

SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL

NEWS FROM THE 8TH ANNUAL CUNA LENDING COUNCIL CONFERENCE

Excellence in Lending: The winners are...



FORUM Credit Union, more than \$200 million in assets, and Family Trust Credit Union, less than \$200 million in assets, were recognized for consumer lending excellence at CUNA Lending Council's annual conference in Naples, Fl. Shown, left to right, are Fawn Terwilliger, consumer lending judge and Lending Council chair; Bronson Troyer and Florence Brown, FORUM; Bill Klewin (CUNA Mutual) and Linda Winkfein (Texas League), consumer lending judges; Ron Miller, Family Trust; Doug Sharkey and Larry Kunkel, FORUM.



Baxter Credit, more than \$200 million in assets, and General Mills FCU, less than \$200 million in assets, were recognized for mortgage lending excellence at CUNA Lending Council's annual conference in Naples FL. Shown, left to right, are Mike Valentine, Bob McKay and Herb Behrens, Baxter Credit Union; judges Joe Brancucci, Steve Van Sickler and Mark Wilburn; and Mike Long, of General Mills FCU.

The annual Excellence in Lending awards, co-sponsored by the CUNA Lending Council and CUNA Mutual Group, recognizes the nation's best credit union lending practices. Of the nearly forty nominees, four credit unions take home honors in consumer and mortgage lending:

- Family Trust Federal Credit Union in Rock Hill, South Carolina, earns the consumer lending award for credit unions with less than \$200 million in assets by increasing its consumer loan portfolio 19.4 percent in 2001. The credit union used member feedback to customize a Visa card, which saw outstanding balances increase 28 percent. New and used auto loan promotions garnered a return on investments of 476 percent and 1,390 percent. And Family Trust Federal sold local car dealerships advertising spots for its spring promotion and used the fee income to reduce rates.
- FORUM Credit Union in Indianapolis, Indiana, wins the consumer lending award for credit unions with more than \$200 million in assets by protecting the quality of its business while surpassing its \$255 million loan volume goal for 2001. The credit union increased direct lending in its portfolio from 70 percent to 85 percent and aggressively pursued secured loans. One successful auto loan campaign resulted in sixty-one auto loans totaling \$700,000.
- General Mills Federal Credit Union in Minnetonka, Minnesota, wins the award for mortgage lending among credit unions with less than \$200 million in assets by leveraging its relationship with its sponsor to boost mortgage lending volume 400 percent in 2001. The credit union partnered with a third-party lender to multiply its first-mortgage capacity for relocating employees. And a new online application system helped

SOMETHING DIFFERENT
Kind of person you meet everyday,
able enough to handle someone just
any, I'll always be faithful.

A LOVELY NAME
Remember my name, I'll always re-
turn. I need a loan. But you might get
me just another account number.

KID AT HEART
Things that go zoom, like boats, motorc-
ycles and skis. You'll win my heart with fa-
vor of all my big toys.

CATCH ME, I'M FALLING
Don't lose anything when I fall in love with
you. I'll come preapproved fast, and save
me from any financing commitment.

HOME ALONE
I'm at-home type, waiting for the right
person to come along. Do you have what
I need to be happy?

ATTACK OF THE CLONES
I'm tired of lookalike credit card offers every-
where. Give me a deal to remember, and all my
loans will be yours.

GET OUT OF TOWN
No vacation play is driving me crazy! I'm
looking for a easy vacation loan so I can relax
with no phones.

GONE FISHIN'
Fishing poles, the four wheel drive
boat full of lures. All I need now is
a bass boat so I can get to my top.

DREAMER
I dream house yesterday - now all I
need is a mortgage so I can make an offer
on it.

ARE YOU READY?
I'm writing so many checks and payin-
g you're ready to help me untangle this
mess. Consolidate with a home equity loan.

MAGIC WORDS
I'm looking for someone to say those three
words mean so much - "No Closing Cost"

THE ROOF, THE ROOF...
My house is on fire, but it sure doesn't look
like it. A home improvement loan would mean so much
to me. It's my resale value.

