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Client spotlight:
Picatinny Federal Credit Union

By Joyce Simmons

Have examiners looked at your lending program with a microscopic lens? According to Dan Mathews, Vice President of Lending at Picatinny Federal Credit Union (PFCU), monitoring enables him to demonstrate to auditing agencies, such as the National Credit Union Association, that the credit union is performing their due diligence. This has been accomplished by ensuring that the credit scoring cutoff scores are being followed and that consistent decisions, as seen through low total override rates, are being made in compliance with the Equal Credit Opportunity Act.

In light of a changing economy and closer regulatory scrutiny, the importance of scorecard monitoring and report analysis has yielded far-reaching benefits for PFCU. The credit union always has realized the value of frequent monitoring and report analysis, and report summaries always have been available to present to auditors and examiners upon request. However, examiners have increasingly taken an interest in the proactive steps and the depth of follow-up that an organization employs when reports are generated.

For more than eight years, PFCU has routinely submitted monitoring reports to Experian for an objective, third-party review. Each report summary includes observations and recommendations for improvements. Additionally, the analysis includes steps taken to remedy a potential issue mentioned in previous report summaries. This degree of documentation can facilitate an examination or an audit. At PFCU, the analysis and recommendations have been used to:

- **Identify potential trends that suggest increased risk** — PFCU converted from a Select Employee Group charter to a community charter in 2005. Reports that gauge shifts in population stability and score distributions were used to make targeted adjustments to promotions and credit strategies based on trending information.

- **Evaluate how certain pricing tiers can be adjusted to mitigate risk and increase profitability** — Monitoring reports allow the credit union to calculate approval rates and low-side override rates. These reports illustrate which pricing tiers are attracting applicants and the percentage of applicants who score in each tier. This data allows the credit union to adjust rates proactively and tier cutoff scores based on potential risk.

- **Assist management in determining trends that could impact allowance for loan and lease compliance** — As trends associated with increased risk among through-the-door applicants are identified, monitoring reports can serve as an initial indication of the adequacy of loss reserves.

Effective monitoring in these volatile times has helped PFCU make informed decisions related to income generation and risk mitigation. Monitoring reports also have enabled the credit union to reward low-risk members with better rates and to adjust rates that are appropriate for higher-risk applicants.
For many years, PFCU’s lending program has used scorecard monitoring and report analysis to identify trends and proactively make decisions that mitigate risk. The credit union also has benefited from the additional dimension that monitoring provides when undergoing an audit. PFCU will continue to frequently monitor its credit scoring system to make sure it is being utilized appropriately. This act of due diligence can assist in facilitating a regulatory examination.

Separate yourself from the pack — Avoid the “one size fits all” approach to lending

By Andrew Bieno

Many clients are taking a second look at their risk-based decisioning and pricing programs due to the current economic climate. What they have found is that the “one size fits all” approach to lending and pricing may not be the best fit for their institution. Add to this increased scrutiny from auditors and regulators, and this can make for a daunting outlook for their programs. There are three key areas that will help refine risk-based strategies and provide the groundwork for sound risk-based programs:

- **Evaluate the risk in your portfolio.** Frequent validations of the score used for decisioning and pricing will not only satisfy Regulation B’s requirement for a credit scoring system, but also will show the risk factors evident in your portfolio. Typical validation results will provide the bad and loss rates by score range as well as for the overall portfolio. These results will allow institutions to refine both decision and pricing cutoffs. They also can be used as a benchmark to track changes in the population and mitigate risk going forward.

- **Monitor your portfolio.** Based on feedback clients are receiving from their auditors and examiners, developing a robust monitoring program is at the top of the list of concerns. Regular monitoring of your lending and pricing program allows you to stay on top of any changes in the distribution and risk diversity of your portfolio. Reports such as score distribution, override and delinquency will allow you to track trends in your population and respond proactively.

- **Review your risk-based pricing program.** By taking a deeper look at their programs, some clients have discovered that “one size fits all” may not have been the best approach. Applicant distributions, cost structures and pricing constraints can vary greatly from institution to institution. A tier and pricing structure that may be profitable for one institution may cause serious negative yields for another due to the difference in population, risk diversity and structure.

By crafting decisioning and pricing programs that look both inward and outward, institutions can develop a program that provides the desired volumes and yields while remaining competitive. Breaking away from the “one size fits all” approach will provide for successful results in the future.
Getting back to basics with account management strategies

By Amanda Bell and Amanda Roth

As delinquency and bankruptcy increase in an unstable economy, the focus of lending has moved from the funding of new loans to managing the existing portfolio. Proactive decision making is of the utmost importance during these situations to ensure the stability of the organization and the customer.

Account management can be accomplished in many ways: utilizing payment history with your organization only, utilizing changes in credit behavior with other organizations, or utilizing a combination of internal history and external experience. Many organizations do not fully understand how to obtain or use information on credit behavior with other organizations. Therefore, we will focus on that issue here.

