

ATTRACTING NEW LOANS

Proactively Serving your members financial needs

The days of “Order Taking” are gone!

**Pierre Cardenas
CU Lending Advice
Senior Consultant
May 2011**

SERVE YOUR MEMBERS

**Relationship “Needs Based” Lending
The true definition of “Service”**

Pierre Cardenas
APRIL 2011



2009



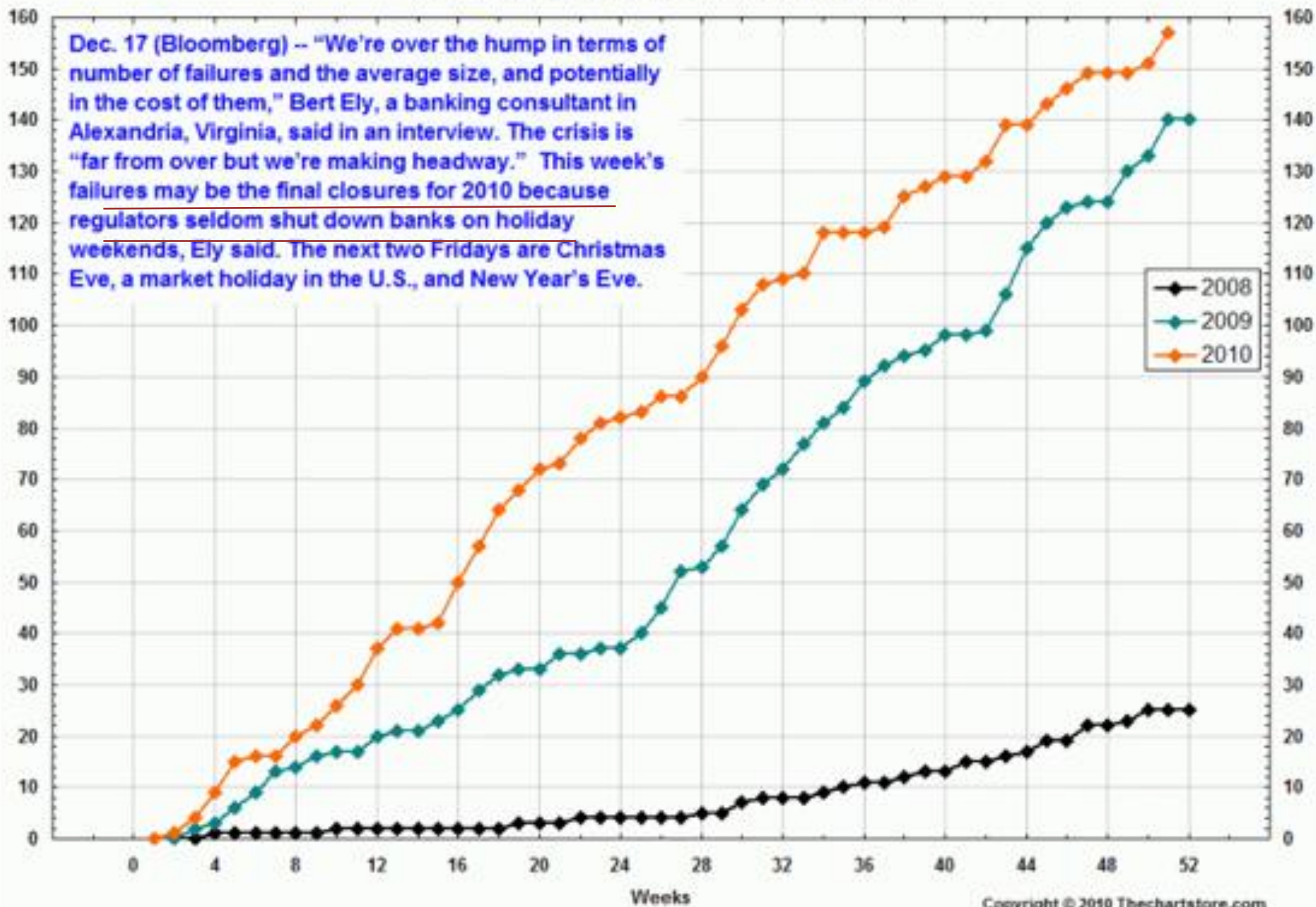
Jan 2010



2011

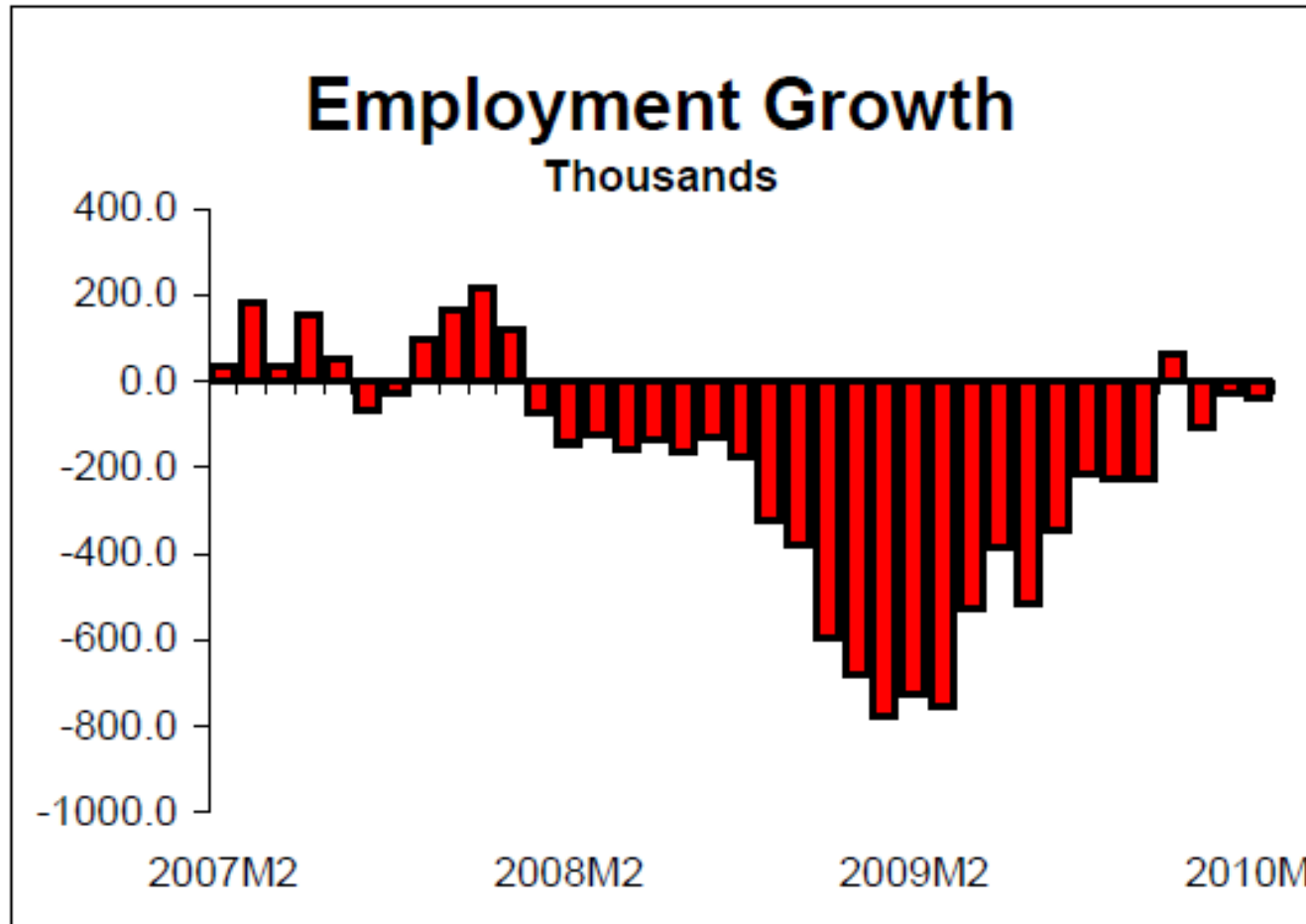
Cumulative Bank Failures reported by FDIC

Dec. 17 (Bloomberg) -- "We're over the hump in terms of number of failures and the average