



Mitigating Adverse Selection Leveraging Advanced Pricing Strategies

This article was written by Ian Lampl, CEO of LoanStreet, for CUInsight. The original article was published on June 19, 2019.



The commercial lending boom among credit unions continues to reach new heights. As of the end of the first quarter 2019, outstanding commercial loans at credit unions reached \$73 billion, up 33% since 2015.

However, many are facing growing challenges in efficiently maintaining exposure to the stronger performers in their commercial portfolio. Lenders, of course, want to maintain their best relationships. At the same time these borrowers will always want to lower their borrowing costs when their businesses grow and become more profitable. Given this behavior, credit union lenders are exposed to adverse selection problems whereby their best-performing clients seek to refinance early, and struggling loans remain on the balance sheet. Refinancing transactions also creates the risk of the credit union losing the lending relationship to another lender. In the banking industry, most financial institutions attempt to curb this risk by charging a prepayment penalty. However, federally-chartered and most state-chartered credit unions are prohibited from charging prepayment penalties. As a result, finding innovative ways to manage these risks will become even more important as exposure to increases throughout the credit union industry.

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loanstreet@millenniumcorporate.org
LoanStreet E-Hotline

Do you know who LoanStreet is, what they do, or how they do it?
Do you wanna?

Millennium Corporate has a designated e-hotline for such inquiries, in the form of loanstreet@millenniumcorporate.org. If you have questions about LoanStreet but don't know where to start or who to contact, email loanstreet@millenniumcorporate.org.

One centralized email for all your LoanStreet questions! Give it a try!

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July 24 | 1:00 PM CT

CECL Implementation Delayed

AIM Recommendation

The AIM Team and Millennium Corporate have been evaluating credit union CECL (Current Expected Credit Losses) options and staying on top of CECL as it continues to evolve. Due to the potential for implementation extensions and possible elimination for the requirements, we have delayed development of a solution for our members. (Cart, horse.)

FASB just announced a temporary reprieve of the CECL implementation, extending it to January 2023. (Go to Page 4 to read the CU Journal excerpt.)

We continue to recommend that, if you can, it may be

appropriate to wait until more regulatory guidance is available before making a financial commitment to a CECL solution. As you can see by the implementation extension, the CECL initiative is fluid and may end up markedly different than what it was initially, or even, what it is today.

Please contact the AIM team with questions or concerns - aim@aimcusolutions.org or 800.721.2677 (Ask for AIM).



Yessire-CUBG!

Fast Track Adds Investment Property Loans

Credit unions can now say **YES** quickly with next-business day decisions for borrowers owning fewer than five investment properties. CUBGs low cost **Fast Track** program now includes investment property loans up to \$150,000.

Plus, CUBGs new online application and streamlined document transfer system now allow for easy access to the entire process.

- Business Vehicles - Autos or Trucks up to \$100,000
- Term Loans - Equipment secured up to \$100,000
- Lines of Credit - Unsecured up to \$50,000
- Business Credit Cards - Unsecured up to \$50,000
- **AND NOW** - Residential Investment Properties - Up to \$150,000/Borrowers who own fewer than 5 investment properties

Program Pricing is as follows...

Fast Track

Fast Track - Annual Fee

Underwriting - Per Transaction

Loan Docs - Per Transaction

CUBG Member

\$750

\$275-\$375

\$200-\$300

CUBG Affiliate

\$950

\$325-\$425

\$250-\$350

Contact Randall Smith with CU Business Group to learn more! 971.244.6328 | rsmith@cubg.org



CUBG is a Millennium Corporate CUSO providing business services to credit unions nationwide.

Mitigating Adverse Selection

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Proven mitigation strategies are available -- ones that avoid prepayment penalties and fees altogether. Yet, few, if any credit unions leverage these tools today. One of the most interesting is a technique known as grid-based pricing, in which the borrower agrees to pay one of several applicable interest rates, based on a grid, that reflects the current risk of the loan at any given time. It's a strategy that has been used by commercial lenders for decades. Here's how it works.



Consider a loan that pays interest at one of three different preset interest-rate levels:

Level	Rate	Covenant
1	Prime + 200 bps	DSCR - A
2	Prime + 300 bps	DSCR - B
3	Prime + 400 bps	DSCR - C

When using grid-based pricing it is important to ensure that the rules for setting the interest rate are clearly defined and not ambiguous. Equally critical is for credit unions to use technology that facilitates grid-priced loans. That means being able to manage and track effective interest rate changes, receive rate-change notifications online, and issue invoices with the applicable interest rate without intense manual operations. In many cases, this may also mean looking for modern commercial lending tools that support more flexible loans than the traditional Cores. However, spending the time to find the right tool will be well worth it. Ultimately, it means more loans, more income, and more success with your commercial lending program. Whether the business pays interest at Level 1, 2, or 3 depends on its then-current financial performance.

Credit unions can use various metrics to determine financial performance -- from common indicators, such as the Debt Service Coverage Ratio (DSCR) to more nuanced financial covenants or perhaps even a combination of them. For instance, in the illustrative example above, if the DSCR improves, the loan's interest rate resets to a lower rate. On the other hand, should the DSCR worsen, the interest rate would increase. By agreeing up-front to these different interest levels based on risk, a credit union is able to reset the interest rate, in real time, at a level that reflects the current risk of the loan and reduce the likelihood that they lose a high-performing borrower who elects to refinance their loans at a lower rate.