HOME ON THE RANGE
I want my dream home out where the
air is clean, plenty of room for the deer and the
horses. Approve my mortgage, and my sky
is the limit.

HONESTY A MUST
I'm playing games with fine print. I need a
lender with a relationship with a good rate and
terms. Be up front and honest with me,

VERY ATTRACTIVE
I want a big house, lots of kids, multiple
bathrooms. Lender who will get to know me and
offer me money-saving offers I can't refuse.

NEW TO THE AREA
I'm new here, and still finding my way around.
Lender who will make me feel welcome, answer
my questions, and help me settle in? A friend
in my heart.

its mortgage volume increase to nearly \$60 million.

- Baxter Credit Union in Vernon Hills, Illinois, takes the award for mortgage lending among credit unions with more than \$200 million in assets by launching a program in 2000 to take control of its first mortgages. New partnerships increased staffing and revamped infrastructure, helping Baxter's first-mortgage volume to grow 220 percent from 2000 to 2001.

Build relationships one at a time

"Building one relationship at a time is the key to online mortgage lending," says Judy Elrod, director of mortgage lending at Boeing Employees Credit Union (BECU) in Seattle, Washington. BECU's mortgage group started in 1995 and currently serves 12,000 loans with a \$1.7 billion loan volume. The credit union processed 6,500 loan applications last year.

"The mortgage process is broken for most lenders," says Elrod. "It's too complicated and too difficult." BECU decided to reinvent the mortgage experience by listening to members and putting them in control. The credit union's objective is to make home purchases fast and simple. Elrod says consumers would obtain more mortgages over the Internet if the process were simple, fast, private, and built on trust.

The credit union's results are impressive. About 60 percent of members now apply for their mortgage loans over the Internet and 30 percent apply for loans by phone. Only 10 percent apply face-to-face. Sixty-five percent of Internet loans are made during office hours, while 35 percent are made after hours. About 85 percent of online mortgage applications are

"This group of lenders engaged in thought-provoking approaches to strategic planning, growth, marketing, policies and practices, leadership and training," says Fawn Terwilliger, Lending Council chair and vice president of credit services for Arizona State Savings and Credit Union in Glendale, Arizona. "Of particular note is the way these lenders excelled in view of the difficult lending environment that many of us have faced," she adds.

completed and submitted for decision, while 14 percent are incomplete and need more work.

BECU is close to a paperless mortgage process. Regardless of how the loan application is taken, all information is entered online. It takes only 25 clicks to complete the online process. A credit decision is made in two to four minutes.

The mortgage lending process, however, still needs the human element. BECU staff call members and offer congratulations on receiving the mortgage and ask if there are questions. This call also gives members a point of contact to set expectations.

BECU also negotiated with Fannie Mae to modify Form 1003 and reduce documentation, which makes the process easier and less costly.

BECU and about forty credit unions are part of Prime Alliance—a credit union CUSO that provides mortgage services. Prime Alliance members have shown impressive gains. BECU increased its first-mortgage portfolio from \$205 million in 2000 to \$701 million in 2001.

Sharpen your focus to expand loan relationships



Gloria Green

Loan transactions can be an effective conduit to develop member relationships, but it doesn't happen without a plan that may change employees' habits and ultimately a credit union's sales culture.

"Leverage the loan transaction to build a relationship with the member," says Gloria Green, a CUNA Mutual Group marketing spe-



Felicia Schoenenberger

cialist in Madison, Wisconsin. "Developing member relationships isn't just about giving them what they ask for, it's providing them with what they need," says Green, presenting at the conference along with CUNA Mutual lending education consultant

Felicia Schoenenberger.

Green says today's technology gives credit

LIKES TO CUDDLE
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VERY ATTRACTIVE
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NEW TO THE AREA
here, and still finding my way arc cial lender who will make me fee questions, and help me settle in? it my heart.

SPEAK MY LANGUAGE
ish, but I'm much more comforta y family speaks at home. I'll really he extra effort if you have bilingu language.

