< Rex Johnson's Online Institute >

'How to Make Better Loan Decisions'

Presented by
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Who Should Make Loan Decisions?

<u>Centralized</u> Versus <u>Decentralized</u>

"You Need Both"

<u>Centralized</u>

- *Indirect Lending*
- *7/24 Call Center*
- *Loan Phone Center*
- *Internet Lending*
- *Outbound*
- *Mortgage Department*

<u>Decentralized</u>

- *Branches*

Decision Matrix

Employees are empowered to approve loans or in some cases, deny loans if <u>all</u> of the following conditions are met.

Condition	Level 1	Level 2	Level 3
1. Risk Score	**640 +**	**550+**	**Any Score**
2. Valid Credit Report	- 4 trade lines	same	N/A
	- 2 yrs. est. credit	same	N/A
	- 1trade line in excess of $5,000	same	N/A
3. Max. Loan Amt.	To: $10,000 not to exceed	To: $15,000 not to exceed	To: $30,000 not to exceed
Unsecured			
	- 3 times mo. gross income	- SAME	- 4 times mo. gross income
	on scores of 680+		on scores of 680+
	- 2 times mo. gross income	- 2 times mo. gross income	- 3 times mo. gross income
	on score of 640-679	on score of 600-679	on all other scores
		- 1times mo. gross income	
		on score below 600	
4. Total Unsecured Debt	With our loan cannot exceed 25%	35% of member's annual income	No restriction on total unsecured
Note: Total unsecured debt	of member's annual income		debt
must include upside down amt			
on car loans			
5. Max. Loan Amt. on	To: $30,000	To: $50,000	To: $100,000
Secured Vehicle Loan			
	Not to exceed 75% of members	Not to exceed 75% of members	On any score
	gross annual income	gross annual income on score	75% of gross annual income
		of 600+	Exception: may go over 75% for mbrs
			who make very strong down payment
		- 50% of gross annual income	and mbrs who have very little
		all other scores	other debt
6. Max. LTV on			any score
Vehicle Loans	Retail	Retail + 1month gross income	Retail + 1month gross income

7. Home Equity or 2nd Mtg.	$50,000 not to exceed 80% LTV	$100,000 not to exceed 100%	$300,000 not to exceed 100% LTV
			work out loan (collections) 125% LTV
8. Determining the Value	must have print out on book value:	Same as Level 1	Same as Level 1
of the Vehicle			
	A) Vehicle being purchased		
	B) Vehicle being traded		
	New cars must have MSRP		
9. Turndown Authority	Cannot Reject any Loan Request	Can Deny any secured or unsecured	Same as Level 2
		loans. If Level 2 or 3 rejects a loan	
	However, **<u>must</u>** recommend	they must talk to member.	
	as if it was their decision		
10. Max. Term on	$5,000 or less (3 yrs.)	SAME	Can set any term provided it is
Unsecured Loans			in the best interest of Credit
	$5,000 to $10,000 (4 yrs.)	SAME	Union and Member
		$10,000 to $15,000 (5 yrs.)	
11. Max. Terms on	60 months on loan	72 months $25,000 to $35,000	same as unsecured loan
Secured Loans			(see above)
		84 months $36,000 to $50,000	
12. Debt to Income Ratio	Cannot exceed 45%	Cannot exceed 50%	No restriction on debt to income;
			however, if it's over 55%, L3 must
			show the member has the ability
			to repay.

Cradle to Grave Decision Making

You want to develop your decision makers so level 1 employees can become level 2 and level 2 employees can be level 3. To help with the development, it has to be clearly understood that when you take the application it is yours from start to finish. A level 1 employee cannot see the score and just pass it on to a level 2 or 3 employee. They must handle it as if they were level 2 or 3, interview the member, go over the member's credit report, clear up any issues and build the loan if possible. They must then present it to a level 2 or level 3 with a recommendation as to what they would do, including signing off on the loan. <u>If the level 2 or level 3 employee disagrees, they must then talk to the member and advise the member that they disagree with the level 1 and the decision is ultimately theirs and why they disagree</u>. The rationale behind this is we want level 1 to start thinking like level 2 and 3 instead of just passing the application off. They will never become level 2 or 3 unless they start thinking like them.

How long should any employee take becoming level 1, 2 or 3?

<u>Level 1</u> = Any MSR, FSR, teller, etc… who has attended the University of Lending (U of L) would be eligible to be level 1 within 60 days of completing the course and making loan recommendations provided the recommendations are consistently good.

<u>Level 2</u> = A level 1 can move up to level 2 within 12 to 18 months as long as management is comfortable with their decisions.

<u>Level 3</u> = A level 2 employees can become a level 3 employees within 24 months provided their decisions are consistent and management is satisfied with their performance.

<u>To Summarize:</u>

Level 1 = Completion of U of L plus two months of solid performance.

Level 2 = Level 1 plus 12 to 18 months experience and good performance.

Level 3 = Level 2 plus 24 months with good performance. This would be equivalent to three to four years of good decision making.

Be willing to take risk with long term members who have less than perfect credit, when they:

- ❑ Give us all their business.
- ❑ Have been active members for years.
- ❑ Paid us even though they did not pay others.
- ❑ Depend on us and need our help.
- ❑ Are willing to pay a rate consistent with the risk the credit union is taking according to their score.

Before turning a member down the credit union must:

- ❑ Start talking to the members and listen.
- ❑ Ask the right questions, not just the questions on the application.
- ❑ Get to know your members, they will open up to you if they believe you are really are trying to help.
- ❑ Find out what they are driving. Is it paid for? Mileage and condition? Can it be used as collateral? Do we have an opportunity to pay it off?
- ❑ Find out the member's motivation in applying, ask why now and why the credit union. **Motivation is the key to making good loans.**

Questions We Fail To Ask That Are Not On The Application:

The key is not only asking the right questions but how you ask them.

- What motivated the member to apply and why now? (Motivation is key.)
- How did they get their last job?
- Do they like their job and why?
- Does the job like them and how do they know?
- What motivated them to buy a car now?
- How long did it take them to pick out the car they are buying?
- Do they know the value of the car they are buying?
- Do they have money to pay down?
- Do they have a trade-in?
- What's the mileage and condition of their trade?
- Do they have insurance; if not what is it going to cost?
- How do they get around now, if they do not have a car?
- How long did they have the car they are trading in?
- If the member's debt ratio is too high, how will they make the payments? Do they even know what the required payment is? What payment will their budget allow?
- If they never paid anyone or they struggle to pay on-time, what makes them think we would be comfortable in loaning them money?
- If they are loaded with unsecured debt and probably are not going to make it, will we still get paid if they go bankrupt.

On Marginal Loans With Members Who Have Less Than Perfect Credit, When Should You Take Risk?

- The member should have a steady job that they like with a company that is dependable.
- Their employer is not laying off and their job will likely continue.
- Direct deposit or payroll deduction is a must if there is any evidence the member struggles to pay similar type loans on time. While you cannot make this a condition of the loan, you can show the member why it makes a lot of sense.
- The member gets high marks if they have paid or is currently paying a similar type loan.
- Bankruptcy threat: If the member has 30% or greater of their annual income in unsecured debt, then loan low book. If they have little or no unsecured debt, loan high book plus 1 month's gross income, provided the first three factors are in place. This will help you recapture loans with sub-prime lender.
- On D/E paper, a good guideline for a car loan is 50% of the member's annual gross income.
- If there is any question about the condition of the collateral then inspect the car if possible.
- If you lost money due to bankruptcy, get over it.

Keys To Closing Marginal Loans

1. Make sure you have payroll deduction if you are at all concerned before you give the member their check. The member may lose their motivation to get payroll deduction if they already have their money. Credit unions who are willing to take risk, in their haste to make the loan, overlook the importance of getting payroll deduction or direct deposit upfront and usually lose money.
2. Enlarge the back of the contract regarding default and have that section laminated so the member can easily read it and understand it.
3. Flag the account in the message field that the member fully understands the default section.
4. Make sure the member knows you are taking risk and that you are excited about helping them and giving them a fresh start.
5. Let the member know you want to help them with all their future loan requests.
6. Be honest but do not be judgmental.
7. Advise the member the upside of paying on-time, higher score = lower rate.
8. Do not hesitate to pick up the car in the first 30 to 45 days of delinquency if the member is ignoring you and your attempts to collect the loan, repossession should not be a surprise if the loan was closed correctly.
9. Make sure you have a solid collection department and that they are on the same page as the lenders.

A Member Is In Default If:

- I fail to make any payment when it is due.
- I break any promise, covenant or agreement or statement I have made to the Credit Union under this agreement or in any other agreement I have made with the Credit Union now or in the future.
- Any statement (oral or written) I make under this agreement or in connection with the agreement or in connection with any other agreement I have with the Credit Union is not true.
- I or any guarantor dies, becomes insolvent, files a petition for relief under any chapter of the Bankruptcy Code or for any reason is unable to pay their debts when due.
- A judgment is entered against me or any guarantor in any court.
- A writ of attachment, a lien, a writ of garnishment or any similar legal process is issued against me or any guarantor.
- Any loss, theft, or damage to any collateral given under this agreement should occur.
- If I fail to keep in force any insurance which is required under the terms of this agreement or any other agreement I have with the Credit Union now or in the future.
- Any collateral used to secure my payment of this agreement or any other agreement I have with the Credit Union now or in the future is moved to another county without the Credit Union's prior written consent.
- I am in default under the provisions of any security agreement given to the Credit Union.
- Anything else happens which gives the Credit Union any reason to believe that my ability or willingness to pay the Credit Union is impaired or that any other loan account with the Credit Union is not adequately secured. If I am pledging property as an Other Owner of Collateral, I will be in default if anyone who signed the Note is in default.

