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Key CSA Underwriting Strategies To Increase Loan Approvals for Quality Profitable Loans

Are you missing the opportunity to capture more quality profitable loans? If your denial ratio is over 20 percent and your average loan yield is below 6 percent, then keep reading! If you don't know what your denial ratio is and your average loan yield is below 6 percent, keep reading!

Whether you have centralized or decentralized lending, credit unions across the nation are losing quality loan opportunities for one or more of the reasons outlined below:

- Loan interview process versus enhanced member engagement through conversation
- Inadequate loan documentation and/or loan notes
- Lack of identification and notation of high risk and low risk factors for better loan decisions
- Risk assessments based on credit scores versus risk assessment not based on credit score
- Automated decisions
- Inadequate loan closing of high risk loans to increase likelihood of payment

Let's break down the importance of each of these areas and determine what credit unions can do to improve loan decisions, capture more quality profitable loans, and increase profitability while minimizing delinquencies and loan losses:

- **Loan interview process versus member engagement through conversation:**

First and foremost, **conversations build relationships not interview questions**. The interview process should be called the "Enhanced Member Engagement" process because it is at this critical point that the employee can build a stronger relationship with the member by following a few simple steps:

- Sit next to the member, not across the desk. The desk serves as a barrier to building a relationship
- Turn frontline staff into financial solution partners; not MSRs, FSRs, etc.
- Take the time to review the credit report with the member and SHOW the member what is impacting their credit score and what they can do to improve their credit score in 90 days and 12 months. One credit union employee raised a member's credit score from 482 to 702 in less than 4 months.
- Look for ways to lower members' payments on loans with other financial institutions and help them eliminate high-interest-rate credit card balances which could save members thousands of dollars in interest. This is such a powerful and invaluable component to building a strong relationship. For example, a member came in asking for a signature loan "to get caught up" and walked out with an extra \$1,000+ cash in their pocket every month as a result of the solution (low-risk secured loan) the member was offered!
- Take a holistic approach to helping your member. Don't simply respond to the member's request; respond with the right solution. For example, a member who has several delinquencies and/or collection items requesting an unsecured loan "to get caught up" will most likely get denied. In my experience in working with credit unions across the nation, taking a holistic approach to helping the member has, in most cases, led to an approved secured loan request. This has proven to be highly probably as we have taken denied unsecured loan requests and turned the majority of them into secured loan requests. Jackson, who attended the CSA Lending School went back to the credit union and applied this strategy; and, at the end of his first day back in his office, he was able to close \$90,000 in secured loans just by applying the CSA Lending strategies. Jackson created a win/win/win solution: A win for the credit union – a quality profitable loan and a loyal member; a win for the member – lower payments and savings of thousands of dollars in interest; and a win for Jackson – the reward of making a difference in someone's life by offering a solution the member did not ask for and/or expect which leads to loyalty!
- Ask the right questions during the Member Engagement Experience especially if the member has delinquencies, collections, etc., to determine what the right solution is for the member.

- **Inadequate loan documentation and/or loan notes**

Many underwriters have openly shared with me that if there are not good notes in the loan application and the member is a high-risk member, they are more inclined to deny the loan. It is critical for the frontline loan processors to notate the reasons for the delinquencies, collections, etc., no matter the age of the item. The higher the risk, the more important it is to document the reason for the delinquencies. We have to notate the reasons not only for the underwriters and loan decision makers, but also for the

examiners so they will understand that at the time we did the loan, it was a good loan decision!

- **Lack of identification and notation of high risk and low risk factors for better loan decisions**

The rule of thumb is there should be a minimum of two low-risk factors notated in the notes for every high-risk factor. So many times, loans are denied because the frontline loan processors didn't take the time to notate the low risk factors to offset the high-risk factor.

