

Building the Factory

I WANT A SAFE, BALANCED LOAN PORTFOLIO

Find out how to
**ANALYZE YOUR PORTFOLIO
FOR EXCESSIVE RISK**

Data Bootcamp Edition:
Featuring Mathew Stuart,
Greater Wayne Community FCU

*Simple DIY
Instructions
Inside!*

Building the Factory

Vol. 7: I Want a Safe, Balanced Loan Portfolio

This document is intended to give a credit union a complete road map to create a report useful to lenders, collectors and executive management. This road map will take the user from the very beginning point all the way through to the end of the process and the evaluation of the report using the referenced CU*BASE options to mine the data and track findings.

What is the Goal?

Using this booklet, you will be able to view and evaluate your loan portfolio to analyze which loan categories need more or less risk. Determine which loans need more attention and which loans the credit union needs to cut back on. Determine if you are taking on too much risk or not enough.

Where Do I Begin?

1. Begin by going to the Auditing Functions 1 (MNAUDT) menu. Select option #16 – **Ln Portfolio Concentration Risk**. Now you are ready to begin.
2. Enter your credit union's net worth and hit enter. (You can also narrow results by using the available filters to create segments of your loan portfolio.)

Risk Analysis Selection

Net worth <input type="text" value="15,000,000"/>	Include Loans With
# of segments defined <input type="text" value="0"/>	<input checked="" type="radio"/> All <input type="radio"/> CU <input type="radio"/> Investor
Working with segment *None	% owned by CU between <input type="text"/> and <input type="text"/>
Corp ID <input type="text" value="00"/>	Current balances between <input type="text"/> and <input type="text"/>
Month/year to process <input type="text" value="Jul 2016"/>	Interest rates between <input type="text" value="0.000"/> and <input type="text" value="0.000"/>
Loans opened From <input type="text" value="Jan 01, 1900"/> [MMDDYYYY]	% of net worth over <input type="text" value="0.00"/>
To <input type="text" value="Jul 31, 2016"/> [MMDDYYYY]	Current credit scores between <input type="text"/> and <input type="text"/>
<input type="checkbox"/> Include written off loans	Maturing after <input type="text"/> [MMYYYY]
	# of days delinquent between <input type="text"/> and <input type="text"/>
	LTV % between <input type="text"/> and <input type="text"/>
	Collateral <input checked="" type="radio"/> Current value <input type="radio"/> Pledged value
Dealer code <input type="button" value="Select"/>	Loan category <input type="button" value="Select"/>
Sponsor code <input type="button" value="Select"/>	Loan purpose code <input type="button" value="Select"/>
G/L # <input type="button" value="Select"/>	Loan security code <input type="button" value="Select"/>
Business unit <input type="button" value="Select"/>	Collateral type <input type="button" value="Select"/>
Branch/location # <input type="button" value="Select"/>	Loan process type <input type="button" value="Select"/>
Loan officer ID <input type="button" value="Select"/>	States where collateral resides <input type="button" value="Select"/>
Member designation <input type="button" value="Select"/>	States where member resides <input type="button" value="Select"/>
Investor <input type="button" value="Select"/>	

3. On the next screen you will select the summary option. This is an overview of your loan portfolio. It will give you a high, low, and average of categories such as credit score, loan rates, and other options. The bottom of this page shows you your delinquencies. It will show you the number of loans delinquent, the balances of the delinquencies, and the percentages. The delinquency percentages need to be evaluated with the credit score average and the loan rate average.