Make sure you have this laminated and easy to read. The employee closing the loan should be upbeat and positive and let the member know that we are going over this because we do not want them to default and more importantly, we want to make them future loans.

How One Credit Union Has:

- Has for over five years continually outperformed their peer group with very strong R.O.A.s and last year exceeded 1.50% in spite of spending record amounts on training. Their earnings just keep improving each year.
- Continually reached out to all their members.
- Changed their marketing strategy.
- Is not chasing low yielding vehicle loans.
- Has a remarkably low delinquency rate of .15%. What makes this exceptional is many of their car loans are at 17.99%.
- Made training and rewarding the employees their highest priority. They will be giving away five cruises and two trips to Las Vegas this upcoming November in addition to the lucrative incentives they are paying out.

Florida Credit Union
You're Pre-Approved for the FCU No-Hassle Home Loan
That's right, as a homeowner you've been pre-approved!
• Bad Credit
• Slow Credit
• No Credit
• No PROBLEM!
Lower monthly payments
Fixed interest rate
Borrow up to 125% of the value of your home
Consolidate other bills
No lengthy approval process
ACT BY FEBRUARY 15 AND TAKE ADVANTAGE OF:
No Payment for 90 Days
.25% rate discount when you pay through Direct Deposit
Take advantage of your Pre-Approval status today!
FCU MAKES IT EASY TO APPLY! CALL TODAY 9–8 M-F, 9–5 SAT.
WE CAN TAKE YOUR APPLICATION OVER THE PHONE!
LOCAL: (352) 377-4141 or 1-800-284-1144
You can choose to stop receiving "prescreened" offers of credit from this and other companies by calling toll-free 1-888 5OPT OUT. See PRESCREEN & OPT-OUT NOTICE on enclosed insert for more information about prescreened offers.
*See insert for terms of offer

Florida Credit Union

Congratulations!
You've been pre-selected for a Florida Credit Union Home Equity Program!

ADDRESS BLOCK
ADDRESS BLOCK
ADDRESS BLOCK
ADDRESS BLOCK
ADDRESS BLOCK

NO CLOSING COSTS!*

AND

a 1% CASH REBATE!

- **Qualify for as much as 125% of your home's value**
- Reduce your current monthly payments
- Increase your monthly cash flow with additional cash in your pocket
- Get extra cash for any purpose
- Eliminate high rate credit cards
- **1% Cash Back if you Act Before May 31st!**

  Example: $20,000 means you get $200 back in your pocket!
- No fees, no gimmicks ***and we pay for your business!***

Credit Challenged?

Not at Florida Credit Union! We have a program for everyone.

Act by May 31st and you will be entered into a drawing for a Bahamas Cruise package.

**See insert for cruise drawing details*

FCU MAKES IT EASY TO APPLY! CALL TODAY 9–8 M-F, 9–5 SAT.
WE CAN TAKE YOUR APPLICATION OVER THE PHONE!

**See back for terms of offer*

GAINESVILLE	OCALA	LAKE CITY	STARKE
(352) 377-4141	(352) 237-8222	(386) 755-4141	(904) 964-1427
2831 NW 43 Street	2424 SW 17 Road	583 West Duval Street	1371 S Walnut Street
3720 NW 13 Street	3504 E Silver Springs Blvd	WE'VE REMODELED!	IN THE DEERFOOT PLAZA

Do Not Be Influenced By What Others Are Doing When It Does Not Make Sense

- You do not have to chase the car loan business with rates lower than your home equity loans and work hard yet still lose money.
- One credit union decided they would do whatever it takes to get the dealer business.
- They had record loan growth and their gross loan yield and gross income went down.

A Credit Union That Wanted All The Indirect Dealer Business

	12/2004	12/2005	Growth
Loans Outstanding	420,000,000	502,000,000	82,000,000
Loan Income	28,500,000	28,000,000	(-500,000)

Point: The credit union was determined to get the lions share of the dealers business and they did. They had loans from as low as 2.99%. There is no question the dealers will love you but who is really making the money. Credit unions are artificially keeping rates low by competing with each other. Credit unions have to learn to compete but not just on price. Teach your employees to sell to the payment. You should offer your members a very competitive rate but not to the point where you are losing money.

Top 25 credit union R.O.A.s for one of the largest states in the USA for the year ending December 31,2005

Rank	R.O.A
1	1.58%
2	1.22%
3	1.14%
4	0.99%
5	0.98%
6	0.95%
7	0.93%
8	0.93%
9	0.92%
10	0.92%
11	0.92%
12	0.91%
13	0.86%

Rank	R.O.A
14	0.80%
15	0.75%
16	0.74%
17	0.74%
18	0.72%
19	0.64%
20	0.55%
21	0.52%
22	0.45%
23	0.36%
24	0.35%
25	-0.03%

Average	0.79%
Median	0.86%

(We do not think we have a problem.)

Where would credit unions be without courtesy pay. Start pricing loans the right way.

Compare Credit Union Rates to Banks

			Sunday	April 16, 2006	
	New-Car Loan Rates				

Here is what Chicago-area institutions were charging April 11 on new car loans, according to Bank Rate Monitor. Loans are for $22,000 with a 10 percent down payment. Rates are fixed, unless otherwise noted, and may vary upon branch location or customer

Lenders	Down Payment	3-YR Term	4-YR Term	5-YR Term	Fees, Conditions
Access Credit Union	10%	4.75%	5.00%	5.50%	No fee, must be a member
Amalgamated Bank	10%	7.00%	7.25%	7.50%	No fee.
AmCore Bank	10%	6.95%	6.95%	6.95%	$75 fee.
BankFinancial	10%	8.00%	8.25%	8.50%	Quarter point discount with automatic debit, no fee
Bridgeview Bank	10%	7.25%	7.75%	7.95%	Quarter point discount with automatic debit
Central CU of Illinois	10%	4.99%	5.24%	5.49%	Range: 4.69-9.19%, no fee, must be a member
Chase/IN	10%	7.04%	7.04%	7.04%	Range: 7.04-8.55%, half-point discount w/ auto debit, $75 fee
DuPage CU	10%	6.29%	6.59%	6.59%	No fee, range: 5.79-6.59%
Fifth Third Bank	10%	6.69%	6.69%	6.69%	Range: 6.69-9.69%, quarter-point discound w/ auto debit, $165 fee
First American Bank	10%	6.75%	6.75%	6.75%	No fee
First Midwest Bank	10%	6.89%	6.89%	6.89%	Range: 6.89-9.89%, $100 fee
Founders Bank	10%	6.75%	7.00%	7.25%	Quarter-point discount automatic debit, no fee
Glenview CU	10%	5.44%	5.44%	5.44%	Quarter-point discount automatic debit, no fee
Glenview State Bank	10%	N/A	N/A	N/A	Req 15% down
Harris National Assn.	10%	7.25%	7.25%	7.25%	Quarter-point discount automatic debit, no fee
LaSalle Bank	10%	7.25%	7.50%	7.50%	No fee
MB Finanical Bank	10%	6.00%	6.25%	6.50%	Quarter-point discount auto debit, $30 fee
National City Bank	10%	7.14%	7.14%	7.14%	Quarter-point discount w/ auto debit, $100 fee
Norstates Bank	10%	N/A	N/A	N/A	Req 20% down
Northern Trust CO.	10%	6.50%	6.75%	7.00%	Half-point discount with automatic debit, no fee
NorthStar CU	10%	5.75%	5.75%	6.00%	Range: 5.75-15.25%, quarter-point discount w/ automatic debit
Oak Trust CU	10%	5.75%	5.75%	5.75%	Quarter-point discount w/ automatic debit
Think FCU	10%	5.75%	5.75%	5.75%	No fee, must be a member
US Bank	10%	7.40%	7.74%	7.74%	1-point discount w/ automatic debit, $75 fee
West Suburban Bank	10%	6.49%	6.49%	6.49%	No fee

Source: Bank Rate Monitor, North Palm Beach, FL 34408

SUGGESTED INTEREST RATE STRUCTURE
FOR RISK-BASED LENDING AS OF 4-25-06

RANGE	GRADE OF PAPER	RATES All Unsecured Loans	RATES All Secured Non-Real Estate Loans (Autos, Boats, Motorcycles, etc.)					
			24 Mo	36 Mo	48 Mo	60 Mo	72 Mo	84 Mo
Suggested Floor Rate			5.50	5.75	6.00	6.25	6.50	6.75
730+	**Platinum**	9.25%	6.50	6.75	7.00	7.25	7.50	7.75
680 - 729	**A**	11.25%	7.00	7.25	7.50	7.75	8.00	8.25
640 - 679	**B**	13.25%	8.00	8.25	8.50	8.75	9.00	9.25
600 - 639	**C**	15.25%	9.50	9.75	10.00	10.25	10.50	10.75
550 - 599	**D**	18.00%	13.00	13.25	13.50	13.75	14.00	n/a
549 or less	**E**	18.00%	17.00	17.25	17.50	17.75	n/a	n/a

Note: 1. Add 1% to above rates on model years 2003-2004.
2. Add 2% to above rates on model years 2000-2002.
3. Add 3% to above rates on model years 6 years and older. **Note:** FCU's cannot exceed 18%
4. On big ticket items, Boats, RV's, etc., consider amortizing these loans for 10-15 years with a 5 year balloon payment.

