CUNA LENDING COUNCIL

# 2012 Excellence in Lending Profiles

The following credit union profiles are the six recipients of the Lending in Excellence awards given at CUNA's Lending Council Conference in Miami Beach on November 5, 2012. These profiles were originally posted on the Lending Council's web site in December 2012. The awards are sponsored by the Lending Council and CUNA Mutual Group.

***Use these links to jump to specific credit unions***

**Northeast Community** | **Sunmark** | **Gesa** | **United Nations** | **Cooperative Center** | **US New Mexico**

## Thanks for Treating Me as a Friend

The mortgage awards in the Excellence in Lending ceremony at CUNA's Lending Council on November 5 were given in a year that has witnessed the start of a recovery in the housing market. As the housing market improves, so goes the economy, if predictions are true.

### Northeast Community CU Elizabethton, Tennessee

**The award for assets less than $250 million was presented to Northeast Community CU, $80 million in assets.**

This credit union serves rural communities around Elizabethton in a caring yet innovative way that harkens back to the original mission of financial cooperatives.

Their mortgage loan special is evidence of their approach. The organization realized that it could charge a flat $500 fee and still achieve a net gain over the life of the loan. They met with local attorneys and asked if they would also reduce their costs during the special promotion from $550 to $300. The attorneys agreed as did real estate agents and appraisers.

The promotion spurred growth from an average of 8 mortgages a month to 26 mortgages closed at $2.7 million during one month of the special. In three months during the special, the credit union closed about $8 million in mortgages.

Innovation need not be the province of large organizations with like budgets, according to Kathy Campbell, president and CEO.

"Our vendors frequently refer to us as early adopters, as we tend to embrace new technology and product lines quickly," she says. "We use database mining, for example, to target members with existing home loans. Loan officers also contact members for whom they had recently done loans of any type."

This personal contact helps cement the relationships with members and provides a foundation for member referrals. It also offers an opening to obtain more loans from members.

"Every time the loan officers have opportunities for face-to-face contact with existing or new members, they take time to analyze every debt and every financial relationship," she says. "Members were shown how moving an outside loan to the credit union would save them considerable money."

Members are given the opportunity to have modification agreements for first mortgages. They are allowed to add to the first mortgage if it doesn't exceed the original mortgage. They can also change the frequency to go to weekly, bi-weekly or monthly.

The numbers compared to peers are striking. Loan growth was 13% in 2010 and close to 12% in 2011. Net worth grew almost 12% in both years. Beyond the numbers, though, is the "people helping people" philosophy put into daily practice as shown by a member who experienced tough times; she got a divorce and faced losing her home.

Her mortgage had been sold to a "company that was soon to give me more grief than I had ever known, and they sent a letter stating I was behind in payments and requesting as much as $4,000 to be sent or face foreclosure within a few weeks."

After a year of harassing letters, working two jobs and sending thousands to the mortgage company, the member was "beat and ready to give up." She made her way to Northeast Community CU and loan officer Stephanie Grindstaff took her into her office and helped her immediately. Her mortgage was refinanced within two weeks and was now local with a promise to never sell her mortgage again. In a letter to the credit union, the member wrote:

"Thank you Stephanie and the staff of Northeast for treating me with such kindness and respect. Thank you for making it so easy and caring about me, and treating me as a friend. I'm forever grateful."

## Sunmark FCU Latham, New York

**The award for assets more than $250 million was presented to Sunmark FCU, $364 million in assets.**

Sunmark FCU's senior management and board of directors reviewed their local market and asked Alissa Sykes, mortgage manager, to increase market share and volume, including off- balance sheet growth. Sykes developed a number of strategies to meet those goals, which included sales incentives, competitive mortgage rates, new products, partnerships in the community and hiring sales-oriented staff.

