.2%
Savings Growth	10.4%
New Auto Loan Growth	-7.9%
Used Auto Loan Growth	3.9%
Mortgage Loan Growth	4.3%
2 nd Mortgage/HELOC Growth	-4.5%
Unsecured Loan Growth	0.7%
Credit Card Growth	6.4%
Member Business Loan Growth	9.9%



Focus on the Future

Key Strategies for 2010 & Beyond

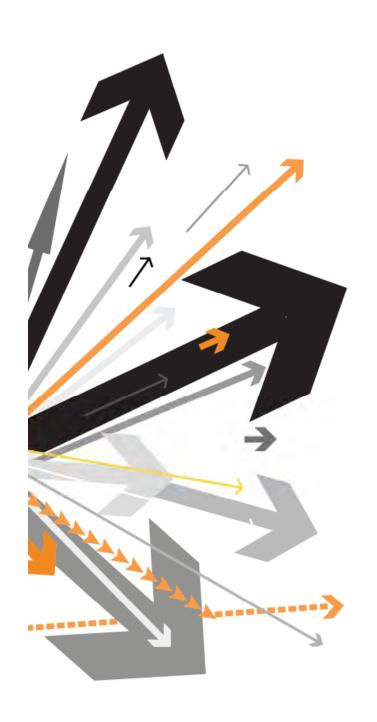
- Accessing the need for change
- Implementing operational efficiencies that drive performance objectives
- Improving performance in lending and collections

The Game is About Halfway Over



We Are Halfway Through 2010

- Where do you stand in terms of your *Loan Growth Goal* for the year?
- Where do you stand on your Delinquency Reduction Goals?
- Do you have "Score Boards" for measuring results?
- Are you "celebrating" your victories?



Strategy 1.

Accessing the Need for Change

"If you focus on results, you will never change.

If you focus on change, you will get results"

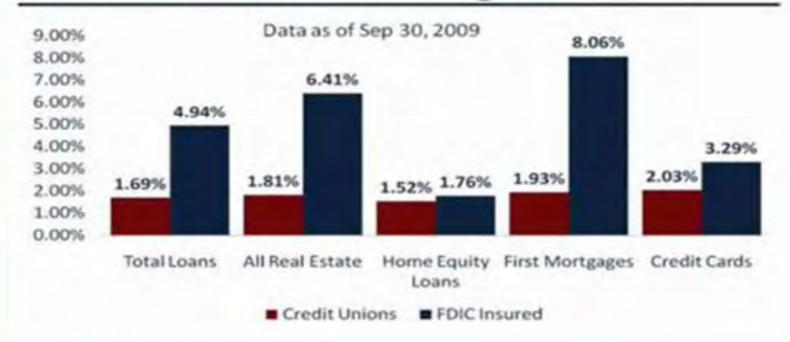
The "Typical" Credit Union Has:

- 35% of their members' Credit Card business
- 45% of their members' Auto Loan business
- 51% of their members' <u>Personal Loan</u> business
- 20% of their members' IRA business
- 55% of Credit Union Members actually have Checking Accounts at the Credit Union
- 64% of Credit Union Members have Checking Accounts at a Bank
- 43% of CU Members say the Credit Union they belong to is their Primary Financial Institution

Source: Filene Research Institute and CUNA's "The Future of Consumer Lending"



