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User Experience, Control and Marketing Are the Future of Lending
By Will McGregor,
President and Counsel of Allegro Lending Suite

The lending landscape has changed dramatically because of rapidly advancing technology, access to information and consumer expectations. Lending is no longer about terms or rates - members demand control and seamless user experience. Credit unions must adapt to these paradigm shifts to remain competitive.

Credit unions must also get strategic about their marketing to let members and nonmembers know the credit union is there for them. As Apple and Nike have proven for decades, marketing cannot simply make the product but can create a community around that product. Marketing is a necessity to retain and grow membership.

Financial institutions need only peek at the FinTechs to see how and what they're doing to drive growth. A quick look at Forbes Fintech Top 50 in lending illustrates the shift in the consumer credit marketplace. Many FinTechs are seeing success because of their customer-centric mentality, allowing customers to link together multiple sources of data from bank accounts to tax returns to pay stubs for a better experience.

To leverage this transformation, credit unions must adopt a member-centric mentality. Using data and allowing systems to work together provides more holistic views of individual members, so appropriate products can be offered, ultimately extending the member greater transparency and control. The analytics to be gained will also help the credit unions derive greater insights into member behavior and act on those insights. The Financial Brand reported that the first thing members are looking for is ease of use.

While improving the experience to existing members is paramount, member growth is critical.
Credit unions have been successful with indirect auto lending as part of their Loan Origination System, proving profitable, member-growth boosters for both credit unions and auto dealers, as reported by Dealer Marketing. This model has increased lending, as well as drawing in new members.

The Allegro Lending Suite includes components that allow financial institutions to participate in indirect lending through car dealerships or any other service provider, such as orthodontics or musical instruments. Additionally, our Conductor platform provides CUSOs the same access. DigiDocs rounds out the comprehensive suite, allowing all paperwork to be signed and shared electronically. The Allegro suite creates efficiencies in an easy-to-use platform that help credit unions compete in the rapidly changing financial services market.

About the Author:

Will McGregor serves as President and Counsel of Allegro Lending Suite. He received a B.A. degree in 1974 and his law degree in 1977 from the University of Utah and is a member of the Utah State Bar. Previously Will served as Sr. Vice President and General Counsel for a large bank-owned equipment leasing company. He has also had extensive experience representing clients in a variety of equipment financing transactions as part owner of a consulting company. Prior to his investment in the Company, he was a partner and General Manager of an automobile leasing company where most leases originated in auto dealerships and were financed by credit unions.
CU Auto Lending Cruising in 2018
By Bob Child, CU Direct’s COO

Remember late last year, when auto loans were predicted to drive 2018 total credit union loan growth at a rate of 9.5 percent? Some doubted credit unions would achieve that growth rate, especially after a number of industry experts forecasted a 2.3 percent reduction in 2018 new car sales. The post-recession boost in new car sales had leveled off, and analysts projected 16.7 million new units sold in 2018, compared to 17.1 million units in 2017.

Flash forward, and through the mid-year point we have a strong performing market that is out-pacing analyst's predictions.

2018 is looking even better than 2017

Vehicle sales were strong in the first half of 2018, including a big boost in June numbers. And although the market saw a down-tick in sales in August, analysts are still expecting 17 million annualized units. That’s ahead of initial projections for the year, and on par with 2017 sales.

Strong auto sales have meant strong loan demand for credit unions this year. As of June 30, the CUDL platform had funded 777,068 loans in 2018, marking a 12.3 percent increase over June 2017. Used auto loans again led the way with a 15.1 percent increase over Q2 2017, while new auto loans gained 6.2 percent. Our credit union partners, as an aggregate, remain the largest lender in the automotive marketplace for the second year in a row according to AutoCount and CU Direct data.

CUNA Mutual reported similar credit union growth numbers: 12.1 percent growth in year-over-year auto loans as of June 30. New auto loans increased 13.8 percent and used auto loans grew 11 percent.

However, those figures don’t fully tell the story of mounting used auto loan demand. Many credit unions had to increase staffing to keep up, the report said, because used auto loan portfolios are generally 62 percent larger than new auto loan portfolios. However, used auto loans originate at roughly half the dollar amount of new.

Keys to continued auto loan growth
How can credit unions keep the momentum going during the final quarter of 2018? Here are two strategies we recommend.
1. Strengthen dealer relationships
Credit unions gained market share in 2017, when banks and finance companies pulled back on lending activity due to delinquencies and charge offs. However, they've re-entered the auto loan market in 2018, spawning increased loan competition.

