Big-Picture Planning for Your Loan Configurations

What to Consider When Setting Up Your Lending Codes and Configurations

*A CU*BASE Best Practices Document*

INTRODUCTION

The CU*BASE lending platform is very robust and allows credit unions to configure just about any type of lending product that suits their member needs. However, before a single code is configured, it is important to spend some time thinking about the many variables that go into maximizing the efficiency of the system. Those variables include items such as third-party integrations, accounting functions, and even day-to-day report generation and data analysis. And because any configuration change can have a ripple effect on other areas of the system and even external parties, all team members need to be in the loop when planning any major changes to the way your loan products are organized.

This is a "best practice" document focused on key lending parameters available in CU*BASE. It is designed to walk senior management through a thought process which takes into consideration the major factors that will help build a solid foundation for your lending factory.

CONTENTS

Revision date: July 12, 2015

OVERVIEW

When deciding how you will configure all of the various codes and settings available in CU*BASE for your loan products, consideration must be given to the following areas:

- Reporting to the **credit bureaus**
- Reporting for **HMDA**
- Completing the **5300 Call Report** and other requirements to **aggregate loan account data**
- Displaying on **financial reports** such as your balance sheet
- Interfacing with **ALM providers**
- Working outstanding **loan requests** in the loan queue
- Completing **risk concentration** and other types of loan pool analysis

There are a number of system data elements which can be used to accomplish these tasks. During the configuration process thought should be given to all of the areas above, whether you are setting up new products or converting to the CU*BASE platform in the first place.

To help you fully understand the nuances of these elements, this document is intended to provide a big-picture view of each and what role it plays in CU*BASE.

HIERARCHY FOR YOUR DECISION PROCESS

Occasionally you might encounter cases where the decision to use one data element versus another results in an overlap or potential conflict. Here's an example:

> Loan officers may get many requests for debt consolidation loans using a home equity line of credit. The temptation would be to configure a loan product defined as "Debt Consolidation" with a default Purpose Code of debt consolidation (which also has a corresponding credit reporting code). The credit union may also have this loan product based on a Loan Category code that processes as a closed-end loan which is not mortgage related.
>
> But by using this setup, the Purpose Code and its corresponding credit reporting code would create a situation where reporting to the bureau and HMDA would both be incorrect. This document is intended to help you make the right decisions to avoid pitfalls such this.

In cases of potential conflict, use the following hierarchy as a guide, making sure that whatever course you take, it will at least facilitate the highest-priority requirements:

1. **Processing parameters and balance sheet display**
   Your first consideration still needs to be how the loan will behave under day-to-day processing (interest accruals, that sort of thing) and how it will be recorded in your general ledger for your accounting records.
2. **Credit bureau and HMDA reporting**
   A very close second, make sure that third-party agencies to which you report member credit history can receive your data organized in a way that works for their requirements.

3. **5300 Call Report**
   Given the flexibility of the CU*BASE 5300 Call Report tool, you should generally have no trouble coming up with a calculation that will work with your chosen method.
4. **Concentration Risk and ALM**
   Finally, to aggregate loans for the purpose of concentration risk management and downloading data for Asset/Liability Management, your third-party solution's requirements would be your final consideration. From a best practice standpoint, loan aggregation for these functions is generally based on Security and Purpose Codes.

LOAN CATEGORIES

Loan Category is used to establish the processing rules of a specific group of loans. Here is where the user sets up if the loan is an open or closed end credit, the manner in which the loans accrue interest, how delinquency is monitored, suffix ranges, payment calculations and spread, and to which general ledger numbers they report.

Loan Category also has implications relative to credit bureau reporting, in that the **Process Type** chosen in the category determines how the loan displays on a credit report relative to the I, M, and R (installment, mortgage, revolving) groupings.

In all cases this is where the credit union establishes the manner in which the balance sheet is derived, and at the very highest level how loans will be aggregated for the purposes of ALM, concentration risk, loan pipeline analysis, and the 5300.