Delinquency lower than FDIC-insured institutions in all loan categories



Source: Callahan's Peer to Peer Software, FDIC





Look Beyond Reportable Delinquency Ratios

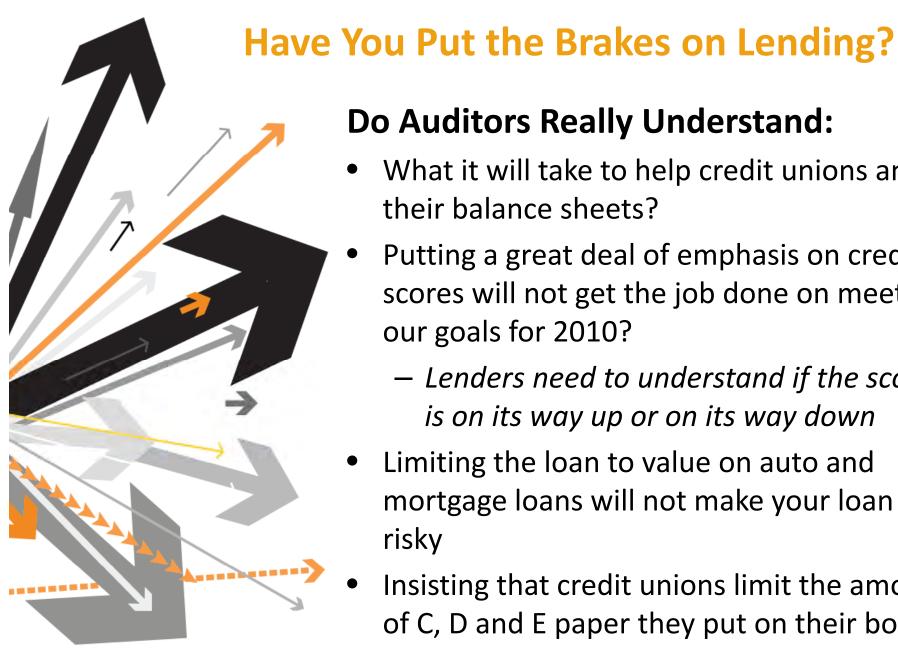
4Q2009	American Bankers Assoc
Direct Auto Loans	1.94
Indirect Auto Loans	3.15
Marine	1.63
Mobile Home	3.41
Personal Loans	3.63
Property Improvement	1.63
RV Loans	1.44
Mobile Home	3.41
Home Equity	4.32
Home Equity LOC	2.04
Credit Cards	4.39

How Does Your Credit Union Compare?

Are You Validating Sound Underwriting & Collection Practices?



- Are your loans defaulting earlier than expected?
- Do you have tracking reports that identify exceptions to established lending and collection policies?
- Are you performing monthly reviews of loans showing signs of delinquency within 10 months of origination?
- Have you established tracking reports that identify and monitor file maintenance changes to loan due dates?



Do Auditors Really Understand:

- What it will take to help credit unions and their balance sheets?
- Putting a great deal of emphasis on credit scores will not get the job done on meeting our goals for 2010?
 - Lenders need to understand if the score is on its way up or on its way down
- Limiting the loan to value on auto and mortgage loans will not make your loan less risky
- Insisting that credit unions limit the amount of C, D and E paper they put on their books



What Should Credit Unions Be Measuring?

Loans & Yields

Grade	\$ Outstanding	Gross Yield	Charge-Off	Net Yield
A+	\$30 Million	6.0%	0.15%	5.85%
Α	\$35 Million	6.5%	0.25%	6.25%
В	\$15 Million	7.5%	0.75%	6.75%
С	\$5 Million	8.5%	1.25%	7.25%
D	\$12 Million	11.0%	2.50%	8.50%
E	\$3 Million	16.0%	3.50%	12.50%
Total	\$100 Million			

Strategy 2. Implementing Operational Efficiencies

that Drive Performance Objectives





Why Credit Unions Are Losing Loans to the Competition

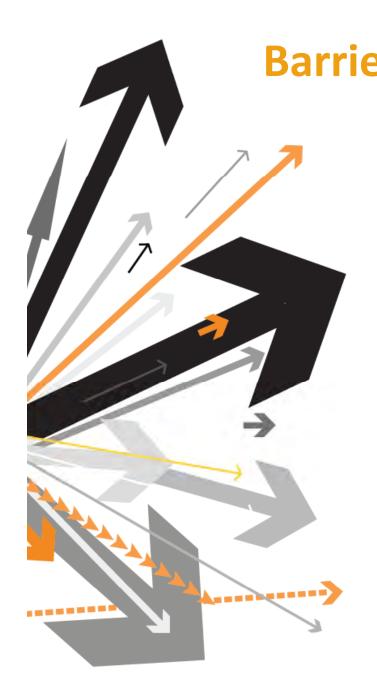
- Charging too many fees Becoming too bank-like
- Blended rates that have to fit all members
- Outdated loan policies Credit unions should update their Loan policy to only do certain things "when good judgment dictates."
- Eliminating future loans to members who have caused the credit union a loss
- Not allowing members to pick their own payment
- Not matching the competition's rates

Underwriting Guidelines

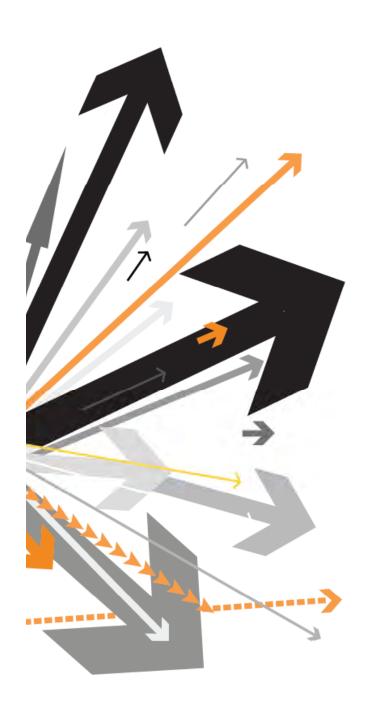
Are We Looking for Ways to Turn Down Loans Instead of Approving Them?

