

# SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL



## HAPPY HOLIDAYS!

On behalf of the CUNA Lending Council Executive Committee and CUNA

Administration, we would like to wish you and your families a safe and memorable holiday season.

## We Don't Need A Recount.....

We don't need a recount to determine that the CUNA Lending Council's Sixth Annual Conference held in beautiful Indian Wells, California was a resounding success!!!! The 200 attendees who participated in this conference enjoyed timely and thought-provoking sessions, entertaining and motivational speakers, and three exciting and creative networking receptions.

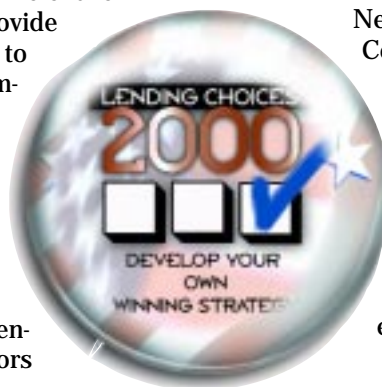
Some of the topics were mortgage internet lending, leasing, creative mortgage portfolio lending, construction lending, business lending, e-commerce, point of sale solutions, e-card solutions, and a number of other strategic and career development subjects. The entire curriculum was designed to provide strategic education and insight to the lending professionals assembled.

This year the conference was supported by a long list of sponsors who helped to underwrite it, allowing the Council to provide a "WOW" experience to the attendees. The sponsorship allows the attendees to interact with the sponsors

without any high pressure or formalized selling activity taking place.

Each of the three networking receptions had a theme. The first night was the CUNA Lending In Excellence Awards Celebration. The recipients of the 2000 Lending In Excellence Awards were Baxter Credit Union, Vernon Hills, IL for Consumer Lending, and Boeing Employees' Credit Union, Seattle, WA for Mortgage Lending. The second night reception was our Casino Night sponsored by Fannie Mae. The last night, Election Day, was our election night party attended by past president look-alikes and the unveiling of our mock election results.

Next year the 7th Annual Conference will be held in festive New Orleans on November 4-7, 2001. We are already working on making this event a must attend for lending professionals in the credit union movement, and an event that will be as memorable as this one. Look for more details about the event...see you in New Orleans. ♦



## Lending Lessons From Award-Winning CUs

by Kathryn Kuehn, CUNA Publications, Madison, WI

Credit unions are wise to take some lessons from two Excellence in Lending award winners. Baxter Credit Union, Vernon Hills, Ill., earned the Consumer Lending Award, and Boeing Employees Credit Union, Seattle, Wash., earned the Mortgage Lending Award at CUNA Lending Council's sixth annual conference in Palm Springs, Calif.

Baxter earned the award because of its product mix and growth across multiple product lines, the number of services it generates per member, and its credit cycle management.

Since 1993, Baxter has averaged 14% loan

**"We train staff to create a 'moment of magic' with members."**

—Bob McKay,  
Baxter CU

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growth per year; outstanding loan amounts have increased 90%; and loan penetration has reached 56% of membership (compared with a national average of 43%).

Baxter attributes part of that success to staff training. "We train staff to create a 'moment of magic' with members," says Bob McKay, vice president of lending.

The credit union also moved its home equity loans out of the mortgage department and into the consumer loan department because of the reasons members sought the loans (for example, to buy autos). Baxter offers home equity loans of 100% loan to value, no closing costs, and an interest rate at or near prime.

Additional drivers of success, according to McKay: gathering information about members, creating a relationship with members, and focusing on employees.

Boeing Employees' diverse mortgage product mix includes high loan-to-value products to serve first-time home buyers. For the 12 months ended May 2000, these products resulted in a net loan growth of 18% (10% higher than planned); an increase of almost 26% in home equity loan-outstanding balances; and an increase of almost 17% in mortgage loan-outstanding balances.

At Boeing Employees, "the product is the member relationship," says Joe Brancucci, vice president of lending. The credit union has offered mortgages for 5 and 1/2 years with the goal of expanding home ownership among members. Its strategies include:

**1. Market research.** The credit union uses lobby and mail surveys to find out what members want and to ensure "we are what members want when they want it," he says.

