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WHATEVER THE NICHE MIGHT BE

FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

CREDITUNIONS.COM

EDITOR Alix Patterson

MEDIA DIRECTOR Rebecca Wessler

SENIOR DESIGNER Kristine Chatterjie

COLLECTION CURATOR Erik Payne

CONTRIBUTORS
Aaron Pugh
Drew Grossman
Erik Payne
Marc Rapport

ADVERTISING INQUIRES (800) 446-7453

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CALLAHAN & ASSOCIATES

1001 Connecticut Ave, NW Suite 1001, Washington, DC 20036
Ph: 800.446.7453 | F: 800.878.4712
Editor@CreditUnions.com

Callahan.com | CreditUnions.com

For more information on Credit Union Strategy & Performance and CUSP Collections visit http://callahan.com/cusp.

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Credit unions from California to Florida are offering unconventional, low-dollar lending products to satisfy the specific needs of members. From a product that mimics a tanda — an informal credit source used by Hispanic communities — to another that helps fund construction projects, the credit unions profiled in this Callahan Collection are finding innovative ways to meet member needs, whatever the niche might be.

THE OPPORTUNITY IN CROWDSOURCED LENDING FOR A HISPANIC COMMUNITY

California-based Travis Credit Union combines the credit union experience with cultural customs.

BY MARC RAPPORT

Travis Credit Union ($2.4B, Vacaville, CA) is leveraging immigrants' customs to reach a large, underserved segment of the population. In mid-2012, the Northern California credit union worked with Latino community groups, the National Credit Union Foundation, and the Coopera consulting firm to pilot the New Era Tanda Loan Program.

Tandas are informal borrowing and lending circles used by Hispanic communities, but a closer look reveals the concept could also go by the trendier term "crowdsourcing" in the United States. In this tanda, Travis serves as the depository and lender and has added financial education and consumer protections to the mix.

"The tandas are already here," says Sherry Cordonnier, TCU's director of corporate communications. "So we decided we might as well work with the concept."

In the pilot program, which occurred from mid-2012 through mid-2013, six participants spent one year contributing approximately $100 a month each to a joint savings account. The savings then qualified them for share-secured $600 loans.

The six participants also attended monthly meetings hosted by the Yolo Family Resource Center that featured Spanish-language financial education provided by TCU staff.

Today, five of the six participants are still Travis members and three of them have credit cards. But the benefits extend beyond TCU'S tanda.

"They have a better sense of how money and credit work in the United States," Cordonnier says. That includes how to balance a checking account and use services such as direct deposit, online and mobile banking, and bill pay. They also understand how to build the credit they need to buy a car or home.

KICKING AROUND A GOOD IDEA

To find culturally relevant — and thus, effective — ways to build trusted relationships with a fast-growing immigrant community, the credit turned to industry experts and then to a local non-profit agency. And it turns out a soccer league was a fertile field for finding willing participants to try out the credit union's new tanda program.

CU QUICK FACTS

Travis Credit Union
VACAVILLE, CA

$2.4B
ASSETS

171,061
MEMBERS

23
BRANCHES

8.29%
12-MO SHARE GROWTH

28.10%
12-MO LOAN GROWTH

1.00%
ROA

"That's typical of how the word gets spread around about resources in the community," says Miriam De Dios, CEO of Coopera, the Iowa-based, Hispanic-focused consultancy. "Travis is great at understanding cultural and financial needs and working with community partners."

Travis has been focusing on the immigrant community in its market for years. It provides products and services specific to "Hispanics, Filipinos, or whoever else comes here and needs to know how the system works," Cordonnier says. "There are organizations and financial institutions that will take advantage of them. That goes completely against our mission and our vision."

That mission and vision has led the credit union to offer such products as Deferred Action for Childhood Arrivals (DACA) loans to help cover the $465 fee to apply for two-year deportation relief. Options like this are vital for a community in which a recent study found many eligible immigrants couldn't afford the fee. The same study found the same group showed "a high propensity for work" and education.

Travis offers other small-dollar lending products as payday lender alternatives and even one focused on family fun: a signature loan for traditional Quinceanera celebrations marking a girl's 15th birthday and coming of age.

Cordonnier says the loans follow the credit union's existing risk pricing. TCU knows how to lend, showing loan growth well above its peer group of billion-dollar credit unions around the country. And it knows how to attract members, growing at a rate just below its nationwide peers in a market that's 21% Hispanic right now and adding to that at a clip of 5% a year, Cordonnier says.