size, and potentially in the cost of them," Bert Ely, a banking consultant in Alexandria, Virginia, said in an interview. The crisis is "far from over but we're making headway." This week's failures may be the final closures for 2010 because regulators seldom shut down banks on holiday weekends, Ely said. The next two Fridays are Christmas Eve, a market holiday in the U.S., and New Year's Eve.



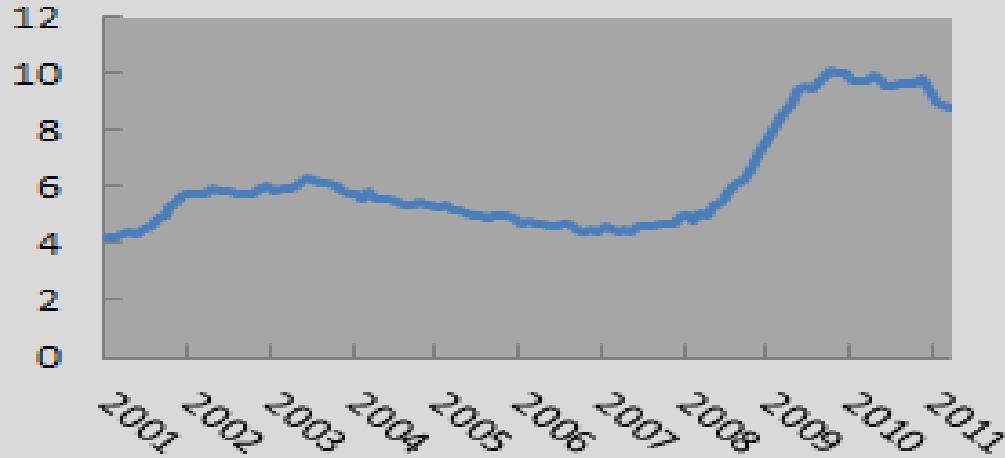
*** Labor markets are improving but 7.9 million jobs have been lost since the beginning of 2008.**

