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A WINNING APPROACH TO BANKRUPTCIES

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MEET OUR SPEAKERS



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ABOUT LSCI



- Industry leader in credit union training and consulting.
- Trained over 50,000 credit union employees to achieve dramatic improvements in loan yields, ROAs, and member service practice.



Rex Johnson
Founder, LSCI

University of Lending | On-site Consulting | Portfolio Analysis
HYLS Underwriting Guide | Smart Loan Audit | Specialty Schools

TYPES OF BANKRUPTCY

Chapter 13 – Wage Earners (30%)

5 years of payments into a plan

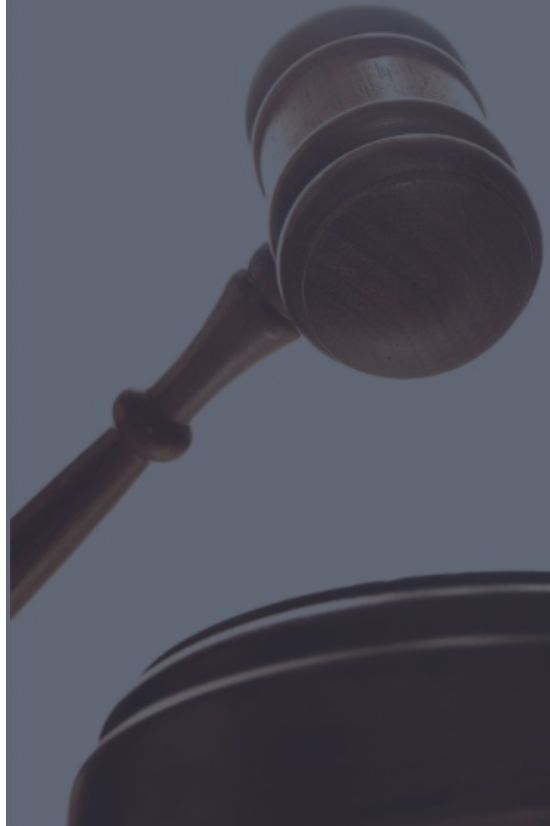
Chapter 7 – Straight BK (70%)

Over in 90 days

Chapter 11 - Business

Chapter 12 - Agriculture

BANKRUPTCY





TODAY'S CLIMATE



BANKRUPTCY DATA

Table F-2.
U.S. Bankruptcy Courts—Business and Nonbusiness Cases Commenced, by Chapter of the Bankruptcy Code,
During the 12-Month Period Ending September 30, 2020

Circuit and District	Total All Chapters	Total Chapter 7	Total Chapter 11	Total Chapter 13	Total Other Chapters ¹	Predominant Nature of Debt								
						Business					Nonbusiness			
						All Chapters	Chapter 7	Chapter 11	Chapter 13	Other Chapters ¹	All Chapters	Chapter 7	Chapter 11	Chapter 13
Total	612,561	412,369	7,981	191,396	815	22,391	13,013	7,313	1,250	815	590,170	399,356	668	190,146

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						Business					Nonbusiness			
						All Chapters	Chapter 7	Chapter 11	Chapter 13	Other Chapters ¹	All Chapters	Chapter 7	Chapter 11	Chapter 13
Total	776,674	482,831	7,105	286,027	711	22,910	14,334	6,096	1,769	711	753,764	468,497	1,009	284,258

Total weekly bankruptcy filings dip by 33.4 percent from 2019.

During the week ending Dec. 6, total filings saw a notable decrease compared to the same time last year. The largest decline could be seen in Chapter 13 filings, down by over one-half from last year.

Total Filings

Total filings were down by 33.4 percent during the week ending December 6 compared to the same week in 2019. Once again, the largest decline involved chapter 13 filings, which were down by well over one-half from last year.

Chapter 11 Cases

The 169 chapter 11 filings were up from the 145 filings during the same week last year. The increase, however, is largely due to the higher number of cases filed that had numerous related cases filed by corporate subsidiaries.

Total weekly bankruptcy filings dip by 33.4 percent from 2019. The Calm before the Storm?

Subchapter V (A subchapter of Chapter 11 for small business)

The Small Business Reorganization Act of 2019 (SBRA), which took effect on Feb. 19, created subchapter V through chapter 11 to provide a streamlined and cost-effective option for small business debtors. The 59 subchapter V cases filed during the week were the most filed in a single week since subchapter V became available in February 2020. A total of 1,269 such cases have been filed in the nine months since it has been available.

