APRIL 2003

SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL

Meet your new executive committee members

Please welcome these three new members to the CUNA Lending Council Executive Committee:

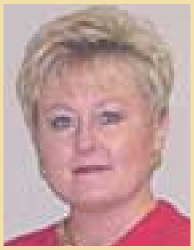
Herb Behrens is director of mortgage lending at Baxter Credit Union, Vernon Hills, Illinois. He joined Baxter in November of 1999 and is responsible for the overall strategic mortgage direction from origination on through to servicing.

Before joining Baxter, Behrens was with Associated Great Northern Mortgage, responsible for overall production and new business development. Behrens points to his years of experience in the mortgage-banking field as a key asset he brings to his position on the executive committee.

"My work with the Fannie Mae Credit Union Advisory Council and CUNA Mutual's National Advisory Committee will help me understand the big picture with regard to the lending landscape," he says. "I'd like to find new avenues through which the CUNA Lending Council can help its members become even more effective in their lending programs."

Marcella Wevley is director of retail lending and development for USA Federal Credit Union, San Diego, California. She has seventeen years of credit union experience in sales, lending and collections.

Wevley points to lending as her passion, having played a wide variety of roles in the lending operations of USA FCU. "Membership in the CUNA Lending Council has served my credit union well," she says. "Through vehicles such as the council listserv, we are able to address and solve problems using the resources of the entire council membership."



Joan Paylor is vice president of lending for Atlantic Credit Union, Newtown Square, Pennsylvania. She has served the credit union for twenty-three years in increasingly responsible positions on both the savings and lending sides of the operation.

As the incoming chair of the council's education committee, Paylor has a special interest in strengthening the bonds between the council and CUNA's center for professional development. "I'd also like to make the most of our relationship with the leagues," Paylor says, "so that they understand we're here as a resource for their educational initiatives."

Sneak preview: 2003 CUNA Lending Council Conference

Ninth Annual CUNA Lending Council Conference
November 2-5, 2003
Renaissance Esmeralda Resort & Spa
Indian Wells, California

The 2003 CUNA Lending Conference will be held November 2-5 at the Renaissance Esmeralda Resort & Spa, Indian Wells, California. Conference Chair Joe Brancucci, Boeing Employees Credit Union, Seattle, Washington, promises an uplifting experience, beginning with the popular golf tournament and two pre-conference workshops on Sunday, November 2.

"The conference theme," says Brancucci, is 'Lending—It's About the Member not the Process: Walking the Member Path.' Participants will share new strategies, best practices and extensive networking opportunities. Our keynote speaker will be Kevin Carroll from Nike. Doug Foster, a recognized expert on the economics of mortgage lending, will lead a pre-conference workshop on that topic."

The conference comes at a time when the need for professional development is increasingly important. Consumer confidence is down, the mortgage refinance boom has quieted, and competition for each and every loan is intense. These challenges face every lending professional. This conference is a must for lending leaders who want to understand the current trends in credit union lending and want an opportunity to network with other credit union lending leaders. In short, this is a conference you won't want to miss.

Take advantage of the early registration discount by putting the conference on your schedule now. And remember to register for the pre-conference workshop as well.

More information on the 2003 CUNA Lending Council Conference will soon be available on the CUNA Lending Council's website www.cunalendingcouncil.org. ◆

Call for nominations: 2003 Excellence in Lending Awards

Lending leaders, showcase your achievements—large and small—and the great services you give your members! Apply for one of four Credit Union Excellence in Lending Awards by July 31, 2003 and give your credit union the recognition it deserves.

The Excellence in Lending program, co-sponsored by the CUNA Lending Council and CUNA Mutual Group, recognizes the nation's best credit union lending practices. The awards recognize credit unions that offer creative and sustainable lending programs, and are therefore leaders in the lending business.