Source: Bureau of Labor Statistics



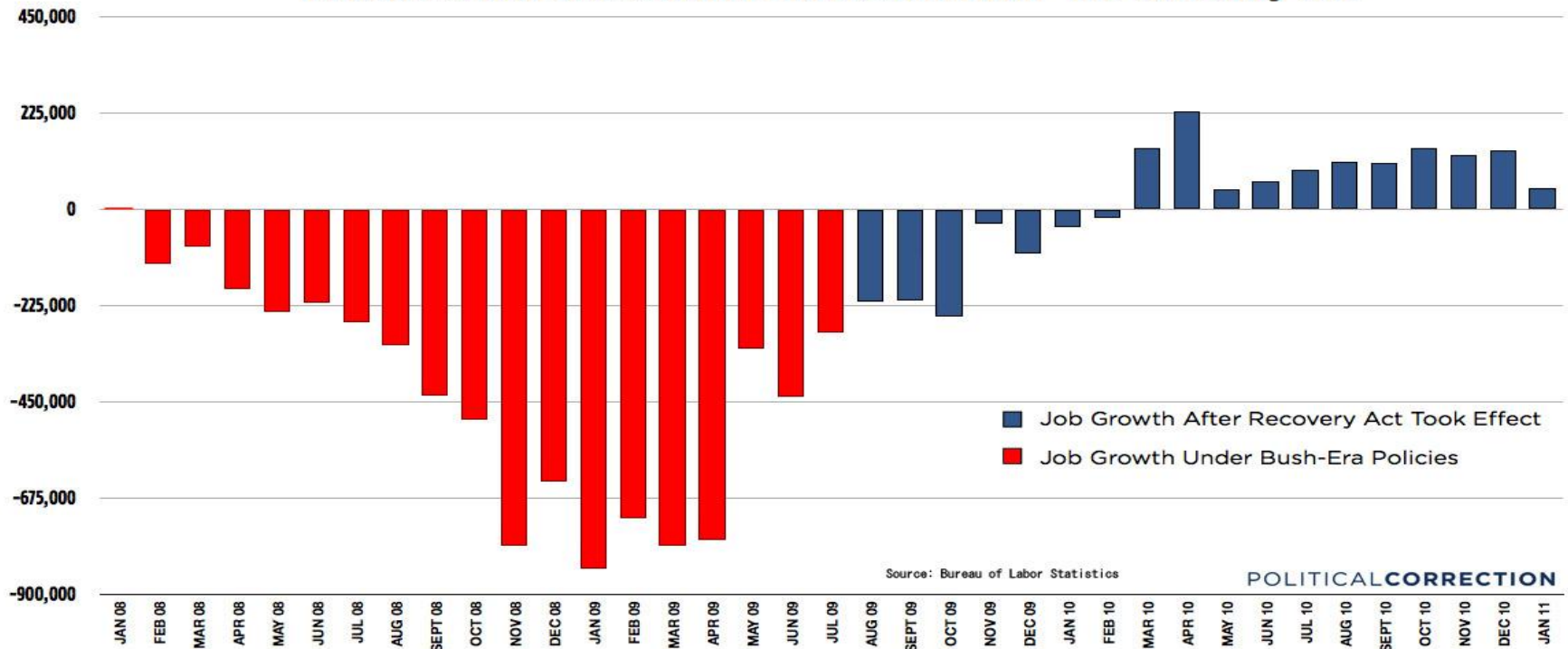
Unemployment Rate

(Percent)