HOME EQUITY PRODUCT (Prime = 7.75%)

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
730+	**Platinum**	Prime - 1.50%	6.25%	7.25%	8.25%	n/a
680 - 729	**A**	Prime - 1.0%	6.75%	7.75%	8.75%	n/a
640 - 679	**B**	Prime - .50%	7.25%	8.25%	9.25%	n/a
600 - 639	**C**	Prime + .50%	8.25%	9.25%	10.25%	n/a
550 - 599	**D**	Prime + 1.5%	9.25%	10.25%	11.25%	n/a
549 or less	**E**	Prime + 2.5%	10.25%	11.25%	12.25%	n/a

UNDERWRITING GUIDELINES

Maximum Amount	**Over $100,000**	**$75,000 - $100,000**	**$75,000 & Under**
Appraisal	Full Appraisal	Drive By	AppraiseIt.com or No Appraisal
Title/Property Ins.	Title Search	Title Search	No Title Search
Payments	Offer the same rates as variable (above) with a 15 year amortization and a five year balloon.		
Fees	Try to offer no fees of any type, fees are a barrier.		
Draw Down	Member must take initial draw of $5,000, subsequent advances must be $500		
Marketing	Market lowest rate, lowest payment, interest only payments, no fees.		

FIXED HOME EQUITY PRODUCT – 0 to 5 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
730+	**Platinum**	Prime - 1.50%	6.25%	7.25%	8.25%	n/a
680 - 729	**A**	Prime - 1.0%	6.75%	7.75%	8.75%	n/a
640 - 679	**B**	Prime - .50%	7.25%	8.25%	9.25%	n/a
600 - 639	**C**	Prime + .50%	8.25%	9.25%	10.25%	n/a
550 - 599	**D**	Prime + 1.5%	9.25%	10.25%	11.25%	n/a
549 or less	**E**	Prime + 2.5%	10.25%	11.25%	12.25%	n/a

FIXED HOME EQUITY PRODUCT – 6 to 10 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
730+	**Platinum**	Prime - .50%	7.25%	8.25%	9.25%	n/a
680 - 729	**A**	Prime	7.75%	8.75%	9.75%	n/a
640 - 679	**B**	Prime + .50%	8.25%	9.25%	10.25%	n/a
600 - 639	**C**	Prime + 1.5%	9.25%	10.25%	11.25%	n/a
550 - 599	**D**	Prime + 2.5%	10.25%	11.25%	12.25%	n/a
549 or less	**E**	Prime + 3.5%	11.25%	12.25%	13.25%	n/a

FIXED HOME EQUITY PRODUCT – 11 to 15 year

SCORE	GRADE	To 80%		To 90%	To 100%	To 125%
730+	**Platinum**	Prime + .50%	8.25%	9.25%	10.25%	n/a
680 - 729	**A**	Prime + 1.0%	8.75%	9.75%	10.75%	n/a
640 - 679	**B**	Prime + 1.5%	9.25%	10.25%	11.25%	n/a
600 - 639	**C**	Prime + 2.5%	10.25%	11.25%	12.25%	n/a
550 - 599	**D**	Prime + 3.5%	11.25%	12.25%	13.25%	n/a
549 or less	**E**	Prime + 4.5%	12.25%	13.25%	14.25%	n/a

Rates For All Vehicles Loans Should Reflect The Following

- Interest Rate Risk is defined by the credit unions ability to change rates in a rising interest rate environment. As an example, if the credit union is offering a 30 year fixed rate mortgage at 5.5% and rates start to escalate. The borrower will most likely not move and the credit union cannot increase their yield; although the credit union is having to pay substantially more for deposits.
- Liquidity Risk occurs when the demand for loans far exceeds the rate of growth in deposits and the credit union simply runs out of money.
- Default Risk is measured by risk score which suggests the probability of the member will make their payments on-time.

  Credit unions deal with the above risk by implementing risk-based pricing, tiering their rates and by asset liability management in keeping a large enough spread to ensure paying competitive rates, which makes money available for loans.
- Collateral Risk up until now, credit unions offered the same rate on a vehicle loan on loans 80% LTV as they do for loans 125% LTV.   We are proposing the following change.

Other Rate Considerations on Vehicle Loans

Loan to Value based on retail value.

Below 80% LTV	80-94%	95-104%	105-114%	115-124%	125%+
6.25%	6.75%	7.25%	7.75%	8.25%	8.75%

**Based on A+ paper for 60 months.

The argument for doing the above adjustments is there is no question that a credit union is taking substantially more risk in financing 125% LTV versus below 80% LTV.

When “A” Paper Is Not “A” Paper

- How to really read and understand what the credit report is telling you.

David XXXXXXX SS: xxx-xx-xxxx E:
123 Main Street DOB: 07*01/59
Anytown, USA 12345
RPTD:

-- PROFILE SUMMARY --

PUBLIC RECORDS-------0	PAST DUE AMT--------$0	INQUIRIES----10 SATIS ACCTS-----47
INSTALL BAL-------$28,060	SCH/EST PAY------$1500	INQS/6 MO-----0 NOW DEL/DRG----0
R ESTATE BAL--- $67,320	R ESTATE PAY---- $644	TRADELINE--48 WAS DEL/DRG----1
TOT REV BAL----- $24,761	TOT REV AVAIL----56%	PAID ACCT----29 OLD TRADE----7-94

-- SCORE SUMMARY --

EXPERIAN/FAIR, ISAAC SCORE = 662
SCORE FACTORS: 10, 13, 01, 14

Our rate is too low!!! 5.24% "B" Paper. Income = %5897.65

-- 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
*Discover Fin Svs LLC xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx **Credit card lost or stolen	12-01 10-22-04	$6,000 – L	 10-04	CRCDLost (24)	CURR ACCT B000000000000 000000000000
*First USA Bank xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx ** Credit card lost or stolen	9-01 10-13-04	$12,908 – H	 10-04	CRCDLost (37)	CURR ACCT B0CCCCCCCCCCCC CCCCCCCCCCCC
*CITI xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx **Account closed at consumer's request	5-95 6-30-02 5-01	$4,310 – L	 4-01	Closed (69)	CURR ACCT B0000------00 0CCCCCCCCCCC
CITI xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx **Account closed at consumer's request	11-99 3-14-06 10-05	$300-L	 3-06	Paid (76)	CURR ACCT BCCCCCCCCCCC CCCCCCCCCCC
*Chase xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx **Account closed at consumer's request	6-01 2-18-06 2-06	$5,000 – L $434 $11	$5,363-H 7-05	Open (57)	CUR was 30-2 CCCCCCCC1CCC CCCCCCCC1CCC
MBNA America xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxxx	3-97 3-14-06 3-06	$12,500 – L $11,367 $307	$12,678 - H 3-06	Open (99)	CURR ACCT CCCCCCCCCCC CCCCCCCCCCC
Could B-U CU xxxxxxx FC UNS 36 1 xxxxxxxxxxxxxxxxx	3-05 3-13-06 2-06	$6,948 – O $5,174 $262	 3-06	Open (12)	CURR ACCT CCCCCCCCCCC

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
GEMB/Mervyns xxxxxxx DC CHG REV 1 xxxxxxxxxxxxxxxx	1-02 3-09-06 4-05	$700 – L $0	$228 - H 2-06	Open (26)	CURR ACCT N0000000000CC CC0000000000
HSBC NV xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx **Account information disputed by consumer	1-05 2-28-06 2-06	$750 – L $146 $15	$828 – H 2-06	Open (14)	CURR ACCT CCCCCCCCCCCC C
Chevron Credit Bank xxxxxxx OC CRC REV 1 xxxxxxxxxxxxxxxx	6-00 2-28-06 2-06	$700 – L $119 $10	$630 – H 2-06	Open (69)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
WFFinance xxxxxxx FP NTE 36 1 xxxxxxxxxxxxxxxx	5-05 2-28-06 2-06	$1,073 – O $252 $37	 2-06	Open (10)	CURR ACCT CCCCCCCCCC
Cap One BK xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx	7-03 2-23-06 2-06	$3,927 - H $3,861 $115	 2-06	Open (32)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
Bank of America xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx	8-03 2-18-06 1-06	$7,500 – L $7,705 $220	$7,705 - H 2-06	Open (30)	CURR ACCT CCCCCCCC00000C CCCCCCCCCCCC
Discover Fin Svs LLC xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx	12-01 2-17-06 1-06	$6,500 – L $0 $10	$6,648 - H 2-06	Open (50)	CURR ACCT 0CC0CCCCCCCCCC CCCCCCCCCCCC
Nordstrom FSB xxxxxxx DC CHG REV 1 xxxxxxxxxxxxxxxx	12-02 2-17-06 10-05	$600 – L $276 $20	$3,119 - H 2-06	Open (39)	CURR ACCT CC00CCCCCCCCCC CCCCCCCCCCCCC
Direct Merchants Bank xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx	8-04 2-15-06 12-05	$1,900 – L $853 $18	$1,945 - H 2-06	Open (18)	CURR ACCT CCCCCCCCCCCCC CCCC
ESB/Harley Davidson CR **xxxxxxx FF AUT 84 1** **xxxxxxxxxxxxxxxxx**	**9-04** **2-15-06** **2-06**	**$25,592 – O** **$22,634** **$465**	 **2-06**	**Open** **(18)**	**CURR ACCT** **CCCC---CC----C** **CCC-C**

Why not payoff?

Total payments = $39060. They make $13,468.

Do you think the member is rate sensitive?

How did Harley Davidson sell their rate?

I want to be Harley Davidson!