Obtaining account management information

In order to utilize data for account management, you first must have access to it. Credit history data is relatively easy to obtain and requires that a data file of all existing customers with identifying information be provided to a credit reporting agency. The credit reporting agency then will use current credit bureau behavior information to calculate a credit score and will return the new score to your organization. At Experian, this is known as QuestSM. The updated credit score can be received monthly, quarterly, semiannually or annually and can include specific attribute information. An Experian account executive can assist you in obtaining this information.

Using account management information

Once you obtain the account management information, you can use it in several different ways to improve your portfolio:

- **Track score migration.** Creating a benchmark of portfolio score distributions and regularly comparing it with new distributions will assist in anticipating increases or decreases to credit risk. This allows the organization to change credit score policies or loan loss reserves as necessary.

- **Manage credit lines.** Understanding if a customer is experiencing degradation or improvement of risk allows the organization to determine if a credit line increase, decrease or closure is needed. This strategy will allow you to reward your good customers, while offering education or a helping hand to those experiencing credit challenges.

- **Develop retention programs.** Knowing which customers are likely to receive special offers from competitors enables your organization to extend retention promotions to creditworthy customers and strengthen your relationship with them.
Prioritize collections. Identifying those accounts that are at a higher risk for loss allows you to prioritize which accounts will receive the most attention upon reaching delinquency. For low-risk accounts, the organization may decide to have a slower collection process to allow for the occasional slow pay. However, for high-risk accounts, the organization may implement more aggressive practices to decrease losses.

Design marketing plans. Determining which account holders may have gaps in products and services will allow your organization to cross-sell these additional opportunities. With updated credit information, you will be able to solicit existing customers for different products by making a firm offer of credit to them.

Account management practices offer a variety of ways to measure and manage the current risk of your portfolio as well as build customer loyalty. The information is easily obtainable, and the strategies can be implemented quickly. During these changing times, consider implementing your own account management practices to provide your organization with additional security. Please contact your Experian account executive for more information.

Mortgages: What do we do now?

By Amanda Roth

Lately, it seems that mortgages have become the topic of discussion around the water cooler, company get-togethers, industry conferences and executive board meetings. Many of our clients have experienced increased risk and delinquency within their portfolios but are unsure how to respond. As a leader in data and information, Experian has tools available to assist in handling these situations appropriately.

One of the primary areas that we encourage each of our clients to review is the internal trends they have experienced within a portfolio. Does an increase in delinquency require a minor change in policy rules or a halt in lending? Once you understand exactly what has occurred within your own portfolio, a comparison with competitive portfolios may provide a clearer picture. If your delinquency has increased but is still below the industry average, minor changes may be the only response required. Larger than expected deviations from the industry require a significant lending-practices overhaul. The graphs below provide portfolio information on first mortgage and home equity facilities for the primary industries lending in these areas.

First mortgages

New loans consist of loans booked between April and June 2008. Interest rates decreased overall from the previous quarter, while loan amounts increased in all areas other than finance. This trend is directly related to the
Portfolios are being made up of more “A” and “B” paper than in the past.

The portfolio distribution of new loans also has shifted to more “A,” “B,” and “C” paper from last quarter, with a small percentage of “E” loans being funded even within the finance industry.

This chart displays the delinquency of all tradelines reported as a first mortgage, not just new loans. Delinquency across the board is lower in the bank and credit union industries than in the other industries. This trend is a result of more conservative lending practices over the years.

Home equity

New loans consist of loans booked between April and June 2008. Average utilization as well as average credit limit and amount O/S continue to increase for home-equity products from the previous quarter. This trend is again a result
The portfolio quality of home-equity products continues to increase, as there were few loans funded from Sept. 1–30 that would fall into the “E” category. “B” and “C” paper increased significantly during this period from last quarter.

Delinquency remained significantly lower for banks and credit unions when compared with other industries. However, both did experience a slight increase in 90+-day delinquency over 60-day delinquency.

How do you compare — not only to the overall trends of mortgages and home equity, but also to your specific industry? Are your delinquencies higher than those of other credit unions but lower than those of banks? Do things seem better than what you once thought? Use the information provided to determine what your response should be to these unprecedented times. For more information on mortgages or additional portfolios, please contact your Experian account executive or Decision Sciences consultant.
Employee spotlight: Joyce Simmons

Joyce Simmons is an Analytics and Business Consultant in Experian’s Decision Analytics Group. She has been an Experian employee since 2003. Joyce supports clients in the credit union and community banking industries with Experian’s Fast Start℠ models, risk-based pricing programs and Performance Insight℠ services. Joyce has a bachelor’s degree in political science from the University of Southern Mississippi.

Away from the office, Joyce volunteers at nonprofit agencies that mentor youths at risk and provide support for homeless women and children. She enjoys spending time with family and listening to music that spans many genres.