Data are monthly

Private Sector Job Growth: Before And After The Recovery Act



Source: Bureau of Labor Statistics

POLITICAL CORRECTION

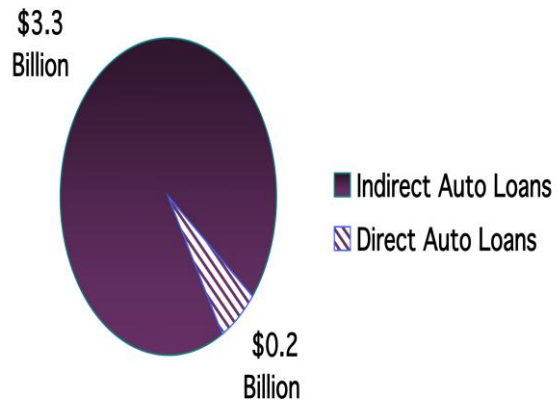
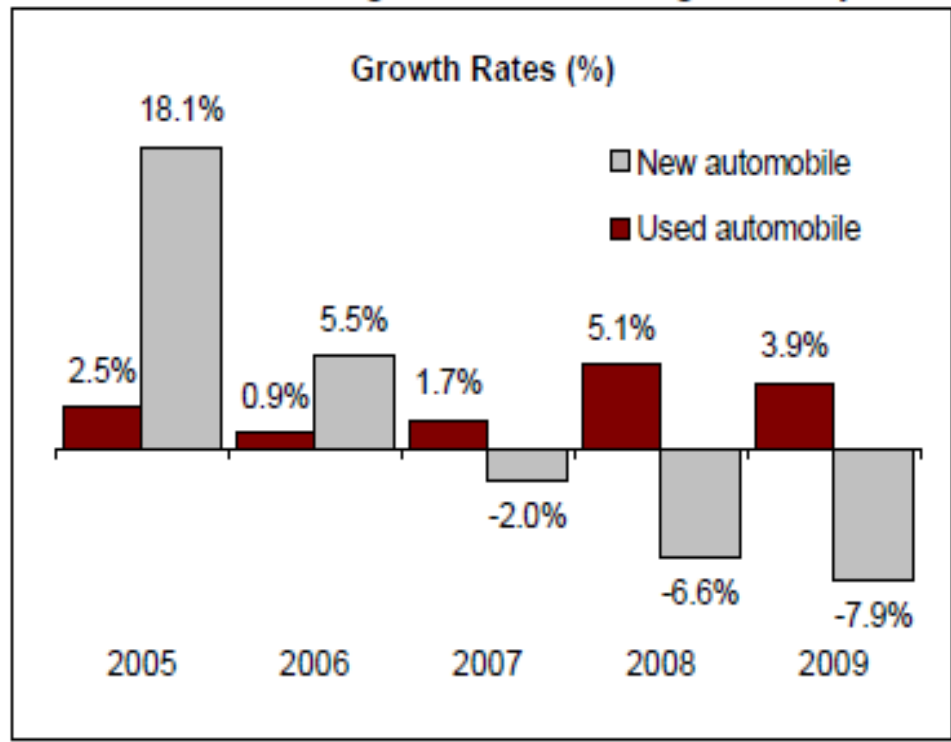
- **Five Banks, One CU Fail**

- Credit Union Journal Daily Briefing | Monday, May 2, 2011

- WASHINGTON – Regulators closed five more banks Friday, making a total of 39 failures so far this year.
- NCUA and the Utah Department of Financial Institutions closed Utah Central CU, the seventh credit union failure of the year.
- Friday's bank failures were: \$476 million Community Central Bank of Mount Clemens, Mich.; \$260 million The Park Avenue Bank, Valdosta, Ga.; \$308 million First Choice Community Bank, Dallas, Ga.; \$352 million Cortez Community Bank, Brooksville, Fla.; and, \$71 million First National Bank of Central Florida, Winter Park, Fla.
- The FDIC estimates the five failures will cost its Bank Insurance Fund \$643.2 million.

With sales of around 11.5 million new cars and trucks, 2010 was still the second-worst year in almost three decades, after 2009. And car companies are starting to wonder if they will ever reach the heights they saw in the early 2000s, when credit was cheap, incentives were rampant and sales topped 17 million.

* CU new auto loan balances are declining but used auto loan growth is increasing modestly.



Indirect loans are a significant source of membership growth

Prepared by:
CUNA Economics & Statistics

Citibank Adds Text Banking to its Mobile Lineup

By Jim Bruene on June 22, 2010 5:44 PM | [Comments \(0\)](#)

With today's launch from [Citibank](#) ([press release](#)), the big four U.S. banks now all support text banking ([Bank of America](#), [Chase](#), [Citibank](#), and [Wells Fargo](#)). As recently as January, Chase was the only one of the four with the text option for consumers.



With these four giants on board, text banking become *table stakes* going forward, i.e., a must-have feature. Those without it have a tangible deficiency that will cost them customers, especially in the heavy-texting youth market.

The Citibank service is read-only offering *Bal*, *Stmt*, and *Hist* commands sent to its shortcode MyCiti (692484) ([see second screenshot for command list](#)). It also includes the all important *Stop* function to turn off all text messages and alerts. [Chase Bank](#) recently became the first major U.S. bank to offer text-based funds transfers

Overall Industry Snapshot for 4Q 2010

4th Quarter 2010 4th Quarter 2009
All Credit Unions All Credit Unions

Total Number of Credit Unions	7,491	7,710
Total Assets	\$926.61 Bil	\$896.87 Bil
Total Loans	\$572.45 Bil	\$580.45 Bil
Credit Card Loans	\$36.37 Bil	\$35.28 Bil
Real Estate Loans	\$314.41 Bil	\$314.43 Bil
Auto Loans	\$166.17 Bil	\$175.41 Bil
Total Shares	\$797.30 Bil	\$763.34 Bil
Investment Growth (12 months)	12.55%	29.76%
Member Growth (12 months)	0.66%	1.42%
Share Growth (12 months)	4.45%	10.35%
Loan Growth (12 months)	-1.38%	0.99%
Growth in Operating Expenses (12 months)	2.20%	-3.85%
Loans/Shares	71.80%	76.04%
Net Worth/Assets	10.02%	9.89%
Delinquency Ratio	1.76%	1.83%
Net Interest Margin	3.26%	3.23%
ROA (Post Stabilization Expense)	0.50%	0.18%