Kathleen XXXXXXX SS: xxx-xx-xxxx E:
123 Main Street DOB: 01/31/59
Anytown, USA 12345
RPTD:

Total unsecured debt between David and Kathleen = $69,830

-- PROFILE SUMMARY --

PUBLIC RECORDS-------0	PAST DUE AMT--------$0	INQUIRIES-------4	SATIS ACCTS-----26
INSTALL BAL------------N/A	SCH/EST PAY------$881	INQS/6 MO-------3	NOW DEL/DRG----0
R ESTATE BAL---------N/A	R ESTATE PAY---- N/A	TRADELINE----26	WAS DEL/DRG-----0
TOT REV BAL---- $45,069	TOT REV AVAIL----17%	PAID ACCT----15	OLD TRADE-----6-86

-- SCORE SUMMARY --

EXPERIAN/FAIR, ISAAC SCORE = 770
SCORE FACTORS: 10, 01, 04, 05

"A" paper. Do you really believe she is "A" paper?

-- 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
*ConsecoFin xxxxxxx FP CHG REV 1 xxxxxxxxxxxxxxxx **Purchased by another lender	10-00 6-30-03	$573 – L	$574 - H 6-03	Transfer (33)	CURR ACCT B000000000000 000000000000
*WFNNB/Limited xxxxxxx ZR CHG REV 1 xxxxxxxxxxxxxxxx ** Account closed at consumer's request	11-01 1-15-04 8-03	$1,000 – L $0	$312 - H 1-04	Closed (27)	CURR ACCT B0CCCCCCCCCCC CCCCCCCCCCCC
*WFNNB/Express xxxxxxx CG CHG REV 1 xxxxxxxxxxxxxxxx **Account closed at consumer's request	10-99 1-15-04 6-01	$1,000 – L $0	$130 - H 1-04	Closed (52)	CURR ACCT B0000------00 0CCCCCCCCCCC
*FNANB xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx **Account closed at consumer's request	12-92 1-17-00 10-05	$3,900 - L $0	$3,524 – H 4-99	Closed (86)	CURR ACCT BCCCCCCCCCCC CCCCCCCCCCC
*First USA Bank xxxxxxx BC CRC REV 1 xxxxxxxxxxxxxxxx **Account closed at consumer's request	1-93 7-27-97	$7,000 – L $0	$3,600 – H 7-97	Closed (56)	CURR ACCT B000000000000 0000000000000

GEMB/Gap xxxxxxx FF CHG REV xxxxxxxxxxxxxxxx	1	10-00 3-15-06 12-04	$1,800 – L $0	$948 – H 3-06	Open (77)	CURR ACCT 000000000000 000000000000
Bank of America xxxxxxx BC CRC REV xxxxxxxxxxxxxxxx	1	11-98 3-06-06 3-06	$20,000 – L $19,981 $226	$20,079 – H 3-06	Open (51)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
First Hawaiian Bank xxxxxxx BI C/C LOC xxxxxxxxxxxxxxxx	1	5-95 2-28-06 2-06	$13,000 – L $12,886 $328	$13,119 – H 2-06	Open (99)	CURR ACCT CCCCCCCCCCCCC CCCCCCCCCCCCC
WFFB/New York & Co. xxxxxxx CG CHG REV xxxxxxxxxxxxxxxx	1	7-01 2-23-06 12-05	$930 - L $62 $10	$705 – H 2-06	Open (56)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC
Bank of America xxxxxxx BC CRC REV xxxxxxxxxxxxxxxx	1	5-05 2-23-06 2-06	$12,000 – L $11,956 $302	$12,075 - H 2-06	Open (56)	CURR ACCT CCCCCCCCCCCCC CCCCCCCCCCCCC
Macys/FDSB xxxxxxx DC CHG REV xxxxxxxxxxxxxxxx	1	12-97 5-18-05 5-05	$1,100 – L $184 $5	$1,075 - H 5-05	Open (90)	CURR ACCT CCCCCCCCCCCC CCCCCCCCCCCC

All things being equal both members should of scored in the 800s. They are not even close.

Who Do You Want To Be?

- Credit Union invested $41,202 at 5.24% for 60 months. (Loan income = $5897.65).
- Credit Union could have easily charged 8.75% and would have earned an additional $4,092.
- Harley Davidson loaned $25,592 at 13% for 84 months and earned $13,468.
- Credit union should hired Harley Davidson’s F&I people.

Members should not have to be homeowners to get a debt consolidation loan. With bank credit cards minimum payments increasing from 2 to 4%, credit unions have a real opportunity.

When to approve a signature debt consolidation loan, Say "yes" if:

- Credit history goes back a number of years and has substance.
- Job and residence stability are solid.
- There are few inquiries for new credit.
- The member has few new trade lines.
- There is evidence the member will agree to shorter terms.
- The member is willing to pay more than the minimum payments and wants to get out of debt, not a quick fix.
- The member has a checking account and handles it well.

Point: Many members would like to consolidate their credit card debt because of the increased payments, yet they are not homeowners. There has never been a better time for signature debt consolidation loans. You should do an all out marketing campaign right now, members need help.

First Time/Young Borrowers Underwriting Guidelines

1. Know something positive about your member:
2. Are their parents members?
3. What was their motivation?
4. Is this the first car they have ever purchased from a dealer?
5. Do they know or did they look up the value of the car they are buying?
6. Do they have a commitment for insurance?
7. Do they know the cost of insurance?

8. Where is their checking and savings account?
9. How much money have they saved to put down?
10. What is their level of education?
11. How did they get their last job, did they know someone?
12. What is their performance evaluation like?
13. Do they like their job?
14. The loan request should not exceed 50-75% of the member’s gross annual income.
15. Direct deposit if possible.
16. Payment protection plan strongly encouraged.
17. Try to get equity by having the member make a down payment on the vehicle.

Policies that May Be Costing You Loans

- **Unwillingness to loan money to members who have caused you a loss due to bankruptcy.**
- Down payment requirements on D/E paper.
- Income verification.
- Debt ratios.
- Policies on excessive unsecured debt.
- Requirements to payoff collections or delinquent credit obligations.

New Approach to Bankruptcy

- Credit unions need to rewrite their policy on bankrupt members who caused them a loss to no longer deny them services or loans. This policy has been in effect way too long. Understand the member is basically following their attorney's advice and because we are angry that we lost money, we are now forcing the member to go elsewhere to get <u>all</u> their loans.
- In most cases, with the increased rate you will be charging the member because of their low risk score after bankruptcy, you will recover the money you lost on the first loan you make the member after bankruptcy. What credit unions are not considering is how many future loans they can get from this member; however, by turning the member down and withholding all services from the member we lose them forever and any opportunity to ever recoup our losses.

Newly bankrupt apparently good risks

Reuters
Posted Tuesday, December 06, 2005

Bankrupt? Want a credit card? You're golden.

A record number of Americans filed to wipe out their debts this year ahead of the autumn implementation of a tough new bankruptcy law. That surge in filings forced U.S. credit-card issuers like Citigroup and Capital One Financial to report a huge jump in uncollectable debts in the third quarter and to warn the losses would bleed into the fourth quarter.

Bankrupts can be like nuggets of gold to a credit union's bottom line.

The bankruptcy bubble has forced the card issuers to set aside big amounts to cover the unprecedented surge in charge-offs. It's also forcing them to scramble to rebuild their diminished loan portfolios, which are already under stress because of new federal guidelines on minimum payments requirements that are cutting into receivables and interest income, according to analysts at Citigroup Global Markets.

As they consider their options, some in the industry are reportedly mulling a strategy that concerns consumer advocates — signing up the consumers who just had their debts discharged.

Sound crazy? It's not. For starters, the new bankruptcy law requires debtors to come up with a payment plan to satisfy unsecured creditors like the card companies. So the newly bankrupt are actually pretty good credit risks.

But that's not all. In a world where the average creditworthy American already has more than four general-purpose credit cards and where response rates to direct-mail solicitations touting zero-interest teaser rates have fallen below 1 percent, experts say the newly bankrupt have much to recommend them.

Among their attractions: a tendency to engage in behaviors that generate hefty finance and penalty fees and bring fat profits to the issuers.

"The credit-card companies can't afford to lose these people," said Robert D. Manning, a professor at the Rochester Institute of Technology and author of the book "Credit Card Nation." "They've really come to count on them."

According to Lundquist Consulting Inc. of Burlingame, Calif., nearly 2 million Americans filed for bankruptcy from Jan. 1 until the Oct. 17 implementation of the new law, up nearly 52 percent from the same time last year.

In the old days, burned card issuers would have treated the people behind those sour statistics like untouchables and either denied them credit for up to seven years — or steered them into secured cards. No more.

"Lenders are going to go after them again and offer them money," Capital One Vice President Mike Rowen told listeners at a recent "State of the U.S. Consumer" conference hosted by CIBC World Markets.

During the conference, Rowen checked off for his listeners the things that make the newly bankrupt so attractive to some lenders.

For starters, they are debt-free, which means they're in a much better position than the average U.S. consumer to pay off any new bills in the face of rising interest rates, higher fuel prices and a slowdown in the real-estate market.

What's more, Rowen said, because the new U.S. bankruptcy law that went into effect in mid-October forbids anyone who declares bankruptcy from doing so again for anywhere between two to eight years, the newly bankrupt are customers who will — by law — have to pay a substantial portion of their new debts.

"The people that get discharged are going to get access to credit right away," Rowen said, "because once they're discharged, you know, they can't file for bankruptcy for a long time again."

The newly bankrupt are also card-free and keen to re-establish credit, making them much easier marks for direct-mail solicitations than their overcarded, nonbankrupt peers. And because they're so grateful to get their mitts on plastic again, the newly bankrupt will swallow the punishingly high interest rates that the credit-card companies will charge them because of their so-called subprime status.

