

# SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL



## NEW LENDING AWARD TO HONOR CREDIT UNIONS

The CUNA Lending Council has joined CUNA Mutual Group in establishing a new movement-wide award to recognize and honor credit unions that have implemented superior lending programs. The Credit Union Excellence in Lending Award is designed to identify, recognize and share examples of lending excellence within the credit union movement. The award recognizes credit unions for their ability to serve their members while sustaining sound financial performance. Credit unions demonstrating an ability to “reach” their members’ needs by innovative means are excellent candidates for this award. The Credit Union Excellence in Lending Award provides an opportunity for credit unions to share best practices and ideas, build networks, and recognize and celebrate lending excellence. Credit unions who meet award criteria will receive a recognition certificate and will become eligible for monthly Credit Union Excellence in Lending Awards.

Lending Excellence Award honorees will receive a trophy and public recognition as leaders in lending. Starting May 1, 2000, the credit unions will be highlighted for practices deemed as best practices. The results will be showcased on [www.lendingchallenge.com](http://www.lendingchallenge.com), in credit union publications, and at the Annual CUNA Lending Council Credit Union Lending Conference scheduled for November 9-13 in Indian Wells, CA (see [www.cuna.org](http://www.cuna.org), select COUNCILS). The credit unions will also be recognized during CUNA’s Symposium scheduled for October 1-3 in Chicago, IL (see [www.cuna.org](http://www.cuna.org)).

For more information on the Excellence in Lending Award or to obtain an application:

- Visit the CUNA Mutual Group’s Web site <http://www.lendingchallenge.org>
- Call CUNA Mutual Group’s Lending Lab at 1-800-356-2644 ext. 5312
- E-mail CUNA Mutual Group’s Lending Lab at [lendlab@cunamutual.com](mailto:lendlab@cunamutual.com) ♦



**Credit unions have developed excellent lending programs over the years. The Credit Union Lending Award provides an opportunity for credit unions to share best practices and ideas, build networks, and recognize and celebrate lending excellence.**



—Kevin Shea, Member Services/Lending Enterprise, CUNA Mutual Group.



### **MARK YOUR CALENDARS NOW**

The Sixth Annual CUNA Lending Council Credit Union Lending Conference is set for November 5 - 8, 2000 at the Renaissance Esmeralda Resort, Palm Springs, CA. Look for more details in upcoming issues of *SPECTRUM*.

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## LENDING ISSUES

by Bill Vogeney, Fairwinds Credit Union, Orlando, FL

### SCENARIO PLANNING FOR CREDIT UNION LENDERS

State and Federal regulators are becoming increasingly concerned about future loan losses should the economy take a downturn. These regulators are asking all financial institutions to illustrate that their portfolios are sound and will be able to weather the next economic trough. As lending professionals, we should be concerned that while personal bankruptcies dipped slightly in 1999, filings are still at an all-time high during this current period of unprecedented economic prosperity. Here is what some credit unions are doing:

**Risk Score Monitoring.** Many lending professionals are finding it beneficial and even critical to their portfolio risk management to track, trend and analyze their borrowers' credit bureau risk scores, e.g., Equifax's Beacon, Experian's Fair Isaac (FICO) and Trans Union's Empirica. When the economy is booming, lenders often practice the theory of "making hay while the sun shines", and rightfully so. However, by doing so we subject ourselves to speculation from Regulators, auditors, board members and others that say our aggressive approach to quantity is possibly at the expense of quality. Trending scores on your portfolio, from members with open lines of credit to new account applicants, will help to ease those fears by documenting and illustrating the fact that overall loan quality has not declined over the last few years.

**Other Statistical Analysis.** Fairwinds Credit Union, (\$600 million) has been collecting information such as loan approval ratios, local unemployment rates and loan loss history over the last 10 to 12 years. "We believe our underwriting is sound, and that our loan approval ratio is more predictive of future losses than the economic conditions in Central Florida", says CFO Kathy Chonody. "We are in the process of running a regression analysis to prove just this."

**Aggressive Bankruptcy Collection Efforts.** Many credit unions find that attending the first meeting of creditors (also known as the 341 meeting) is paying dividends. Attending these meetings gives the credit union collectors the ability to speak with members and their attor-

neys in order to offer continued credit union services in exchange for a reaffirmation on an existing debt. Lenders who have established a presence at the federal courthouse where the proceedings are held also signal local bankruptcy attorneys that they won't roll over when they receive a bankruptcy filing.

### WANT TO MAKE MORE PERSONAL PROPERTY LOANS?

Many credit union lenders bemoan the fact that our members often turn to merchants such as Best Buy and Circuit City for the financing of their new computer. The reason is simple: Point-of-purchase financing provides enough value to the consumer to offset the 22% APR. The difficulty credit unions have in making these loans lies in the fact that many borrowers file a UCC-1 to perfect our security interest. The UCC-1 adds an expense to the borrower, and can hold up the loan process waiting for a serial number.