- 1. Using <u>debt ratios</u> as a decision maker. Penalizes members with higher income
- 2. <u>Proof of income</u> makes sense on brand new members and indirect loans
- 3. <u>Proof of payment on every negative trade line on the credit report</u>
- 4. Limiting the loans and products we will give to member with lower credit scores
- 5. <u>High</u> credit score members get approved and <u>low</u> credit score members get denied
- 6. Limiting the <u>loan to value</u> that you will lend on secured Loans





- **Barriers That Present Roadblocks**
 - Forgetting that you are a "CREDIT" union
 - Believing members think of you and come to you when they need to borrow money
 - Having an opinion that car dealers are the enemy
 - Failing to evaluate your lending process from the member's perspective instead of your perspective
 - Being an auditor-driven credit union as opposed to a member-driven credit union
 - Not training your employees properly on the loan side and the collection side of your business



More Barriers...

- Not using available technology for lending
- Requiring members to come into the branch to complete the loan with you
- Offering only closed-end loans
- Only Monday—Friday loan access
- Only 9:00 AM—5:00 PM loan access
- Slow response time in approving the loan
- Telephone tag with the member





- Talk to the borrower and have the application and credit report in front of you
- The interview process is key to making effective loan decisions
- Check the age and formulate expectations based upon the borrower's age
- Look at the source of income and the stability of the member's job and the income
- Look at the member's assets. Try to paint a picture of the borrower's net worth
- Look at the credit score. Is it on the way up or down? How can we tell?



The Loan Approval Process (Cont)

 Look at the outstanding debt - Compare the unsecured to the annual income. Are the debts escalating? Escalating rapidly in a short timeframe?

- What is the recent history of the unsecured debt compared to the overall debt?
- Circle the opening dates on the credit report of when the accounts were established. If too many accounts have been opened in the last 12-18 months, proceed with caution!
- Ask the borrower to explain anything on the credit report or loan application that seems unreasonable to you





- The interview that we have with the member in developing the loan application is key in making quality loan decisions
- We need to develop the member's motivation...why us, why now, why today, why this loan, why this car?
- The only reason that a loan should <u>ever</u> be denied is when the decision maker believes that the member will not pay the credit union
- This decision should be communicated to the member by the actual decision maker

Why Use the HYLS Underwriting Guide?

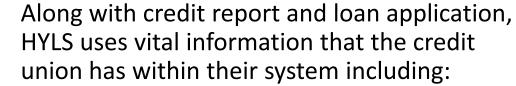
 HYLS builds confidence and comfort in decision making by ensuring a complete application



- This allows credit unions to approve more loans and change member's lives while building loyalty
- HYLS can also be used when trying to restructure a loan for troubled borrowers

Using HYLS Within the Loan Department

 HYLS expands the loan officer's understanding of a loan by asking more analytical questions marrying the credit report, loan application and the member's profile information



- Length of membership
- Number of loans with the credit union
- Dollars on deposit
- Highest loan amount with the credit union

The results of HYLS will show decision makers the top five positive and negative factors to assist in making a quality decision

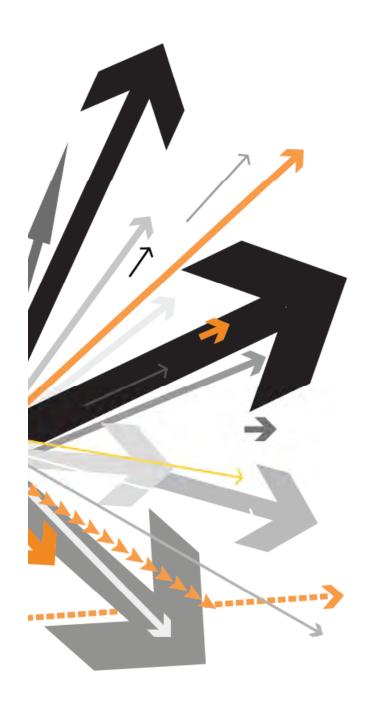


Approving Higher Risk Loans

Loans to higher risk members where the credit union is loaning member retail value, plus any add-ons up to one month's gross income

- ✓ The member must have a steady job with a company that is dependable
- ✓ The job is likely to continue
- ✓ Have they paid similar type loans?
- ✓ Is the member a bankruptcy threat?
- ✓ On D/E paper, a good guideline for a car loan is 50% of their annual gross income
- ✓ Direct deposit/payroll deduction is a must