Credit unions must leverage technology to continuously improve the efficiency and consistency of their loan decisioning, processing and funding. Every dealer wants to hear that your credit union is going to consistently underwrite loans and make that process as quick as possible.

2. Focus on used car financing
Consumer interest in quality used cars — including older, higher-mileage models — has been strong this year. The potential of tariffs by the Trump administration on new car imports, as well as on steel and aluminum used to manufacture cars in America, have driven up the price and sales of used cars, according to an August 18 article by CNBC. It reported that as of July 31, the Manheim Used Vehicle Value Index was at its highest point since it first began tracking used car sales in 1995. That's particularly significant because July is historically a slow month for used cars.

However, credit unions may need to loosen their underwriting to further accommodate these buyers. Don't forget that B paper and below provides some great revenue potential when risk is properly managed. And if your credit union is trying to attract young members, you may have to expand your underwriting parameters to increase market share.

Auto lending is one of the cores of what credit unions do, and they continue to have a strong marketplace presence. Credit unions have taken advantage of stronger than expected new and used car sales, providing superior service and ramping up staffing where needed to meet member demand. The credit union community is well positioned to record another excellent year of double digit loan growth in 2018.

About the Author:

Bob Child is the chief operating officer at CU Direct, overseeing the company’s finance, marketing and communications, training, and human resources functions. He is also a member of the organization’s strategic planning team. He has more than a decade of experience in the financial services industry, with expertise in developing and executing new best practice strategy functions and establishing program management offices. Prior to joining CU Direct in 2012, Child held a number of executive positions, including: Vice President of Strategy and Business Development, Aviva; Chief of Staff, Allstate Insurance and Allstate Bank.
Peer-to-peer lending, automated loan origination, and digital banking...

these are just a few ways the technology revolution has transformed the traditional lending industry! The rise of P2P applications is turning personal and small business loans into a commodity, as fintechs now offer omni-channel lending services once only provided by traditional financial institutions.

Fortunately, this is an excellent opportunity for credit unions to leverage their number one asset: their members! The personal loan market is virtually untapped by credit unions, and now is the right time to expand into this market and provide a needed service for members. Some organizations in the CU and CUSO space have noticed these trends and are taking action. One of the pioneers in this area is CU Lending Cooperative, a CUSO that offers automated high-speed loan origination technology. In the meantime, established financial services CUSOs have begun either on their own or through collaborations, partnerships or acquisitions to build their own digital banking solutions.

In this article we’ve highlighted three important trends all credit unions and CUSOs should be aware of when thinking about future growth.

1. **Fintechs are disrupting traditional financial services with cost-effective and consumer-friendly mobile platforms that appeal to millennials.** Fintechs have assumed a leading position in personal lending capitalizing on their capability to offer a faster and easier loan approval and funding process. Fintech firms benefit from recent technologies such as machine learning algorithms predicting incoming income and bills or nearly instant preapproval using personal data available online to assess creditworthiness. Kabbage, an online loan provider, can approve a personal or a small business loan within seven minutes since borrowers don’t have to fill out loan applications or gather documents. Based on TransUnion data, in the beginning of 2018, fintech companies held more than $45B in personal loans compared to $35B and $27B held by the banks and credit unions, respectively. The share of fintech companies in personal lending increased from 4% in 2012 to 32% in 2017.
2. **Competition with online lending companies will likely intensify further following recent regulatory changes.** In July 2018, the Office of the Comptroller of the Currency (OCC) announced its decision to consider a special-purpose national bank charter for fintech companies. Now, fintech firms have the option to pursue a federal banking charter and directly compete with financial institutions, as long as capital and liquidity requirements are met. Companies like OnDeck Capital, Kabbage and LendingClub can now operate nationwide under a single licensing and regulatory regime instead of multiple state licenses. Prior to the charter, online lenders had to seek licenses in every state, which was time consuming and expensive, or partner with traditional banks to avoid local licensing requirement and interest-rate limits.

3. **Fintech lending is maturing and is expected to continue to grow.** Although a number of new start-ups continue to enter the market space, fintech lending has matured since its inception. More established companies, e.g. Amazon, PayPal and Square, Inc., have moved beyond their niche markets into the lending segment or begun to enhance lending to offer adjacent services, which further should add to their allure making them a one-stop shop. Square, Inc., a provider of P2P payment applications, that already offers small business loans to the users of its POS product, now, contemplates providing broader commercial and investment banking services, including savings accounts and stock trading. The breadth of lending services has also increased, as fintech companies have expanded beyond personal and small business loans making a foray into other products such as student loans, mortgages, factoring loans, invoice financing, business lines of credit and insurance. The next frontier is adoption of AI and IoT to embed financial services into home automation systems and other products.

