CUNA LENDING COUNCIL

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SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL

MITIGATING BANKRUPTCY LOSSES - IS IT POSSIBLE? PART III

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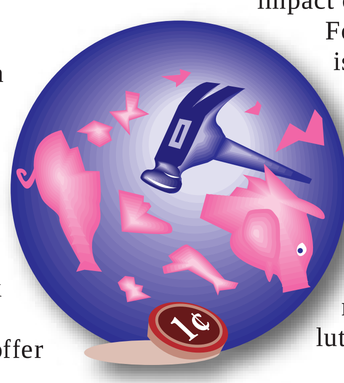
Executive Committee, CUNA Lending Council

Bankruptcy is a major threat to your profitability. Half of the industry's total credit losses for the year are attributed to bankruptcies. Bankruptcy is likely to remain a threat to your profitability. A growing portion of the financial services industry's annual losses are attributed to bankruptcies, costing billions of dollars each year. These losses cost the bankcard industry an estimated $11.3 billion in 1996 and $16 billion in 1997.

Bankruptcy is more prevalent and complex than ever before. You know that battling bankruptcies has become more difficult then ever. In addition to traditional bankruptcies that follow periods of delinquency, you must contend with "surprise" bankruptcies that seem to occur without warning, wiping out current, high-balance accounts. Clamping down on those high-usage accounts - accounts that seem like bankruptcy risks - can cut off valuable revenue streams. Some current tools may not give you enough actionable bankruptcy warnings, and don't distinguish sharply enough between future high-loss bankrupts and your future high-credit "good" customers. How can you better distinguish between consumers who generate losses and those who will be profitable? And are you able to identify potential bankrupts early enough to take action?

The March 1999, issue of *Spectrum* featured an article on Equifax's Bankruptcy Navigator Index 99. The July, 1999, issue featured Experian's Bankruptcy Model. This issue features information provided by Trans Union on their bankruptcy risk score called HORIZON.



Trans Union and Fair, Isaac offer a new kind of bankruptcy risk score - one built to address today's complex bankruptcy problem. Named for its farseeing predictive ability, HORIZON gives you the ability to:

- Distinguish between future high-loss bankrupts and future high-revenue-generating "good" customers with laser-like precision.
- Take loss-limiting action based on an early alert of bankruptcy risk.

Based on extensive credit bureau data from Trans Union, and developed by Fair, Isaac, HORIZON looks across a consumer's credit obligations for a more comprehensive view of bankruptcy risk. This bankruptcy score gives you predictive power, focuses on profitability, and takes an actionable view of potential bankruptcies.

Get a Better Look at Bankcruptcy Risk

Separating the true bankruptcy risks from high-usage accounts that may only look risky is the challenge. HORIZON tackles it in two ways:

1) Focusing on losses and revenues.

Unlike bankruptcy incidence scores, HORIZON doesn't just forecast the likelihood that a consumer will file. It goes deeper to rank-order account segments by their future bankruptcy loss ratio, in order to address the true impact of bankrupts on your portfolio.

For HORIZON, bankruptcy loss ratio is defined as:

- Dollar losses from bankruptcy net revenue from "good" accounts.

HORIZON gives higher scores to prospects or customers who, on average, will be more profitable, based on net revenue minus bankruptcy losses. As a result of its revolutionary design:

- Segments with higher HORIZON scores will have lower future bankruptcy loss ratios, and greater revenues compared to bankruptcy losses.
- Segments with lower HORIZON scores will have higher future bankruptcy loss ratios, and greater bankruptcy losses compared to revenues.

2) Targeting prediction.

HORIZON's complex segmentation scheme delivers refined bankruptcy risk prediction. HORIZON employs 11 scoring models; each designed to assess bankruptcy risk for a separate consumer profile. Some 25 characteristics are used to categorize each credit file and route it to the appropriate scoring model. All told, the HORIZON model evaluates roughly 75 characteristics based on credit bureau data.

This highly segmented scoring model, combined with the loss-ratio approach, gives HORIZON the power to distinguish between accounts that will cost you money through bankruptcy loss and accounts that will add to your bottom line. By taking negative action on a group of accounts with very low HORIZON scores (high bankruptcy risk), you can reduce bankruptcy losses while giving up less revenue than you would with a traditional bankruptcy model.

See Bankruptcy Coming From A Distance

HORIZON gives lenders warning of high bankruptcy risks early enough to make effective risk policy and management decisions. To develop a more actionable score, Fair, Isaac conducted extensive research into consumer behavior. This research revealed distinctive pre-bankruptcy patterns. Credit card usage often begins increasing around 18 months prior to bankruptcy, as balances start to increase. But accounts often show a marked lull in card usage for the six months or so prior to filing.

Through evaluating these Fair, Isaac focused HORIZON's prediction on:

- Identifying bankruptcy risk at least six months before filing; and
- Identifying bankruptcy risk as far out as 18 months before filing.