TAKING OFF FROM THE PILOT

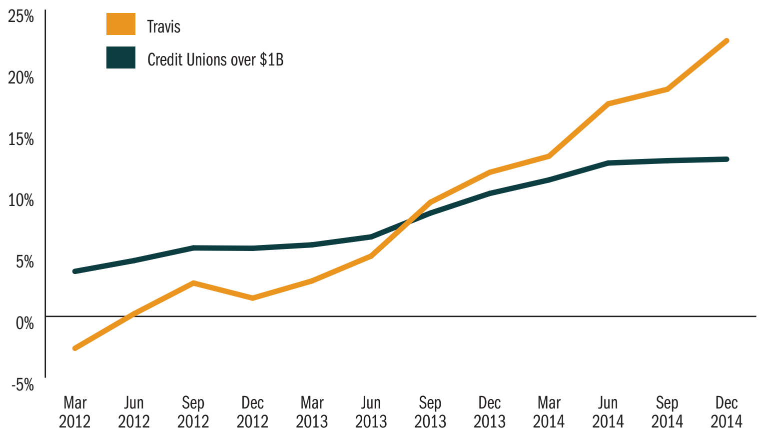
To attract more members and loans, Travis has hired a community outreach officer tasked with developing the relationships and other legwork needed to launch the New Era Tanda Loan Program as an ongoing offering.

"We don't want it to be a pilot this time," Cordonnier says. Developing the program takes resources, including someone focused on talking to community groups and individuals to find out their needs and dreams.

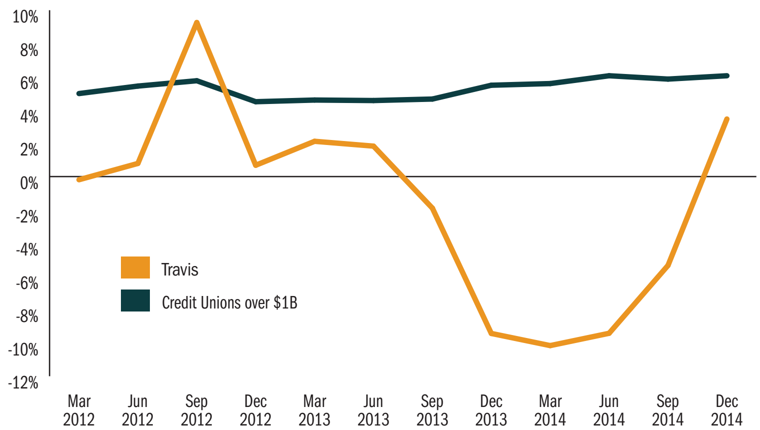
It also takes time.

"It's going to take her a good year just to align herself with those organizations that share our commitment to the welfare and success of our community," Cordonnier says of the new outreach manager. "But it's worth it. Helping our immigrant population is healthy for them and for our entire community. It's what our credit union is all about."

TRAVIS LOAN GROWTH



TRAVIS MEMBER GROWTH



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3 TIPS FOR SUCCESSFUL CONNECTION

Travis Credit Union has learned from experience how to serve underbanked populations in its market. Here are three interconnected tips.

IDENTIFY THE NEED:

Find out what the community needs. Some things are fairly universal — reliable transportation, payday lender alternatives — but others can be specific to an ethnic group, such as Quincineara loans for Latino families with adolescent girls.

COMMUNITY PARTNERS:

Nonprofit community service centers typically share the credit union philosophy of "people helping people" and already have relationships with the word-of-mouth leaders of the immigrant groups they serve.

GRASSROOTS MARKETING:

Grassroots marketing is proving to be the most effective route for connecting with immigrant populations. "Going to where they are is absolutely the best way to build the trust factor," says corporate communications director Sherry Cordonnier.

PACIFIC MARINE OFFERS FINANCIAL FREEDOM FOR SERVICE MEMBERS

The California credit union uses a range of products to help members avoid payday lenders and build their credit.

BY MARC RAPPORT

Long before Congress passed the Military Lending Act in 2006 to defend service members from predatory lenders, credit unions were there to start young recruits on the path to financial stability. Pacific Marine Credit Union ($712.9M, Oceanside, CA), for example, offers a suite of products and services for its predominantly military membership.

PMCU's 13 branches include locations at the largest Marine base — the Marines Air Ground Combat Center at Twentynine Palms — and at Marine Corps Air Station Miramar, Camp Pendleton, and Marine Corps Recruit Depot San Diego. Membership is open to anyone in San Diego, Riverside, and San Bernardino counties, but approximately 50,000 of PMCU's 76,000 members are active duty or recently separated from service; another 10% — 7,500 — are retired military.

PMCU offers an arsenal of loan products and financial education. Some are targeted specifically at helping young Marines avoid what the credit union's chief of staff, Brad Smith, calls the "death roll" that can come with patronizing payday and title lenders. The products are often not profitable for PMCU, Smith says, but they serve their purpose for those who serve.

CASH, CREDIT, AND SAVINGS

As an alternative to traditional payday lending, PMCU offers the Ready Cash loan, a $500 line of credit for people with credit scores lower than 660. The standard rate is 24%; however, the credit union will drop it to 18% if the borrower opens a Military Savers Account that requires them to save at least $10 per paycheck. PMCU has made approximately 1,300 Ready Cash Loans with about $500,000 in outstanding balances.