With so many technological advances in the lending space there are many exciting opportunities available to credit unions and their members, but organizations must act to stay relevant. Because of the rapid nature of technology, credit unions may consider partnering with another organization that has an existing platform or even acquire or invest in fintech through a CUSO to rapidly bring a lending solution to members.

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**About the Author:**

**John Dearing** is a managing director at Capstone, the leader in strategic mergers and acquisitions for CUSOs. The firm focuses on helping credit unions and CUSOs grow by developing, evaluating and implementing proactive initiatives for growth. John can be reached at 703-854-1910 or JDearing@CapstoneStrategic.com.
While auto loans will always be a big part of credit union lending, there are some very good reasons you should put more effort into expanding your personal loan portfolio.

If your credit union is like most, auto loans make up a pretty hefty chunk of your loan portfolio. There’s nothing wrong with that, but again if your credit union is like most, chances are you’re not getting nearly as much as you could from making personal consumer loans. While auto loans will always be a big part of credit union lending, there are some very good reasons you should put more effort into expanding your personal loan portfolio.

1. **Higher Yield**
   Nationwide in 2018, the average interest rate for a 36-month new car loan is 3.71% according to ValuePenguin. Now consider that you can offer a 36-month personal loan and reasonably charge an interest rate somewhere between 10 and 15%. That’s three or four times the interest income for the same loan term.

2. **Better Borrower Demographics**
   Auto loans are loans for the masses. You might be willing to dip a little lower on credit score just to keep loan volume up. On the other hand, if you’re lending unsecured cash, you probably want to be a little more choosy. That means you’re making a higher quality loan, but there’s something even more important than that. If you use personal loans as a new member acquisition channel, you’re bringing in members that are instantly profitable now and have the potential to be even more profitable later, assuming you do your cross-selling right.

3. **Better Member Experience**
   In today’s world, where frictionless is the hot buzz word, financing a new car through a credit union is anything but frictionless. There’s a reason so many auto loan pre-approvals never get converted to actual loans. In the best of circumstances, it’s still kind of a hassle. On the other hand, you can approve and fund a personal, and deposit the proceeds into the member’s share account, in a matter of minutes. That’s what I call frictionless.
The Top Five Reasons Personal Loans Are Better Than Auto Loans

4. **Safer Loans**
   Say what? Auto loans are safer than personal loans because they’re collateralized by the vehicle, right. Come on. We all know the truth. We all know how many repossessions result in deficiency judgments. And we all know how much fun it is to collect a deficiency judgment.

   Now consider the personal loans we make through CU Lending Cooperative. We actually loss-protect those loans and place loan reserves on deposit in a trust account at the lending credit union. Cash reserves beat a five-year-old, high mileage Ford with a bashed in fender any day.

5. **Cheaper to Make, Cheaper to Service**
   Especially if you rely heavily on indirect lending, auto loans are expensive to make. And when you consider things like CPI, repossessions and myriad other auto loan-only expenses, they also cost a lot to service. These are issues you just don’t have with personal loans.

   To sum it all up, personal loans are higher yielding, frictionless, safer, less expensive loans made to demographically desirable borrowers. Don’t you think they’re at least worth a look? I invite you to give me a call so we can talk further.

About the Author:

**Mike Joplin** is the co-founder and CEO of Credit Union Lending Cooperative, a CUSO created to help credit unions compete directly with marketplace lenders. He has over 35 years experience in commercial banking and consumer finance. He has launched numerous successful financial services organizations, including a number of CUSOs.
Mortgage Loan Subservicing - What Is It, How Can It Work?
By Peter T. Sorce, CMB, President and CEO, Midwest Loan Services

Mortgage Loan Subservicing
What Is It And How Can It Work
For My Institution?

It’s done! The residential mortgage loan is successfully originated. And the financial institution (FI) is now contemplating whether to portfolio or perhaps sell into the secondary market, service released or service retained.

With the service-released option, an FI receives an “all-in” payment, both for the loan and mortgage servicing rights (MSR).

If the loan is sold servicing retained, a Government Sponsored Enterprise (GSE) pays the FI at least .25 bps per loan (other investors may differ) to complete all servicing functions.

Now, the FI must navigate the arduous task of completing all servicing responsibilities for the life of the loan.

Or, gain tremendous benefits from outsourcing those tasks.