Credit unions that meet award criteria receive a recognition certificate and become eligible for one of four annual Credit Union Excellence in Lending Awards:

Consumer Lending Excellence Award

- under $250 million in assets
- $250 million in assets and above

Mortgage Lending Excellence Award

- under $250 million in assets
- $250 million in assets and above

Leaders will be chosen for their distinction in consumer lending and mortgage lending for the year. Throughout the year, credit unions will be highlighted for practices deemed best in field. Recognition will come in credit union publications, on the web sites for CUNA Mutual Group and the CUNA Lending Council, and at the lending council's annual meeting.

The four credit unions receiving these awards will receive a trophy at the Lending Council Annual Meeting, November 2-5 in

Indian Wells, California. The award includes airfare, hotel and meeting registration for one representative of the credit union.

To give your credit union the recognition it deserves, apply for the Consumer and/or Mortgage Excellence in Lending Award by July 31, 2003.

To learn about the criteria used in giving the awards, and how to apply, visit the CUNA Lending Council web site at www.cunalending-council.org, *click on Awards, then Excellence in Lending.* ◆

Staff Morale

In this day and age where everything needs to be done immediately and change is constant, how do we keep our front line staff members energized so that they provide exceptional member service? We all know that everything we do is for the member. And let's not forget that each employee is a member as well. Some incentives that our credit union has instituted include:

- **Monday morning drinks:** Every Monday morning the staff receives the drink of their choice (non-alcoholic, of course) delivered by the departmental manager or Vice President. This is done so that they have "one less thing to think about on Monday morning."
- **Clue Murder Mystery Dinner:** After the staff achieved a stellar production month with loan generation, the management team acted in a production of a Clue murder mystery. The staff saw a very different side of their management team.
- **Bar-b-que:** In November, the management team had a bar-b-que for the staff due to a good loan production month. The managers cooked outside on a grill and served the staff lunch. The management team wore cute aprons.

These incentives do not need to cost a lot of money. The goal should be for the staff to feel that the management team really cares about them. We do, but it does not always show. Many managers are very focused on getting the job done and may forget about the softer side of managing.

Finding a way to motivate the staff is more about breaking down barriers that exist between management and staff than giving them something. ◆

Claire Ippoliti
VP Lending
Philadelphia Federal Credit Union

Automated underwriting & loan policies, a good mix

Quandary: So, you ask yourself, I have just turned on my snazzy new _________ (fill in the blank) scoring model, integrated it into my loan origination system, yet I have little idea how to automate underwriting that incorporates the model and loan policies. While the vendor has been helpful they do not want to dictate policy to us. What am I to do?

Theory: Strive to add value to your underwriting process by creating rules that do not duplicate score-application or credit-bureau-based attributes. For instance, if you are using bureau scores, delinquent tradelines are factored into these scores so criterion requiring manual review of any member/applicant with any sixty-day derogatory tradelines would duplicate the score and serve to eliminate potentially credit worthy applicants. In other words, policy rules should complement, not overlap, score logic.

Effective policy rules often fall into categories including analysis of debt capacity, collateral quality, fraud management and "special situations." Furthermore, they are often applied before a credit report is pulled to sort out applications (and save you money) that have no chance of being approved no matter how terrific the credit is. Here are two lists of policy review rules to consider:

Pre-score policy review rules (may be grounds for automated rejection)

- Member/applicant does not meet minimum age (often minimum age to contract);
- Member/applicant does not meet minimum income requirement;
- Out of trade area;
- Poor experience at CU—charge-off, fraud or accounts closed for cause with you.

Post-score review rules (results in manual review by a loan officer or rejection)

- Evidence of bankruptcy;
- Address is post office box;
- Credit bureau or other third party fraud warning, or consumer statement on credit report;
- Collateral deficiency—loan to value does not meet policy or collateral is deficient;
- Loan amount is so significant that manual review is considered prudent—for example, vehicle loan is greater than $50,000;
- No credit or insufficient credit file;
- Applicant is an employee or VIP;
- No prior borrowing experience with CU.

Another thing to consider

Remember that application decisions need to comply with Regulation B, which mandates that application underwriting, including overrides, be applied so that there is no disparate treatment or impact.