Loan Risk Score Analysis Summary						Segment: *None	
Concentration risk	81.94 %	Net worth	15,000,000				
# Loans	1,314	Total current balance	12,291,423			# Collateral	1045
# Members	963	CU owned	12,291,423	100.0%		Collateral	13,971,435
Individual	952	Investor owned	0	.0%		Avg LTV %	61.5%
Organization	11						
Loans/members ratio	1.4						
	Average	High	Low				
Credit score	678	835	418				
Balance	9,354	209,929	10				
Rates	7.308%	18.000%	.001%			Weighted average	5.806%
Payment amount	231	1,528	20				
Maturity months	39	275	1				
Participation term							
<div style="border: 1px solid #0070C0; padding: 5px;"> All zeros are excluded. Credit scores 900 and above are excluded. </div>							
100% CU owned	1,314	100.0%	Balance	12,291,423	100.0%		
Delinquent loans	17	1.3%	Balance	140,515	1.1%		
<div style="border: 1px solid #0070C0; padding: 5px;"> Delinquent loans are defined as being at least 60 days delinquent. </div>							

4. To get deeper into analysis, use the buttons at the bottom of the screen. By selecting member view, you can see loans by credit score. You can analyze how many there are, the balances of those loans, the percentage that each group makes up of your loan portfolio, and the percentage of the net worth. The bottom of this page shows delinquencies. It shows how many months the loan is delinquent, the percentage of loans that are delinquent, and the balances of the delinquent loans.

Membership Breakdown						Segment: *None																																																															
Concentration risk		81.94 %	Net worth	15,000,000																																																																	
			Segment Total	Member Total	Average	High																																																															
Loan balances		12,291,423	12,301,845	9,340	209,929	10																																																															
Savings balances			1,319,488	935	91,814	291																																																															
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Age				42	89	0																																																															
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5. Going back to the options on the bottom of the summary page, select collateral view. Here you can see the breakdown of all the loans with collateral. The options here include total loan balance, number of loans, collateral value, value/ balance percentage, the percentage each category is of your portfolio, the percentage of your net worth, and its original loan to value.

Collateral Breakdown									Segment: *None
Net worth 15,000,000									
Collateral	Total Loan Balance	# Loans	# Loans w/ Collat > 0	Collateral Value	Value/Bal %	Portfolio %	% Net Worth	LTV %	
AUTO COLLATERAL	9,634,372	960	783	12,135,374	125.9	78.3	64.2	79.39	
MORTGAGE COLLATERAL	1,288,450	31	15	1,691,743	131.3	10.4	8.5	76.16	
UNKNOWN COLLATERAL	1,246,396	315	1	5,000	.4	10.1	8.3	999.90	
DURABLE GOODS COLLAT	122,205	8	7	139,319	114.0	.9	.8	87.71	
Totals	12,291,423	1,314	806	13,971,436	113.6	100.0	81.9	61	

6. The last option on the summary page is product view. This view breaks down the loans by collateral and loan purpose (new vehicle, used vehicle, rec vehicle, etc.). For each one of those categories, it will summarize the total amount of loans, the percentage it makes up of total loans, and the percentage it makes up of the total net worth.

Product View Segment: *None

% of loans with variable rates 1.5
 % of loans with balloons 0.0 Average products per member 1.4

Loan Category	Total	% Total	% Net Worth
CLOSED END LOANS	10,149,082	82.6	67.7
FIRST MORTGAGE	1,068,825	8.7	7.1
LINE OF CREDIT	494,251	4.0	3.3
HOME EQUITY LINE OF CREDIT	472,350	3.8	3.1
SECOND MORTGAGE	106,915	0.9	.7

↑ ↓

Loan Purpose	Total	% Total	% Net Worth
USED VEHICLE	6,655,387	54.1	44.4
NEW VEHICLE	1,818,427	14.8	12.1
FIRST MORTGAGE	1,068,825	8.7	7.1
RECREATIONAL MERCHANDISE	1,000,187	8.1	6.7
LINE OF CREDIT	494,251	4.0	3.3
HOME EQUITY LINE OF CREDIT	472,350	3.8	3.1
SIGNATURE / UNSECURED	380,658	3.1	2.5
MISC SECURED	254,753	2.1	1.7

↑ ↓

Other Considerations

Another way you may want to access your loan risk is by member. Use the **Loan Concentration Risk by Mbr** option found on the Auditing Functions 1 (MNAUDT) menu.