Using HYLS Within the Collection Department

HYLS will allow collectors to see the repayment possibilities that can help develop workout strategies

Early Intervention Helps the Bottom Line

Loan Type	Delinquency	Staffing
	Period	Requirements
All delinquent	1-4 days	No action
accounts	delinquent	required.
Negative	5-30 days	Automated
Shares		calling platform.
All delinquent	5-21 days	Automated
accounts	delinquent	calling platform.
		No internal
		staffing required.
Delinquent	22+ days plus	
consumer and		
mortgage		
accounts		



Develop a *Predictive Delinquency Report*Month-End Doesn't Have to Be a Surprise!

Month End Department Delinquency							
	60+	60+ days		31-59 days		21-30 days	
2/28/2010	\$	1,799,006.11	\$	2,538,571.66	\$	1,650,232.13	
3/31/2010	\$	1,902,900.18	\$	2,266,649.20	\$	2,147,715.40	
4/30/2010	\$	1,866,272.30	\$	2,015,182.74	\$	2,104,699.13	

April Projected Delinquency				
		60-day	31-59 day	21-30 day
4/1/2010	\$	4,438,250.85	\$ 15,799,999.22	
4/5/2010	\$	3,891,730.61	\$ 12,074,974.15	
4/12/2010	\$	3,468,801.22	\$ 7,975,424.40	\$ 10,079,013.21
4/19/2010	\$	3,188,316.66	\$ 5,432,164.62	\$ 6,539,878.56
4/26/2010	\$	2,703,248.85	\$ 3,116,220.67	\$ 3,644,417.37
month end	\$	1,866,272.30	\$ 2,015,182.74	\$ 2,104,699.13
		-		

	Incr	ease over last	Amount	
MTD		month	collected	% collected
60 + days	\$	(36,627.88)	\$ 2,571,978.55	58%
31-59 days	\$	(251,466.46)	\$ 13,784,816.48	87%
21-30 days	\$	(43,016.27)	\$ 7,974,314.08	79%



How Many Accounts Should Be in a Collector's Queue?

- Approximately 125-135 late stage
- Approximately 220 early stage
- Combinations of both stages
 - Not to exceed 180



LSI Service: Collections Outsourcing

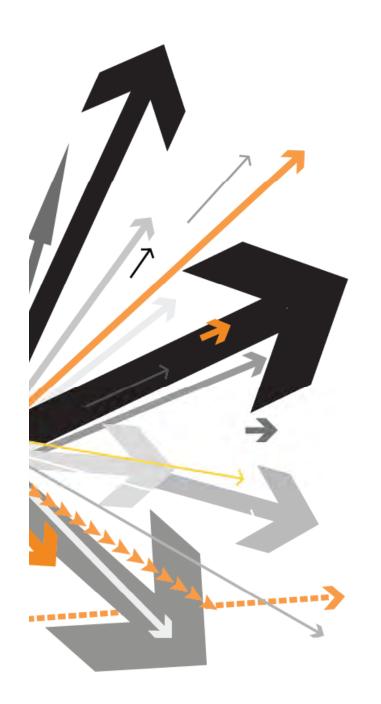
Background:

With unfavorable economic conditions still prevalent, Advantis was facing rising delinquencies, especially in their indirect lending portfolio.

Results:

LSI started working with Advantis' indirect portfolio on January 12, 2010 when their delinquency percentage was at 5.02%. In just 8 weeks time (as of March 5, 2010), LSI had cut that rate to 3.22% - a 36% decrease in total dollars delinquent and a 38% decrease in the number of delinquent accounts.

Date	% of Accounts Delinquent	\$ Amount of Delinquencies
1/15/2010	4.80%	5.02%
1/22/2010	4.64%	5.03%
1/29/2010	3.86%	4.35%
2/5/2010	3.85%	4.19%
2/12/2010	3.93%	4.20%
2/19/2010	3.73%	3.93%
2/26/2010	3.33%	3.68%
3/5/2010	2.98%	3.22%



Strategy 3.