HEART OF GOLD
are a few spots on my credit histc the numbers. You'll find that I'm a and ready for a new commitmer ne!

RUGGED TYPE
king, kayaking, boating, and more I need a big new SUV to carry it : ors, not signing forms, so please st, and convenient.

DOWNLOAD MY HEART
professional who enjoys traveling, and fast food takeout. Give me e business online and I'll fall in love plus.

ARE YOU THE ONE?
e sensible car, and willing to sett at auto loan. I'm looking for more I want to know you'll always be tl

KNIGHT IN SHINING ARMOR
two credit cards, a new car, and i ise. Lower my payments and you a your white horse and call today!

QUIET TYPE
ay, so take the time to ask questic I'm much more than I seem, and ort. The next move is up to you.

ARE YOU READY?
riting so many checks and payin ou're ready to help me untangle th consolidate with a home equity lc

MAGIC WORDS
ng for someone to say those thre ean so much - "No Closing Cost:

THE ROOF, THE ROOF...
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HOME ON THE RANGE
or my dream home out where the enty of room for the deer and the

union loan officers the ability to understand members' needs much like store owners of the early 1900s knew their customers. "We have an ability to listen and understand members' needs. But it takes a clear vision for a credit union to get there," she says. Fulfilling members' expectations goes a long way toward turning a loan transaction into a long-term relationship. But the road to developing a relationship-building culture isn't always clearly marked.

Green and Schoenenberger map out some of the skills needed to develop a rapport with members. They say a move away from the traditional sales culture can lead a credit union to identifying member needs and developing a solution to those needs.

"In building relationships, you need to understand members' perceived and unperceived needs," Schoenenberger adds. "It's

important to understand member concerns, and offer them the best solution." That means being a good listener. "To develop rapport with members, you need to be a good listener. Hear the conversation before you talk. That means not interrupting. You can't listen while you're talking," Schoenenberger says.

The presenters offer several effective steps to engage a member:

- Demonstrate sincere interest to help gain an understanding of the member's needs;
- Ask questions so the member understands their needs;
- Provide solutions to fulfill member needs;
- In helping them make a decision, teach them something new; and
- Make a bridge to the next contact.

"Don't just gather information from your members," Schoenenberger says. "It's important to actually use it to satisfy their needs."

Lenders cope with Internet-based auto shopping

The Internet is changing auto lending, but not in the way lenders prefer.

In 2002, 16.7 million consumers bought cars. Many of those prospective car buyers—9.6 million—logged on to the Internet, but mostly for information. Only 4 percent of new cars are sold on the Internet, says Tony Boutelle, president and CEO of CU Direct Corporation, in Rancho Cucamonga, California.

New-car financing has captive finance companies getting market share of 52 percent in 2002—about the same as in 2001. Banks have gained 5 percent in market share at 30 percent; and credit unions have lost about 4 percent, dropping to 12 percent, according to the survey.

Ebay reports that it will sell 250,000-300,000 used cars on the Internet in 2002. Boutelle cautions that many include vehicles worth \$500 or less, known in the car business parlance as "sleds."

Jim Wardy, president of Pacific Automotive Financial Services, Layfayette, California, calls the Internet a necessary evil for dealers. The Internet allows anyone to become a lending leader, says Wardy. The number one car dealer on the Internet in the U.S. is in the small town of Kellogg, Idaho. More than 60 percent of new-car buyers use the Internet for shopping.

The key reason they don't buy through the Internet is the complexity of vehicle purchasing. Inventory and availability are also considerations.

Internet car sales are expensive to offer—accounting for 5-8 percent of Wardy's gross profits and 20-30 percent of the advertising budget. Financing vehicles is most profitable for dealers, followed by parts and service, and

used cars. New cars are least profitable.



GET OUT OF TOWN
I'd no play is driving me crazy! I'm
easy vacation loan so I can relax
with no phones.

GONE FISHIN'
fishing poles, the four wheel drive
box full of lures. All I need now is
bass boat so I can get to my top
e.