PMCU also offers shared secure VISA cards and a share-builder loan, which are both designed to help servicemen and women rebuild their credit. And its primary checking account carries no courtesy pay fees unless members overdraw their account by more than $20.

"Many young members are not good at tracking their small debit card purchases," Smith says.

In addition to the offerings for general members, Pacific Marine also has products exclusive to active duty military, such as a program designed for young Marines with no credit history. The zero credit score options include a credit card with a limit up to $3,000 at 19% APR and a vehicle loan up to $25,000 at 8% to 9.5% depending on the down payment. The auto loan also carries a 35% maximum debt ratio.

CU QUICK FACTS

Pacific Marine Credit Union
OCEANSIDE, CA

$712.9M
ASSETS

75,782
MEMBERS

0.34%
12-MO SHARE GROWTH

7.89%
12-MO LOAN GROWTH

0.41%
ROA

PACIFIC MARINE CREDIT UNION SENDS OUT A STAFFED MOBILE BRANCH ON WEEKENDS TO THE SCHOOL OF INFANTRY AT CAMP PENDLETON. COURTESY OF PACIFIC MARINE CREDIT UNION.

"The most important thing to understand is the lifestyle these service members and their families live," Smith says. "They begin young, are sometimes isolated from civilization for long periods of time, and often rely on their spouse or other family members to help them deal with their finances because of deployment. But they need opportunities to build their credit and wealth just as much as anyone."

BASIC FINANCIAL TRAINING

Financial education begins when members start boot camp at Marine Corps Recruit Depot San Diego. The credit union sponsors a one-hour class that includes how to track debit card use and how to build and maintain good credit. PMCU then follows the graduates to the remote School of Infantry at Camp Pendleton about 60 miles north of San Diego.

"They only have weekends off while they're there, so we built a mobile branch that travels up to SOI on Saturday and Sunday," Smith says.

The mobile branch includes two financial service representative desks and a teller window, and credit union staff talks to the young Marines about whatever financial services they need.

The credit union also offers a full curriculum of classes at Camp Pendleton's Financial Education Center, which is located adjacent to the PMCU branch there. And a certified financial educator/counselor is available to meet with units for on-site sessions at any of the four Marine bases the credit union serves.

SERVICE OVER PROFIT

Delinquency rates for the zero credit score borrowers are on par with B or high C level loans, Smith says. However, the delinquency rates for loans to the credit impaired are quite high.

"We're lucky to break even on them," Smith says. "But we see it as our duty to give active duty military a second chance to get squared away."

The hit hasn't hurt Pacific Marine too hard, according to Search & Analyze data on CreditUnions.com. The credit union's overall loan delinquency rate as of March 31 was 0.25% compared to an average of 0.62% for all credit unions with $500 million to $1 billion in assets.

"Our credit union was born on Camp Pendleton and has served Marines, sailors, and their families for more than 60 years," Smith says. "They serve with honor, courage, and commitment. We simply try to serve them the same way."

LONG-LASTING IMPACT

Smith notes that only about 25% of Marines re-enlist after their first four years, and the credit union only keeps about 10% of its military members after they leave.

"This is a short, four-year period where our credit union can have a positive impact that can last the rest of their lives," he says.

For example, Smith recently met a staff sergeant at a Marine Corps Scholarship Foundation charity golf tournament who got his first car loan at Pacific Marine using the zero credit score program.

"This year he and his wife are preparing to buy their first house," Smith says. "He was very appreciative that Pacific Marine had gone out on a limb back then to help him build his credit."

REINVENTING THE SIGNATURE LOAN

How Legacy transformed an uninspiring product into a highly marketable Lifestyle Loan.

BY ERIK PAYNE

The problem with signature loans is simple, says Glenn Bryan, senior vice president of Legacy Community Federal Credit Union ($414.3M, Birmingham, AL). They don't really capture the typical member's imagination. Members don't really see the value in signature loans or why they should care about them, he says.

Plus, as the economy staggered, spending stalled. The number of home sales in Birmingham averaged about 1,000 per quarter in 2009 before falling in 2010 and 2011; sales grew only slightly in 2012 and 2013, according to City-Data.com. Household income also stagnated. The city's median household income of $28,626 in 2011, the most recent data available, was well below that for the state, which was $41,415.

Birmingham's struggling economy took a toll on Legacy's loan portfolio. According to Callahan & Associates' Peer-to-Peer data, since the fourth quarter 2009 Legacy's total loan portfolio dropped 10% to roughly $145 million — well below asset-based peers at $215 million, though above the state-based average of $69 million. Even as of March 2015, the credit union's loan to asset ratio was just 40.43%, according to Search & Analyze data on CreditUnions.com.

"As we were looking into what we could do to grow our loan portfolio, we started thinking about what we have already in the portfolio that's just not being used" Bryan says.