"It's diabolical," said Travis Plunkett, legislative director of the Consumer Federation of America, a nonprofit watchdog group in Washington. "They'll hit them with terms that will give the word 'onerous' a new meaning."

A final reason the credit-card companies will welcome back the recently bankrupt with open arms? The companies really miss them. Their bankruptcies aside, these customers were pretty profitable, said Ed Groshans, a specialty finance analyst at Fox-Pitt, Kelton in New York.

"Those were the ones who were getting late fees, over-limit fees, and probably bounced a check every once in awhile," allowing the card issuers to hit them with one lucrative charge after another, Groshans said. "Those were like nuggets of gold on a company's top line."

• Printable version

Relationship Lending Has To Become Your Focus For 2006 and Years To Come

Your Employees Need to:

- Get excited about the opportunity to help the member.
- Share the moment with the member, compliment the member on at least two positive things the member has done.
- Go over the member’s credit report and always review the positive credit first.
- Tell the member what you can do versus what you cannot do.
- Smile at the member, be positive.
- Try to build the loan.
- Make sure the member will come back even if you were not able to make the loan.
- Give the member a reason to like you.

VantageScore

How VantageScores Compare to the Recommended Fair Isaac Scores That Credit Unions Currently Use for Pricing

Fair Isaacs			*VantageScore*		
• 730+	=	A+	• 901-990	=	A
• 680-729	=	A			
• 640-679	=	B	• 801-900	=	B
• 600-639	=	C	• 701-800	=	C
• 550-599	=	D	• 601-700	=	D
• 549&Below	=	E	• 501-600	=	F

If you were going to use VantageScore versus Fair Isaacs:

1) <u>Run a side by side comparison for 30 days</u>.

2) Separate the recommended VantageScore for "A" paper into two categories:

- 901-944 = "A" paper
- 945-990 = "A+" paper or platinum paper

How VantageScores Are Separated

VantageScore tends to break their models down into:

- **Accounts with no activity and types of accounts such as:**
    - Bankcards, revolving accounts.
    - Auto accounts.
    - Retail revolving.
    - Finance companies.
    - Real estate, mortgages.
    - Installment accounts.

Score Factor Code Descriptions

Code	Score factor code description
00	No usable accounts
01	No open accounts
02	No accounts with valid credit amount
03	No recently reported accounts
04	No presently rated accounts
05	No rated accounts
06	No open, rated accounts
07	No recently opened, rated accounts
08	No accounts with a valid open date
09	No open accounts with a balance
10	No usable installment accounts
11	No open installment accounts
12	No installment accounts with valid credit amount
16	No open, rated installment accounts
17	No recently opened, rated installment accounts
20	No usable revolving accounts
21	No open revolving accounts
22	No revolving accounts with a valid credit amount
28	No revolving accounts with a valid open date
30	No usable bankcard accounts
31	No open bankcard accounts
32	No bankcard accounts with a valid credit amount
33	No recently reported bankcard accounts
35	No rated bankcard accounts
36	No open, rated bankcard accounts
40	No usable auto accounts
45	No rated auto accounts
46	No open, rated auto accounts
50	No usable real estate accounts
51	No open real estate accounts
52	No real estate accounts with valid credit amount
55	No rated real estate accounts
60	No usable retail revolving accounts
61	No open retail revolving accounts
62	No retail revolving accounts with a valid credit amount
90	Too few accounts
91	Presence of a bankruptcy
1A	No recently rated installment accounts
2A	No recently rated revolving accounts
2B	No recently opened revolving accounts
3A	No recently rated bankcard accounts
4A	No recently rated auto accounts
5A	No recently rated real estate accounts
AA	Too few auto accounts consistently paid on time
AB	Too few auto accounts with no severe delinquency
AC	Too many auto accounts with severe delinquency/derogstatus

Code	Score factor code description
AD	Worst status on auto accounts is delinquent/derog
AE	Worst status in recent months on auto accounts is delinquent/derog
AF	Worst present status on open auto accounts is delinquent
AG	Newest delinquency/derog status on auto accounts is too recent
BA	Too many recently opened bankcard accounts
BB	Too many open bankcard accounts
BC	Too many open bankcard accounts, open for at least six months
BD	Too many open bankcard accounts with a balance
BE	Too many open bankcard accounts with a high balance
BF	Too many bankcard accounts with high utilization
BG	Too few open bankcard accounts, open for at least six months
BH	Too few bankcard accounts consistently paid on time
BJ	Too many bankcard accounts with delinquency/derog status in recent months
BK	Worst status on bankcard accounts is delinquent/derog
BL	Worst status in recent months on bankcard accounts is delinquent/derog
BM	Worst present status on open bankcard accounts is delinquent
BN	Sum of balances on bankcard accounts is too high
BP	Available credit on open bankcard accounts is too low
BQ	Average credit amount on open bankcard accounts is too low
BR	Maximum credit amount on open bankcard accounts is too low
BS	Open bankcard account balance/credit amount ratio is too high
BT	Too high proportion of bankcard accounts were opened recently
BU	Too high proportion of bankcard accounts recently delinquency/derog
BV	Too high proportion of balances from open bankcard accounts
BW	Too high proportion of bankcard accounts have high utilization
CA	Too many collection agency accounts with an amount greater than $250
CB	Too many unpaid collection agency accounts
CC	Too many collection agency accounts
CD	Too many recent collection agency accounts
CE	Presence of a collection agency account
CF	The sum of balances on collection agency accounts is too high
CG	Time since youngest collection agency account opened is too recent
CH	Too high proportion of collection agency accounts were opened recently
CJ	Too high proportion of collection agency accounts are unpaid
DA	Too many open retail revolving accounts with a balance
DB	Too many retail revolving accounts with high utilization
DC	Too few retail accounts with no severe delinquencies
DD	Sum of balances on open retail revolving accounts is too high
DE	Open retail revolving account balance/credit amount ratio is too high
FA	Too many finance company accounts
FB	Too many open finance company accounts
IA	Too many recently opened installment accounts
IB	Presence of presently delinquent/derog installment accounts
IC	Presence of severe delinquency/derog status on an installment account
ID	Worst status on installment accounts is delinquent/derog
IE	Worst status in recent months on installment accounts is delinquent/derog

Score Factor Code Descriptions

Code	Score factor code description
IF	Worst status on recently opened installment accounts is delinquent/ derog
IG	Worst present status on open installment accounts is delinquent
IH	Sum of balances on delinquent/derog installment accounts is too high
IJ	Sum of credit amounts on open installment accounts is too low
IK	Average credit amount on open installment accounts is too low
IL	Amount paid down on open installment accounts is too low
IM	Newest delinquency/derog status on installment accounts is too recent
IN	Open installment account balance/credit amount ratio is too high
IP	Too high proportion of balances from open non-installment accounts
MA	Too few open real estate accounts
MB	Too few real estate accounts with no severe delinquencies
MC	Worst status in recent months on real estate accounts is delinquent/derog
MD	Worst present status on open real estate accounts is delinquent
ME	Average credit amount on open real estate accounts is too low
MF	Amount paid down on open real estate accounts is too low
MG	Too low proportion of accounts are real estate accounts
PA	Too many public record judgments/tax liens
PB	Too many recent public record judgments/tax liens
PC	Too many unsatisfied public record judgments/tax liens
PD	Too many public record bankruptcy filings
PE	Newest public record judgment/tax lien is too recent
PF	Presence of public record judgment/tax lien since bankruptcy filing
PG	Too high proportion of public record judgments/tax liens are unsatisfied
Q0	Number of inquiries was also a factor, but effect was not significant
QA	Too many recent inquiries
QB	Too many inquiries
RA	Too many open revolving accounts
RB	Too few revolving accounts with a high credit amount
RC	Too many revolving accounts with high utilization
RD	Presence of presently delinquent/derog revolving accounts
RE	Too many revolving accounts with delinquency/derog status
RF	Worst status of any revolving account is delinquent/derog
RG	Worst status in recent months on revolving accounts is delinquent/derog
RH	Worst status on recently opened revolving accounts is delinquent/derog
RJ	Sum of balances on revolving accounts is too high
RK	Average balance on open revolving trades is too high
RL	Available credit on open revolving accounts is too low
RM	Sum of balances on delinquent/derog revolving accounts is too high
RN	Average credit amount on open revolving accounts is too low
RP	Time since oldest revolving account opened is too recent
RQ	Time since youngest revolving account opened is too recent

Code	Score factor code description
RR	Average time since revolving accounts opened is too recent
RS	Newest delinquency/derog status on revolving accounts is too recent
RT	Open revolving account balance/credit amount ratio is too high
RU	Recently opened revolving account balance/credit amount ratio is too high
RV	Too high proportion of revolving account delinquencies/derogs are recent
RW	Too high proportion of recently opened accounts are revolving accounts
RX	Too high proportion of balances from open revolving accounts
RY	Too high proportion of revolving accounts have high utilization
T0	Too high proportion of account delinquencies/derogs are recent
T1	Too low proportion of accounts paid on time in recent months
T2	Too low proportion of accounts with no recent severe delinquency
T3	Too high proportion of accounts recently delinquency/derog
TA	Too many recently opened accounts
TB	Too few recently reported accounts presently current
TC	Too many recently reported accounts presently delinquent/derog
TD	Too few accounts paid on time in recent months
TE	Presence of presently delinquent/derog accounts
TF	Too many open accounts presently delinquent
TG	Too many recently opened accounts with delinquency/derogstatus
TH	Too many accounts with a bankrupt status
TJ	Too many accounts with delinquency/derog status in recent months
TK	Worst status on accounts is delinquent/derog
TL	Worst status on recently opened accounts is delinquent/derog
TM	Worst present status on open accounts is delinquent
TN	Worst present status on recently opened, open accounts is delinquent
TP	Worst present performance on accounts is delinquent/derog
TQ	Open account balance/credit amount ratio is too high
TR	Sum of balances on delinquent/derog accounts is too high
TS	Time since oldest account opened is too recent
TT	Time since youngest account opened is too recent
TU	Average time since accounts opened is too recent
TV	Newest delinquency/derog status on accounts is too recent
TW	Presence of delinquency/derog status since bankruptcy filing
TX	Ratio of accounts consistently paid on time to all accounts is too low
TY	Too high proportion of accounts are in delinquency/derog status
TZ	Too high proportion of accounts were opened recently
--	No adverse action applied