Subchapter V Debt Limits

The initial debt ceiling for subchapter V eligibility was \$2,725,625. **On March 27, 2020, the CARES Act raised the debt ceiling for subchapter V eligibility to \$7,500,000. Absent further congressional action, the threshold will return to \$2,725,625 after one year.**

There were 759 subchapter V cases filed in the six months from the time the debt limit was raised to the end of Fiscal Year 2020 (September 30, 2020). Information on liabilities was available for 548 of these subchapter V cases. Of these cases, 157 (28.6 percent) involved debtors whose liabilities exceeded the original limit of \$2,725,625. These debtors would not have been eligible for subchapter V without the temporary increase provided by the CARES Act.

UNDERSTANDING THE COSTS/BENEFITS OF BK

- **Cost:**

- \$2,000
- Credit score drops
- Paperwork
- Time and effort

- **Benefit:**

- Walk away from unsecured debt
- Walk away from “Underwater” secured debt

Tip: Total up the dollar amount the member would benefit if they filed BK. Ask yourself, would you file BK if you were in their situation?

WHAT MOTIVATES A BORROWER TO SEEK RELIEF FROM BANKRUPTCY?

REASONS PEOPLE FILE BANKRUPTCY

Medical Expenses - A study published in the American Journal of Public Health in 2019 found that 66.5% of bankruptcies in the U.S. were due to medical issues like being unable to pay high bills or due to time lost from work.

Job Loss - Whether due to layoff, termination or resignation, the loss of income from a job can be devastating. COVID has had a significant role in unemployment and job loss.

Poor or Excess Use of Credit - Credit card bills, installment debt, car, and other loan payments can eventually spiral out of control until finally, the borrower is unable to make even the minimum payment on each type of debt.

Divorce or Separation - Marital dissolutions create a tremendous financial strain on both partners in several ways. First come the legal fees, followed by a division of assets, child support and/or alimony.

Unexpected Expenses - Three out of 10 Americans do not have an emergency fund.

The background of the slide features a blurred image of a black pen and a stack of gold coins. The text is overlaid on a dark blue gradient that covers the bottom two-thirds of the image.

IDENTIFYING THE SIGNS OF BANKRUPTCY DURING UNDERWRITING

A small, solid green triangle is positioned at the bottom center of the slide.

SIGNS OF BANKRUPTCY

- **Calculate the amount of debt that would be discharged in a BK, including:**

- Credit cards
- Signature loans
- Charge offs
- Collection
- Payday Loans
- Negative Shares
- Casino Accounts
- Negative Equity in Secured Loans (Underwater amount)

Tip: Not all unsecured debts are discharged in BK. Education loans, most taxes and child support to name a few.

- **Dischargeable Debt / Annual Gross Income**

- Over 35% is a red flag (Assuming no education loans) The more education loans the lower this number should be
- Over 20% may be a concern with escalating dischargeable debt.

- **Escalation of Dischargeable Debt after a major purchase**

OTHER COMMON ITEMS ON BK LOANS

(In addition to high dischargeable debt)

Caution: These may give mis-leading signals in the absence of high dischargeable debt.

- **More than 60% of unsecured credit lines are used (Capacity)**
- **Unsecured debt has been escalating in the last 24 months**
- **Credit Score trending down**
- **Lethal Combination of FICO score codes**
- **Secured debt well over 50- 75% of annual income and opened in short amount of time**

1. List all the unsecured debts (revolving and installment) opened in the past 24 months
2. Calculate all the unsecured debt opened in the past 24 months
3. Average amount of new debt opened, based on oldest tradeline within 24- month period

LSCI's Inflated Income Calculator

List all the unsecured debts (revolving and installment) opened in the past 24 months

	Creditor	# of months opened	Balance	Payment
1	CAPITAL ONE	15	\$1,654	\$35
2	VICTORIA SECRET	12	\$795	\$25
3	CHASE	21	\$4,952	\$160
4	AMEX	9	\$465	\$25
5	CREDIT UNION VISA	23	\$3,987	\$120
6	ONE MAIN	14	\$6,525	\$250
7				
Total			\$18,378	\$615

Oldest new account **21** Enter oldest tradeline opened within last 24 months
debt total/oldest new account

New debt per month **\$875.14** Average amount of new debt opened, based on oldest tradeline within 24 month period)

Monthly income **\$7,500.00** Enter monthly income

Suggested Guidelines **Reasonable amt of new debt**
\$525.00 (7% of gross monthly income)

Actual % **12%**

INFLATED INCOME RATIO or Accumulation of New Debt



Tip: Reviewing old credit reports is a more accurate assessment



WHAT IF THE MEMBER FILED BANKRUPTCY?