Where to configure:	Use the *Loan Category Configuration* on the Loan Products (MNCNFB) menu.
Where to learn more:	Refer to online help while in Loan Category configuration. Also refer to these companion booklets: ▪ Configuring Tools for Your Loan Team ▪ Loan Interest Calculation: 360/360 Daily Interest ▪ CU*BASE Mortgage Products: Interest Payment Only Loans ▪ CU*BASE Mortgage Products: 360-Day Interest Calculation

HOW DO LOAN CATEGORIES DIFFER FROM LOAN PRODUCTS?

As described in the companion booklet, "Configuring Tools for Your Loan Team," the Loan Category controls how the loan is serviced once it becomes an *account*, whereas the Loan Product code controls the way you *sell* loans to your members.

Loan Products are intended to streamline the up-front loan application process, by allowing you to specify default terms, rates, and other controls that give the loan officer a consistent starting point when creating a new loan

request. Once the loan has been approved and booked, the Product Code is no longer retained on the account. This provides maximum flexibility for adding, removing, and rearranging your product offerings as the marketplace landscape changes.

In a nutshell, Loan Categories live through the entire life of the loan, whereas Loan Products can change as frequently as you like with no ramifications to your outstanding loan portfolio.

PURPOSE CODES

Loan Purpose Code is used primarily for reporting the reason for the loan and, just as importantly, how it should be reported to the credit bureau and HMDA. Each Purpose Code can be flagged with <u>one</u> credit bureau account type code (such as 00 for Auto or 01 for Unsecured).

Beyond those guidelines there are other considerations, including the questions listed below.

The temptation is to use Purpose Codes at a too-granular level, assuming loans must be aggregated all the way down to every possible reason a member asks the CU to borrow money. Here when you need to ask a few key questions:

1. Is setting up some unique Purpose Code a requirement for the 5300?
2. It is required in the ALM model?
3. Are there other data elements on the loan which can be used specifically for the reporting or aggregation of this data?

If the answer does not meet one of the following criteria then Purpose Code should not be used. Even when the answer is yes the next question should be, would it be better to use a Security Code, Variable Interest Rate code, or Collateral Code instead?

> As an example: "Wedding expense" is not a purpose for a loan. Someone could make the argument that because 30% of the credit union's requests are for that reason it should have its own Purpose Code, but because it does not meet the guidelines listed above, the CU should probably create a purpose more like the one that reports to the bureau, such as "Unsecured."

> If a credit union really needs to be able to track loans for wedding expenses (and you should consider carefully how important that really is), it may be better to use a companion Security Code. (Always remember that each Purpose Code can only have *one* associated credit bureau type. So do you really want to make a bunch of separate "wedding" Purpose Codes to cover all the possible scenarios of how that wedding loan might be secured?)

Where to configure:	Use ***Purpose Code Configuration*** on the Loan Products (MNCNFB) menu.
Where to learn more:	Refer to online help while in Purpose Code configuration (includes a link to credit bureau account type codes as well).

SECURITY CODES

The name "Security Code" might imply that this code is used to track the types of security backing the loan. This is not the case. It could, but that is actually more appropriate for the Collateral Code discussed below. Security Code is the code to use primarily for the 5300 and other areas where aggregating and reporting the data is meaningful, such as risk concentration.

One common mistake is to create a Security Code for balloon loans. Why is that a mistake? Because when a loan is created as a balloon there is a data element attached to the loan in a specific field which tells the system to treat this loan as a balloon. Reports can be generated from that data element for the 5300. We also send that element in the ALM file. So to use a Security Code for balloon loans does not make much sense.

TIP: Start with the same questions listed under "Purpose Code" above and work your way through them to determine if a Security Code is the way to go.

Where to configure:	Use *Security Code Configuration* on the Loan Products (MNCNFB) menu.
Where to learn more:	Refer to online help while in Security Code configuration.

HOW DOES SECURITY DIFFER FROM COLLATERAL?

Confusion sometimes arises when comparing *Security* codes and *Collateral* codes (which are described in more detail below). A Security Code is used primarily to document whether or not the loan is secured at all. For example, "Unsecured" could actually be a security code (e.g., for signature loans). Collateral, on the other hand, is actual property that has been offered to secure a loan, and be subject to repossession should the member default on the loan.