VANTAGESCORE℠

experian

Performance Chart
Industry : Credit Unions
Application : Existing Accounts
Region: National

Definition of Bad: 90+
Definition of Good: Current through 30 days

Observation Date: June 2003
Performance Date: June 2005
Observation Period: 24 months

		CUMULATIVE %		DECUMULATIVE %				60+ RATE		90+ RATE		CO+ RATE		BK RATE	
INTERVAL (A)	SCORE RANGE (B)	TOTAL (C)	GOOD (D)	60+ (E)	90+ (F)	CO+ (G)	BK (H)	INTERVAL (I)	CUMULATIVE (J)	INTERVAL (K)	CUMULATIVE (L)	INTERVAL (M)	CUMULATIVE (N)	INTERVAL (O)	CUMULATIVE (P)
1	971-990	1.20%	1.30%	100.00%	100.00%	100.00%	100.00%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%
2	951-970	2.30%	2.40%	100.00%	100.00%	100.00%	100.00%	0.34%	0.20%	0.21%	0.13%	0.00%	0.03%	0.00%	0.03%
3	931-950	4.50%	4.80%	99.90%	99.90%	100.00%	100.00%	0.10%	0.15%	0.07%	0.10%	0.00%	0.02%	0.00%	0.02%
4	911-930	8.20%	8.80%	99.90%	99.80%	100.00%	100.00%	0.14%	0.15%	0.06%	0.09%	0.04%	0.03%	0.02%	0.02%
5	891-910	14.10%	15.10%	99.80%	99.90%	99.80%	99.90%	0.20%	0.17%	0.18%	0.13%	0.10%	0.06%	0.08%	0.04%
6	871-890	21.10%	22.60%	99.60%	99.60%	99.80%	99.70%	0.25%	0.20%	0.15%	0.13%	0.11%	0.07%	0.05%	0.05%
7	851-870	28.20%	30.10%	99.40%	99.40%	99.60%	99.50%	0.37%	0.24%	0.28%	0.17%	0.18%	0.10%	0.12%	0.06%
8	831-850	34.60%	37.00%	99.00%	99.10%	99.20%	99.00%	0.44%	0.28%	0.32%	0.20%	0.21%	0.12%	0.16%	0.08%
9	811-830	40.50%	43.20%	98.60%	98.70%	98.80%	98.50%	0.65%	0.36%	0.62%	0.26%	0.51%	0.18%	0.36%	0.12%
10	791-810	45.90%	48.90%	97.80%	98.00%	98.00%	97.30%	1.07%	0.44%	0.80%	0.32%	0.60%	0.23%	0.40%	0.16%
11	771-790	50.80%	54.10%	96.90%	97.10%	97.10%	96.20%	1.64%	0.56%	1.16%	0.41%	0.89%	0.29%	0.56%	0.19%
12	751-770	55.90%	59.50%	95.70%	96.00%	95.90%	94.70%	1.98%	0.69%	1.27%	0.48%	0.98%	0.35%	0.66%	0.24%
13	731-750	61.60%	65.40%	94.20%	94.70%	94.50%	92.90%	2.93%	0.90%	2.20%	0.64%	1.59%	0.47%	1.03%	0.31%
14	711-730	67.00%	71.00%	91.70%	92.20%	92.00%	89.70%	3.52%	1.11%	2.64%	0.81%	1.95%	0.59%	1.33%	0.39%
15	691-710	72.80%	76.80%	88.80%	89.40%	89.10%	85.80%	5.51%	1.45%	3.75%	1.04%	2.84%	0.75%	1.59%	0.49%
16	671-690	78.10%	82.10%	84.10%	85.20%	84.90%	81.00%	7.30%	1.85%	5.31%	1.33%	3.85%	0.97%	2.47%	0.62%
17	651-670	82.70%	86.60%	78.30%	78.70%	79.10%	73.90%	10.15%	2.31%	7.57%	1.67%	5.47%	1.22%	3.20%	0.77%
18	631-650	86.70%	90.20%	71.30%	72.80%	72.20%	66.00%	14.11%	2.86%	10.63%	2.09%	7.74%	1.52%	4.18%	0.92%
19	611-630	90.20%	93.30%	62.80%	64.60%	63.70%	57.10%	18.70%	3.48%	14.06%	2.56%	9.66%	1.84%	4.97%	1.08%
20	591-610	93.10%	95.70%	52.80%	54.80%	54.20%	47.60%	23.30%	4.10%	17.58%	3.03%	12.20%	2.16%	5.51%	1.22%
21	571-590	95.60%	97.50%	42.60%	44.80%	44.30%	39.00%	30.13%	4.77%	23.00%	3.54%	15.94%	2.62%	7.77%	1.39%
22	551-570	97.30%	98.80%	31.80%	33.80%	33.60%	28.80%	37.84%	5.35%	30.13%	4.00%	21.06%	2.84%	9.16%	1.52%
23	531-550	98.50%	99.30%	21.90%	23.80%	23.70%	20.40%	47.83%	5.86%	38.33%	4.42%	26.18%	3.12%	11.52%	1.65%
24	501-530	100.00%	100.00%	13.30%	14.80%	15.10%	13.10%	67.97%	6.66%	49.41%	5.11%	35.62%	3.62%	15.90%	1.86%
24 =		1.50%	7.70%	8.6%	9.0%	8.6%	7.3%	10.14%	.80%	10.08%	.67%	9.44%	.40%	4.38%	.21%

*TEST SIZE = 15,000,000

MSN Money, April 12, 2006

Liz Pulliam Weston

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The Basics

What the new credit score means to you

Lenders now have a second formula for judging your past, backed by the three giant credit bureaus. Your VantageScore could look very different from your FICO score.

By Liz Pulliam Weston

The three credit bureaus are touting their new credit-scoring system as a boon for borrowers, easier to understand and more "consistent" than other scoring methods.

Maybe. But VantageScore, which uses the same underlying data about your debts as the FICO score you already know, also poses some serious risks. And let's be clear: This isn't about making credit easier for the little guy. This is business.

NOTE

Big business.

Equifax, Experian and TransUnion are private companies that each track your accounts, balances and payment habits. A credit "score" simply assigns a weight to those factors to produce an indicator of how much risk you pose as a borrower. Fair Isaac's formula for scoring is the one lenders like best.

NOTE

Find a loan that's right for you at the **Loan Center**

Every time an appliance store or car dealership asks one of the credit bureaus for your credit score, the data the bureau has collected about you is sent through the proprietary FICO model. The lender pays the credit bureau for the score, and the bureau pays FICO for using its formula.

This is quite a lucrative business for Fair Isaac. Credit scoring accounts for 20% of the company's revenues, according to Merrill Lynch analyst Edward Maguire, but 65% of its operating profits.

The bureaus, naturally, want to cut out the middleman.

"They don't like having to pay Fair Isaac for anything," said mortgage broker Ginny Ferguson, who teaches credit scoring to her colleagues in the National Association of Mortgage Brokers. "The (credit bureaus) are intent on finding the next area of revenue generation."

The bureaus have tried to break Fair Isaac's stranglehold before, with no success. The VantageScore may be a different story.

Investors certainly think so; they drove Fair Isaac's stock down 6.6% on the day the new scoring system was announced, even though the bureaus hadn't signed up a single lender. Analyst Maguire rightly called VantageScore "a shot across the bow" of the bureaus and opined that even if the new system didn't replace FICOs, the bureaus could use it as leverage to get Fair Isaac to lower its prices.

We wouldn't have to care about these elephants' battles, except that consumers may be the grass trampled under their feet. Here are just some of the concerns:

Credit score confusion

FICO and VantageScore use two different ranges. The classic FICO scale runs from 300 to 850, while the VantageScore starts at 501 and runs to 990. The bureaus say the VantageScore range is more "intuitive," because it breaks down like an elementary-school report card:

901-990 equals "A" credit
801-900 equals "B" credit
701-800 equals "C" credit
601-700 equals "D" credit
501-600 equals "F" credit

But nothing is really intuitive about credit scores, particularly for consumers who are already confused about how FICO scores work. At worst, there could be a heck of a lot of puzzled borrowers trying to figure out why a number that would qualify them for the best rates and terms under one system (say, a 780) makes them credit mediocrities under the other.

The 'consistency' rap

The information in the credit-bureau databases can be wildly different. You may have accounts reported at one bureau that don't show up at the other two, or you may have successfully disputed an error at two of the bureaus only to have the third refuse to erase the bogus entry.

One of FICO's big selling points for lenders has been the model's consistency. Even though the bureaus collect and report credit information differently, the same basic FICO model is used at all three to generate comparable scores.