Now that you have your mix, it is just up to you to add the right amounts! ◆

Allan Stevens
Vice President, Senior Loan Officer
Franklin Mint Federal Credit Union
Broomall, Pennsylvania

HEARD IT ON THE LISTSERV

A listserv is a tool for discussions among and between council members. Get up-to-the moment information, make requests, post challenges, and share your experience with other council members. To join the listserv, click on the Community tab at the CUNA Lending Council web site, then on Listserv, and follow the directions to subscribe. This month's hot topics and interesting conversations:

Risk based pricing: Do credit unions that price loans based on Beacon scores make exceptions to give a lower rate, and if so, what are the exception criteria? Respondents' credit unions

- do not make any exceptions to pricing. Members with no Beacon score default to the C rate unless they have a share draft account with the credit union and less than one NSF check per year. In that case, they receive the B rate;
- only make an exception in matching a rate a member has been offered elsewhere;
- do not give a lower rate, but if the member is at level C or D it will lower the rate .50 percent after twelve months if there are no late pays, and another .50 percent after twenty-four months if there are no late pays.

Consumer loan modification: What does your credit union do when members request to have their rate reduced to current new loan rates? Members' credit unions

- require a $10,000 increase for an equity loan and $2,500 for autos;
- charge a 1 percent refinance fee based on the amount of the loan;
- require the member to borrow an additional 25 percent of the loan balance;
- require the borrower to add on $1,000 minimum and prohibit accelerated repayment for ninety days;
- give the member the best rate they qualify for based on a new credit score value and change the payment to match the original term unless the member requests otherwise;
- have members who call for payoffs talk to a loan officer, who does a quick review to see

if the credit union can refinance the loan to a rate .10 percent less than what the member would have gotten from the competition.

Joint Debts: How does your credit union handle joint debts, especially mortgage or rent payments? CUNA Lending Council members

- use the full amount of rent or mortgage payment in the credit union's debt ratios. The loan officer can still make a recommendation on compensating factors, however, due to additional income or sharing of expenses;
- calculate a debt ratio using the full payment. If this is the difference in granting the loan, the credit union makes notes showing what the member actually pays. If everything else on the loan makes sense, the loan is granted. However, the debt ratio of record will include the full payment regardless. ◆

LENDING NEWS FROM GAC

Want to learn more about small-business lending?

Small-business lending was a highlight of this year's GAC; with the announcement of CUNA's new initiatives to make it easier for credit unions to offer SBA-guaranteed loans.

Beginning in March, CUNA's center for professional development is providing comprehensive education and training opportunities in small business and member business lending (MBL), through seminars, workshops, and webinars.

Key topics are:

- How member business lending can benefit credit unions as well as members;
- Regulatory requirements for SBA 7(a) loans and MBLs;
- Efficient operational strategies for MBLs;
- Marketing to businesses within a credit union's field of membership;
- Best practices for structuring member business services;
- Profiting from the secondary market.

Related CUNA conferences include:

- Business Lending and Services Institutes, Parts I and II, July 20-24, Madison, Wisconsin;
- Advanced Business Lending Roundtable, September 29, Reno, Nevada.

For more information about CUNA's new initiatives in small-business lending, call 800-356-9655, ext. 4189 ◆

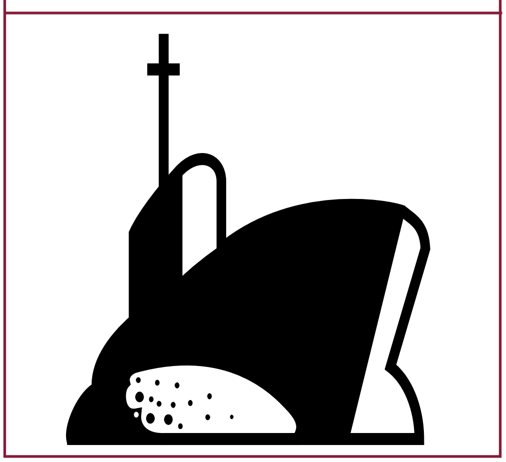
Complying with the Soldiers' and Sailors' Civil Relief Act

The terrorist attacks on September 11, 2001. The creation of the Department of Homeland Security. The war in Afghanistan. The war in Iraq. The increase in the security alert status in the United States. The activation of reservists and the National Guard.