Hiring staff with mortgage skills has been a challenge for credit unions, Sunmark is no exception. "We have struggled with this," says Sykes. "We don't always find candidates that have both the background in mortgage and a sales culture—so we've invested in additional training to make sure we fill our open spots with the people who will fit best in the long term."

One method that helps mortgage excellence is for staff to view their jobs as part of a small business. "I tell employees to work as if it were a small business," she says. "You need to own the loan and be responsible for all the moving parts. When employees ask for assistance, I ask them, 'What would you do?'"

Successful mortgage operations are a result of getting all staff and departments involved. This includes practical training, according to Sykes.

"The focus of our business is mortgages," she says. "As an exercise in teamwork, we built miniature houses. About 30 to 40 employees at the branches participated and the staff became very engaged. Branch staff kept their houses on the teller line; it increased awareness for both staff and members, and helped initiate conversations about mortgage products."

Four loan officers were hired in 2007 to join three mortgage processing employees. Providing sales incentives stimulated growth in volume. From 2005 to 2010, the department recorded a 560% increase in loan volume, finishing 2010 with $165 million in loans. The credit union forecasts 2012 with a 34% increase over 2011 volume. To meet the increased activity, the department has grown from a staff of four to 25 in five years.

Sunmark has sold mortgages on the secondary market over the last several years, which has helped generate the off-sheet balance income called for in strategic planning. About 90% of Sunmark's mortgages are sold on the secondary market, which limits interest-rate risk.

Members are occasionally concerned when they find out another company will service their loan. To mitigate these concerns, "we have an agreement with our mortgage provider to not sell the mortgages again," says Sykes. "And if the member is adamant about not having their mortgage sold, we will look into retaining it, but they may have to pay more in interest."

Sunmark has continually expanded its mortgage offerings during the last several years. In 2009, FHA and VA loans were introduced; USDA loans were added in 2011. These products, when combined, account for 34% of Sunmark's purchase business through mid-August 2012, and at least 16% of all mortgages in 2011.

Members can be annoyed with the mountain of paperwork that mortgages take. Sunmark has a paperless mortgage system.

"Everything is paperless except for the mortgage and the note which the state of New York requires to be paper," says Sykes. "We have a paperless system and we have no paper files. This has helped to streamline our processes and saved a significant amount of time for mortgage staff."

Since Sykes worked at various mortgage positions in a bank as well as in a credit union, how do the two compare? "Credit unions may not have the resources that other institutions have," she says. "But that just means we have to look for creative solutions to meet the needs of our members and staff."

## Three Elements Provide MBL Success

Even though credit unions have been business lenders since their beginnings over a century ago, they have struggled with making these loans.

## Gesa CU - Richland, WA

**The Excellence in Lending award for member business lending was presented to Gesa CU, $1.1 billion in assets, a credit union that has shown how it can be done successfully.**

When Gesa CEO Christina Lethlean was hired in mid-2007 the community credit union had grown to $550 million in assets, but it wasn't keeping pace with the growth of the community. The challenge was to position the organization as the business lender of choice since the membership indicated in a survey that they wanted business deposits and loan products.

Member business lending has grown robustly during the past several years. In 2009, they had 37 business loans originated totaling about $35 million and fees of more than $350,000. By 2011, Gesa had a record year with 120 business loans totaling about $47 million and more than $400,000 in fees.

There are three elements to the organization's success, according to Benjamin Rutledge, VP of commercial services. Hiring experienced loan officers is the first and most obvious, but he adds a word of caution.

### Hire Experience or Train

"Go out and hire experienced people," he says. "But some former lenders aren't good choices for credit unions. During the recent recession, a number of lenders got too liberal in underwriting and made risky loans."

Gesa used a strategy of hiring people they knew and could train. "We are starting a commercial lending training program," he says. "We are training people within the program. The demand for commercial lenders will get greater. Find bright college business graduates, start them as commercial credit analysts and in three to five years they can become commercial loan officers."