DREAMER
dream house yesterday - now all I
mortgage so I can make an offer
e.

ARE YOU READY?
writing so many checks and payin'
you're ready to help me untangle t
consolidate with a home equity l

MAGIC WORDS
king for someone to say those thr
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HOME ON THE RANGE
for my dream home out where the

Patelco's formula for lending success

San Francisco's Patelco Credit Union, a \$2.95 billion asset credit union, has an enviable track record for consumer lending and a number of reasons why it succeeds, according to Chris Oldag, senior vice president of lending. One reason is taking risks. "We are risky lenders," says Oldag. However, risk has its costs. Patelco has a delinquency ratio twice its peer group—0.70 percent, and a net charge-off rate double its peers—0.67 percent.

Other strategies include:

- Growing income sources and controlling expenses. Patelco believes in the efficient use of resources. "If it were possible to turn over a carpet and use the other side, we'd do it," says Oldag.
- Indirect lending, which Patelco started in 1992 after its primary sponsor-PAC Bell and AT&T had massive layoffs. The work force dropped from 88,000 to 11,000, and loan volume dropped substantially. Patelco expanded its field of membership to 32 cities with branches and improved its indirect lending

processes. In 1998 Patelco had 205 auto loans per month. Today, that number is 1070 per month, due to reducing credit score requirements; increasing loan to value; focusing on prompt funding; and allowing dealers to sign up new members.

- Indirect lending brought an unexpected bonus; indirect members have 3.11 services with the credit union compared to regular members with 1.67 services.
- Credit card lending. "The intimacy of the credit card relationship and virtual no-cost lending aspect keep our card relationship with members," says Oldag.
- Participation loans, where an originating lender offers portions of a loan to other lenders. Benefits include low acquisition cost, high quality and low risk assets, the ability to diversify the loan portfolio, efficient servicing, and meeting the mission of helping other credit unions meet needs of members. ♦

2003 Ninth Annual CUNA Lending Council Conference

November 2-5, 2003 • Renaissance Esmeralda • Resort & Spa • Indian Wells, California

More on taking risk

Credit unions need to take more risk in their lending, according to Rex Johnson, president of Lending Solutions of Elgin, Illinois. With deposits growing \$30 billion over loans in 2002, risk is a necessary part of lending strategies.

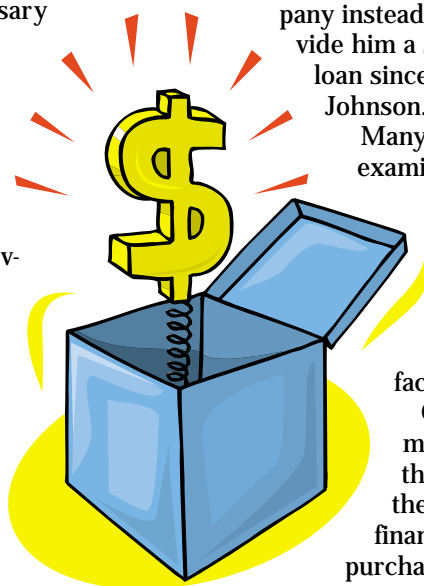
Credit unions should become the "Wal-Mart of lending," Johnson says. Wal-Mart outsells the next five department stores combined and is the number one producer of gross revenue in the U.S. One way for credit unions to become the best in lending is to take calculated risks, which seems contrary to human nature.

Johnson cites the case of a police officer who earned \$90,000 annually and had direct deposit with

his credit union. He was a police officer for 20 years, but his credit union refused to approve his car loan because his credit score was 500. He paid 23 percent interest to a finance company instead. "His credit union should provide him a service by refinancing his car loan since he is a good risk," says Johnson.

Many credit unions are afraid the examiner will downgrade their CAMEL rating if they take on more risk. "We should shoot the CAMEL," Johnson jokes. The credit score is just a tool, he says, and should never be the sole factor in determining a loan.