VantageScore also aims to create comparable scores from three dissimilar databases. Touting the new system's consistency, though, led some to the conclusion that VantageScore had somehow overcome the variation in data from bureau to bureau. It hasn't.

NOTE

We shouldn't fall for the idea that the new system is superior without more evidence -- so far, VantageScore hasn't been tested head-to-head with FICO.

The good, the bad and the ugly -- but mostly the bad

VantageScore is being marketed to lenders as being a better way to separate "good" from "bad" risks including, to quote its Web site, "the ability to classify more bad accounts into the worst-scoring ranges."

Lenders, you see, are often less worried about losing out on good customers than they are about getting stuck with bad ones. So if a few potentially good risks get wrongly qualified as bad, lenders aren't that worried as long as they avoid the deadbeats. If you happen to be one of those good eggs who's paying higher interest rates or having trouble getting loans, though, you *should* worry.

WOW

Again, the bureaus are quick to say that they haven't tested VantageScore against FICO, so it's unclear whether the upstart actually does sweep more folks into the worst-scoring range. But the fact that it's one of the bureaus' goals should help you understand the point: this is not about making consumers happier.

WOW

Perils for the young and thin

One of lenders' beefs about the classic FICO model is that people whose credit histories are "thin" (they have few accounts) or "young" (their oldest account has been established for only a few months or years) can still get pretty high scores. The lenders grump that these borrowers may pose a greater risk than the scores predict, and that people should have more robust credit files before they reach the top of the FICO pyramid.

Valid Credit Reports

Once again, without comparing VantageScore directly to FICO, the bureaus are touting it as a better way to grade people with limited credit histories. If that means the young or others without "robust" histories get better access to credit to buy homes and build businesses, this could be a good thing. If it means making credit harder to get for those folks, not so much.

NOTE

High switching costs

To say that FICO scores are entrenched in the financial world would be understating the case.

"FICO scores are used by 80% of the 50 largest banks. They're used in 75% of the mortgage origination decisions," said Ron Totaro, Fair Isaac's general manager for global scoring solutions. "We're a force because we've been at this for 50 years."

It's not just the lenders that rely on FICO. Most loans today are bundled up and sold to investors, who use the scores to gauge how much risk they're taking with these investments.

Wall Street is comfortable that FICO-scored loans will behave as forecast, Ferguson said, but could be more nervous about the "predictiveness" of a new scoring system. If lenders begin adopting VantageScores, they might tighten up their underwriting guidelines -- in other words, make credit harder for consumers to get -- while they see how well the loans actually perform.

As I mentioned earlier, though, consumers could stand to reap some benefits from the new score.

For one thing, competition has a way of bringing prices down and forcing companies to improve their products.

"No Evidence Yet"

But more importantly, the bureaus promise to provide clear guidance about what goes into the scores and how consumers can better their numbers. How specific that guidance will be remains to be seen, but Kerry Williams, group president of Experian's Credit Services, said that he wants consumers to know *exactly* how certain actions can affect their scores. (Currently, Fair Isaac offers a FICO "simulator" through the MyFico.com Web site that can show you how a handful of actions might affect your score, but you're given a range rather than an exact answer.)

At the moment we can't buy our own VantageScores, but Experian promises to make them available to consumers in the next few weeks, and the other bureaus say they'll follow suit by the end of the year. Then we'll have some more information to gauge whether VantageScores really are a better mousetrap -- or just more of the same.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the Your Money message board.

Key Messages

TransUnion.

- A single model available from all three CRCs
- Only generic model developed on data from all three CRCs at the same point in time
- Early testing reveals strong predictive capability and consistent performance across all CRCs
- Unique development techniques resulted in three patent applications
- Synchronized model developments and releases
- Single source for customer support
- Specific codes for unscoreables
- Scorecard identifier returned with score

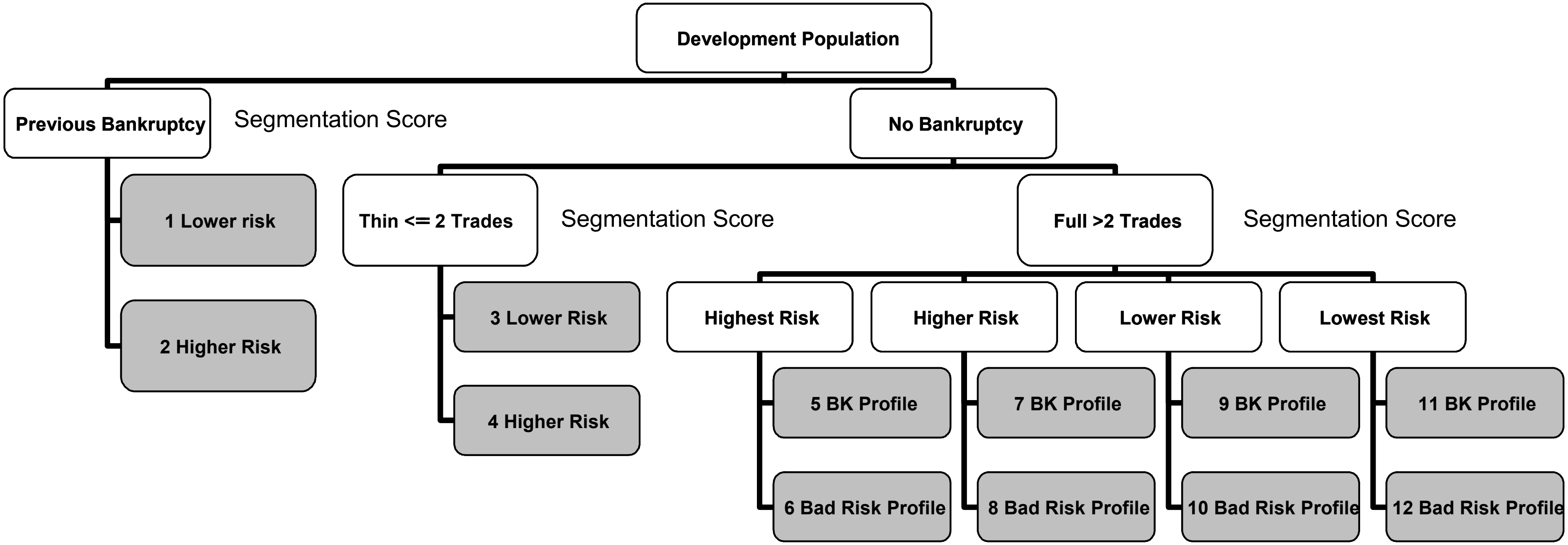
Scorecard Segmentation Benefits

TransUnion.

Multiple scorecards produce a more robust model that exhibits enhanced predictive power

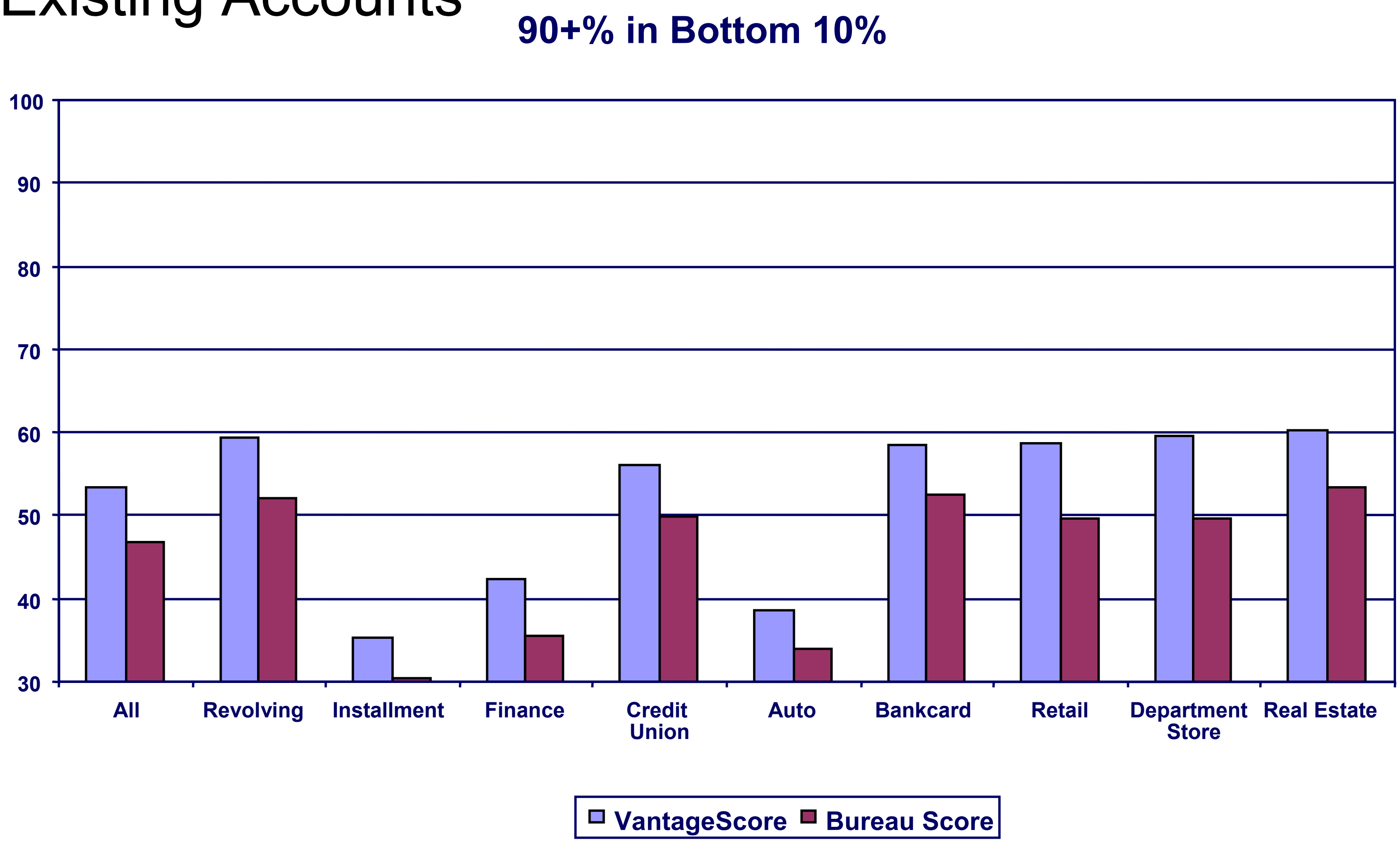
- Score card segmentation measures degree of risk
- Use of scorecard segmentation technique
  - Reduces shifting between scorecards
  - Results in a more stable score
  - Improves performance across prime/near-prime/sub-prime credit markets
- Inquiry characteristics are not used to determine score card
- Scorecard ID can be used to enhance decision making or assist in isolating populations of interest