Banks stopped training commercial lenders for 10 to 15 years from the mid-90s to the mid- 2000s. The mid-90s was a time of focus on efficiency ratios in banks and increasing shareholder value was paramount, so training was often cut, according to Rutledge.

### Promote Safety & Soundness

The second element of success is to develop a process that promotes safe and sound lending practices. This is a practice that has to be across the board, including: the borrower interview, underwriting, documentation, auditing the loan file and portfolio monitoring, according to Rutledge.

"From 2000 to 2010, commercial lenders were cutting corners and borrowers were dictating the terms of the deal," he says. "They were not monitoring or documenting loans properly. We tell our new hires that our business lending culture is conservative, safe and sound."

Trust has to be earned from executive management, directors and state and federal examiners for an effective program.

Credit unions are experienced with consumer loans; but there is a misconception that business lending is the same as consumer lending. "Consumer lending fits into a box," he says. "It is funded and goes out the door. Only if there are problems does the credit union get involved."

Commercial loans are quite different. The business files are living files and the lender communicates with the business owner frequently. "We contact the business annually or quarterly and ask how they are doing," says Rutledge. "We are constantly in front of our business borrowers. If a loan is deteriorating, we develop a plan for the credit union and work with the owner to develop a plan for the business."

### Strong Relationship with Borrower

Gesa places a premium on the relationship with the borrower. They offer a full range of services that has the effect of strengthening the bond.

"We become their banker," he says. "We essentially become a person of influence as their banker like a CPA or attorney. Our commercial services assist the business member achieve success. We do everything we can to help them. We can give them options."

Even though a CUSO is a good option for many credit unions, Gesa decided to build the business services in-house. They use a CUSO for appraisals and plan to use this option in the future for auditing their SBA portfolio.

The relationship with other departments within the credit union is "symbiotic," according to Rutledge. "We sometimes require key man insurance, for example, and we provide this through our financial services department."

Commercial loans can be profitable and a steady stream of income for credit unions and a means to help members who are starting a small business.

## Excellence in Lending in 200 Countries: United Nations FCU

The Excellence in Lending Awards are part of an annual ceremony that celebrates the best of class in the credit union lending world. There were 84 applicants for this year's awards which culminated in a luncheon ceremony at CUNA's Lending Council conference in Miami Beach on November 5. CUNA Mutual Group and the CUNA Lending Council established the Excellence in Lending Awards in 2000.

CUNA LENDING COUNCIL

## The United Nations FCU Long Island City, New York

**The award for consumer lending by a credit union with assets of more than $250 million, was presented to United Nations FCU, $3.7 billion in assets.**

The credit union has a unique place in the industry as an organization that serves members in more than 200 countries and territories with some 99,000 members. One of the challenges of working with an international field of membership is that most borrowers lack a credit history, FICO score or Social Security number. So they developed a proprietary country scoring system, according to Sarah Klinger, AVP, lending operations.

“Each country is scored, based on risk and delinquency experience, the macro-economic outlook, including factors such as unemployment rate, GDP growth, and currency volatility,” she says.

In 2011, United Nations FCU also developed auto-decisioning for low-risk, high-volume products such as Visa credit cards and checking lines of credit. During that year, some 1,959 consumer loans were originated using auto-decisioning.

Loans are offered in U.S. dollars. If the currency in which the borrower is paid is significantly devalued, the member may be offered the option of extending the loan term in order to decrease the monthly payments. Last year in response to a significant devaluation of the Kenyan Shilling, the credit union offered loan modifications to its members paid in Kenyan Shillings.

Consumer loan growth has averaged close to 10% for the past three years. Yet loan delinquency for these loans has hovered around 1.2% to 1.3% for the same time period. Even more remarkable is the net charge-off rate; it has typically remained less than 0.40% since 2008. How are these numbers accomplished?

“Even though we are geographically dispersed, we have a strong common bond,” says Klinger. “Our members associate strongly with their employer, the United Nations; they pay us first.”