All of these events mean credit unions need to be familiar with the applicable provisions of the Soldiers' and Sailors' Civil Relief Act (SSCRA).

Congress enacted the SSCRA over sixty years ago in an effort to help those who were protecting our national interests by serving in the military. It provides various protections to those military personnel whose ability to meet financial obligations is materially affected by their service. However, whether a service member's ability to repay obligations is materially affected is not a decision for the credit union to make. Only the courts can decide this issue. This means if one of your credit union members requests relief under the Act, you should give it.

The primary provision of SSCRA that most credit unions need to consider is the reduction in the interest rate on any loans obtained prior to active duty. If a credit union member is entitled to protection under SSCRA, the Act provides that your credit union must lower the interest rate on that member's outstanding loans to 6 percent. A key issue to recognize, however, is that this reduction in interest rate applies **only** to loans entered into prior to active duty. What does this mean?



Here's an example—if a credit union member, who is also a member of the Army Reserves, obtained a loan in February 2002 and receives orders to report for active duty starting in February 2003, he would be entitled to a reduction in the interest rate to 6 percent on that loan. The same holds true for a credit union member who obtains a loan and then enlists in the military. In addition, members of the National Guard who are activated under Federal service are also entitled to the reduction in interest rate. When you reduce the interest rate, you will need to recalculate the member's payment, based on the 6 percent rate.

For reservists and federalized National Guard members, the period of active duty begins when they receive orders to report for active duty and ends with the termination from active duty. Generally, a member's orders will include starting and termination dates. If your credit union member is activated, you may request a copy of the activation orders, so that you will know how long to keep the interest rate at 6 percent. However, you cannot refuse to lower the interest rate if the member does not provide evidence of active duty status.

Remember though, the interest rate reduction applies only to loans obtained *prior to active duty*. If a service member/reservist obtains a loan while on active duty, that person is not entitled to the reduction in interest rate. In addition, the reduced interest rate does not apply to new advances under a home equity line of credit, credit card plan, or other open-end line of credit plans. The member will be responsible for repaying any new advances taken while on active duty at the original contract rate. This may prove troublesome for some data processing systems, so check with your data processing vendor to determine the best way to handle this situation.

There are several additional issues regarding compliance with SSCRA that time and space do not allow to be addressed, issues such as repossession and foreclosure, recapturing lost interest, restoration of original contract rate of interest, Truth-In-Lending change-in-terms issues, and other topics.

CUNA Center for Professional *Development's RegTracC Module 3—Consumer Lending Regulations*, your state league, CUNA's E-Guide, and CUNA Center for Professional Development's publication, *Soldiers' and Sailors' Civil Relief Act—A Compliance Guide*, are excellent resources for more detailed information about SSCRA. ◆

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Complying with the Soldiers' and Sailors' Civil Relief Act

By Kristen Tatlock
Director Research and Information
Virginia Credit Union League

Study examines the economics of payday lending

A recently released report sponsored by the Filene Research Institute provides a broad overview of the payday lending industry and its potential for credit union operations.

In The Economics of Payday Lending, author John Caskey, of Swarthmore College, draws on a variety of sources to establish what is known about the operations of payday lenders, who uses payday loans and why they choose to do so, and the extent to which consumers become frequent users of these loans. He also discusses how credit unions might respond to the rise of the payday loan industry.

It is natural for credit unions to want to address this issue. Some credit unions become involved in advocating changes in regulations governing payday lending. Others may hope to undercut payday lenders by offering low-cost small-value loans to payday loan customers. But if a credit union were to charge payday loan customers its top loan rate of 18 percent APR for a short-term, small-value loan, it would not be able to cover its costs.

Credit unions recognize this reality by providing most small consumer loans in the form of revolving lines of credit attached to checking accounts or credit cards. But credit unions offer such products only to individuals with acceptable credit-risk profiles. And many payday loan customers are not able to meet this criterion. Although credit union loan products and risk-screening methods have changed over time, they have always used risk-screening standards to enable them to remain financially healthy while offering low-cost consumer loans.