COLLATERAL TYPES

The primary purpose of a Collateral Type code is to define what the screen will look like (which fields and field labels will appear) when detailed information about the collateral is recorded in CU*BASE. Each collateral type, such as vehicles, mortgages, bonds, durable goods, and stock, has a corresponding definition type which controls the data fields that are relevant for that type of collateral.

It is not unusual to use Collateral Type for the purposes of aggregating data for the 5300 and risk concentration, but it would typically not be used for any of the other areas such financial reports, ALM, etc., and cannot be used to control credit bureau reporting on CU*BASE. Most credit unions typically configure fewer than 10 collateral type codes.

Where to configure:	Use *Collateral Type Configuration* on the Loan Products (MNCNFB) menu.

Where to learn more:	Refer to online help while in Collateral Type configuration, or access help and search for index keyword "collateral." Also refer to this companion booklet: "Collateral – Tools for Tracking Property Securing Loans"

VARIABLE INTEREST RATE AND INDEX CODES

Variable Rate Interest Codes are used to automatically change a specific rate on a loan or group of loans in accordance with the loan contract. Generally Variable Rate Codes are attached to an Index for the sake of convenience (if the Index is changed the system links out to all the Variable Rate Codes which use this Index and changes them all at the same time).

Variable Rate Codes are used extensively with the 5300 and ALM interfaces.

Where to configure:	Use *Variable Rate Code Configuration* on the Loan Products (MNCNFB) menu.
Where to learn more:	Refer to online help while in Variable Rate Code configuration. Also refer to this companion booklet: ▪ Variable Rate Loan Products

BUSINESS UNIT CODES

Think of Business Unit as a handy way to group Loan Category codes that have something in common. For example, all of your mortgage loan categories can be flagged as belonging to your "Real Estate Lending" business unit.

A business unit code *allows you to segment loan requests in your loan queue to work* only those which fall under a specific business unit. You can also segment accounts by business unit when printing various CU*BASE reports and using various dashboards. By tagging your Category codes with a Business Unit code, you can make it easier to grab just the categories you need for many different analysis and reporting needs.

Since Business Unit is simply a grouping of Loan Category codes, there is no plan to use Business Unit for controlling credit bureau or 5300 reporting.

Where to configure:	Use *Business Code Configuration* on the Loan Products (MNCNFB) menu.
Where to learn more:	Refer to online help while in Business Code configuration.

CLASSIFICATION CODES

Managing loan loss reserves can be a tricky process. To track loans where a loss is probable, classification codes are used. Assigning loan classification codes when appropriate allows a percentage of the loan principal balance to be reserved for potential losses. These loans can also be easily reviewed with the auditor.

In addition, classification codes are used to organize Troubled Debt Restructured (TDR) loans or Purchased Credit Impaired Loans (PCILs). This will help when gathering the 5300 Call Report data for Page 16 (Specialized Lending-Sections 5 and 6).

Where to configure:	Use *Loan Classification Code Config* on the Collections Processing (MNCOLL) menu.
Where to learn more:	Refer to online help while in Loan Classification Code configuration. Also refer to this companion booklet: ▪ Configuring Tools for Collections

SUMMARY OF CONSIDERATIONS

Important Considerations	Options for Aggregating Loan Data
Reporting to the **credit bureaus**	By purpose code
Reporting for **HMDA**	By purpose and/or collateral code
Completing the **5300 Call Report**	The "Loans and Leases" section of the Call Report can be auto-populated by purpose code, security code, accounts by member G/L, or category code. The "Specialized Lending" section of the Call Report can be auto-populated by purpose code, security code, accounts by member G/L, category code or G/L quarterly balances. The "Delinquent Loans" section of the Call Report can be gathered via reports that allow data to be organized by category, purpose code, security code, classification code or variable interest rate code.
Other requirements to **aggregate the data**	Most CU*BASE reports and dashboards allow filters by category, purpose, security, and business unit, and many also allow segregation according to variable rate code and collateral type.