**2. Member education on home buying**

**and financing.** "We invest money in our members," says Brancucci. "We give them the tools to make wise decisions."

**3. Service.** Boeing Employees recently established a relationship with area mortgage bankers who work with local builders and real estate agents to sell credit union mortgages to members.

**4. Staff focus.** The credit union concentrates on closing loan applications vs. taking them.

**5. Technology.** With only two physical locations, Boeing Employees relies on electronic delivery. Its call center can take and approve a loan application in 12 to 23 minutes.

These credit unions haven't lost touch with members despite more competition than ever, said CUNA Mutual Group president/CEO Mike Kitchen in presenting the awards. And they're getting the right loans with positive spreads the credit union way—"relationship by relationship, not transaction by transaction."

Kitchen says credit unions play a major role in the financial success of consumers: They help consumers save money, obtain credit, finance their dreams, and help each other. And while a lot has changed, that hasn't, he maintains. "Multiple relationships with those we serve are critical to survival," says Kitchen.

The competition judged participants on five criteria: competition, technological changes, ideology, regulatory change, and changing demographics. ♦

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## Internet Lending and ASPs, Part II: Issues to Consider, Questions to Ask

*by Allan Stevens, Franklin Mint FCU, Media, PA*

In the last issue, we reviewed some of the advantages and disadvantages of using application service providers (ASPs) to automate lending in a browser based environment. It is a trend that is growing for lending and many other types of software.

At this point, you may have



already decided that this is the most viable option for processing credit applications received from your members over the Internet. You may also consider that any credit application may be processed effectively in this manner, whether generated over the Internet, in the call

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center or in a branch. These Internet lending engines may augment or even replace conventional loan origination systems. At any rate, once on course to select a provider what do you ask?

Like most other technology decisions, the right vendor is the one that offers the best combination of functionality, value, reliability and stability. Make sure that whomever you select has the resources to endure in a boom or bust environment. Some questions to ask are:

- How long have you been in business?
- Who owns you? How long have they been in business?
- Are financial statements available for review, if necessary?

Concerning functionality there are many, many concerns, such as:

- When was this software first introduced?
- How many institutions are live now with the version of the software we are considering? What are their names and how can I contact them?
- Which loan products are fully automated? Possibly more importantly, which are not?
- Can the systems' financial calculations mirror my current calculations, including credit insurance?
- Which credit bureau risk score models

and application scoring models are integrated into the software?

- Can the software mirror and automate my current underwriting and pricing approach or will I need to revise my processes or policies?
- What interfaces exist between the software and my legacy system, current lending system, document preparation provider, vehicle valuation provider (e.g. NADA) or other?

Considering pricing, the following might be asked:

- Please provide a list of all installation, annual, monthly and per application costs for the service.
- Is there an additional per unit cost if a member submits a second application within a certain amount of time?
- Another very important, and potentially overlooked, cost is for consulting related to credit scorecard design and management. These costs can easily run into the tens of thousands of dollars though there may be ample justification for them.

This is but a sample of some items to consider and should not be considered all-inclusive. If they are answered to your satisfaction, remember to get all verbal promises made by the salesman committed to print and incorporated into the contract. Happy hunting! ♦

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## Business Loans Anyone?

*by Bill Vogeney, Fairwinds Credit Union, Orlando, FL*

Approximately 80 credit union lenders participated in the CUNA Business Lending School, held June 22-25 in Madison, Wisconsin. I was lucky enough to be one of the attendees who were either contemplating entering the business loan area or were seeking to increase their knowledge in the area. Business loans have been a hot topic at credit unions since H.R. 1151 was introduced in Congress. In an effort to help other credit unions decide whether business lending is a right fit for them, we've decided to include the highlights from the program

Steven Rick, an economist with CUNA, discussed various credit union statistics as they relate to business lending. He felt that the passage of H.R. 1151 two years ago would have increased business lending dramatically. However, the NCUA call report statistics don't support his original theory. Some of the more relevant numbers he shared with the group:

- About 14% of credit unions nationwide make member business loans, only 1.8% of all loans made by a federally chartered credit union are business loans.
- The average size for member business loans nationwide is \$85,000
- The average salary for a bank commercial loan officer is \$49,600.
- The growth rate for member business loans has ranged from -1.69% in 1996 to a high of 4.22% in 1999.
- The delinquency rates for member business loans have dropped from 5.28% in 1995 to 2% in 1999, although the net charge-off rate has ranged from .43% to .08% during the same time.

