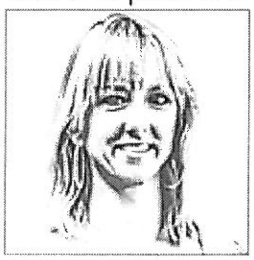
One Way To Record-Breaking Loan Growth

United Labor Credit Union pays more attention to members' stories than their credit scores. And it's paid off.



Rebecca McClay, writer/editor, Callahan & Associates, Inc

7/23/2012

Tags: Lending , $20M Or Less

United Labor Credit Union ($9.7M, Kansas City, MO) has achieved record loan growth for the past two years and, with already $525,000 more lent as of June than in the first half of 2011, it's on track to do the same this year.

"If you really want to grow your loan portfolio, look at the reasons to make the loans, not the reasons to deny the loan," says CEO Tim Vogler. "It sounds simple, but it's a total attitude change."

United Labor Credit has granted $1,964,650 in new loans as of the second quarter of 2012, with $464,000 in June alone, Vogler says. Of that, 76.7% are loans that are secured by a title, 1.4% are share-secured loans, and 21.8% are unsecured loans.

Several factors have contributed to the credit union's surge in loans – from an improving employment rate among its SEG group to a pent-up demand for vehicles. But Vogler says the primary reason United Labor's loan portfolio is thriving is because the credit union places less emphasis on credit scores and makes more of an effort to learn about members' financial situations.

Credit unions, concerned about auditors and regulators, often have lending policies that dictate which credit scores qualify a member for a loan. United Labor uses credit scores to determine the interest rate on the loans, but it investigates members more deeply for credit stability and loan risk. Loan officers, for example, try to learn how long a member has been in their home or in their career. They find out if poor credit scores were due to a one-time hardship like unemployment, illness, or divorce, or if they truly have a habit of delinquency.

"When you sit down with someone and you help them out, two things happen," Vogler says. "They become a very loyal member and they're going to be apt to get their loans from you every time. The second thing is they go and spread the word."

United Labor's primary membership is union construction workers. The unemployment rate in that field was close to 30% in 2010 but has been improving since then. Many members who had been holding on to their vehicles are now ready to take out used auto loans - United Labor's "bread and butter" - and the credit union approve about 80% of requests for loans.

The credit union's used auto loans grew 9.0% to $3.6 million in the first quarter of 2012, according to Callahan & Associates' Peer-to-Peer data, and Vogler says that growth has continued into the second quarter. Its risk-based lending approach, which uses a member's credit score to determine on rate for any secured loan type, from RVs to new vehicles - often offers extremely competitive rates, especially in used cars.

Regular financial education seminars, a minimum of four free sessions per year, bring in loans.

"For a credit union our size, it's unique how much financial education we do," Vogler says. "Getting out in front of people, you build a trust factor. We're looked on as someone who is providing valuable education. That effort is building on itself."

United Labor's return on assets, a 90 basis points through the end of June 2012, ranks high among Missouri credit unions. In fact, two years ago, it reported the third-highest ROA in the state, Vogler says. Meanwhile, it's delinquency rate is increasing and stands at 2.5% as of June, however Vogler says he feels comfortable with that rate considering the unemployment rate is still fairly high but the area's economic environment is improving.

Finally, the credit union's relationship with the local union groups has boosted its bottom line. When United Labor proactively started developing that relationship about nine years ago, more union members joined and began promoting the credit union as an institution that would offer a decent rate of return while helping union members with their financial needs.

"We make an effort," Vogler says. "We do a lot with personal interaction and finding out about people and finding out their stories. We look for opportunities."