Credit unions should educate members on factors that affect their credit scores and explain the actual costs of 0 percent financing for the vehicle they are purchasing. ♦



Watch for changes in 2003 mortgage market

Interest rates probably won't rise next year, but the mortgage lending market will be very different in 2003, says Dan Green, executive vice president of Prime Alliance Solutions, Seattle, Washington. Mortgage refinancing will continue to be strong during the first half of 2003, but first mortgages will pick up in the second half of the year. Credit unions must be aware of three significant trends:

- An overcapacity of lenders in the mortgage market—the market is and will continue to be very competitive.
- An aging population of homebuyers. Baby boomers are aging, and credit unions are not doing a good job of attracting younger buyers or members.
- A housing bubble in six to ten areas of the country, such as Boston, where incomes are not rising as fast as home prices. Lenders need to be aware of this when buyers refinance and take cash out of their mortgages.

Only 5 percent of credit union members will buy a home this year. Traditional approaches like mass mailings won't work. Credit unions need a change in mindset toward providing mortgages as well as marketing to members. Green presents these strategies:

- Self-targeted marketing to members, including homebuyer seminars;
- Changing the mindset about the mortgage

process to get the loan closed as fast as possible;

- Making the process member-centered and home-focused;
- Working with realtors;
- Creating a referral goal to get friends and relatives of satisfied members;
- Being proactive. ♦

This article is excerpted from CUNA's CU Executive Center; <http://\cucenter.cuna.org>.



Debt concerns may dampen holiday spending

Concerned about paying off their debts, consumers intend to spend a little less than last year during the upcoming holiday season.

According to the third annual Holiday Spending Survey sponsored by the Consumer Federation of America (CFA) and CUNA, consumers concerned about meeting their monthly payments on all debt outside their mortgage rose from 39 percent to 46 percent. And consumers "very concerned" about making these payments rose even more sharply—from 19 to 30 percent.

At a joint national press conference, CFA and CUNA showed how those concerns may dampen holiday spend-

ing. When asked whether they intend to spend more or spend less this holiday season, 61 percent of consumers say they plan to spend about the same. But a larger percentage say they would spend less (21 percent) than more (15 percent).

Despite their rising concern about paying off all consumer debts, relatively few worry specifically about paying off credit card debt from holiday spending (27 percent). A large majority (65 percent) are unconcerned.

Apparently that's because consumers intend to exercise restraint in charging holiday purchases, says CUNA Chief Economist Bill Hampel. While more than 50 percent say they



intend to use a credit card for holiday purchases, only 26 percent plan to charge most of their holiday purchases.

This spending restraint is also seen in responses to the survey question, "What would you do with a windfall of \$5,000?" This year, only 13 percent say they would spend it, down from 17 percent in last year. Most would save or invest it (41 percent) or pay off debt (40 percent).

"Unfortunately," says CFA Executive Director Stephen Brobeck, "those with the greatest concern about paying off debts, and

those whose concerns have risen the most, are the least affluent and minorities."

The survey of more than 1,000 representative adult Americans was conducted Nov. 7-10 by Opinion Research Corporation International. The margin of error is plus or minus three percentage points.

For a summary of the survey, visit CUNA's web site at www.cuna.org, click on Press Room, then on "Consumers Say they will Spend a Little Less than Last Year During the Holiday Season." ♦

Rate cut puts more pressure on spreads

The Federal Reserve's unpredictability shined through last week when it slashed rates by 50 basis points, bringing the fed funds rate to a lowly 1.25 percent. *Credit Union Times* reports that the squeeze could be on for credit unions.

NAFCU Economist Jeff Taylor is surprised by the Fed's move. "If they're doing this for the short term, I don't know if that's wise. If they're catering to weaknesses on Wall Street, the Iraq situation and the Pitt (SEC chairman) resignation, that's not their job," says Taylor.

As for credit unions, Taylor says members have already been complaining about low deposit yields, and this cut won't help the situation.

"Some credit unions are going to have to drop share rates. They're already so low. More members will be complaining, especially those that are retired," says Taylor.

Will the cut sweeten loan rates for members and spur lending at credit unions? Taylor doesn't think so.