That's when Legacy had the idea to reestablish its signature loans. It already had the ability and experience to make these loans, though members seemed mostly unaware of the product. After a rebranding effort that bundled the loans into one easily identifiable product, the Legacy Lifestyle Loan was born.

LEGACY'S LIFESTYLE LOAN

Legacy introduced the loan in April 2013 to coincide with the credit union's primary sponsorship of the Indy Grand Prix of Alabama, an IndyCar Series race held in Birmingham.

The Loan page on Legacy's website lists 27 common expenses that individuals and families typically have over a lifetime, such as weddings, vacations, and home improvements. These three reasons account for most Legacy Loans, though the institution will approve loans for everything from funerals to Lasik surgery to veterinary care.

"People started to realize, 'I'm planning a wedding, I'm going on vacation, I've got to have eye surgery.' Whatever those different things

“As we were looking into what we could do to grow our loan portfolio, we started thinking about what we have already in the portfolio that’s just not being used.”

are — which really speak to the member’s lifestyle — people started to realize, ‘Hey, I could get a loan for that,” Bryan says.

The unsecured loans are targeted principally toward members with young families or those just starting out, who often don’t have enough savings for a wedding, a honeymoon, or a vacation. Although Legacy hasn’t targeted any of its select employer groups with these offerings, Bryan says, the goal is to appeal to broad swaths of the membership base.

Although also offered with an open-ended term, the loans usually have a 36-month duration. Rates are based on the borrower’s credit profile, including the ability to repay as well as the person’s income and debt ratios. Then the credit union looks at the likely total expenditure for the purchase before determining the loan balance. For example, a wedding in Jefferson County, AL, runs between $17,000 and $28,600 on average, according to costofwedding.com.

We try to get them enough funds to do what they want but still keep the loan payments reasonable so that borrowers will be able to repay the loan, Bryan says.

A NEW MARKETING STRATEGY

Although the loans have always been around, the marketing strategy Legacy used was uninspiring and needed updating to capture the membership’s imagination. So the credit union began considering ways to market the loans differently. The solution was to present the newly renamed Legacy Lifestyle Loan as an alternative to high-dollar credit card purchases.

“Some of the credit card rates that people have might be up into the high teens or twenties,” Bryan says. “If you can get a loan for 10% on a fixed term and you can segregate that expense and say, ‘Okay, this is my loan for the new deck or my new air-conditioning system,’ people looked at that and thought, ‘Hey that’s a good idea.’”

Legacy has heavily marketed its product over the past year, leveraging all of the media outlets it can find. Besides the yearly IndyCar race, Bryan says, the credit union has found success advertising on local radio stations where it sponsors several 15-second traffic reports.

“We’ve really saturated the market, and the catchy product name helps because Legacy Lifestyle Lending sticks in your mind,” he says.

To continue expanding its loan portfolio, Legacy is currently working with local businesses and retailers, educating them about the benefits of the Lifestyle Loan. If the strategy pays off, the businesses would refer their customers to the credit union for financing an unexpected or once-in-a-lifetime event.

RISK VERSUS REWARD

The credit union does take on greater risk with these unsecured loans. However, so far the credit union has seen little in the way of defaults or charge-offs even though the loans have a higher delinquency rate — 1.2% — than the rest of Legacy’s portfolio. According to Search & Analyze data, Legacy’s total loan portfolio has just a 0.32% delinquency rate, lower than the average of 0.78% for its state peers.

“1.2% is very manageable and lower than you’d expect for a totally unsecured loan product,” Bryan says. “And losses have been minimal.”

Bryan estimates the credit union has made $1.5 million in Lifestyle Loans since the program began.

THE MEGA OPPORTUNITY IN MICROBUSINESS

Three ways credit unions can connect with one segment of overlooked, underserved business borrowers.

BY AARON PUGH

Data from the Small Business Administration indicates that of all U.S. employer firms operating in 2010, 99.7% were small businesses. However, the definition of "small business" is wide reaching and includes everything from basic home-based, non-employer scenarios to complex firms with commercial operations and hundreds of employees. Among even the smaller businesses, though, there's an important subcategory to which nine out of 10 firms operating today belong: microbusinesses.

Microbusinesses typically require $35,000 or less in capital to get started, may operate out of a home, mobile location, or other less-traditional workspace, and normally have five or fewer employees. But despite their overwhelming prevalence, most mainstream lenders overlook these businesses. According to the Institute for Local Self Reliance, microloan volume — defined as $100,000 or less — fell 33% at U.S. banks from 2000 to 2012 and small business loans dropped 14%. Conversely, large business loans rose 36% during the same period.

This disparity represents a missed opportunity for financial institutions. Microbusinesses might carry additional risk, but the unmet, growing need in this demographic is something no community-oriented organization should gloss over lightly, and the following three tips will help credit unions better evaluate microbusinesses to determine the risk inherent in each loan request.

KEEP AN OPEN MIND

Although the high aggregate failure rate of small businesses is frequently publicized, factors such as years in business, business model, location, and more alter risk projections substantially.