POST BANKRUPT COLLECTION GUIDELINES

- Underwater secured loans may be collectable if you have a low rate.
- Attend the meeting of creditors and try to save the relationship.

POST BANKRUPT LENDING GUIDELINES

- Credit education is key!
 - How to rebuild credit and use it wisely.
 - Show the savings as the score improves
- Focus on deepening the relationship with direct deposit and auto pay
- Auto loans – Loan request up to 50% of gross annual income
 - newer/low mile vehicles
 - 100% LTV's or more
- Be the first card in their wallet
- Give an opportunity to refinance the loan as their score improves



Loan Amount	Current Score	Rate	Term	Loan Interest	Payment
\$15,000	549 & Below	18.00%	48	\$6,150.00	\$441
\$15,000	550 - 599	15.00%	48	\$5,038.14	\$417
\$15,000	600 - 639	12.00%	48	\$3,960.36	\$395
\$15,000	640 - 679	7.00%	48	\$2,241.30	\$359
\$15,000	680 - 729	3.50%	48	\$1,096.32	\$335
\$15,000	730 +	2.00%	48	\$620.49	\$325

BUILDING RELATIONSHIPS WITH BANKRUPTCY ATTORNEYS

Develop relationships with area bankruptcy attorneys

- Develop the list of attorneys that sent you filings
- Meet with them – learn about the process and share how you can help their clients

For existing members - Create a list of benefits that could help sell your member and their attorney on the importance of paying your credit union.

- Importance of maintaining a relationship with the credit union
- Why reaffirm with the credit union? The credit union will be there for you.
- Rates – Credit Unions have the best rates!



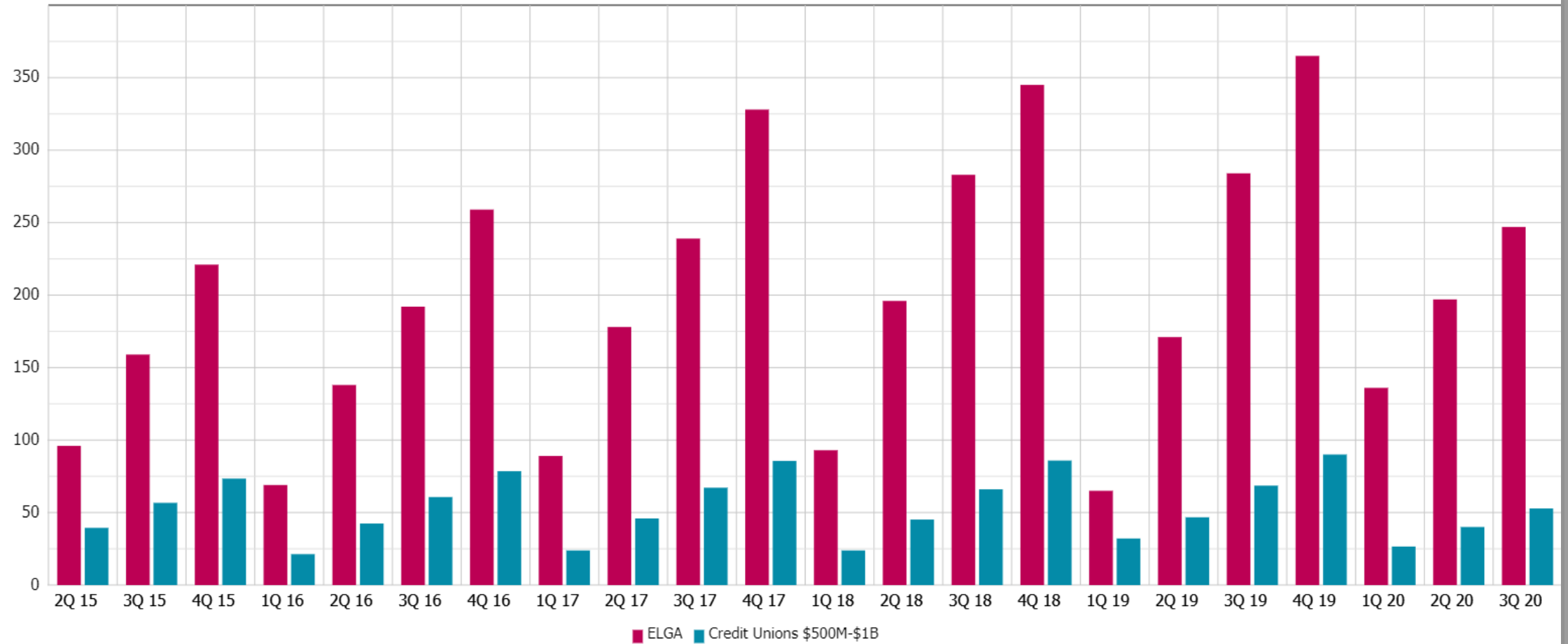
Burton, Michigan
Asset Size: \$1,057,833,543
Members: 76,559
Branches: 14