"I don't think credit unions can drop cost of funds enough to bring loan rates down. Loan rates are already so low. How many members really haven't taken advantage yet?" says Taylor.

WesCorp SVP and Chief Investment Officer Bob Burrell says the fifty basis-point cut will flatten out the yield curve in the five to ten-year range. He says credit unions that didn't go out farther on the curve earlier this year are probably kicking themselves.

"The good news is that some credit unions have been extending maturities out there in the last month or so," says Burrell. "There's still a lot of short-term money earning 1.25 percent. Most credit unions are paying 1.5-2 percent for their share accounts so this is really starting to squeeze a bit," he adds.

The squeeze gets worse with a lot of loans being refinanced, and the potential for callable investments to be called.

Burrell says credit unions have to stick to their investment plan, which should factor in these types of rate reductions. "You can still pick up yield. You have to structure things that make sense for when rates go up," he says.

Though rates have dropped again, Burrell doesn't see all credit unions lowering share rates because they are already so low. "I just don't think everyone is going to start paying 1.25 percent on deposit rates," he says.

Pete Duffy of investment banking firm Keefe, Bruyett and Woods, believes the cut makes the investment portfolio even more important.

"Credit unions are probably already seeing slower loan originations and will need to be sharper in the investment portfolio to preserve margins. The trick, though, is to not hamstring cash flows for when rates go back up. They should be buying short duration mortgage-back securities and short final callables, and get the money out of overnights," says Duffy. ♦

This article is excerpted from the November 13, 2002 issue of Credit Union Times.



WELCOME NEW MEMBERS

Twenty-four new members are on the CUNA Lending Council roster. Join us in welcoming these expert lenders who have demonstrated their commitment to promoting professionalism among credit union lenders. We look forward to networking, freely exchanging ideas, and improving the overall effectiveness of our credit union's lending operation.

David Abernathy

Ball State FCU
Muncie, IN

Joseph C. Anderson

AmeriCU CU
Rome, NY

Cynthia D. Borden

Weokie CU
Oklahoma City, OK

J. Michael Baughman

Buckeye State CU Inc
Akron, OH

Terri Dewald

Members Advantage CU
Michigan City, IN

Thomas W. DeWitt

State Farm Illinois FCU
Bloomington, IL

David T. Eib

Park FCU
Louisville, KY

Donna S. Evans

United CU
Mexico, MO

Shannon Forsyth

Air Academy FCU
Colorado Springs, CO

Jerald Gaillard

Charlotte Metro CU
Charlotte, NC

Michael T. Hiller

Stanford FCU
Palo Alto, CA

Gregory D. Inman

Baton Rouge Teachers FCU
Baton Rouge, LA

Brian Levins

CSRA FCU
Augusta, GA

Jim McClintick

Network Liquidity
Lenexa, KS

Leona R. Morisoli

Steinbeck CU
Salina, CA

Diane R. Nehring

Snohomish County PUD CU
Everett, WA

Tod Nockleby

Electra Central CU
Portland, OR

Joan L. Paylor

Atlantic CU
Newtown Square, PA

Rick Perez

Power 1 CU
Hialeah, FL

Linda Perschon

CU One
Salt Lake City, UT

Doyle Province

Weokie CU
Oklahoma City, OK

Wade A. Register, Jr

Martinsville Dupont ECU Inc
Martinsville, VA

Rhett Thompson

Stanford FCU
Palo Alto, CA

Edward Turk

Clark Co School ECU
Vancouver, WA



CUNA Lending Council SPECTRUM is a web-based newsletter published quarterly by the CUNA Lending Council at www.cunalendingcouncil.org. Send news and Lending Council information to: Sharon Gaugler, Austin Area Teachers FCU, phone: (512)302-6836, fax: (512)451-9569, e-mail: sgaugler@aatfcu.org. For Council information, contact Pamela Frey, manager council administration, phone: (800)356-9655, ext. 4141 or fax: (608)231-4061, e-mail: pfrey@cuna.coop

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