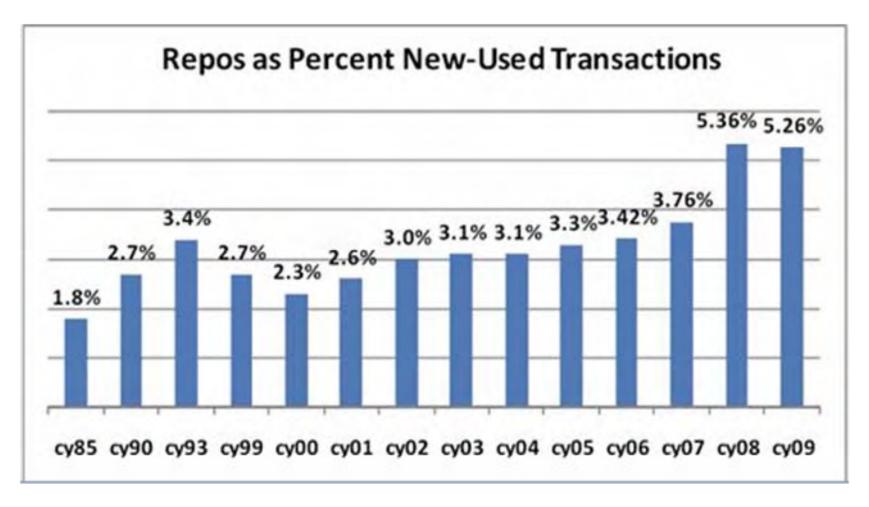
Improving Your Credit Union's Performance in Lending & Collections

"Try to learn from the past, but plan for the future by focusing exclusively on the present...

That's where the fun is."

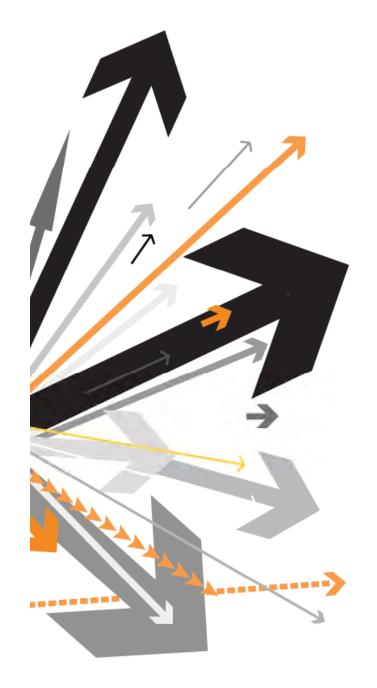
In 2008, 1.6 Million Vehicles Were Repossessed

(an increase of 12 percent from the previous year)



Source: **CNW Marketing Research**

cy = Calendar Year



According to the
American Financial
Services Association
(AFSA), the average
vehicle deficiency balance
was approximately
\$8,000.



Enhance Existing Repossessing Tracking

To incorporate additional tracking fields that will allow the credit union to perform analysis on important trends like:

- The average number of days to repossess a vehicle
- The average number of days from repossession to sale
- Sale data as a percent of the vehicle value
- Sale data as a percent of the loan balance
- Fees as a percent of the sale amount

Enhanced tracking will help identify accounts falling outside normal parameters

Cost to Sell

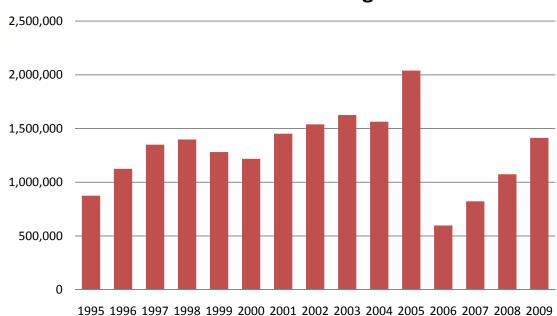
- Return on Investment (ROI) varies by make, model, age and condition of vehicle
- Treat Vehicles independently-every used car is different
- "Smart" decisions will increase your revenue





Bankruptcy

Non-Business Filings







- · Changes in credit score
- Increase in credit card balances
- A slowdown in loan payments
- Increase in NSF activity
- Increased balance utilization

Develop a list of *benefits* that could you sell your members on paying the credit union

"Welcome Back" Approach



Sample Letter That the Credit Union Will Send to Members Who Went Bankrupt and Caused a Loss:



Dear MEMBER,

Welcome back! Your credit union has changed its policies on bankruptcy and our new policy could very well save you thousands of dollars. We understand that in these tough economic times, many of our members are being challenged like never before. We also know that bad things happen to good people.

Our previous policy said if you caused the credit union a loss, not only did we deny you any future loans, we also took away all of your services. We understand that most of you were simply following the advice of your attorney. We have rewritten our policies so we can now help you. Many of you were forced to go elsewhere to get credit and you're paying extraordinary high rates. We realize members who were forced to go bankrupt still need loans!