Another challenge for members filling out loan applications is trying to find a fax machine in countries where they aren’t readily available. Members are now able to complete loan documents online. “Members used to have to fax loan notes back and forth, now they have better access to the Internet,” says Klinger. “With eSign, they can complete the process online and receive their funds faster.”

Lending Development I is an eight week training program which familiarizes staff with consumer lending. The program uses CUNA’s Staff Training and Recognition (STAR) curriculum, a self-study program. Employees who complete the program receive a certificate of completion and are given limited lending authority to exercise their skills.

The credit union was the first financial institution in the United States to offer a Chip and personal identification number (PIN) credit card in 2010. This EMV (Europay-MasterCard VISA®) offering was in response to members who travel and change duty stations frequently, residing around the world. They needed more secure and convenient access to their funds while in locations that do not support magnetic stripe cards only, such as at self- serve ticket booths, gas stations and food kiosks.

The Chip and PIN feature provides a higher level of security against fraud than the magnetic stripe card. Due to the security keys placed in the microprocessor during the manufacturing process, the chip stores data securely and are resistant to cloning. While incidence of fraud continues to migrate to the US because it is the easiest target with most of the world already adopting the chip, fraud dropped 30% at UNFCU from 2010-2011, largely as a result of EMV with members' card loyalty enjoying a 30% increase for the period.

## Cooperative Center FCU Berkeley, California

**The second award for consumer lending was presented to a credit union with less than $250 million in assets. The winner was Cooperative Center FCU, $102 million in assets.**

A year after the financial debacle of 2008, the credit union held a strategic planning meeting with the board and management team. The meeting delivered two business objectives. The first was to be a good fiduciary of members' deposits and the second was to use these deposits by lending or investing them for positive and risk controlled earnings for members.

Investment returns at that time—as well as today—were equivalent to the remains of a dog's breakfast, so lending became the focus of their energies. As the credit union had a 40% loan-to-share ratio, there was opportunity for growth. They also determined that there was a need for diversification, as the loan portfolio was dominated by first mortgages. After discussions at the planning meeting, the credit union decided to focus on auto indirect lending, private student loans and member business lending.

The goal was to increase loan volume, but also to meet or exceed the NCUA designated peer group performance of a loan-to-share ratio of 65%. The credit union achieved close to a 54% loan-to-share ratio. Cooperative Center FCU decided to enter the indirect lending market with Credit Union Direct Lending or CUDL. It took some time, though, to get started with indirect lending, according to Debbie Crowson, marketing manager.

"It took a year to get familiar with car dealerships before the dealers knew that Cooperative Center FCU was making car loans," she says. "We worked with CUDL and we hired a rep who traveled to meet with the dealers."

The credit union used a "strict underwriting process" to ensure the quality of the loans being made prior to funding, according to Crowson.

They also offered a series of new products for their members.

The "Stimulus Bailout" was a debt consolidation loan of up to $25,000 for members with high interest rate credit cards or payday loans. The member had to be willing to receive credit counseling and agree to pass on additional debt until the consolidation loan was paid off. They also agreed to allow the credit union to pull their credit once every six months to monitor progress. The credit union funded 127 of these loans for a total of about $887,000.

The "Refund Express" was an anticipated tax refund loan with no fees. Since the credit union offers free tax preparation during the tax season for low income members, they developed a small dollar loan product to receive their tax refund quickly instead of waiting.

The credit union is in its third year of offering students of the University of California- Berkeley private student loans. These loans currently have balances at about $1.8 million.

Member business loans were offered to members since small businesses in their community were being turned down for loans. Cooperative Center FCU received its SBA certification and identified a state guarantee program that guarantees up to 80% of the loan.

After bank transfer day, a loan promotion ran with a tagline that stated "You've moved your money, now move your loans." Crowson added that "Members who pulled their savings out of big banks and brought them to the credit union need to understand that bringing us their loans would help even more."