For example, approximately 50% of new firms close within their first four years, but survival rates trend upward from there, according to the SBA. According to Forbes, 62% of microbusinesses report earning $100,000 or less annually with a growing number of non-employer and sole proprietor firms earning six or seven figures. Although a steady stream of income might not guarantee survival, it does indicate a business is offering the right services in the right place and time, and knowing the market like that impacts long-term viability and stability.

Before making, or denying, a microloan, credit unions should also consider the difference between temporary business shortcomings — such as setbacks from the recession or medical issues with the owner — and persistent issues that will continue into the future.

Concerns surrounding how socio-economic challenges and other widespread factors sway calculations for creditworthiness have led the SBA

> “Most people start a business because they’re good at something, but that might not always be finance.”

to develop a new predictive scoring method that combines the credit score of both owner and business into one unified metric. This is a valuable resource for SBA lenders — who no longer face the requirement of analyzing a business’s cash flow — as well as a reminder for all lenders to look at the big picture to see the full potential of each lending situation.

BUILD THE IDEAL BORROWER

The short-term concerns and daily burdens of running a business are demanding. So much so that it’s not unusual for owners to develop tunnel vision and neglect to hone their operational and financial skillsets beyond what they started with.

Unfortunately, the ability of lenders to coach these individuals — much less finance them — only extends so far. That’s where incubators, community action organizations, and other third parties come in. These lending partners can not only share the educational burden but also foster a steady pipeline of vetted, mature loan opportunities.

Redwood Credit Union ($2.5B, Santa Rosa, CA) started its business lending program in the mid-2000s, says Michael Downey, senior vice president of business services. Today, approximately $20 million of its roughly $245 million total MBL portfolio consists of small business loans of $50,000 or less. Its average small business loan hovers around $35,000, but the credit union also makes loans of as little as a few thousand dollars.

“Underserved and emerging microbusiness was a group we wanted to reach out to and provide financing for since the beginning,” Downey says. “Most people start a business because they’re good at something, but that might not always be finance. As a result, many of these borrowers need additional educational resources to better understand things like their business plan, income statement, and cash flow.”

In 2013, the credit union joined forces with the Community Action Partnership of Sonoma County to offer up to $1 million in loans to graduates who complete the organization’s intensive 18-week incubator and financial education program and are referred to Redwood by their instructors.

“This was a natural alignment and a great first step for this market,” Downey says. “Without that educational component as a risk mitigant, we might not be able to do these loans.”

ADOPT A MICROBUSINESS MINDSET

Most, if not all, credit unions already have a host of microbusiness owners within their membership, but being able to identify and serve them is another matter. Microbusiness owners who feel shut out or overlooked by a credit union’s business services department are likely to take one of two actions:

1. They’ll squeak by using consumer–level financial tools that are ill-suited for their needs. This often leads to issues for both parties down the line.
2. They’ll abandon ship altogether in favor of outside assistance, typically offered at a premium.

Credit unions who do serve their microbusiness members effectively tend to offer a middle ground that falls somewhere between the complex products and services used by commercial clients and the basic offerings used by consumers.

For example, Vystar Credit Union ($5.5B, Jacksonville, FL) offers a microbusiness starter credit card with limits as low as a $500. At Consumers Credit Union ($600.1M, Oshtemo, MI) business owners looking for a loan of $50,000 or less can fill out an express version of the credit union’s standard MBL loan application. The form eliminates the need to provide three years of personal tax returns, business tax returns, and sophisticated business documentation like profit and loss statements. The truncated application allows borrowers to purchase necessities such as equipment and vehicle loans that microbusinesses would most likely be pursuing.

A STRATEGY TO DEVELOP CONSTRUCTION LENDING

When banks couldn't make development loans during the recession, Community First captured the business instead.

BY DREW GROSSMAN

It's too risky. It caused the recession. It's irresponsible. The concerns surrounding construction and development lending abound.

"If you're going to do business lending, the last part of it you should jump into is construction and development," says Kim Van Osdol, senior vice president of business services at Community First Credit Union ($2.0B, Appleton, WI). And that's coming from a man who has guided the nearly $30-million-per-year construction and development portfolio at Community First for the past six years.

"It's a risky thing to do if you're not working with strong businesses in the right scenarios," he says.

Van Osdol joined the credit union in 2008 when Community First's services were in high demand. After the Great Recession hit, regulators swooped into Wisconsin, as they did across the country, and all but shut down construction and development lending at banks. Credit unions, however, could still make the loans, giving Community First the opportunity to capture that business. As part of its strategy, the credit union recruited Van Osdol and his team of business lenders and operations specialists.

The strategy paid off. In 2009 construction lending accounted for less than $5 million of Community First's portfolio, according to Callahan & Associates Peer-to-Peer. After the recession, however, with Van Osdol's new team in place at the credit union, construction lending grew steadily each year, reaching $21 million in 2013.