At the same time, a credit union can ensure that if a commercial borrower underperforms, the credit union will be compensated with more interest due to the increased risk of the business loan. Grid-based pricing can be a win for the borrower, too. That's because the borrower receives a rate that is competitive with their current performance -- not just their expected performance at closing. Ultimately, the net-effect is as if the commercial borrower efficiently executed a refinancing transaction without the time and expense of putting a new loan in place and the lender keeps a valued relationship without the risk of a competitive process.



Ian Lampl is Co-Founder & CEO for LoanStreet Inc. He can be reached at media@loan-street.com.

Email loanstreet@millenniumcorporate.org for all your LoanStreet questions!

CECL Announcement

CU Journal Excerpt

"Most banks and credit unions are getting a temporary reprieve from a controversial accounting standard for projected loan losses.

The Financial Accounting Standards Board voted on Wednesday to extend the deadline for conversion to the Current Expected Credit Loss methodology to January 2023 for all but the nation's biggest publicly traded banks. FASB is also laying plans to consult with banks registered with the Securities and Exchange Commission - those lenders must still comply next January - auditors and regulators in hopes of identifying points of confusion and unnecessary procedures.

Prior to Wednesday's vote, smaller publicly traded banks that aren't registered with the SEC were scheduled to convert to CECL on Jan. 22, followed a year later by privately held banks and credit unions."

Contact an AIM Analyst with questions or concerns about CECL at aim@aimcusolutions.org or call 800.721.2677. (Ask for AIM.)

Celebrate Good Times - C'mon!

Three of our very valuable employees celebrate their work-iversaries with Millennium Corporate in August.

Congrats to Heather Seiler (31 Years), Kitty Gray (20 years) and Loretta Nettleton (5 years)!

Our people are part of our strength, continually committed to serving credit unions, as well as the Corporate.

We appreciate you and celebrate your tenure!

Hook, Line & Sinker

Kasi Joins Millennium Corporate

Kasi Tellez loves to fish but claims to be a terrible fisher-woman. Uh, not possible - see inset, Kasi with her biggest catch and the one that made her fall in love...with the sport, not the fish. From being forced to fish as a youngun' alongside her grandparents to today -she's come full-fish circle!

When she's not fishing or working, Kasi (pronounced K-C) is day-tripping across the Midwest! Loading up her kiddos and hitting the open road. Ever heard of Medicine Park, OK? It's her fave and rightfully so. (The pictures look both beautiful and charming. Google it, I did.) Although she wasn't born in Kansas, it's home. Temporarily, Kasi also called Germany "home". Guess where she worked? A credit union, of course. We're pleased she came back across the pond to the good ol' US of A and joined our team.

Kasi loves her members, says member service is her passion (nothing silly about that), and she's excited to bring you all into the fold. She says making the switch from a natural person credit union to the corporate has been, well, a whirlwind. Different, challenging, exciting! All good things and not suprisingly, she's owning it!

If you need to speak with Kasi, you can email her at kasi@millenniumcorporate.org or call her at 800.721.2677 ext. 105.



**BAM!
KAPOW!**

Every Credit Union Hero needs a trusty side-kick, right?

Stop by our booth at the HCUA Convention & Annual Meeting, in KC, MO, September 12th-14th.

Biometric Software Enhancement

coreCONNECT Upgrade

In May 2019, we notified credit union members and coreCONNECT users that something big was coming down the pike. It arrived July 15, 2019!

The 'something big' is a coreCONNECT upgrade that will allow increased compatibility with more O/S packages and additional web browsers, particularly Google Chrome and Firefox.

Your current biometric fingerprint devices are still good - no need to worry about that - but the upgrade needs to be applied to every computer that accesses coreCONNECT. And you've got 60 days to do it before **POOF** - that's the sound of the old system being taken out of production.

Credit unions will receive step-by-step instructions to download and install the new system but should you need assistance or have questions, you've got IT support available in Cristian Castenada, our IT Support Specialist. He can be reached at 800.721.2677 ext. 135 or via email at cristian@millenniumcorporate.org.



All BASHERS to the Dance Floor

HCUCF Fundraiser Nears

You know all about the HCUCF, right? The Heartland Credit Union Charitable Foundation. They assist credit unions in serving their communities and members. They give grants to credit union employees for training and education. They're beyond awesome and they're having a BASH during the HCUA Convention & Annual Meeting to raise funds to carry out their incredible mission and celebrate how awesome you all are. We're going and would love to see you there!

Visit their website and get your tickets today - www.heartlandcua.org!

Questions? Contact Andrea Robinson, the Grand Master of Ceremonies aka Executive Director of External Affairs & Philanthropy - arobinson@heartlandcua.org.

That's the Scoop...

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It's a NO-Labor Day!

Holiday Closing

Millennium Corporate offices will close Monday, September 2nd, for Labor Day. Regular business hours will resume Tuesday, September 3rd.

Please note - your regularly scheduled currency and coin order or delivery schedule may be adjusted by our armored carrier partners due to the holiday. Should you have questions or needs, please contact an Account Specialist at 800.721.2677 option 1.

Everyone, step away from the office!