Loan Concentration Analysis

Loan category **Select** 0 selected
 Loans to include All loans CU owned portion of all loans Investor owned portion of all loans
 Outstanding loan balance greater than Loan balance 12,159,343

SSN/TIN	Member Name	Credit Score	Loan Balance	Disbursement Limit	Open End	Credit Union Balance	Investor Balance
***-**-	KAY	789	225,921	241,948		225,921	0
***-**-	EHR	807	221,216	235,000		221,216	0
***-**-	MIC	807	176,493	215,230		176,493	0
***-**-	JOY	816	159,264	195,774		159,264	0
***-**-	JAM	741	124,590	157,000	*	124,590	0
***-**-	MAT	727	108,615	124,073	*	108,615	0
***-**-	DON	794	103,895	107,610		103,895	0
***-**-	E. I	767	88,191	89,735		88,191	0
***-**-	JUS	692	86,910	128,992		86,910	0
***-**-	JAS	692	85,859	109,738		85,859	0
***-**-	BRA	769	82,658	91,827		82,658	0
***-**-	M. BI	0	82,391	93,513		82,391	0
***-**-	DAV	653	79,828	80,000		79,828	0
***-**-	JUS	640	79,828	80,000		79,828	0
***-**-	RIT	0	78,685	93,684	*	78,685	0
***-**-	JUL	0	78,275	70,000		78,275	0
***-**-	WIL	736	74,634	104,000		74,634	0

Outstanding Loan Recap/Inquiry Last 12 Credit Scores Member Analysis

Export Member Connect Toggle Service Income Print Note: An asterisk in the Open End column indicates that there are open-end loans for this SSN/TIN.

This screen shows you the members with the most outstanding loans with your credit union. You can toggle this list to sort it by credit score, loan balance, or disbursement limit. You can also pick out types of loans such as closed end loans, rather than totals of all members loans. This is important to monitor so that one or a few members don't have too much of your loan portfolio. Also you can monitor the outstanding debt and compare it to credit scores to see how much income you are making based on the amount of risk you are taking.

What Do I Do with the Information?

Credit unions come in all different sizes with all kinds of different loan approaches. There is no right or wrong so this makes evaluating these ratios difficult. Here is what can be done with each of the screens mentioned above.

Loan Risk Score Analysis Summary

This screen is the overview of outstanding loans. The actual dollar amounts that are at risk can be seen here. Some things to watch for:

- **Average credit score holding steady.** If this is rising, your loan portfolio is becoming less risky, but with that your loans will not be bringing in as much interest income. If average credit score is dropping, your loan portfolio is becoming more risky and delinquencies would need to be watched closely.
- **Delinquencies!** Obviously rising delinquencies are not a good thing. Monitoring this and making sure they stay low or consistent is a must. If they are getting high, your CU might want to consider making a more strict lending policy or strengthening your collecting dept. If they are very low, you can afford to try more risky loans and bring in some extra income from the higher interest rates.

Member View

This digs in a little deeper to credit scores and loan trends as well as delinquencies. Some things to watch for:

- **New loans:** this box breaks down loan volume by quarter. All credit unions have different plans whether that is aggressively adding or cutting back on loans, but this is where that can be monitored.
- **Credit Scores:** when you talk about credit risk, this sums it up. Here you want a good bell shaped curve with your loans. You don't want 60% to be high credit score because you won't bring in much interest income. You don't want 60% to be low credit scores because then your loan portfolio would be extremely risky. This is where you monitor how risky your portfolio is from a credit score standpoint, and determine what changes need to be made, if any.

Collateral View

This screen breaks down your loans by type of collateral. This is important because you do not want to rely too heavily on one product or service. This is a good way to look at how much volume you have and compare it to the income you have. From there, determine which products or services may be wise to invest more or less time and money into. With that being said, some CUs do not offer certain types of loans and have to rely a little more on those other services.

Following up with this on a regular basis will make it more effective. Monitoring the trends of credit scores, loan volume, delinquencies, and others is important. Checking on a monthly or quarterly basis to see changes is most effective.

Discover More!

CU*Answers Management Services
6000 28th Street SE
Grand Rapids, MI 49546
(800) 327-3478
www.cuanswers.com