An example of this is prevalent in the industry: A member had a DTI of 83 percent, and the underwriter was quick to deny the loan because there were no notes in the system to offset this high-risk factor. Had the loan processor entered the following low-risk factors, the loan would have been approved (as it was in this real-life experience): (1) Has never missed a payment (willingness to pay); (2) No new lines of credit or trade lines opened in the last 4 years and no inquiries except with credit union (not shopping for additional money); and (3) No maxed out credit cards out of 4 credit cards (not over extended). This step alone can be a huge difference maker to increase better loan decisions.

- **Risk assessments based on credit scores versus risk assessment not based on credit score**

Don't miss quality loan opportunities and long-term loyalty by quickly assessing risk by the credit score and/or not understanding why the credit score is low. It is important to recognize that a credit score of 725 can be a higher risk than a credit score of 480 depending on what is in the credit report and also depending on what the employee ask the member to help identify high risk and low risk factors. This has been PROVEN over and over again in my experience in working with credit unions across the nation. As part of the CSA Lending Program, employees have assessed risks and determined that the lower credit score was a lower risk than the higher credit score.

For example in this real-life example, a member with a credit score of 480 credit score was proven to be a lower risk than a member with a 725 credit score thus leading to an approved secured loan instead of an unsecured loan request that was actually denied previously at a credit union. The solution offered this member required asking questions that were not on the loan application which led to the restructure of all of the member's loans and offering a low-risk secured loan that protected the credit union; lowered the member's monthly payments by \$595 per month thus decreasing the DTI substantially; and saving the member close to \$100,000 in interest over the life of the loan. Nothing is more powerful in building not only a relationship but loyalty than this type of "**Enhanced Member Engagement**"!

- **Automated Loan Decisions: Don't miss loan opportunities due to automated systems**

Automated systems are helpful but don't rely on them at face value. When a loan is denied through the automated system, take the loan application to the next level and use the steps outlined in this article to make better loan decisions.

- **Inadequate loan closing of high risk loans to increase likelihood of payment**

- If your employees are just going through the loan process and closing high-risk members' loans with members the same way they close low-risk members' loans, then you will probably see higher delinquencies. As part of the Enhanced Member Engagement

process, we must partner with our members proactively to let them know if they have a hiccup in life, they should come to you always because our priority is to protect their credit score, protect their credit, and protect their home and cars so they are never taken away from them should they go through a divorce, serious medical illness, job loss, and/or income loss. Let your members know you will partner with your members through good times and bad times. Letting your members know how much you care about them before they face a tragedy and telling them you will partner with them during good times and bad times will increase probability of payment to the credit union.

CSA Lending Rules of Engagement for Long-Term Sustainable Growth

- Enhance member engagement: Engage in real, relevant, and relatable conversations with the member.
- The underwriting process begins with the frontline engagement with the member.
- Be careful what you put in the loan application...meaning what the frontline inputs in the loan application generally determines the outcome of the loan decision.
- Don't ever make a member FEEL denied! You will lose them for life...especially Millennials!
- Counter offers not accepted ARE considered denials (counter denials) meaning the counter did not meet the member's needs.
- A denied loan is a lost loan opportunity for life. They will go down the street and get a loan!
- A deferred loan is a future loan opportunity. Partner with the member to help them get a position to qualify for a loan.
- Don't simply respond to the member's request, respond with the right solution!
- Turn unsecured loan requests into secured loans for high risk members.
- Turn high-risk members into low-risk members by developing a CSA Plan of Action.
- A charge off, repossession of an auto, and/or foreclosure isn't a single loan loss, it is the loss of all future loans of the member.
- Relationships, not interviews, build relationships.
- People pay people that care about them and build relationships, not financial institutions.
- A desk is a barrier to building a relationship...sit beside the member
- Ask the right questions and engage in the right conversation so you can offer the right solutions; don't just simply respond to the member's request.
- Raise credit scores, lower payments on loans with other financial institutions, and increase profitable loan opportunities for long-term sustainability!

For more information on how to create and maintain a strong and vibrant sales and service culture for growth, please contact Celeste Cook, CEO/Founder of cuStrategies, today at cccook@custrategies.com or 404.783.5898. Her website is www.custrategies.com.