Loan to Share: 89.25%
Loan Yield: 5.36%

Peer Group Loan to Share: 76.43%
Peer Group Loan Yield: 4.70%

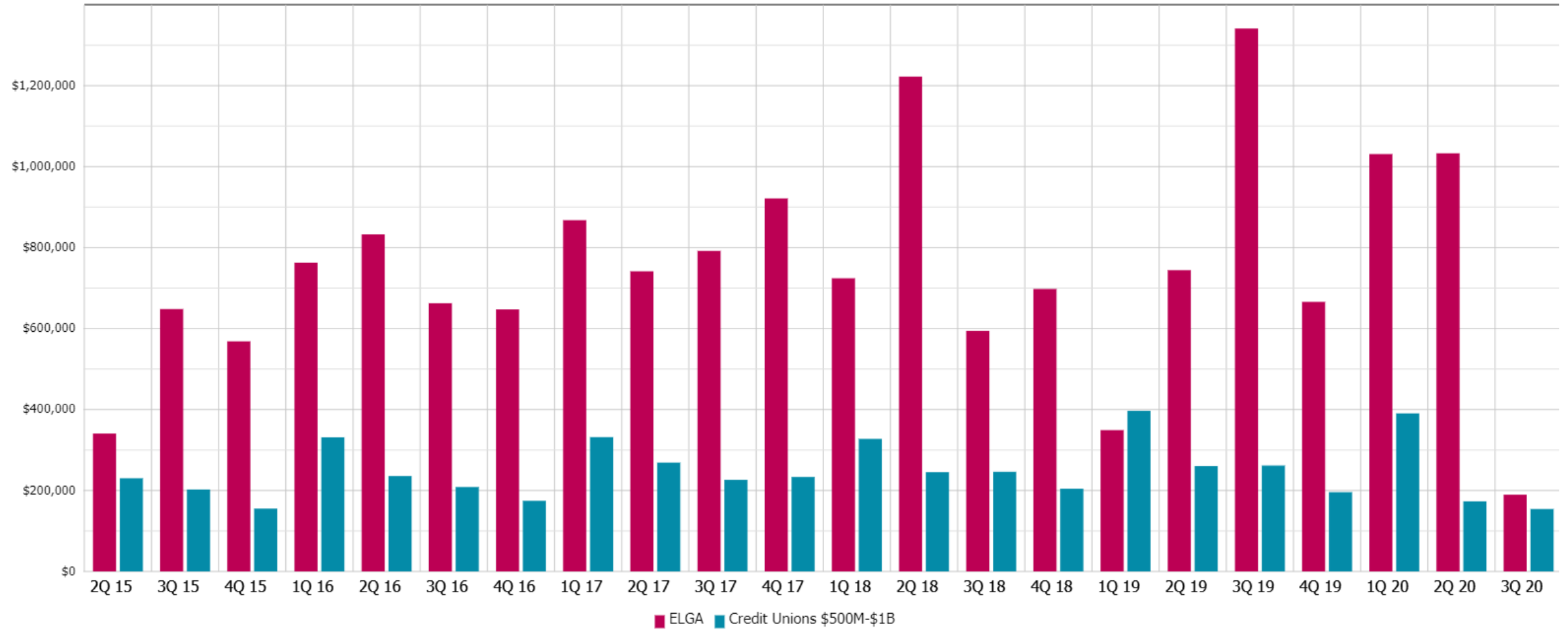


Members Filing for Bankruptcy - ELGA



Source: Callahan & Associates

Loans Subject to Bankruptcy - ELGA



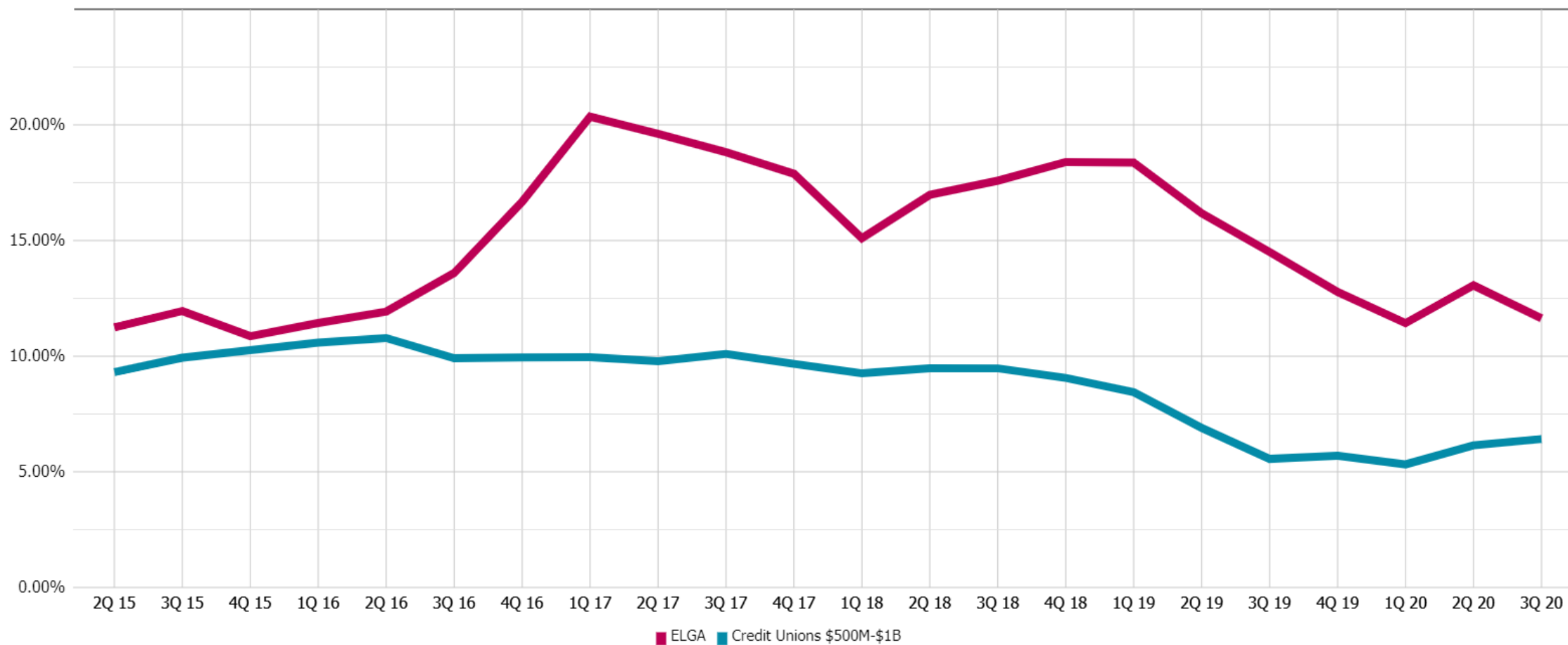
source: Callahan & Associates

Total Net Charge-Offs - ELGA



Source: Callahan & Associates

Loan Growth - ELGA



Source: Callahan & Associates

WRAP UP

- Use bankruptcy as an opportunity to serve more members and gain new ones
 - Our members deserve a second chance
- Create a plan with members who have filed bankruptcy to improve their score
- Train lenders on score enhancement
 - Knowledge of the components of the score and its codes is essential
- Develop relationships with bankruptcy attorneys in your area
 - This can bring in referral business

Q&A

PLEASE TYPE IN YOUR QUESTIONS

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- University of Lending
- Specialty Schools
 - Financial Analysis Workshop
 - Collections Institute
 - Indirect Institute
 - Underwriter Boot Camp
 - Branch Manager Workshop
 - Front-line Training Workshop
- Virtual and On-site Consulting
- Portfolio Analysis
- HYLS Underwriting Guide
- Smart Loan Audit



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