The increased interest from developers allowed Community First to be selective about the members it granted construction loans to.

"We look at each borrower, the scenario, the equity, the whole nine yards, independently," Van Osdol says.

In fact, Van Osdol's team is twice as diligent underwriting construction loans compared to other business lending. Community First runs the loans through a series of checklists with title companies, lenders, and its operations staff. As a result, the business lending team had zero losses during the past five years that it's made construction and development loans.

BUILD LOCAL

Community First serves 12 counties with 23 branches in a 50-mile radius around Appleton, WI. That footprint, which includes five large

CU QUICK FACTS

Community First Credit Union
APPLETON, WI

$2.0B
ASSETS

115,974
MEMBERS

24
BRANCHES

5.59%
12-MO SHARE GROWTH

12.84%
12-MO LOAN GROWTH

1.65%
ROA

communities, allows the credit union to spread out its risk while lending in a geographical area that it knows well.

"We don't do business in areas that we don't know," Van Osdol says.

Knowing the area means understanding everything from the school districts to the competition faced by a new business under construction. To get a complete picture, the business lending team tracks the performance of all businesses in its area, not just those it lends to.

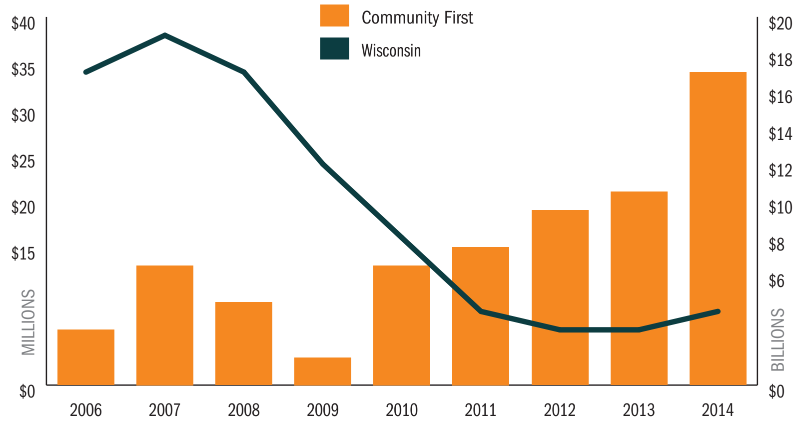
"We love members that not only survived from 2008 to 2011 but prospered, because if they were successful then, they're going to have an even better success rate now," Van Osdol says.

Knowing the member is even more important than knowing the area. About 75% of Community First's construction and development lending has been to existing members. The ratio, however, is gradually skewing toward new members as the credit union expands into new markets where it is averaging one new branch each year. The credit union just opened a branch in Oshkosh and is finishing work on its third branch in Green Bay.

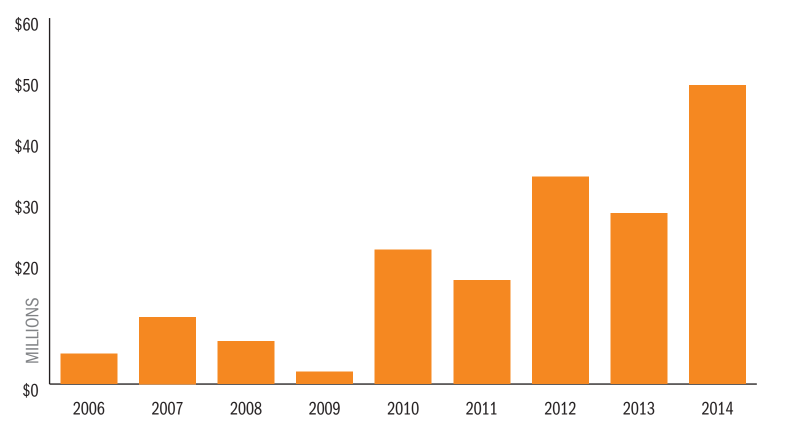
"Businesses saw that we're as good or better than any of the banks they had dealt with before," Van Osdol says. "They tell their friends and other acquaintances, so we've grown just by word of mouth. We've never done any advertising."

Currently, the credit union's $20.5 million in construction and development loans account for about 8% of its $243.5 million business loan portfolio.

CONSTRUCTION AND DEVELOPMENT LOANS OUTSTANDING



CONSTRUCTION AND DEVELOPMENT LOANS ORIGINATED YTD



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ENRICH COMMUNITIES

Community First also benefits from tax increment financing (TIF), a program that allows local governments to fund public or private projects by borrowing against the potential increase in property tax revenues. For example, a new town center with high-end shopping and fancy restaurants will increase the value of surrounding real estate, generating additional tax revenue. A local government uses that tax increment financing to fund the town center and then collects higher property taxes when the value of homes and businesses in the surrounding neighborhoods rise. The program has helped bring high-quality business to the credit union setting in motion a cycle of positive reinforcement.