Well, we can help. If you have loans elsewhere and you're paying a high rate, plus you're current with your payments, we'll save you money by lowering your rate and payment. We're so confident that we'll give you \$100 if we can't. You <u>must</u> meet the following simple qualifications:

- You are actively employed
- You have a good job that is likely to continue
- You have the ability to pay
- Direct deposit and payroll deduction are a big plus and entitle you to even bigger discounts
- You're current with your payments since bankruptcy

We want you back! Our guarantee to you:

- We will save you money
- We'll help drive up your credit score with a free credit analysis that entitles a lower rates
- We will treat you better than any other financial institution

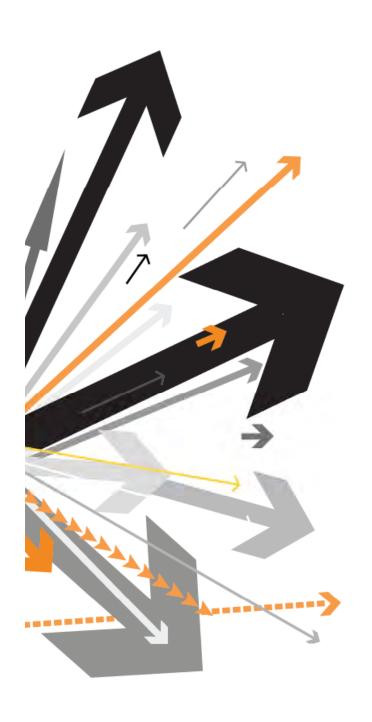
Credit union members are family, we borrow together and save together!

Sound too good to be true? Pick up the phone and call us today...and again, "Welcome Back!"

Turn Findings Into ACTIONS



Incorporate a RESOLUTIONS Collections Philosophy



Look for Solutions!

Be Flexible & Creative

- Additional collateral
- Additional income
- Co-signers
- Ways to combine debt which allow our members to pay us

Must be in the best interest of the CU and the member

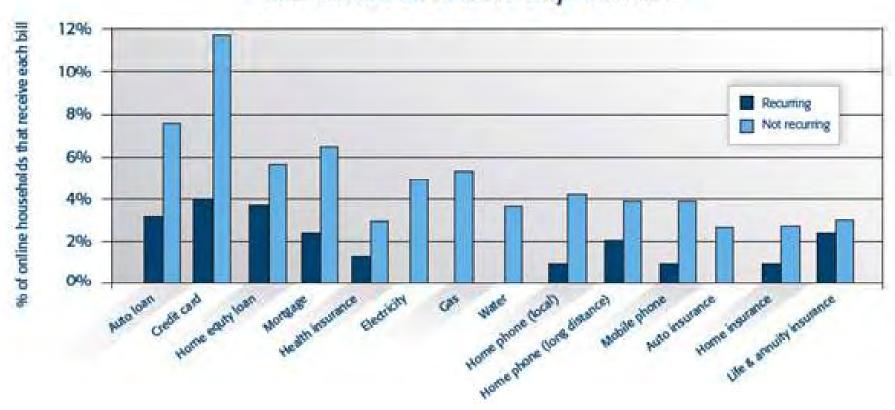


Find a Solution Not a Temporary Band-Aid

- Look for ways to make the payment more affordable
- Avoid deferrals
- Look for ways to get your payment first

Consumers with Recurring Payments Have Lower Delinquency Rates

Households 30 or More Days Overdue

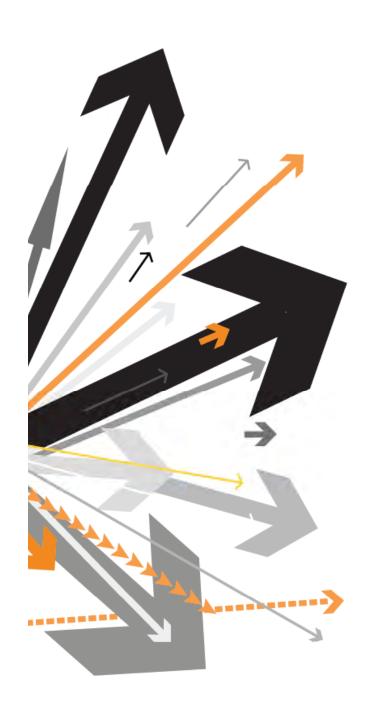


Get Them on Payroll Deduction





- Document the borrower's affordability and willingness to repay the debt
- Establish a six-month payment history (at the new payment amount) prior to the actual re-aging or rewriting of workout loans
- Demonstrated payment history should be established whether or not the loan qualifies as a Temporary Debt Restructure (TDR)



Workout Loans

Workout Loans should be used to improve the credit union's position when the collectability of the loan is in doubt. This would include delinquency, deterioration of ability to repay, or a level of indebtedness that suggest that a high potential for loss due to bankruptcy may exist.