Credit unions cannot prudently make loans to individuals beyond a particular credit-risk threshold, but they can offer savings products designed to help members, especially those living paycheck to paycheck, build a savings. A second measure that credit unions can take is to promote consumer education initiatives that help people address credit problems, set savings goals, and adopt good personal financial management practices. Many credit unions already have programs in this area or work closely with groups that do. ◆

For more information, visit the Filene Research Institute's web site at www.filene.org.

Filene conducts check-cashing workshops

Have check cashers usurped credit unions' historical role of offering basic financial services to people of modest means? Can credit unions find a niche in the emerging alternative services landscape? And, how can credit unions reach out to non-members with relevant financial services?

Those are some of the questions addressed by credit union participants in two recent workshops focusing on check cashing services. *The ABCs of Check Cashing: A New Business Opportunity for Credit Unions* is designed and sponsored by the Filene Research Institute.

The workshops features hands-on exercises and demonstrations designed to bring together credit unions engaged in check cashing activities and those that have an interest in offering the service to non-members.

The ABCs of Check Cashing gives participants the operational basics required to install a check-cashing program. This includes research data necessary to make a business case for the service, a step-by-step process model, and a demonstration of software technology needed to run a check cashing service.

A highlight of the workshops is a visit to a credit union check cashing facility in Madison. Participants observe how a check cashing facility works to serve the financial needs of non-members. During an open forum at the conclusion of the workshops, participants identify next step strategies in planning check-cashing initiatives.

"This groundbreaking work session gives credit unions valuable insight into the potential for service to non-members," says Bob Hoel, Filene Research Institute executive director. "Credit unions are a natural alternative to providing low-fee transaction services to modest-income households currently using check-cashing outlets. Millions of American households need to make the transition to traditional low-cost credit union deposit accounts and loans. By offering services such as check cashing, credit unions can help these households achieve their goal. A check cashing service also demonstrates credit union commitment to serving the financial needs of all citizens." ◆

For more information on Filene workshops, call the Institute at (608)231-8550, or visit the Filene web site, www.filene.org, *click on News and Information, then Member Events.*

Process improvement the Gonzo way

"Somewhere between audit requirements, technology, and politics, there are individuals out there sincerely trying to improve their organizations," says Steve Williams, managing director of strategic services for Cornerstone Advisors.

Unfortunately, many of these projects will become CLMs ("career limiting moves") because pushing change makes one an easy target in organizations. The larger the organization, the more politically dangerous these projects become. Williams offers a few tips to financial institutions interested in cutting through jargon and improving service simply and efficiently.

- **Benchmark the cold hard truth.** Get objective numbers to determine how you stack up. Use industry benchmarks to set proper improvement targets.
- **Find opportunity in the lunchroom.** Once a process is identified and benchmarked, it's easy to find out what's wrong with it: ask the people who do the actual work.
- **Search for best practices and positive deviants.** Once process issues are identified, do some digging about the best way to fix things. Look outside the organization. Read the trade publications, network with peers, and call up consultants/vendors.
- **Operate above board.** Process improvement projects are political activities. Because of this sensitivity, many project teams tend to operate in stealth mode. One of the most important things for any process team is trust.
- **Open the floor for debate and fight off the mud.** Anyone whose life might be screwed up by a process redesign deserves a chance to speak.
- **Win with hard evidence.** Once the floor is open for arguments, good process hackers win their cases with facts. If this process idea is so good, make it happen on its own merits, and gather all kinds of physical evidence to make your point.
- **Negotiate the solution.** Good project managers never expect to get 100 percent of the process changes or systems implemented that they request. They know that the final solution must be wrought from an open give-and-take process.

Finally, have fun with it. Good process hackers openly acknowledge functional personality differences and hash them out in above-board negotiations. Process improvement initiatives are important, but as comedian Dennis Miller aptly concludes, "*At the end of the day, this is just an ant farm with cell phones.*" ◆

This article is excerpted from Process Improvement: The Gonzo Way, *by Steve Williams, October 4, 2002,* Gonzobanker.com.