A SIGN OF THE TIMES

- North Island has had a few months of profits, and as of April boosted its capital ratio to 2.81 percent, said co-CEO Geri Dillingham.
 - *“In addition to closing three branches and laying off about 100 people in recent quarters, North Island is also looking at novel strategies such as leasing out some of its Kearny Mesa headquarters building, Dillingham said.”*
- CU Journal Aug 02, 2010 by Ed Roberts
 - Mounting CU losses, proposed restrictions last week on exec compensation packages for managers of troubled cus. The Golden Parachute proposal comes as NCUA added another \$16.6M last month (July 2010) to losses at the Nat CU share Insurance Fund pushing Y-T-D losses to a record \$1.08B and threatening to push the funds reserve below the 1.2% mark.
- Aggregate credit union financial performance reflects their members’ struggles. From the beginning of 2008 to YE 2009:
 - Member bankruptcies doubled from 158,114 to 323,733;
 - Loan charge-offs soared from 0.51 percent to 1.21 percent;
 - Return on average assets plunged from 0.63 percent to 0.18 percent; and
 - Net worth eroded from 11.41 percent to 9.90 percent.

MANY BRANCHES ARE CLOSING DUE TO CONSOLIDATIONS AND OVER EXPANSION



Pick your new branch!

FRANK-DODD ACT

THE NEW LAW MANDATES THAT 533 RULES, 60 STUDIES, AND 93 REPORTS BE CONDUCTED OVER THE NEXT SEVERAL YEARS TO FURTHER CLARIFY THE ACT'S REQUIREMENTS.



REGULATORY PRESSURE

- Dodd – Frank Wall Street Reform and Consumer Protection Act
 - Reg Z – disclosure requirements
 - Good bye Open End Lending
 - Durbin Amendment (limit interchange fees .07 - .12)
- Fact Act
 - Red Flag Identity Theft Compliance
 - Identity theft prevention program
 - Fraud Alerts
- BSA / CIP
- RESPA
- Examiners!



2011 CHALLENGES

- Loan Portfolio Risk
 - Credit Risk – On the books and coming on
 - Rate Risk – Deposit rates at all time low (what goes down...)
 - Concentration Risk (NCUA, OTS, OCC - reduce concentration risk)
- Where is the “good” loan business going to come from?
- 3 Areas of examiner focus
 - Weak internal controls
 - Weak Management
 - Weak structure that entices or fails to detect fraud
- REPLACE LOST INCOME (Sustainable profitable growth)
 - Non interest income replacement– Debit card income from privilege pay at my old CU -1.4 Million
- Regulatory / Legislative impacts
 - Home Equity Consumer, OEL, Forcing new processes
- Economic Environment

Leading us to Extremes!



Aw Jeez, not this sh again!**



AND HERE WE ARE...

A DANGEROUS THING THAT CAN HAPPEN IS FOR

Uncertainty to lead us into insecurity,

Insecurity leads straight to fear

&

Fear always lead to control

Control leads to constraints, restrictions, more regulations & bad decision making!

FICO® SCORES- GENERAL INFORMATION

National Distribution of FICO Scores (Apr 2010)

800 & Above:	17%	} 53%
750 – 799:	23%	
700 – 749:	13%	
650 – 699:	12%	} 47%
600 – 649:	10%	
550 – 599:	11%	
500 - 549:	9%	
Up to 499:	5%	

Average age of cars is increasing

- Mar 5, 2009 1:23 PM

- The latest annual study by R.L. Polk and Co. confirms that people are holding onto their cars longer. The average age of passenger cars in the U.S. rose from 9.2 years old last year to 9.4 years old this year, according to Polk. This reflects a steady increase in the age of cars since 1999, when the average age was 8.3 years.
- According to a report done by Detroit Free Press, The average purchase prices of new cars has risen from \$28,160 in 2009 to \$29,217 in 2010, an increase of about 3.75%.

SOMETIMES....

We are our own Worst Enemy!



DEATH BY DEBT RATIO

ratio
capitalization
Long-term
total
debt

IT IS A DIMENSIONAL, MYOPIC DECISION – IGNORES EVERYTHING ELSE

LOSING LOANS TO LTV

Nothing else matters! Are you sure about that?

Your Current Performing Portfolio Outstanding is LTV Rich
98% - 99% are paying

Refinancing your members today
Separate Policy for Refi's and Outbound

Structure the debt to mitigate risk
Term
Little down for rate savings
How much on sig?



MAKE IT TOO DIFFICULT!



Verifications, Proof of ?, Inspections, first born, blood type & URINE SAMPLE PLEASE
Getting other CU members and EMPLOYEES!

MEMBER LENDER

- **What do you do when a member wants a Pre-approval?
You are forced to focus on the person borrowing the funds
not on the collateral**
- **This is where approvals live and thrive**

Auto – Don't know vehicle yet?