CUNA Mutual offers Non-filing Insurance that will pay the credit union the value of the collateral if you are not able to repossess due to the failure to perfect a security interest. The cost of the coverage is minimal, and can assist credit unions making loans on any type of non-titled merchandise. Since credit unions are faced with reduced consumer loan demand, non-filing insurance provides a way of efficiently making these loans and providing a rate that also assists the member.

### SURVIVING THE FIRST MORTGAGE "SWOON"

According to an article in the National Mortgage News (Feb. 21, 2000) fourth quarter loan volume at the top 50 mortgage lenders was down 46% from the same period a year earlier. The larger mortgage lenders are using layoffs to manage the lower loan volume. Credit unions typically are less likely to layoff staff when volume drops. What can we do to survive the drop in volume due to the loss of refinance volume?

**Utilize staff in personal lending.** While the skill sets of your mortgage staff might be

different than that of your personal lenders, they can still be utilized in your personal loan department. In addition, they can help cross-train your personal lenders on first mortgage and second mortgage procedures.

**Tell your members!** Over the last few years, we've heard of credit unions that had to "ration" first mortgages, often making appointments to sit with a loan officer a month in advance. Most consumers would not find that to be acceptable service, and went elsewhere. Your members may need to know that the staff is ready and waiting to take their application.

**Get geared up for second mortgage lending.** Over the past few years, second mortgage demand has been soft, as many consumers opted to take cash out and refinance their first mortgage. Now, with higher rates, homeowners who want to make improvements or consolidate debt will choose a second mortgage. Consider revising your procedures and policies to streamline the process. Some banks are making second mortgages up to \$50,000 based solely on a tax assessment and a property search, and are closing the loan in 24 to 48 hours. How do you measure up?

## WHEN IS INSURANCE NOT INSURANCE?

The major card issuers have found another way of making money on an insurance-like product that is free from insurance regulations. Referred to as "Debt Deferment" or "Credit Protection," this new product isn't insurance because it makes no payments to the borrower. What this new product does is promise to defer payments, late charges and even interest for a period of up to two years. Here's what a major card issuer has to say about their "Credit Protector."

"When trouble strikes, ABC Bank Credit Protector provides a clear-cut solution to help you manage the crisis. Through life changes like injury, illness, hospitalization...you can put your account on hold. Pay nothing on your ABC Bank account for up to two years. Stop interest and late fees. Keep your account in good standing."

The cost of this protection is a mere (their words) \$.69 per \$100 of balance monthly. This equates to 8.28% additional yield to ABC Bank for every borrower who chooses the protection. ♦

## INTERNET LENDING—LET'S BUILD ON OUR STRENGTHS

by Kyle Larson, CUNA Mutual Lending Lab

E-business is still business. What does this mean to credit union lenders? What sets the credit union movement apart from the competition is the same thing that sets us apart in E-business—convenience, security and speed. Chances are if you're successful, these factors are already a part of your lending process.

About nine out of ten of you are considering Internet lending. Number ten has already adopted it (11% of credit unions are closing loans on-line). Can we achieve convenience, security and speed online? We can agree that for convenience, the Internet can't be topped by any other medium. The 'Net can also give you speed if an online decision can be made. Security is much better today than it ever was; your online process should reflect this, too.

The Internet will never be the only delivery channel—phone, mail and, yes, face-to face will continue to be part of your lending process. But as you consider the "Internet part" of your lending services, consider the following:

**Prelimination**—The process of getting information from the Internet to make a buying decision regardless of the channel used to actually make the purchase (the Web has also taught us new words).

**Customization**—Configuring items the way the consumer wants them. Let's take a lesson from Dell Computer.

**Decisiveness**—If you know what you want, the Internet can't be beat for convenience, speed and even security.

**Don't go it alone**—Partner strate-



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gies have never been more popular than on the Internet. Why? You can't be an expert at everything. Find a partner to make lending online a memorable experience for you and your members.

Your Web site lending event should consider these factors: loan calculators that allow cus-

tomization, research functions (links to trusted partners to find car values, such as Consumer Reports), and application and decision, all within a click or two.

The Internet is changing the rules. Let's ride the wave, taking advantage of our strengths to benefit our members. ♦

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## BULLETIN BOARD

### "SALES FOR THE 'WIRED' GENERATION"

Looking for training material on sales that is credit union friendly? A great place to turn for those who are "into the net" is [www.sales.com](http://www.sales.com).

Sales.com is a Web site devoted to sales professionals. The site is organized into two parts. The first part is a source of sales leads for sales professionals involved in business to business selling. For credit union sales professionals, sales.com also offers a wide variety of

articles on different aspects of selling.

Sales.com promotes what is referred to as "consultative selling" which emphasizes customer knowledge and finding the right product for the customer. We've found it to be a great source of sales training material emphasizing the true profession of selling, not the "hard sales" approach. ♦



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