Are You Measuring the Success of Your Workout, Extension, Modification or Refinance Programs?

Status of Loan Modifications, Workouts or Extensions as of March 2010 (Percentage Made in Each Quarter)

	,			,	
	3-31-09	6-30-09	9-30-09	12-31-09	3-31-10
Current and Performing					
30-59 days delinquent					
60 or more days delinquent					
Charge Off					
In the process of foreclosure					
Short sale or deed in lieu					
Paid in Full					

Establishing Collection Goals

- Set expectations for both the department and the individual collector
- Goals should be set for:
 - 60+ delinquency
 - 21-59 day delinquency
 - Charge off objectives

i					De	partment Delinqu	ency				
	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
60+ delinguency	0.93	0.922	0.914	0.906	0.898	0.89	0.882	0.874	0.866	0.858	0.85
										3.555	
31-59 day delinquency	0.8	0.7928	0.7856	0.7784	0.7712	0.764	0.7568	0.7496	0.7424	0.7352	0.728
charge off	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000

Set Both Qualitative & Quantitative Expectations

Examples of qualitative performance standards include:

- Identifying and clarifying the reason for non-payment
- Asking fact finding questions
- Identifying trigger statements and decision points
- Verification of data and updating critical contact information
- Developing the debtors' intent or ability to repay the debt

Examples of quantitative performance standards include:

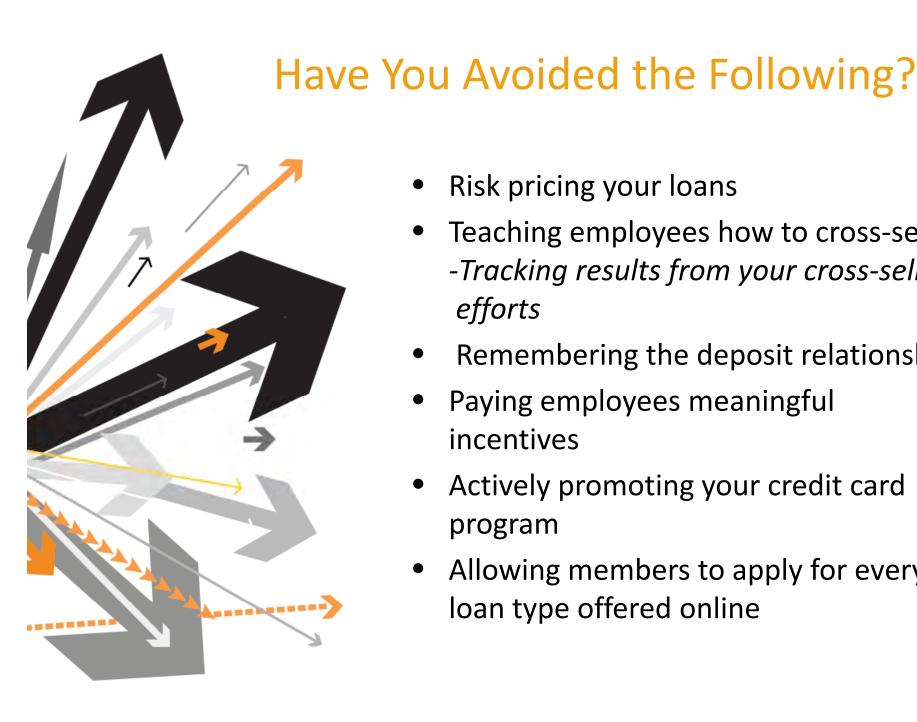
- Meeting assigned objectives
- The amount of money collected
- Promise to pay ratio



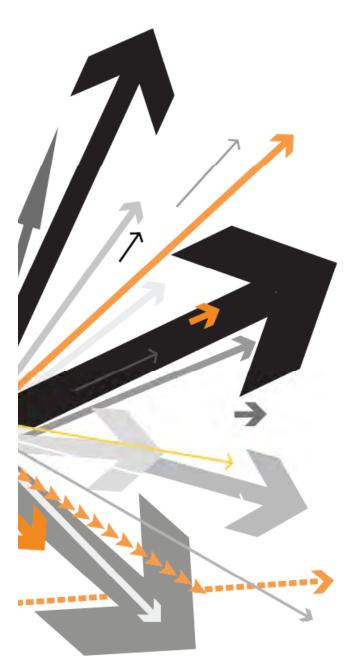
Make it Easy for Members to Pay



- Utilize e-payment vendors that offer a wide variety of secure payment options
- Utilize an integrated payment link between the e-payment vendor and the credit union's web-page



- Risk pricing your loans
- Teaching employees how to cross-sell -Tracking results from your cross-selling efforts
- Remembering the deposit relationship
- Paying employees meaningful incentives
- Actively promoting your credit card program
- Allowing members to apply for every loan type offered online



What About These?