Scorecard Segmentation



Validation Results

Existing Accounts



Questions that Credit Unions Need Answers To:

1. Will credit bureaus continue to other both Fair Isaac and VantageScore on the same reports?
2. If credit unions subscribe to both scores will their cost double?
3. When member's get their own credit report and score by going online to the credit bureaus, will they get only the VantageScore or both.
4. Will smaller delinquencies, regardless of how recent, carry less weight than larger delinquencies.
5. Would a "90 day" current small delinquency carry more or less weight than a "30 day" large current delinquency.
6. Do bankcards and department store accounts have the same impact on a score, either positive or negative, or bankcards carry more weight.
7. Fair Isaac broke down their score as follows:

35%	Payment History
30%	Capacity
15%	Length of Credit History
10%	Accumulation of Debt
10%	Mix of Credit (Revolving, installment and mortgage)

   Will VantageScore break it down the same way?

Marsha Wieder

From: Bonnie S. Heib [bheib@hhfcu.org]

Sent: Monday, April 10, 2006 3:26 PM

To: mwieder@NLPC.com

Subject: From Bonnie Heib @ Hudson Heritage FCU

Hi Marcia,

Could you please email the letter below to Rex for me?

Thanks

Dear Rex:

How are you? I hope all is well. I am just having a great time seeing the staff here develop more and more every day since Celeste has been here to train. The FSR's are becoming stronger and stronger. Celeste's training has provided them with the necessary tools required for us to meet our goals. As they become stronger, I am noticing that my job has become easier by not having to make as many calls to members and restructuring loans so they work. Our turn around time is much quicker now that we are becoming a team of underwriters. Now that I have more time, I have been able to go to the branches. We have really been pushing the tellers to talk to the members and get the referral to do the credit score enhancements. When I was in the Goshen branch, Korine referred 15 member and we closed $250,000 loans in 3 hours. That is proof that your theory works. I want you to know, and sure that you will be proud to hear, the training has assisted in declining very few loan and we did call each member before we declined them.

For me, I love my job more and more every day as I feel that I am more productive than the day before. I continue to make a difference in our member's lives and I love it!!!! Thanks to you and Celeste this is possible. Please share our success story during your training sessions.

Well I have to go because today is Monday and everybody gets a loan on Mondays.

Take Care!

Bonnie Heib

Celebrating 50 Years of Service

THE CREDIT UNION OF PALM BEACH COUNTY
Chartered 1953

February 7, 2006

Lending Solutions Inc.
2200 Point Boulevard
Elgin, IL 60123
Attn: Rex Johnson

Dear Rex:

Our journey with Lending Solutions Inc. and Randy Mims has been thrilling and productive. Exceeding our own expectations is now the norm, rather than the exception.

Once per quarter, I have the pleasure of standing in front of our board of directors to provide them with updates on our production. I am very proud of our accomplishments and take great satisfaction in witnessing our people succeed.

I will share with you some hard core facts. The production of our employees is indisputable. We instituted the University of Lending program in July of 2004 and Randy Mim's Pay for Performance program January, 2005. Take a look at our numbers this year, comparing them with our 2004 actual or average numbers.

- **From January 1, 2005 to December 31, 2005 our Total Loan Portfolio grew by 39%.**
- **During 2005, our monthly net income exceeded our budgeted net income by over 100%**
- **Our annual GAP *income* increased from $38,880 (2004) to $170,153 (2005).**
- **Our Extended Warranty *income* increased from $24,000(2004) to $59,000 (2005).**
- **Our Delinquency ratio is .17%**

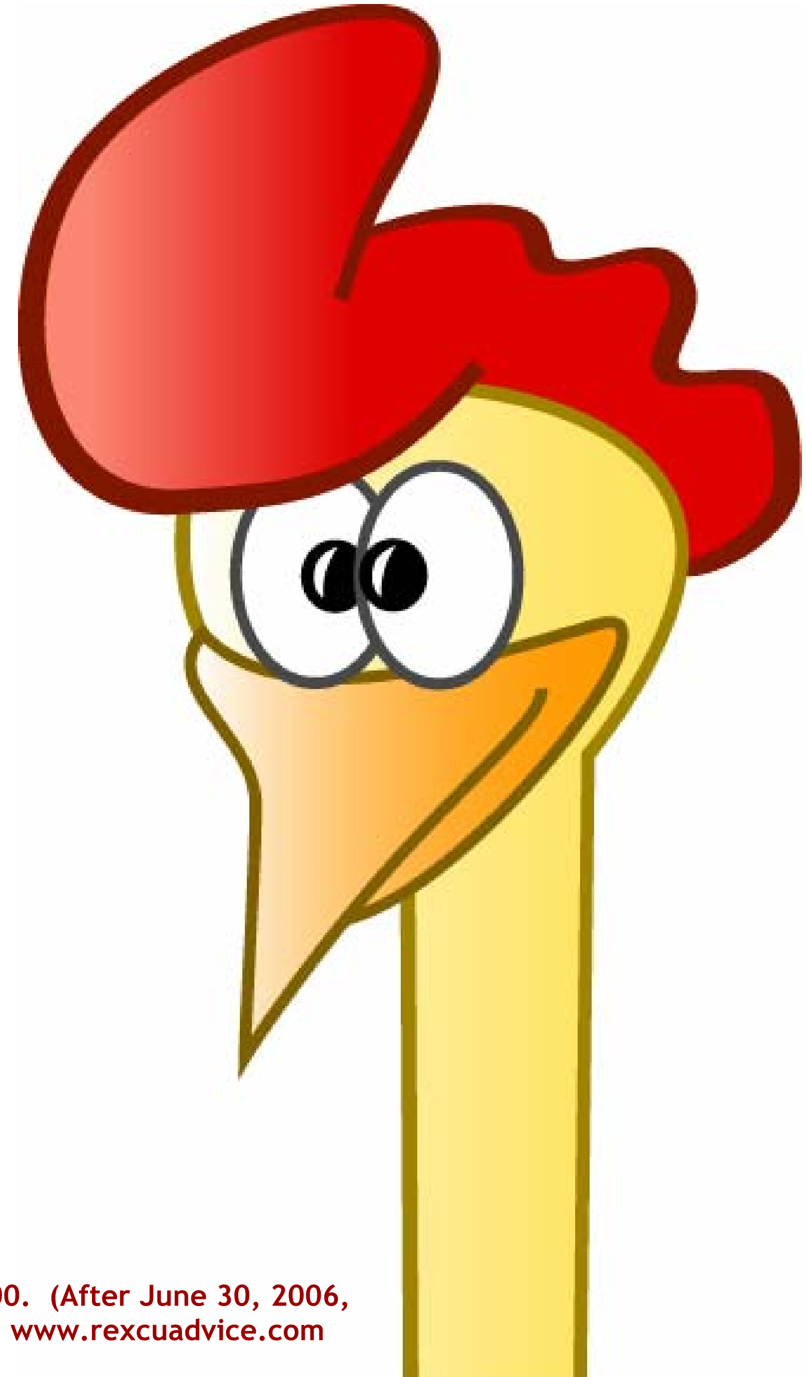
I will conclude by stating that Lending Solutions Inc. is a part of the two most significant changes this credit union has ever undertaken. Both the University of Lending and Pay for Performance programs have produced results beyond our wildest expectations.

Thank you for your knowledge and the shot of adrenaline our Credit Union needed. We love to do loans AND exceeding expectations at THE Credit Union of Palm Beach County!

Best Regards,

Robert J. Spanier

Robert J. Spanier
Chief Operations Officer
THE Credit Union of Palm Beach County
561-686-4006 x 137 work
561-351-1771 cell
robertspanier@thecu.coop



<Rex Johnson’s Online Institute>

Webinar #10 – VantageScore vs. Fair Isaac

Tuesday, July 25th, 2006 – 1 p.m.

Hosted by Lending Solutions Consulting, Inc

with Special Guests, TransUnion VantageScore Experts

- *More Validations Comparing VantageScore & FICO*
- *More Specifics on How VantageScore was Developed*
- *How VantageScore Works*
- *Why VantageScore May Be a Better Option than Fair Isaac*
- *How to Implement VantageScore*

****Register by June 30, 2006 to receive the Early Bird Discount of $295.00. (After June 30, 2006, the cost will be $349). Call Now: 800.937.4249 or visit our website at: www.rexcuadvice.com**