Displaying on **financial reports** such as your balance sheet	By General Ledger account (which comes from the loan category)
Interfacing with **ALM providers**	Data elements crucial to ALM providers include collateral backing the loan, interest rate and variable rate codes, and, to some degree, purpose codes.
Working outstanding **loan requests** in the loan queue	Allows filters by category, purpose, security, and business unit (plus many others specific to working your loan queue, including employee, branch, loan product, delivery channel, and more).
Completing **risk concentration** analysis	Concentrations can be aggregated utilizing security code and business unit. These codes will generally follow the manner in which the credit union aggregates loans for the purpose of calculating the Allowance for Loan Loss general ledger account.

APPENDIX:
DATA SOURCES FOR THE
5300 CALL REPORT

This appendix details the calculation automation ("auto pop") routines and other resources available in CU*BASE for populating the loan-related sections of the 5300 Call Report.

> *For more detailed information, refer to CU*BASE GOLD online help while working in the 5300 Call Report software (menu MN5300) or visit the Kitchen page at http://www.cuanswers.com/kitchen/5300.php.*

Loans and Leases Section (Page 2)

Call Report Item	Automation Routines	CU*BASE Reports
Unsecured Credit Card Lines	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
All Other Unsecured Loans/LOC	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Payday Alternative Loans (PAL)	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Non-Federally Guaranteed Student Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
New Vehicle Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Used Vehicle Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Total 1st Mortgage RE Loans/LOC	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Total Other RE Loans/LOC	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Leases Receivable	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Loan Security Analysis, Loan Purpose Analysis, Member Trial Balance
Total All Other Loans/LOC	Purpose Code, Security Code, Category Code,	Loan Security Analysis, Loan Purpose Analysis,

Call Report Item	Automation Routines	CU*BASE Reports
	Member Accounts by G/L	Member Trial Balance

Delinquent Loans by Collateral Type (Page 7)

Call Report Item	Automation Routines	CU*BASE Reports
Unsecured Credit Card Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Payday Alternative Loans (PAL)	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Non-Federally Guaranteed Student Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
New Vehicle Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Used Vehicle Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
1st Mortgage RE Loan/LOC Fixed Rate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
1st Mortgage RE Loan/LOC Adjustable Rate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Other RE Loans/LOC	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Other RE Loans/LOC Adjustable Rate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Leases Receivable	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
All Other Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance

Additional Delinquency Info (Page 8)

Call Report Item	Automation Routines	CU*BASE Reports
Indirect Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Participation Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Interest Only and Pmt Option 1st Mtg Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Interest Only & Pmt Option Oth RE/LOC Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Residential Construction – Excluding Business Purpose	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Member Business Loans secured by Real Estate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Member Business Loans NOT secured by Real Estate Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Nonmember Business Loans secured by Real Estate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Nonmember Business Loans NOT secured by Real Estate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Agricultural Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Business Construction and Development Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
TDR 1st Mortgage Real Estate Loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan

Call Report Item	Automation Routines	CU*BASE Reports
		Trial Balance
TDR Other Real Estate Loans/LOC	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
TDR RE Loans also reported as business loans	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
TDR Consumer Loans NOT Secured by Real Estate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
TDR Business Loans NOT Secured by Real Estate	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance
Loans Held for Sale	n/a	Loan Delinquency Report, Loan Delinquency Analysis, Selective Loan Trial Balance

Specialized Lending (Pages 13-16)

Call Report Item	Automation Routines	CU*BASE Reports
Indirect Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Selective Loan Trial Balance, Dealer Trial Balance/Reserve Calc Report, Loan Purpose Analysis
Real Estate Loans and LOCs	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Member Trial Balance by G/L, Selective Loan Trial Balance
Real Estate Loans and LOCs YTD	n/a	Selective Loan Trial Balance
Reverse Mortgages	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Member Trial Balance by G/L, Selective Loan Trial Balance
Participation Loans	Member Accounts by G/L	Participation Loan Trial Balance, Selective Loan Trial Balance, Participation Loan Analysis
Business Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Member Trial Balance by G/L, Selective Loan Trial Balance
Troubled Debt Restructured (TDR) Loans	Purpose Code, Security Code, Category Code, Member Accounts by G/L	Selective Loan Trial Balance, Loan Classification Report

Call Report Item	Automation Routines	CU*BASE Reports
Purchased Credit Impaired Loans (PCILs)	n/a	Selective Loan Trial Balance, Loan Classification Report