- Giving members a "Wow" experience
- Teaching members about what they will experience at the car dealer
- Measuring Net Yield by loan product
- Measuring Net Yield by loan officer
- Offering a Payday Loan Alternative
- Offering a Credit Rebuilder Program



Where Do We Find Loans?

- When new members apply for membership, pre-approve them for a car loan, a credit card, a line-of-credit, etc. Use the credit report as a tool to generate additional lending opportunities.
- **Develop** an Auto Recapture Program to call members who have financed their car somewhere other than you. Match rates if you need to.
- Get off of your chair, get out of your office, and go talk to your members who come into your branches. Where is their auto financed now?



Where Do We Find Loans?

- Offer score enhancement sessions for members. Teach them how to improve their credit score every chance you get.
- <u>Have an outbound call campaign</u> to welcome indirect loan new members. Pay employees incentives who bring additional business from these new members.
- You should be **generating loan activity from your collection department**. There are numerous opportunities to rewrite loans for members, granting them additional funds to assist during a time of need.
- Pay members and potential members 1% of the loan balance to bring their auto loans over to you. You are already paying auto dealers 1% and more to get the business.
- <u>Solicit</u> your member's to bring their credit card debt over to you, consolidating with an unsecured loan



Trade In Your Credit Card Debt

Pay us the same payment you are currently paying your credit card providers & you will be totally out of debt in approximately 2.5 years.

Name of Creditor	Limit	Balance	Payment/4%	Available
Discover	\$5000	\$4000	\$160	20%
Capital One	\$2000	\$1600	\$64	20%
MBNA	\$4000	\$3200	\$32	20%
cu	\$1000	\$800	\$32	20%
Total	\$12,000	\$9600	\$384	80%

Note: The above assumes 12.95% interest, a loan amount of \$9600 with payments of \$384.00 (4% balance) = Approximately 30 months.



Call our credit experts today! We will show you how to become debt free without increasing payments.

Great Opportunities Lie Ahead for Credit Unions to Gain Market Share

Credit unions MUST capitalize on the unprecedented, positive national press we've received from multiple medias sources throughout the country as of late

The Time is Now!!

No More Excuses!!













Let's Recap!



- Look beyond "We have always done it this way."
- You MUST have strategies for loan growth and delinquency control
- You **CAN** improve performance and efficiencies by implementing key strategic initiatives
- **Focus** on the future!

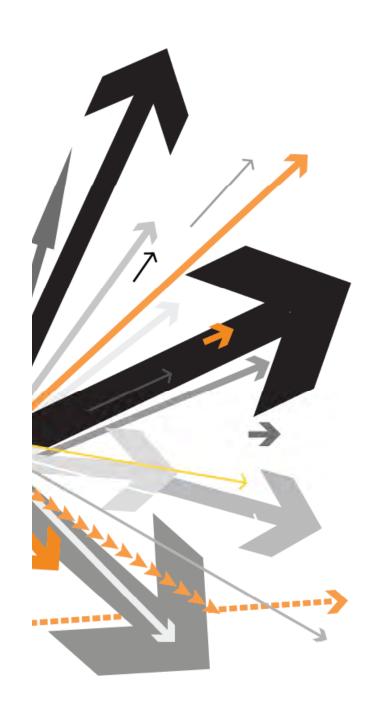
2010 Credit Union 'To-Do' List

COLLECTIONS

- -Implement resolution collections
- -Establish goals
- -Use automated methods to detect early stage delinquency
- -Use HYLS in both lending and collections areas
- -Find solutions that keep troubled borrowers paying you
- -Track the success of your processes (Workout/modification programs/repossessions

LENDING

- -Loan Growth Goal of 10%+ per year
- -Gross Loan Yield Goal of 8.5% 10.0% per year
- -Reasonable Delinquency and Charge-Offs with a Goal of a Net Loan Yield of at least 7.5%
- -Portfolio Mix
 - -20% of Loans Portfolio in Unsecured Loans and Credit Cards (our highest yielding loans)
 - -Tracking delinquency by portfolio mix
- -Validate sound underwriting and collection practices are being practiced Remove barriers and road blocks
 - Insure that employee training is not compromised.



"If we do not change our direction, we are likely to end up where we are headed."

Make positive changes today...
TO BE PREPARED FOR THE FUTURE!!