The credit union has been effective with its web marketing. It's essential to make things easy, according to Crowson. "People have busy lives, so make it easy for the member," says Crowson. "The product you are trying to sell has to be immediately available on the web site. Offer loan products that have ease of application and make sure you can apply for the loan online."

## Converting 23% to 10% = Member for Life

The Excellence in Lending award to members of low-to-modest means was presented to U.S. New Mexico FCU, $725 million in assets. The credit union involves all of its employees in meeting member needs and has developed a number of products for this group.

### U.S. New Mexico FCU Albuquerque, New Mexico

Founded in 1935, U.S. New Mexico is the oldest credit union in the state. Even though known as the "Land of Enchantment," many citizens in the state struggle with low-income jobs and have modest means. The credit union has served these folks since its beginnings, but several years ago they decided to offer a suite of products that were more suitable for this group.

One of their innovative approaches was to form a committee of 30 volunteer employees, named the "Serve More Members of Modest Means" or MOMMs committee. The mission of this committee is to identify and communicate the needs of these members then develop products and services. It focuses on different segments of the modest means population concerning age, income, employment status and cultural concerns. It also serves as a think tank to develop new channels for members.

### Performing at Highest Level

Employee training to recognize and serve these members is essential to the credit union's success story. Training is provided to each of the 200 employees by the Pacific Institute, which is headquartered in Seattle. The training focuses on how individuals can perform to the highest levels in both their work and personal lives. The cost is $1,000 per person and consists of two full days of training, a six week break, and an additional two days.

The credit union defines a family of four earning less than $45,000 as one of modest means. This is calculated by those persons living in a household earning less than 200% of the U.S. Health and Human Service poverty guidelines. An example of a mainstream person of modest means is someone with a high school diploma working in construction, food service, or housekeeping.

The training is augmented by regular off-site meetings that all employees attend. This is a means to review strategic objectives as well as how the credit union is performing, according to Phil Forbert, marketing manager. "This gives us an idea of how well we are doing, and if needed, what we can do to get back on track."

The organization also has meetings of 25 employees where the CEO and senior management deliver the current strategic plan and how it will affect all employees.

An essential part of training helps staff understand how to recognize those of modest means in a way that is sensitive to their needs. "We are trained to recognize patterns in a member's credit history," says Forbert. "While our demographics are varied, there are many members who are underemployed."

A member who was laid off then moved to Alaska for a new job is evidence of how the organization puts the "people helping people" philosophy into daily practice. The member was paying 22.9% on a car loan. He emailed Forbert and asked for help.

"We were able to get him a car loan at 9.9%, so he went from paying $450 a month to $325 a month," he says. "When you help someone like that, you get a member for life."

Members can use the "Skip-A-Payment" option twice annually as long as they are up to date on their loan payments. This option is used judiciously. "We don't always advise using Skip- A-Payment," says Forbert. "If a member appears to be at risk for putting themselves in a tough spot financially, we will strongly advise against it. The program is designed more for handling the little emergencies we all tend to have."

Prudent underwriting guidelines are followed, but they allow for providing loans to those of modest means. Loan officers are empowered to look deeper than the strict guidelines and consider the nature of derogatory credit reports, payment and income history. Lenders are encouraged to look for ways to creatively structure loans, make reasonable exceptions and offer affordable alternatives to help members of modest means.

U.S. New Mexico offers an alternative to payday loans, the “Eagle Advance,” which offers a $300 payday loan, followed by a $700 loan, once the first loan is paid. This loan is offered at 18% APR, compared to rates reaching 300% APR in the local market for these types of loans.

Another product is the “Credit Builder” credit card, which provides for members with derogatory credit reports to build their credit up by starting out with a $300 credit limit. That amount can be raised to $1,000 within six months if payments are steady.

CUNA Lending Council
5710 Mineral Point Road, Madison, WI 53705
cunalendingcouncil.org