**Home Equity Loans - Wells will put CUs
to shame**

Signature, LOC's, Credit Cards

- **Target, Rooms to Go, Home Depot approach to lending**

REACTIVE SELLING “ORDER TAKING”

- Where has it gotten us to?
- The number of funded loans continues to dwindle in the branches
- Surveyed a group of 20 - 25 credit union executives, One in Texas and one in Florida
 - 20 mill in assets all the way up to 1.6 bill
 - Avg funded mo per branch \$200K - \$350K regardless of assets

Avg \$300K mo. new money @ 4.9% yield = \$176,400 1 yr interest

Branch (\$5000 mo pymt, 5 employees (4 FT, 2 PT) \$37K w/ benefits)

Annual building cost - \$176,000

Annual employee cost - \$185,000

Loan Int = \$176,400 - \$ 361,000 = <-184,600>

Really need to rely on the deposit dollars

RE-TRAIN TO LOOK FOR THE GOOD!

We have been taught to LOOK, THINK and DWELL on the BAD!



SERVE THE RELATIONSHIP



Online Deposits

Month	No. Deposits	Gross Deposit Amount	Net Deposit Amount	Avg. Deposit	No. Of Charge offs	Amount Charged Off	% Charged Off	New Users	Avg. Transit Time
Feb '08	15	\$2,023.91	\$1,623.91	\$134.93	0	\$0.00	0.00%	6	3.6 days
Mar '08	165	\$55,401.11	53,864.16	\$335.76	0	\$0.00	0.00%	82	4.1 days
April '08	264	\$122,350.73	119,749.82	\$487.07	0	\$0.00	0.00%	113	4.1 days
May '08	433	\$152,593.68	140,994.58	\$352.41	0	\$0.00	0.00%	150	4.4 days
June '08	466	\$191,638.57	177,510.43	\$411.24	0	\$0.00	0.00%	103	4.9 days
July '08	615	\$258,929.02	\$250,687.62	\$421.02	0	\$0.00	0.00%	143	4.7 days
Aug '08 *	613	\$230,077.81	\$209,622.29	\$374.72	2	\$924.38	0.40%	125	3.6 days
Sept '08	740	\$274,003.22	\$265,709.85	\$370.27	0	\$0.00	0.00%	115	3.9 days
Oct '08	753	\$272,017.02	\$257,437.18	\$361.24	0	\$0.00	0.00%	75	4.1 days
Nov '08	650	\$254,931.99	\$235,929.51	\$392.20	0	\$0.00	0.00%	50	4.4 days
Dec '08	780	\$321,845.45	\$303,593.29	\$412.62	1	\$300.00	0.09%	63	4.1 days
Jan '09	736	\$283,397.91	\$280,596.58	\$385.05	0	\$0.00	0.00%	52	4.0 days
Feb '09	652	\$247,361.49	\$217,706.46	\$379.39	0	\$0.00	0.00%	47	3.6 days
Mar '09	765	\$291,578.03	\$279,306.29	\$381.15	0	\$0.00	0.00%	44	3.9 days
April '09	700	\$299,577.94	\$291,539.08	\$427.97	0	\$0.00	0.00%	37	3.8 days
Total	8,347	\$3,257,727.88	\$3,085,871.05	\$531.78	3	\$1,224.38	0.04%	1,205	4.1 days

BOOK OF BUSINESS

- The art of building your clientele base has been lost
 - Grassroots relationship building
 - The Stella factor
 - Future business comes from past business
 - Follow up and follow through
- Let the relationship builders focus on the relationship
 - Sales vs. operations & fulfillment
 - Centralization vs. Decentralization
- The Power of referral business!
 - Building a fan base works best

PROVEN LENDING PHILOSOPHY

Objectives

Become a great lender!

- The importance & focus should always be on Ability & Stability.
- Focus on the relationship not on the loan transaction
- Collateral Lender vs. A Member Lender
 1. Collateral Based Lender
 2. Membership (PFI) Lender vs. Non Member ☺
- Score is last by design

Ability & Stability Strong

=



Ability & Stability Weak =



MEMBER LENDER (PFI) VS. MEMBER (NON-PFI) LENDER

Pay special attention to your long time members and treat them as such.

Many members have dual membership – they can go to your competitor.

Look at developing a relationship pricing program!

- If they have been a member with you for at least 3 years plus and they have all their business with you specifically, “Checking and Direct Deposit”, you are they’re PFI.**
- Work hard to find a way to help these members. Keep them happy, regardless of their credit score. - Match rate policy**
- However, you can not adjust their rate simply to keep them happy. That is a violation of regulations. Disparate treatment could lead to a huge fine.**

CREDIT REPORT SCORE IS LAST BY DESIGN!

- We have a tendency of looking at the score and denying the loan before it even makes it to the table. Don't do that!
- The scores primary role is to help price the loan. While it does have some intrinsic value, for the most part it simply by itself is not worth any more than any other criteria.
- As a matter of fact you would have a better yielding and performing portfolio if you paid attention to the ability and stability first when reviewing a loan and ignored the score.
- Don't get me wrong – I love the scores but don't live by them solely. It is primarily a pricing tool first

SO PRAY DO TELL.....