HORIZON gives you enough lead-time to take action while there are still losses that can be prevented.

Manage Total Risk with Two Powerful Scores

Because HORIZON is optimized to assess bankruptcy risk, it may do a better job of forecasting bankruptcies then EMPIRICA(r) or the EMPIRICA Industry Options. However, the EMPIRICA risk scores may do a better job at assessing total credit risk from serious delinquency, charge-off and bankruptcy. Using HORIZON with EMPIRICA or one of the EMPIRICA Industry Options, gives you better overall protection when making decisions in:

Prescreening
Account booking
Customer management
Collections/Customer service

Put Two Credit Leaders behind Your Bankruptcy Control Programs

Trans Union and Fair, Isaac work closely together to bring you this actionable and effective bankruptcy score and to help you use this groundbreaking tool. They can help you validate HORIZON's effectiveness on your own experience, and will provide full product support.

Bankrupt Dollars vs. Revenue 6 - 18 Months after Scoring

Trans Union states that HORIZON can help you fight bankruptcy while protecting profits better than either EMPIRICA or the EMPIRICA Bankcard Industry Option. For example, within the lowest-scoring range that includes 10% of future revenue, HORIZON identifies almost 46% of all bankruptcies in the portfolio, compared with 29% with EMPIRICA.

HORIZON focuses on losses and revenues. HORIZON is not limited to just identifying who is a potential bankrupt. It also focuses on identifying bankruptcy dollars, while limiting the impact on your highest revenue accounts. Among the worst scoring 10% of accounts HORIZON identifies significantly more bankruptcy losses than EMPIRICA wile impacting only lightly more revenue.

The revenue represented is accrued, not realized, and is defined as interest plus interchange less the cost of funds for bankcard accounts.

Find out more by contacting your local Trans Union representative, visiting the Trans Union Web site at www.transunion.com or calling Fair, Isaac's toll-free Credit Bureau Scores Help Line at 1-800-777-2066 and start seeing what's on the HORIZON. ◆

CUNA LENDING COUNCILS FIFTH ANNUAL CONFERENCE

CLC's Fifth Annual Lending Conference in Orlando, FL, will run from November 14 - 17, 1999, at the Hyatt Orlando Hotel. This conference will show you how to serve up a more appetizing lending program. You'll find workshops, breakout sessions, and lectures designed to sharpen your competitive edge on the hottest lending issues. A new twist to this year's conference is the addition of two pre-conference workshops.

Workshop 1: FHA/VA LOANS

Should your credit union get involved in the government's FHA/VA loan programs? What are some of the details that your credit union should know about before doing so? These questions and more will be answered in this in-depth session. Specifics that will be covered include:

- FHA/VA lender approval process;
- Underwriting techniques;
- Servicing issues;
- Documentation requirements; and
- Benefits of government lending.

Workshop 2: BUSINESS LENDING OR BUSINESS SERVICES

Improve the bottom line, for your member business owners and your credit union by providing business services! As banks continue to merge, increasing fees and reducing service, small business owners look for new alternatives for their financial needs. Credit unions can help. This workshop will provide insights about strategic and operational considerations for credit unions considering entering the member business services arena or increasing their current activity. Topics include:

- NCUA regulations;
- Analyzing your credit union's opportunities and capabilities;
- Member business loan types, structure, and analysis;
- A sample business loan policy;
- Loan documentation;
- The importance of business deposit and payment processing services;
- Sample business deposit account agreements;
- Pricing business services; and
- Loan documentation.

FOR MORE INFORMATION

Registration Information

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Register on-line at www.cuna.org, select Councils, then the CUNA Lending Council. ◆

NOMINATIONS REPORT

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Boeing Employees Credit Union
Nominations Chair, Executive Committee,
CUNA Lending Council

It's Election Time!

All members received notification via fax on August 10th that the Nominating Committee was accepting applications for the Executive Council through August 27th. There are four positions open this year. Each candidate will submit a letter of interest, along with their resume and a 100-word campaign statement. The candidates will then be interviewed by two members of the Nominating Committee to ensure they meet the qualifications and are willing to perform the duties associated with the position.

A slate of candidates will be recommended and ballots will be faxed to all members on September 24th. All ballots must be returned to CUNA Council Administration no later than October 8th. Be sure to vote only for the number of open seats and to sign your ballots. Ballots with more votes than the number of positions available or missing your signature will be disqualified. To assure confidentiality, a third party will open all ballots.

The Executive Committee is comprised of 11 elected officers with each serving a three-year term. The Council's bylaws require that no committee member can serve more than two consecutive terms. Bill Steele, CLC Chair, reminded us in his chairman's message this year of the importance of member involvement. If you missed the deadline for applying as a candidate for the Executive Committee or you could not make the commitment at this time, then consider volunteering for one of the Council's committees. It's a great way to get involved, make new friends, enhance your professional resource network, and to really help make a difference for your Council.