Generation Y seeks customized borrowing

Marketers call Americans under the age of twenty-five "generation Y". They're a huge number-projected to be 1.5 times larger than generation X. They're the most diverse and technology-savvy generation yet, and a new generation of potential credit union borrowers, according to an article in Credit Union Magazine.

Generation Y members are looking for a more customized and personalized borrowing experience. CUNA Mutual Group's lending resources department interviewed groups of young adults last summer, and asked what they look for in a financial service provider. The results?

They want access and convenience. Generation Y knows about financial service providers. They see credit unions as offering lower rates and banks as providing convenience. They believe credit unions and banks offer similar products and services. They want nearby ATMs and branches.

They want to save and invest. They see debt as necessary, but they want to save and invest more, starting with small amounts. They use individual retirement accounts, certificates, stocks, bonds, mutual funds, and 401(k)s, and believe saving and investing are as important as borrowing to attain their goals.

They want customized loans. They're looking for more personalized service, and loan officers who counsel and advise rather than simply process loans. These young adults recoil from a sales atmosphere. They seek a relationship in which their time is respected, the product meets a need, and information is personalized.

They believe the Internet doesn't top personal service. Generation Y uses the Internet for home banking and for finding information about a company. But they express concerns about passing information about themselves to the financial service provider and for finalizing loan documents.

This generation is raising the bar for the delivery of financial products and services. They have more information than any preceding generation. And they're using it to develop a delivery system that meets their growing expectations and needs. ◆

For more information on the generation Y study, contact Bill Klewin at 608-231-7009 or e-mail him at bill.klewin@cunamutual.com.

WELCOME NEW MEMBERS

Twenty-six 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.

Tim Amato
Lending Supervisor
Clackamas FCU
Oregon City, OR

Kimberly Benjestorf
Loan Officer
Whatcom Educational CU
Bellingham, WA

John D. Beverlin
President/CEO
CU of Johnson County
Lenexa, KS

Eric E. Bugger
Lending Manager
GCS FCU
Granite City, IL

Chuck Bullock
VP Lending
Boeing Wichita CU
Wichita, KS

Steve Carle
AVP Mortgage Lending
Mid-Hudson Valley FCU
Kingston, NY

Emily Cooney
Lending Manager
MBTA ECU
S Boston, MA

Jennifer L. Cowles
VP/CLO
American Eagle FCU
East Hartford, CT

Fern M. DeWinter
IT Project Manager
BECU
Seattle, WA

Renee E. Gauthier
IT Manager/Lending
BECU
Seattle, WA

Donna Holmes
VP Lending/IT
Safeway Rocky Mtn FCU
Englewood, CO

Krista Huver
VP Financial Services
River Valley CU
Ada, MI

Debbie J. Jenkins
Lending Manager
Snohomish Cty PUD CU
Everett, WA

Frank D. Jerman
Loan Manager
Coloramo FCU
Grand Junction, CO

Carmen W. Jones
VP Lending
UT FCU
Knoxville, TN

Leah Koke
Financial Services Manager
First Class American CU
Fort Worth, TX

John Lawrence
Sr. Loan Review Specialist
CommunityAmerica CU
Lenexa, KS

Jeanne McCain
AVP Lending
USA FCU
San Diego, CA

Richard J. Short
Lending Services Manager
Advantage FCU
Rochester, NY

Carolyn Smith
Lending Director
Selco CU
Eugene, OR

Kenneth D. Stake, Jr.
Loan Officer
Mid-Atlantic Corp. FCU
Middletown, PA

Brian E. Thornton
VP Real Estate
Stanford FCU
Palo Alto, CA

L. Neil Timson
SVP Lending
GTE FCU
Tampa, FL

Bronson E. Troyer
AVP Lending
FORUM CU
Fishers, IN

Christine A. Tucker
Loan Center Manager
U Lane O CU
Eugene, OR

Carla M. Yanushka
Consumer Loan Manager
Safeway Rocky Mtn FCU
Englewood, CO

CUNA LENDING COUNCIL
SPECTRUM

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