A comprehensive Mortgage Loan Servicing Division is responsible for administrative, compliance and fiscal core functions including:

- **Loan Administration** – Customer service/call center, website, escrow, payment/payoff and more
- **Default Administration** – Collections, loss mitigation, foreclosures, electronic default reporting (EDR), etc.
- **Business Administration** – Quality control and quality assurance
- **Compliance** – Federal, state, local and investor regulations

Plus client relations, investor remittance/reporting, risk mitigation . . . the list goes on.
**Mortgage Loan Subservicing – What Is It, How Can It Work?**

**Why Choose Subservicing?**

The benefits of subservicing are many. The assurance of regulatory compliance itself is worth the move to outsourcing.

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**5 Reasons To Consider Subservicing**

1. New servicing products, services and technology with no up-front investment
2. Assured regulatory compliance (federal, state and investor)
3. Better management of the loan portfolio's ebb and flow
4. No worries about fluctuating resources and/or expertise needs
5. Reduction or elimination of in-house servicing expenses

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Often, misconceptions cloud the decision: “Too expensive . . . We know our borrowers best . . . Board won’t approve . . . We'll lose control.”

*These are all questionable assumptions.* Read on.

**What Does a Subservicer Do?**

A subservicer is a qualified outsourcing partner that performs all administrative, compliance and financial servicing activities related to a mortgage loan for a monthly FIXED per-loan fee. This includes all core functions mentioned above plus: standard and customized month-end reports; reconciliation and remittance to mortgage holders and investors; private labeling capabilities and more.

**The Cost Difference**

Managing all costs and risk associated with servicing is critical. *Unfortunately, calculating cost to service (CTS) is seldom performed and least understood.*

To compare costs to service mortgage loans in house versus outsourcing, FIs must consider:

- **“Cost to service per loan”** – The per-loan/per-year in-house cost, calculated by dividing total costs by number of loans serviced
- **“Opportunity per loan”** – What is most likely paid to outsource servicing, per loan per year
- **“Estimated savings”** – Amount saved by engaging a subservicer
“Economies of scale” – Per-loan savings subservicer realizes from the sheer volume of loans they manage

A subservicer has a much lower CTS per loan due to economies of scale. The only way an FI can match that cost is by servicing an equally large volume. Plus, a subservicer’s only focus is managing intricacies and complexities of mortgage loans. Co-mingling asset types, as FIs do, creates many more servicing problems than efficiencies.

In our whitepaper, we compare seven scenarios of servicing varying levels of mortgage loans in house. The estimated savings from subservicing are dramatic and convincing. Download whitepaper here.

Final Thoughts

Owning the servicing rights to a residential mortgage loan should ensure the FI a solid ROI. The right qualified subservicing partner can help FIs maximize the value of their MSR while enhancing service to borrowers.

About the Authors:

Peter T. Sorce has more than 25 years of experience in mortgage banking, mortgage servicing, auditing and compliance. Mr. Sorce currently oversees all day to day operations for Midwest Loan Services, a sub-servicer and originator of mortgage loans dedicated to serving the small to midsize financial institution(s). Prior to his role with Midwest Loan Services, Mr. Sorce was a Co-Founder of Greystone Residential Funding, Inc. which became QR Lending, Inc. Mr. Sorce served as its Executive Vice President & Chief Operating Officer as well as its Chief Financial Officer. Mr. Sorce directed all mortgage servicing, compliance & state licensing as well as all financial accounting & treasury functions. Mr. Sorce also served as Vice President of Mortgage Loan Servicing at CUNA Mutual Mortgage Corporation where he directed all aspects of the mortgage servicing operations. Prior to joining CUNA Mutual Mortgage Corporation, Mr. Sorce spent a combined 12 years with Washington Mutual Home Loans Inc. and Fleet Mortgage Corp. where he served as their First Vice President and Strategy Manager and was responsible for directing the remittance processing function for a mortgage servicing portfolio totaling 6 + million loans. Prior to Washington Mutual and Fleet Mortgage, Mr. Sorce served 4 years as Compliance Officer for Payco American Corporation, a nationwide accounts receivable management company. Mr. Sorce earned the Certified Mortgage Banker (CMB) and Certified Treasury Professional (CTP) (fka Certified Cash Manager (CCM)) designations and is a member in good standing with the Society of Certified Mortgage Bankers, the MBA, ABA and the ICBA. Mr. Sorce earned a Bachelor’s degree in Business Administration with a Major in Accounting and a minor emphasis in Economics from the University of Wisconsin-Milwaukee.