As a result of the recession, the municipalities in Community First's territory had a lot of empty, unused property on their hands after developers failed to complete construction. That left local governments without the larger tax base they needed to generate revenue.

"The municipalities got more aggressive in offering TIF funding for anybody that would do development," Van Osdol says. "Several of our larger development loans are tied in with the municipalities. That made it very easy for the developers to provide us with good equity at the beginning of the projects."

Those projects, in turn, have helped enrich four of the five communities the credit union serves, where the tax base increased as a result of Community First funding development loans.

A NEW YEAR AND A NEW LOOK AT PRIVATE STUDENT LENDING PERFORMANCE

Private student lending has grown significantly in the credit union space, but it's also often been viewed with a skeptical eye. Here's a look at the perceptions and realities.

BY CREDIT UNION STUDENT CHOICE

As the calendar flips to a new year, credit unions across the nation will soon be rolling out a bevy of new products and well-intentioned initiatives, many of which will be aimed at loan growth and young adult member development — two pressing needs for almost all credit unions. One product that directly addresses both needs is private student lending (PSL). While this type of lending has grown significantly in the credit union space over the past several years (growing from $1.5B in Q4 2011 to $3.1B in Q4 2013), it's also a product that's often been viewed with a skeptical eye.

PERCEPTION

This skepticism is not surprising considering the relative newness of the asset class, heightened regulatory scrutiny (including from the NCUA which spelled out very clear PSL guidelines last year), and perhaps most importantly, the all-too-frequent media headlines lamenting rising student debt and delinquency. If one were to only read the headlines, it would be easy to dismiss the significant opportunity at hand.

REALITY

Many lenders, ranging from new startups to regional/national banks to hundreds of credit unions, are finding success in the PSL space, not only in delivering a much-needed product set (ranging from traditional in-school loans to innovative consolidation options) that connects with young adults, but also in delivering products that will perform in the long-term. Indeed, according to a recent report by The Brookings Institution, "2013 data confirm that Americans who borrowed to finance their educations are no worse off today than they were a generation ago. Given the rising returns to postsecondary education, they are probably better off, on average."

In considering the "significant growth" of PSL assets in the credit union space as mentioned above, it should be noted that credit unions are taking a measured approach to entering this asset class, attracting young adults and delivering fair value without compromising their balance sheet. According to NCUA Call Report data as of Q3 2014, of the 676 credit unions engaged in PSL, the average PSL loan concentration is just 1.26%.

Also, when reading "headlines" about rising debt and delinquency, it's important to understand that private student loans make up just 7.5% of overall student loan balances. All too often, these loans are (mistakenly) lumped in with the massive federal student loan portfolio when the issues of delinquency and default are discussed, even though their performance is drastically different.

In fact, according to industry analyst Measure One in a December 2014 report, loan performance metrics have continued to improve for the nation's largest active private student lenders and holders of student loan debt. The six participants analyzed in the report represent approximately 70% of the entire private student loan market. Among the report's highlights:

- Year-over-year delinquencies continued a significant downward trend
- 2014 delinquency rates were the lowest since before the 2008 economic crisis
  - Early-stage delinquencies (30 to 89 days past due) fell to 3.2%, a 19% improvement in Q3 2014 compared with Q3 2013.
  - Serious delinquencies (90+ days past due) fell to 2.4%, a 22% improvement in Q3 2014 compared with Q3 2013.
- Annualized charge-off rates declined to post credit-crisis lows; falling to 2.4%, a 22% positive change in Q3 2014 compared with Q3 2013.

PERFORMANCE

While those numbers are strong and improving,

> “Unlike some of the largest private student lenders, credit unions are unburdened by legacy loans tied to the reckless heyday of private student lending.”

what’s even more impressive is the performance of loans originated by credit unions. Unlike some of the largest private student lenders, credit unions are unburdened by legacy loans tied to the reckless heyday of private student lending, and have built sustainable lending portfolios by implementing several key principles, including:

- Educating prospective borrowers before the loan to ensure proper decisions are being made
- Risk-based pricing with minimum credit score requirements and criteria that strongly encourages a co-borrower
- School certification to verify enrollment, validate loan amount, and determine fund disbursement
- Restricting loans to students who are attending traditional four-year public or private schools with a proven history of low student loan defaults
- Lending directly to students and families within the credit union’s existing field of membership to establish an opportunity for genuine, long-term relationships