The second day was devoted to analyzing business plans and basic financial analysis. Dana Taylor, a commercial lender from Cornell Finger Lakes CU (NY), discussed how important the analysis of the business plan is.

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His two questions to ask yourself of any business plan and borrower:

- Is the plan realistic?
- Is the business owner capable of carrying out the plan?

One of the best suggestions he made was to NEVER assist a borrower with completing a business plan. Many borrowers will have no clue when it comes to preparing one; however, he has found through experience that loan officers will lose their objectivity when asked to help the borrower prepare the plan. He also discussed the importance of doing a personal interview at the business location. The interview will help establish the business aptitude and enthusiasm of the owner. It will also aid in verifying the business is operating. In one case, a printer his previous bank had lent money to was virtually out of business with old stock when the loan was made. The following questions should be asked of the borrower:

- Why is this loan good for your business?
- Why do you need our member's money?
- When will you pay it back? (Make sure they understand their cash flow)
- How will you pay it back? (Again, the three most important words in business lending are cash, cash, and cash)
- What if your plans don't work out? (Best to have three sources of payment: cash flow, collateral, personal guarantees)

Jack Reiners, a teacher and former banker with 40 years experience talked about analyzing financial statements. I found it to be a great refresher. The areas covered included:

- Horizontal analysis-the use of several years of financial statements, to determine the increase or decrease in cash, receivables, sales, income, etc, in dollar and percentage form.
- Trend analysis-since a financial statement is a "snapshot" of the business, the trend analysis will help determine whether the company's financial position is improving or declining. You can easily see if sales are growing slower than cost of goods sold.
- Ratio analysis is the meat of financial analysis, determining key ratios such as the current ratio, the quick ratio, accounts receivable ratio, inventory turnover, times

interest earned ratio, debt-to-equity, ROA, etc.

- The types of various CPA reports. Most of us are only familiar with full audits.

During the financial analysis section, we were given a case study to test our analytical ability. The attendees learned that the proposed loan should not be granted even though the company had a recent increase in sales and profitability. These numbers were potentially created on paper through the company's decision to loosen credit terms. Accounts receivable and inventory soared. Cash flow was actually negative for the company.

Finally, the school ended with a session on analyzing and structuring business loans by Mark Taber, an ex-banker with 20 years of experience. This was the highlight of the program. Mark brought a real hands-on understanding of the subject. Some of his major points:

- Personal guarantees should be obtained from all owners of 20% or more of the business.
- Look for life insurance on the owner, succession plans for mid-sized businesses.
- Find out who are the major customers of the business. All too often, a business is dependent on one or two customers, leaving them very vulnerable. Stay away from these loans.
- Be careful with any commercial real estate secured loan. He's seen a \$5 million project sell for \$250,000 under different economic conditions. Look at the big picture of the project.
- If the project is too complicated to understand, it's too complicated to lend on.
- He shared a list of problem-borrower types to look for.

The bottom line was for most of the attendees was that business loans can provide a much-needed service to members and can potentially be profitable. The problems to avoid for credit unions are:

- Making business loans as they would a glorified consumer loan.
- Making loans without the proper expertise on staff.
- Failing to document the loan as required by NCUA regulations. ♦



CUNA Lending Council SPECTRUM is a web-based newsletter published bi-monthly by the CUNA Lending Council at [www.cuna.org](http://www.cuna.org), selecting COUNCILS, then the CUNA Lending Council. Send news and Lending Council information to: Bill Vogeney, VP-Loan Services, Fairwinds Credit Union, Phone: 407-306-6027, fax: 407-658-6149, e-mail: [bvogeney@fairwinds.com](mailto:bvogeney@fairwinds.com). For Council information, contact Pam Frey, manager council administration, phone: 800-356-9655, ext. 4141 or fax: 608-231-4061, e-mail: [pfrey@cuna.com](mailto:pfrey@cuna.com).

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