

SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL



Tee off at 7:30 a.m!

**8th Annual CUNA Lending
Council Conference**
November 10-13, 2002
Registry Resort
Naples, Florida

It's not too late to register!

Highlights of this year's conference:

- General session keynoters A. Rex Johnson, president, Lending Solutions, Inc; and Chip Filson, president/CEO, Callahan and Associates.
- Breakout sessions on mortgage and consumer lending, electronic lending systems, portfolio management strategies,

relationship building, and legislation and regulation issues.

- Excellence in Lending Awards luncheon
- Internet Café
- Golf Tournament at Naples Grande Golf Club—space is still available!
- Pre-conference workshops. Select either
 - Developing Competencies to be a Lending Leader of the Future, or
 - Developing New Strategies for Service Excellence in Lending

For more information on this important professional development opportunity, visit the conference area of the council web site, www.cunalendingcouncil.org. ♦

Take advantage of today's shifting lending scene

"The credit union lending landscape is in a constant state of change," according to Fawn Terwilliger, vice president of credit services for Arizona State Savings and Credit Union, and chair of the CUNA Lending Council. Speaking at CUNA's Consumer Lending Foundations School, Terwilliger cited a number of influences affecting the state of lending:

- The terrorist attacks and their impact on the economy;
- Recent corporate scandals and stock market turbulence;
- Lack of bankruptcy reform;
- A \$3 trillion transfer of generational wealth within the next decade;
- A competitive lending environment;
- Recent layoffs.

"Examiners and regulators are holding credit unions to a much higher standard," Terwilliger



said. She noted that banks are tightening their lending guidelines. To compete in today's market, strategic partnerships are critical. Diverse products and delivery channels are also important. Credit unions should capitalize on the trust consumers have in them.

Auto lending remains a core business. New and used auto loans represent about 40% of credit union loans. But the big opportunity lies in the mortgage market. Credit unions currently

hold only 2% of mortgage loans. To take advantage of the opportunity, credit unions can

- recruit, train and reward the sales staff;
- train employees for new products and delivery channels;
- eliminate conflicts in delivery channels;
- train leaders to take an active role in staff development. ♦

Walk a mile in your member's shoes

“When interviewing a member for a loan, the loan officer must reach out and enter the member's world,” says Charles Pulvino, emeritus professor of psychology and counseling at the University of Wisconsin-Madison.

Pulvino offers three ways to enter the member's world:

- Observe verbal and non-verbal cues;
- Blend your communication style to match the observations you've made about the member's posture, energy level, and speech patterns;
- Listen carefully and restate, paraphrase,



or summarize the member's feelings and requests to ensure understanding.

“Effective communications happen when professionals have an adequate understanding of member needs and desires, and when they are able to translate their understanding into financially responsible decisions,” Pulvino says.

Practicing these tips will allow loan officers to help members view their problems in a different light and often find alternative solutions. Loan

officers, Pulvino says, need to empathize with the member. “Above all else, be real,” he says. ♦

Many factors determine members' product needs

Credit union lenders understand that loan product needs vary as consumers proceed through life cycle stages. However, age alone may not be an accurate guide to evaluating consumer product needs. That's the conclusion of the fourth and final study in a series sponsored by the Filene Research Institute, titled *Financial Product Use Over Household Life Cycles: A Guide for Credit Unions*.

The monograph is based on information gleaned from the *Federal Reserve's Survey of Consumer Finances*, and is based on a segmentation of each of three age groups into a total of eleven consumer groups based upon marital status and the presence or absence of children in the household. The authors demonstrate that mid-age consumers (35-64) in the “delayed full nest” group have the highest median balances for vehicle loans, first mortgages, signa-

ture loans, and home equity loans. Young (18-34) full nesters have the highest median balances on credit cards.

However, in the loan product use frequency, four different life cycle groups are represented as having the highest percentage of use for one or more types of loans. Young childless couples most often have a vehicle loan, mid-age full nesters most often have a first mortgage, and young full nesters are the most frequent users of signature loans. Mid-age delayed full nesters are most likely to have a bank credit card or a home equity loan.

Copies of this and the three previous reports on life cycle product use are available from the Filene Research Institute, free to Filene members; \$100 per report for nonmembers. ♦

Moving up in a down economy

In both good times and bad, lending is the backbone of credit union operations. It's the leading source of revenue and the engine that makes possible quality service to members. But as consumer confidence struggles to rebound, some credit unions become risk-averse and less aggressive in their lending practices. Managers who follow



this path are likely to miss out on substantial opportunities that present themselves during tough economic times.

When the Filene Research Institute studied credit union lending during previous recessions, its most striking finding was that an aggressive lending attitude allows

credit unions to achieve high loan-to-share ratios. At a time when overall loan-to-share ratios dropped to less than 60%, Filene's study found almost 600 credit unions with ratios of 80% or more.

Credit unions in this group shared a passion for lending, believed their most important task was to meet members' borrowing needs, invested heavily in staff training, and offered flexible loan policies. Compared with their less successful counterparts, these credit unions were more committed, goal-oriented competitors in the marketplace, and they believed they determined their own level of success.

To perform well in times of recession, Filene recommends that credit unions adopt a number of specific strategies:

- Reaffirm that the credit unions' primary purpose is to grant loans to members.
- Set a specific target for the credit union's loan-to-share ratio.
- Understand that most members who don't borrow from their credit unions are

borrowing elsewhere.

- Offer staff incentives to increase loan-to-share ratios.
- Grant management substantial flexibility in setting rates on loans, and focus greater attention on lending services - even at the expense of dividends.
- Be on the lookout for new loan products, and promote those products aggressively.

