

Loan Diversification as a Path to Growth

Presented by
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The Need for Diversification

CREDIT UNION JOURNAL REGULATION GROWTH TECH OPINION MORE ▾

Credit unions are losing the war for millennials

CNBC MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

FINANCE

Google is getting into banking with the search giant set to offer checking accounts next year

CUinsight NEWS ▾ COMMUNITY PODCAST PRESS JOBS PARTNERS MORE ▾

Is your credit union ready for the next recession?



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Credit Union Member Demographics

- Average age of 47
- Entering prime savings years
- Regional and/or community-based



Diversity leads to better service, greater innovation, improved solutions and increased membership. These things make credit unions strong and sustainable, which ultimately leads to greater strength for the entire credit union system. Diversity helps credit unions tap into unreached markets. – NCUA



How do you picture Millennials?

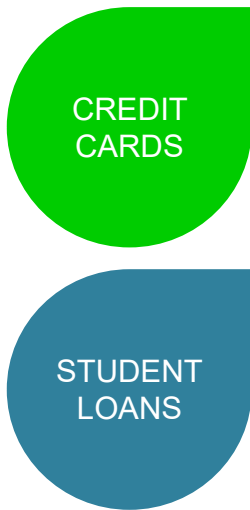


The Modern Millennial Borrower

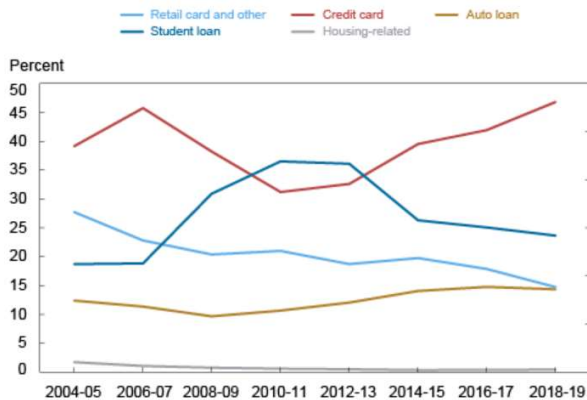


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First Borrowing Experience



First borrowing experience of borrowers age 30 or younger

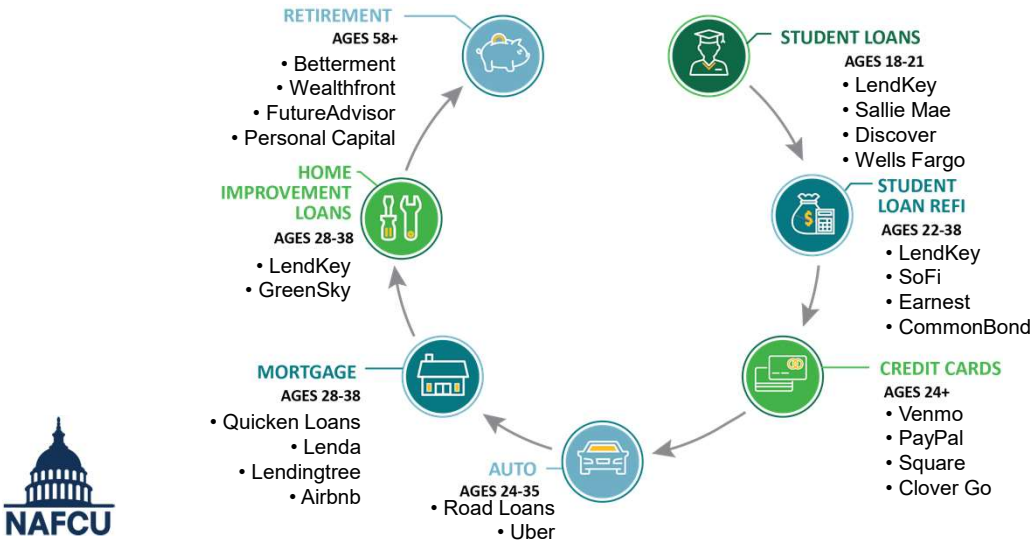


Source: New York Fed Consumer Credit Panel / Equifax.

