A presentation on

Small Credit Union Lending Dialogue

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League of Southeastern
Credit Unions & Affiliates

Importance of Small Credit Unions

- We are the heartbeat of our industry

- We don't want to survive…we want to thrive
  - Ability to adapt to changing member needs and surroundings
  - Open to new ideas

History of Phenix Pride FCU

- Chartered in 1960 as a hospital credit union
- A typical credit union history full of many locations, managers, FOM's
- Variety of problems:
  - Fictitious loans
  - Embezzlements
  - Encouraged to merge
- Forced to fix this problems to stabilize the credit union
- Needed to reevaluate future

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The Lightbulb Goes Off

- First concern of profitability led to revised mission
  - 2010: CDFI Certification and grant application
  - 2013: Local lending conference
- Considering the plight of high risk borrowers & their need for affordable loans:
  - Two categories: Can't get a loan or only a predatory loan
  - Don't leave these members out- it's what we were created for!

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The Lightbulb Goes Off

- Change of thinking from good loan vs. bad loan to what looks good on paper vs. the member in front of you

- This change comes with its own set of successes, failures, challenges & opportunities

Phenix Pride FCU Statistics

- **Average Loan to Share: 92%**
- **Average Loan Growth: 14%**
- **Average Delinquency Ratio: .74%**
- **Average Charge Off Ratio: 1.04%**
- **Average ROA/ Net Income: 1.63%**
- **Assets increased by 62%**
- **Loan dollars more than doubled**
- **Capital growth from 11.18% in 2013 to 12.92% in 2018**
- **Significant asset growth**

Our Lending Program

- Emphasis of lending first, as revenue is king for everything you need to do:
  - Paying employees
  - New products and services
  - Overall growth
- Four C's
  - Competition
  - Creating a Sales Culture
  - Counseling
  - Collections
- NCUA has called our program a business model!

Four C's: Competition

- Can't compete with everything
- Find your sweet spot, every credit union is unique
- What works for Phenix Pride FCU may be different for your credit union
  - Used auto loans (few new auto loans)
  - Quick Loans
  - Payday loans
  - Signature loans
  - Starting with microbusiness loans

Four C's: Creating a Sales Culture

- Sales is not a dirty word!
- Must have employee buy-in
- Must have the RIGHT employees to sell
  - Incentives
- Why don't we have every member's loan?
- We have a better product that we should feel good about selling
- Creates a WIN, WIN, WIN for members, the credit union, and employees

Four C's: Collections

- A strong collections program is **paramount**

- Just like sales, must have to have the right employee

- Hard close done by collector

Policy & Procedure Best Practices

- Pricing
  - May come in at 16.9% with hopeful improvement
  - Financial counseling and rate reduction
  - Ultimate goal to improve financial position
- Loan interview: ask the right questions
- DTI and PTI
- LTV
- Unsecured DTI
- Relationship
- Bankruptcy indicators: Excessive unsecured, escalating debt, maxed out credit lines

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Lend to the Person, Not the Paper

- Debt ratio isn't everything
  - We don't know all expense and income
  - People prioritize payments
  - 65% of bankruptcies had DTI less than 40%
- Don't set high risk members up to fail
  - Too much car=too much payment
  - PTI (payment to income): ideally under 15% of monthly income and car price under 50% annual income
  - Newer cars with low miles
  - Cash down

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Learning from Failures

- Charge off autopsy

- Look for common factors on bad loans

- Build an organic program that's constantly changing or open to change

Constantly Looking for New Ideas

- Car "escrow" mandatory savings component
- Social media tips and counseling

- What has worked well for you?

As lenders we encounter challenges and opportunities and experience success and failure. Through it all, our goal is to make good loans to all who need them.

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