LENDING SOLUTIONS
CONSULTING

WEBINAR 56:
ELEVATING YOUR LENDING TO MEET THE CHALLENGES AHEAD

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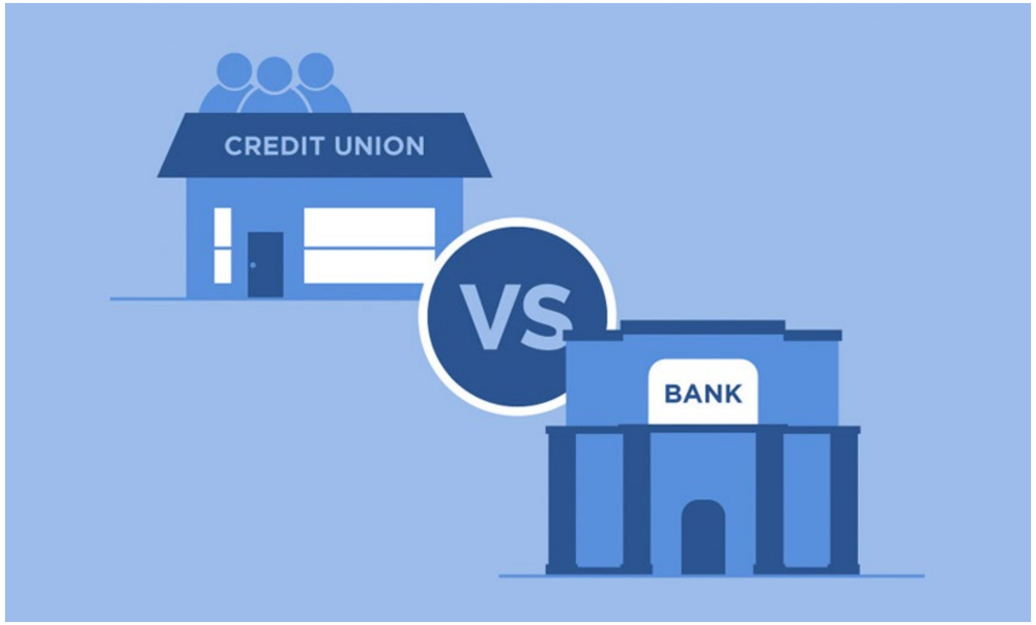
ECONOMIC ENVIRONMENT

- In the second half of 2019, the Federal Reserve lowered interest rates 3 times in anticipation of a slowing economy.
- When the pandemic hit, they responded quickly and took interest rates to almost zero.
- All indications are they will not be going up anytime in the foreseeable future.

CREDIT UNION / BANK RESPONSES



- Credit unions responded by offering members deferred payment options on loans and credit cards.
- Many big banks responded by raising FICO score and down payment requirements on mortgages

WHERE WE ARE AT TODAY

Nearly eight months later…

- Unemployment is at 8.4 percent
- Housing starts dropped 5.1% in August after 3 months of gains
- Our political system is in chaos
- Talks of a vaccine are becoming more common, but no one knows for sure when that is coming and how long it will take for "herd immunity" to become a reality
- The way we work has changed dramatically but all I hear is "I can't wait until we get back to normal". The reality is we are in our new normal.

TROUBLING SIGNS

A sample of over 100 credit union FPRs focusing on the following key ratios shows:

- Capital – trending down
- Loan Growth – trending down
- Portfolio Mix – collateralized loans are increasing while high yield unsecured loans are shrinking
- Loan Yield – trending down
- Investment Yield – trending down significantly
- Delinquency - stable
- Charge offs – stable

A LOOK AT LOANS

- Loans are the engine that drive the train and loan yield is the fuel that feeds the engine.
- Because of the feds action on interest rates investment yields are going to continue to drop. During the Great Recession invest yields dropped well below 1% and many experts are predicting they could go lower well through 2021.
- Mortgage rates and car loan interest rates are at historic lows and once again are not expected to see any increases any time soon.
- Yet, delinquencies and charge offs have been very stable. This is either due to great relationships, great underwriting or we have tightened up and have been saying no more often. With loan growth trending down it appears we have become more conservative.

THE NEW NORMAL IS…

NOW!

A LOOK AT THE COMPETITION

BANK	REVENUE	NET INCOME	DILUTED EPS	OPERATING INCOME
CAPITAL ONE	↓ 60.05%	-$918M / 156.49%	↓168.21%	$1.37B / -164.49%
CHASE	↓ 18.45%	$4.69B / -54.44%	↓51.06%	$5.68B / -50.2%
WELLS FARGO	↓ 60.48	-$2.38B / -138.33%	↓.66%	$6.03B / -177.3%

HOW ARE WE DOING?

Key Ratios From Credit Unions On This Call Today

- Capital: 10.79%
- Loan Growth: 1.37% (1/3 of the participating credit unions have negative loan growth for the year)
- Loan Yield: 5.77%
- Investment Yield: 1.32%
- Delinquencies: .77%
- Charge-offs: .67%
- Portfolio Mix:
  - Auto Loans: 54%
  - Real Estate: 32%
  - Unsecured Loans: 14%

WHAT WE MUST DO

- It’s time to get back in the game and do what we are supposed to do. Serve the under-served and do loans!

- We need to reinvent our process so our best decision makers are taking face to face applications, answering phones, decisioning online applications, doing FaceTime or Zoom interviews with our members.

- Centralized lenders need to get back in the lending game and not be hidden from the member. They are your best of the best. Why are we hiding them?

LOAN INTERVIEWS MUST EVOLVE

- The era of “I know them, they will pay us” is now in the rearview mirror.
- We have to dig deeper and find out where they are in their lives right now, not where they were before the pandemic.
- Credit scores are dropping. The pre-pandemic average FICO score was 727. It is now at 705, and it will likely continue to drop.
    - Are your MSR’s and Loan Officers aware of this?
    - Are they still focusing heavily on the score or are they really listening to the Member and are they solution-driven?

The numbers show the big banks are not getting paid. The numbers also show that overwhelming we are getting paid with delinquencies and charge-offs still at pre-pandemic levels.

CONSOLIDATION LOANS

- My advice back in March was to back off the large consolidation loans for the foreseeable future.
- With the huge losses the big banks are taking I am holding firm with that advice until first or second quarter of 2021.

Rex always said, "when you take on someone's mistake, you are now the proud owner of that mistake". Those words have never been truer. But that doesn't mean we just turn the faucet off! If we elevate our interviewing, analytical, and decision-making skills we can still do a reasonable level of these loans and still be safe and sound. It has to make sense!

CREDIT CARDS

Are we still in the credit card business?

- What is the gross yield of your credit card portfolio?
- What is the charge-off percentage of your credit card portfolio?
- If your net portfolio yield is over 10%, then we need to keep educating and offering members our credit card!
- You are going to need the yield and interchange income this product offers due to continuing downward yield pressure on mortgages, car loans, and investments.

DON'T FORGET THE "WHY"!

A real story from

CSE Federal Credit Union

Q & A / DISCUSSION

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HOW CAN WE HELP YOUR CREDIT UNION?

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