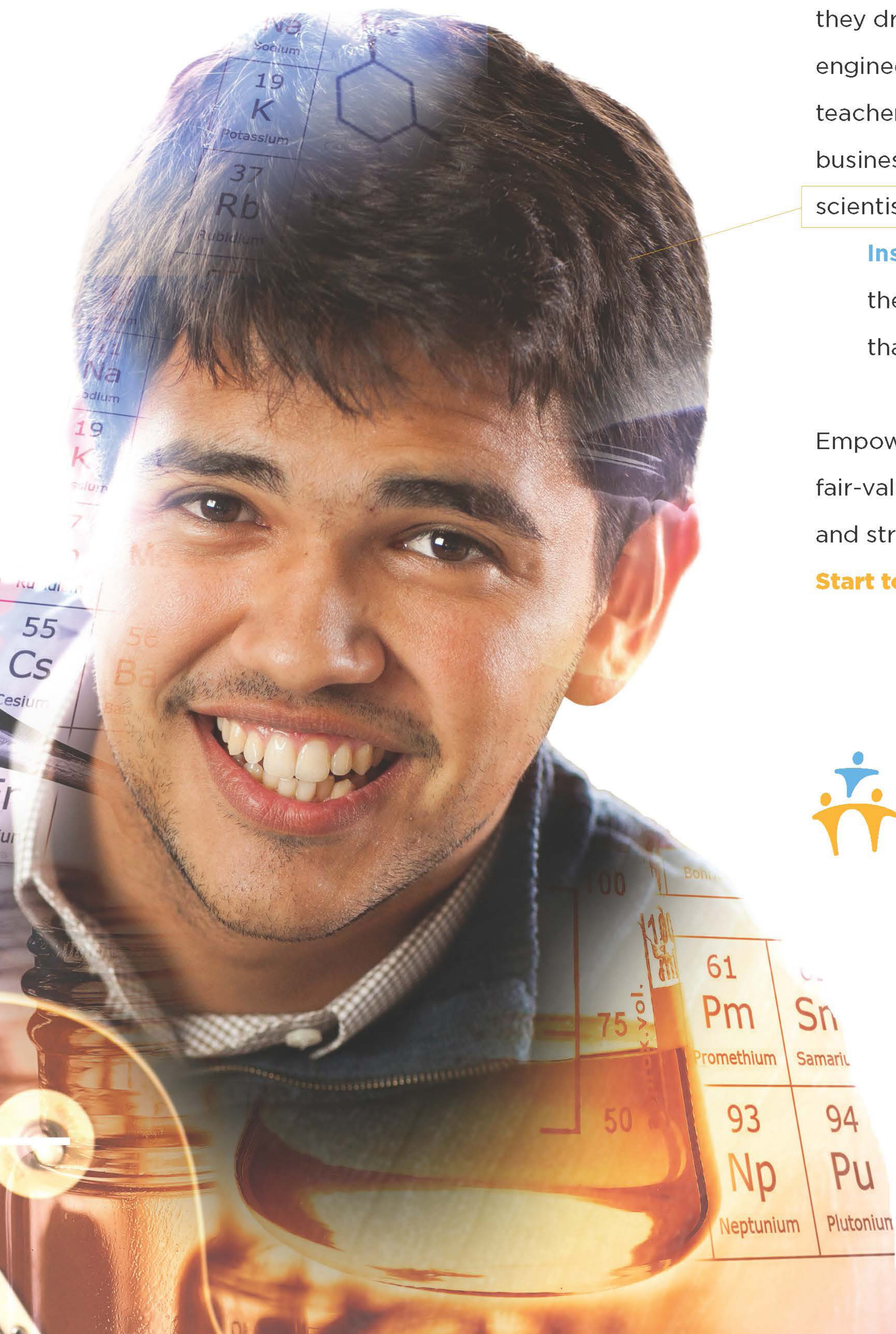
Strong performance numbers seem to be validating this disciplined approach. Nearly 250 credit unions utilize the Credit Union Student Choice lending platform and, combined, have more than $1.5 billion in outstanding private student loans. Of that total, nearly 50% ($733M) is now in full repayment status.

In reviewing undergraduate loans only, comprising $490M of the most seasoned loans in repayment (as of Q3 2014):

- Less than 1% of loans in repayment were 90+ days past due
- Annualized charge off rates stood at only 0.73%, down 10 basis points from one year earlier
- Early to mid-stage delinquencies are stable among all seasoned origination vintages, dating back to loans that were originated during the second worst recession in our nation’s post-industrial age economy
- Credit unions, on average, are recognizing positive return for the cooperative (as defined by the credit union’s individual pricing) that is on par with other asset classes
- Borrowers, on average, are enjoying average interest rates of 6% with no origination or pre-payment fees and a relationship with a local lender they can trust

When credit unions first began offering private student loans through the Student Choice platform in 2008, they did so with a desire to help their members responsibly pay for college and with the belief that proper underwriting would yield solid performance and long-term member relationships. Now, nearly seven years later, the numbers are telling a very promising story. More than 60,000 borrowers have now worked with a credit union to fund the most important decision in their young financial lives. The rewards of that relationship are not only paying off in the short-term, but will yield positive results for many years to come…for both credit unions and members.

Look Inside



Inside every young adult is
a vision of the person
they dream to become...
engineer,
teacher,
business icon,
scientist.

Inside every credit union is
the means to help fulfill
that potential.

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