In what many regard as a time of trouble, far-sighted executives will put their resources to work by attracting loans held by other lenders and formulating strategies to attract new ones. Lower interest rates create opportunities to attract loans being held by the bank down the street. For those willing to make the effort, the benefits can be substantial.

This article is excerpted from "Moving up in a down economy: Successful CUs share a passion for lending & enlightened boards," by Bob Hoel, in the October issue of Credit Union Magazine. ♦

White paper explores mortgage lending for small CUs

Why do some small credit unions offer mortgage loans and others do not? A new white paper by the CUNA Lending Council, *Mortgage Lending for Small Credit Unions* explores the benefits

and concerns of mortgage lending for small credit unions. It looks at available options and considerations in making the mortgage lending decision.

Pros: Through mortgage lending, smaller credit unions can meet important member needs, build member relationships, generate revenue, and increase loan-to-share

ratios. However, small credit unions also have significant and justifiable concerns about becoming involved in mortgage lending.

Cons: Staffing and expertise, interest rate risk, credit risk, and the costs of starting and maintaining a program are among the challenges that must be met.

How a small credit union enters the mortgage lending arena can mitigate many of these concerns.

Two critical issues are 1) how much of the

process to operate in-house, and 2) whether to portfolio loans or sell them. Can the credit union economically handle the various stages of a mortgage loan: lending strategies, marketing, applications, processing, underwriting, closing, and servicing? Most of these activities can be handled in-house or through a loan program provider.

Smaller credit unions also need to consider whether to portfolio loans, sell them, or keep some and sell some. Keeping a large number of long-term, fixed rate loans in the portfolio creates interest rate risk. Successful mortgage lenders can offer a variety of strategies to reduce this risk. If the credit union elects to sell its loans, it needs to find an outside company to handle the process, or be approved to sell loans to Fannie Mae, Freddie Mac or private investors.

Outsourced mortgage lending operations also require evaluation of potential providers. Will the provider compete with the credit union for members' other financial business? Will the provider provide quality servicing? Will the provider help the credit union grow and evolve in their mortgage loan program?

This article is excerpted from the Lending Council white paper Mortgage Lending for Small Credit Unions, by Catherine Izor. ♦



HEARD IT ON THE LISTSERV

Hot topics and interesting conversations:

How to encourage auto payment: One member wants to encourage members to sign up for auto payment from their CU account or to sign up ACH from a competitor. To accomplish this, the credit union is considering charging members \$5 for a coupon book. The credit union has also considered raising the rate for non-auto payment, but is leaning more toward a one-time fee.

One respondent gives a half percent discount for payments that come in from the source of member paychecks - payroll deduction or direct deposit. The vast majority of members take this option. Another credit union offers a rate discount of .25% on all consumer loans if the member chooses automatic transfer.

Competing with payday lenders: Another member asked for innovative ways to compete with payday loan providers. The credit union

wants to bring to market a product designed to offer low income and underserved persons an alternative to payday loans.

A respondent to this inquiry offers a program called BOUNCE, a courtesy pay on member share draft accounts. Lines of courtesy pay are available up to \$500, at a charge of \$25 per transaction. The \$500 limit will be given to all members, but those that are delinquent could lose their courtesy and pay for the privilege.

Allowance for loan loss policies: Several members weighed in on this issue, sharing their thoughts on categorizing loan types, criteria for determining the level of loss, and other policy issues. Council members have responded with excellent suggestions on how to handle these issues.

Check out CUNA Lending Council's listserv for details. Visit www.cunalendingcouncil.org. ♦

WELCOME NEW MEMBERS

Twenty-nine 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.

Deborah Ball
Bragg Mutual FCU
Fayetteville, NC

James Bounds
First Community CU
Portland, TX

Hank Branch
Lockheed GA EFCU
Marietta, GA

Pierre Cardenas
Government ECU of El Paso
El Paso, TX

Denise Carlson
Seattle Metropolitan CU
Seattle, WA

Carol Dentino
Kinecta FCU
Manhattan Beach, CA

Carlos Enriquez, Jr.
TRW Systems FCU
Hawthorne, CA

Katherine Fox
DuPont Community CU
Waynesboro, VA

Brenda Heimbuch
Alaska State EFCU
Juneau, AK

Rita Hill
Shell Community FCU
Wood River, IL

Ruby Huggler
Eagle Community CU
Lake Forest, CA

Bruce Hull
Tucson Old Pueblo CU
Tucson, AZ

Robert Jordan
Maco Educators FCU
Woodstock, GA

Deborah Kimball
Kinecta FCU
Manhattan Beach, CA

Beverly Lee, CUCE
Dow Chemical ECU
Midland, MI

Rita Leeper
Mutual CU
Vicksburg, MS

Lynne Mortenson
Coors CU
Golden, CO

Teresa Myczkowiak
Dow Chemical ECU
Midland, MI



WELCOME NEW MEMBERS

(Continued from page 4)

Michael Ostrowski
WMT CU
Springfield, MA

Ted Parsons
Community Choice CU
Livonia, MI

Judith Paul
Bucks County Schools FCU
Bristol, PA

Liz Puraleski
NorthStar CU
Warrenville, IL

Gayle Rust Gustafson
Safeway NCCU
Beaverton, OR

Steve Schultz
Milwaukee Metropolitan CU
Cudahy, WI

Catherine Stinson
Kinecta FCU
Manhattan Beach, CA

Lisa Tamez
Huntsman FCU
Port Neches, TX

Brent Wasmer
Mountain America CU
Salt Lake City, UT

Lisa Weeres
Air Academy FCU
Colorado Springs, CO

Steve Wilder
Horizon CU
Spokane, WA



SPECTRUM

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@aaltcu.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

© 2002 Credit Union National Association, Inc. All rights reserved.