Do you love lending? Then you qualify for a committee! Get involved! Committees will be accepting new members during the Annual Conference to be held November 14-17, 1999 at the Orlando Hyatt Hotel, Kissimmee, FL. If you need additional information on the Conference, check our Web site at www.cuna.org. We hope to see you there! ◆

CLC MEMBERSHIP - SHARE THE WEALTH

As members of the CUNA Lending Council (CLC), we're surrounded by an elite group of professional lenders who afford us exposure to a wealth of knowledge and a magnificent educational opportunity. Unfortunately, in the past two years we've seen our numbers dwindle dramatically. In order to reverse this trend and allow the CLC to accomplish the lofty goals that we've set for ourselves and continue to serve the credit union community, it'll take a concerted effort from each of us. We need your help!

Currently, we have 351 members enrolled for this year. While that may sound reasonably good to some, it's only 85% of the number of members we enjoyed last year and represents only 70% of the goal we set for ourselves this year. What's more disconcerting is that 20% of those professionals who were CLC members last year haven't renewed their membership. Their reasons vary from budgetary constraints to laziness, but the fact remains that the loss of these fine professionals erodes our accessible talent pool. Couple their loss with the shrinking numbers of new members and the picture that was once bright seems to lose some of its luster.

Some of our loss is somewhat understandable as it stems from credit unions that in the previous years have sponsored several of their employees on the CLC but have now reduced their number of representatives to just one. Still, those credit unions are represented on the council while an overwhelming majority of credit unions are not. Out of the 9,916 credit unions currently affiliated with CUNA, only 263 (2.65%) belong to CLC!

It's been noted that the penetration of affiliated credit unions is larger among those credit unions with a larger asset base. That's true. Our greatest penetration (44.68%) is in those credit unions with assets of more that $750 million. The smaller the asset size, the smaller our penetration. In fact, our overall penetration is an embarrassing 2.65%. Some are eager to point out that the 2.65% is somewhat deceiving in that there are many affiliated credit unions (8,567) with an asset base of less than $50 million. However, it's interesting to note that of those 1,349 credit unions with assets greater than $50 million, our penetration is only a disappointing 17.64%. Simply stated, there is a tremendous wealth of knowledge, professionalism and credit union representation we're missing.

While all this may be discouraging, at least to those of us on the Executive Committee in general and the Membership Committee in particular, there's an easy solution. But, as stated earlier, we need your help. We ask that you take a brief moment to check your membership directory and look for the credit unions in your local area. You'll most likely notice some are conspicuously absent. We then ask that you call your contact at that credit union and explain the many CLC benefits, especially the networking opportunities, the magnificent membership directory, and our consistently outstanding annual conference. I'm certain that each of us can convince at least one of our friends, acquaintances, and/or cohorts to join and contribute to our dynamic organization. We're also certain that your few minutes invested will bring you great dividends and we thank you, in advance, for your help. ◆

BULLETIN BOARD

◆ Are you in Compliance? The PMI Cancellation Bill, S318 was approved in July 1998 with an effective date of July 29, 1999. The bill is somewhat complicated due to the various conditions under which PMI must be automatically cancelled coupled with the disclosures and notifications required. It affects any conventional loan with PMI that was closed on or after July 29, 1999. It involves the following:

– Servicers must track the loans LTV and to automatically cancel PMI on good borrowers when their LTV, based on the lessor of the original appraisal or sales price, reaches 78%.
– Borrowers can initiate the cancellation of PMI when their LTV hits 80% provided that they are good borrowers and that they show evidence that the properties value has not declined.
– There are special regulations for high risk borrowers which requires automatic cancellation when the LTV reaches 77% or the loan reaches its midpoint, whichever comes first.
– Initial disclosures provided at closing must detail the requirements to cancel PMI. Lender-paid PMI has a different disclosure.
– Annual notices must be provided to all borrowers with PMI outlining the procedure and requirements to cancel their PMI.

◆ Every day, thousands of bright, hard-working people tarnish their careers and damage their futures by mishandling ordinary work problems. Charles Watson, a management professor at Miami University has written the book dealing with these very issues.

"What Smart People Do When Dumb Things Happen At Work", describes 13 categories or career blunders, including seeing beyond immediate desires, escaping the "what's in it for me" trap, dealing with out-of-control egos and finding the courage to pursue the right path. His thesis, "mistakes happen, but you don't have to let them ruin your life," is simple and relevant in today's employment environment. He offers how-to tips for dealing with unexpected workplace woes. And, because they are everyday problems, he offers 260 tips - one for every workday of the year.

◆ "Some luck lies in not getting what you thought you wanted but getting what you have, which once you have got it you may be smart enough to see is what you would have wanted had you known."—*Garrison Keillor*

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