How do we mitigate Risk?



VERIFY, VALIDATE & CONFIRM

#1. Verify Employment
Call

#2. Verify Income
original pay stub

#3. Verify References
8 with 4 being relatives

#4. Verify Residence
lease agreement etc..

Designate a verifier

The fudge factor lives here!

This is why it has to be you and
not a third party (i.e. Dealer)

PAY CLOSE ATTENTION TO THE 4 D'S

- **DIVORCE**
- **DISABILITY**
- **DISMISSED**
- **DEATH**

ADVANCED LOAN STRUCTURING

Many loan request submitted for review can be done. How you say YES is the key? Maybe not the way the member would like it done but it is an option.

Extreme scenario – Poor credit score of 645, Long time on the job (15 years), Checking & DD, Home Owner, offering no money down to purchase a new Toyota PU for \$20K. Can you do it, or the real question should be do you want to do it?

How would you structure this loan to put it on the books?

Use term and LTV & income interchangeably

Extreme case but the concept does not change: STRUCTURE the Loan to protect all parties!

ADVANCED LOAN STRUCTURING

Down-sell – To counter offer with an alternative that is less than they were requesting but if accepted as presented the loan will get funded.

Any Examples?

Up-sell – To counter offer with an alternative that is more than the original request.

Can someone give me some examples?

Cross-sell – To commit to approving an offer of additional products in addition to approving the one requested.

FOCUS ON THE CASH FLOW!!

Payment amounts drive success of a loan to season well

HARD CLOSE



HARD CLOSE



IDEAL RECOMMENDATIONS





MAR

Operation

100%

REPO

truTV



APG

ASSET PROTECTION GROUP

■ APG Revolutionizes Re-Marketing

Your repossessed autos have traditionally brought 80% of loan value time and time again when sold at the auction houses. Those losses go straight to the bottom line.

If you could consistently get 142%, 121%, 114%, 96% of clean trade in value for your repossessions, which includes damaged vehicles, would you be interested? These are actual results from real credit unions using Asset Protection Group.

APG has broken the mold and has innovated old traditional repossession methods that are tired and broken. Experts in both the Auto and Credit Union industry APG is changing the way the industry remarkets collateral that maximizes your return.

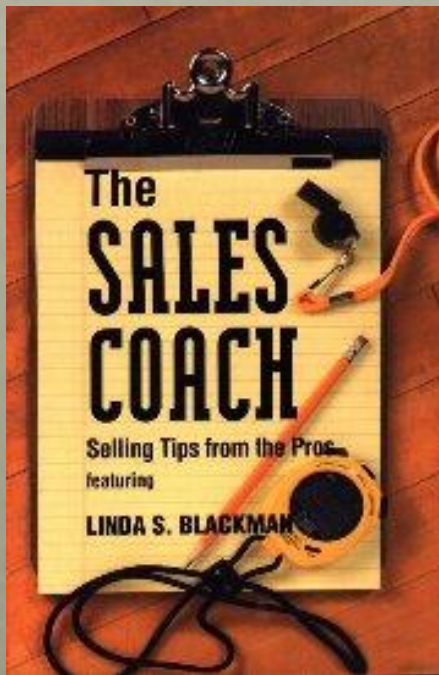
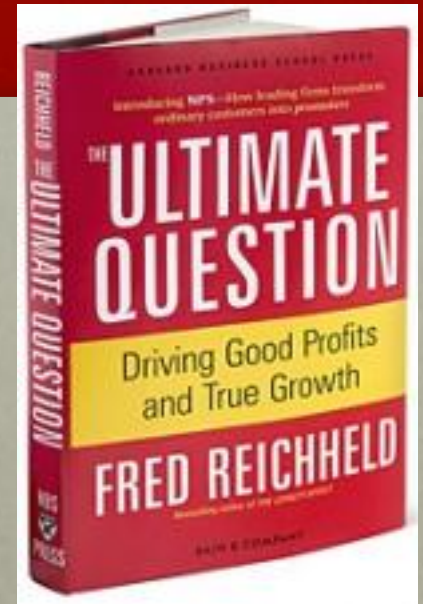
2005, 105,160 MILES = GOT CU \$11,055.00



LENDING FLEXIBILITY FOR MAXIMIZING OPPORTUNITIES

- **Rate Match Policy**
- **Rate Recapture Policy**

SALES TRAINING & CULTURE SHIFT



EVERYBODY GETS TO PLAY

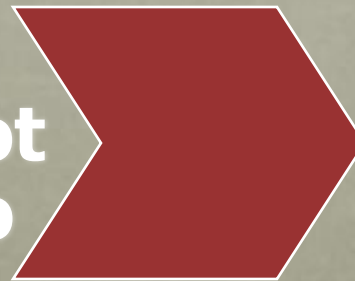


WELLS FARGO AND CHASE PLAY ALL THE TIME,
SHOULDN'T YOU?

HOOK'EM PRINCIPLE

Focus on Immediate Approvals
Commitment = Commitment (shopping stops)
Don't focus on the collateral up front 😊
Simplify the application

Target
Home Depot
Rooms to Go



7 sticks of information

How complicated is your process?
Why ?

PRODUCT PACKAGING – RELATIONSHIP BASED



ONBOARDING

Day 1

New member opens account:

- initial deposit
- receives temporary checks
- receives personalized debit card

Member Service Rep:

- places check order
- addresses Welcome Kit
- mails Welcome Kit to new member

Welcome Kit contains:

- Welcome letter
- T-shirt
- Product/Service guide
- Free Credit analysis offer
- Call-to-action to take online Preference Survey
- Mailed 1st Class

Day 2

New member receives email:

- look for your Welcome Kit in the mail
- Click Here to complete your Member Preference Survey

Week 1

Member receives Welcome Kit:

- Member goes online and completes Preference Survey

Week 2

Member receives email:

- Members who HAVE NOT completed the online Preference Survey receive an email with a link to the survey, asking them to complete it

Week 3

Member receives phone call:

- Members who HAVE NOT completed the online Preference Survey receive a phone call from Member Service asking them to complete the survey on the phone

Q4: What is next on your financial horizon?

- Car purchase
- Save for retirement
- Home improvement
- Saving more every month
- Paying for school
- Reduce debt
- Improving investment performance
- Improving / obtaining credit
- Vacation
- Home purchase / refinance / relocation
- Finance a large purchase (furniture, boat)
- Start / expand business
- Other

When?

- Now
- 30 days
- 60 days
- 90 days
- 6 months
- 1 year

Q5: Amplify offers numerous free seminars, webinars and other useful info on a wide variety of financial topics. Which might be of interest to you?

- Improving your credit score
- Financial planning
- Real estate / home buying
- Retirement planning
- Household budgeting
- Avoiding fraud, scams, ID theft
- Establishing credit
- Ways to save more time / money doing your banking
- Other

Q6: What do you like to do in your free time?

- Outdoor activities
- Movies / theatre
- Music
- Sports events
- Travel
- Video games / computer
- Dining out
- Shopping
- Get together with family / friends
- Handicrafts
- Cooking
- Culture / art
- Other



OUTBOUND – THE NEW FRONTIER OF LENDING

Every direct program needs to be outbound focused

Data mining for continuous lists is key to a successful
program

Without a committed approval your success rate will suffer

1 MILLION A MONTH PER OUTBOUND PERSON IS THE GOAL
BIGGEST MONTH WAS 1.7 MILL FOR ONE PERSON

Consultative service – Show me How!



REMOTE CHANNEL

FOCUS

CALL CENTER

INTERNET

OUTBOUND

(THE NEW PROACTIVE FRONTIER OF LENDING)

Internet Branch - Build with no branch structure in mind

Inbound & Outbound focused

Data mining for continuous lists is key to a successful program.

(committed approval = higher success rate)

Build upon your least expensive customer channel

RETENTION VS ACQUISITION

- Cheaper to build upon your current customer base
- Rate match/Rate recapture Programs
 - Protect the relationship
- Identify your PFI ratio?
 - Net growth in checking accounts w/ DD
- Relationship Pricing Program
 - Reward loyalty and additional business
- Channel Pricing Program
 - Price for cost effective channel usage

Prediction

The definition of “**Convenience**” will change!

It will no longer be primarily defined
as a branch close by your home or work

but it will be defined

by the consumer as quick and easy access all
the time.

Convenience = Accessibility

THANK YOU FOR COMING

JON KNOLL

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PROACTIVE SELLING PROGRAMS

- **Needs/Solutions based selling**
 - **Seek first to understand to offer what will meet or exceed the need**
- **Committed approval process (Web, Text & Call)**
 - **Data mining membership base for preapprovals = Hook'em Principle**
- **Outbound Lending Program**
 - **Approved and never funded lists**
 - **Data mined lists**
 - **Product based lists for deeper relationships**
- **Outbound Branch Calling night**
 - **Each branch calls members within a 3 mile radius of their branch**
 - **Thank them for their business and offer them the next best product**
- **Onboarding**
 - **Every new member gets serviced in a needs based selling way 5 – 7 times during first 6 mos**

KEEP IT REAL – BECOME A GREAT LENDER

- Follow the process – keep within your approval limits
- Upsell, Cross-sell and Downsell on every single Loan Applications & NEW ACCOUNT!
- Look for a way to make a loan not for a way to deny it – It is a mind set. Change yours!

DATA MINING THE CREDIT REPORT

Examples:

Auto pay offs from other FI's

Home Equity Loan possibilities

Pay off mortgage

Consolidation

Credit Card

LOC for checking account or for savings account

Inquiries show what they are shopping for

Cash flow relief

DO YOU PULL CREDIT ON NEW ACCOUNTS and NEW MEMBERSHIPS?

If so what Data Mining is taking place with the credit bureau?