Note: The "other" category includes retail cards (such as those issued by a department store), consumer finance (for example, an installment loan to finance the large purchase), and other types of unclassified debts.

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The Modern Credit Journey



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How are you attracting young, modern borrowers?



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Credit Cards and Student Lending

- Prime, young borrowers
- First lines of credit
- Great returns
- Historically low net charge-offs
- Access to consumer data



Sources:
<https://www.creditcards.com/credit-card-news/credit-card-delinquency-statistics-1276.php>
MeasureOne Report Q4 2019

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Does the thought of entering student lending scare you?



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Student Loan Headlines



More than 1 million people default on their student loans each year

Markets
U.S. Student Loan Debt Sets Record, Doubling Since Recession

EDITORS' PICK | 193,735 views | Feb 25, 2019, 8:32 am

Student Loan Debt Statistics In 2019: A \$1.5 Trillion Crisis



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Federal vs Refinancing / Private

- **Federal:** no cosigner required, needs based, little underwriting, generous deferment and forbearance options
- **Refinancing and Consolidation:** high standards for underwriting, credit based, educated, high income, prime borrowers, graduation status considered
- **Private:** 90% cosigned, higher standards for underwriting, credit based, considers school and satisfactory academic progress



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Lenders Entering Student Refinancing

KeyBank acquires Laurel Road's under-the-radar digital lending business

- Laurel Road has quietly originated over \$4 billion in consumer loans
- KeyBank wants access to its digital, millennial-friendly platform

AMERICAN BANKER All Sections >

Fifth Third's millennial play: Helping them refinance student loans

First Republic Buys Student-Debt Startup Gradifi

CommonBond Announces \$750 Million in Lending Capacity from Top Banks

NEW YORK, February 14, 2019 — CommonBond, a leading financial technology company, announced that it has signed \$750 million in lending capacity from Goldman Sachs, Citibank, Barclays, BMO, and ING. The financings enable CommonBond to capitalize on its

Forbes

Citizens Bank Becomes An Unlikely Student Loan Leader



Traditional lenders and fintech companies are entering student lending to access young borrowers

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Deep Breath



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Opportunity for Growth Through Student Loan Refinancing



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Student Loan Refinancing Structure

- Average FICO: 765+
- Percent cosigned: 31.1%
- 5, 7, 10, 15, 20 year term options
- Fixed and variable rates
- Hold the full balance, partial balance or sell the loans while retaining the member relationship

Estimated Annual Opportunity: \$200B



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Attract Young Members

- Student loan refinancing
 - Provide Millennials and Gen-Z with the loans they need
 - Expand your product offerings
 - Enter into high-performing loans
 - Low net charge-offs and delinquencies
 - High cross-selling success
 - Potential lifetime of lending



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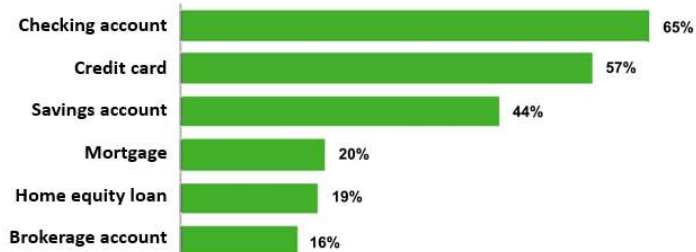
Potential Lifetime of Lending

2/3 of student loan borrowers opened a checking account with the institution who provided the student loan

Products Opened with Primary FI After Taking Student Loan

Which of the following products have you opened with the financial institution you applied for a student loan with AFTER you took out the loan?

(Base = Consumers that applied with their primary FI)



Source: Cornerstone Advisors

Source: Cornerstone Advisors



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Tap Into Flexible Underwriting

- Traditional credit models do not serve all modern borrowers
 - 47% of Millennials are freelance workers with no W2
 - Young borrowers may lack an established credit score
- Strategic underwriting based on FICO +
 - Loan balance
 - Graduate vs undergraduate degree
 - Income level



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Expand Your Geographic Footprint

- Join a nationwide marketplace
 - Supplement your existing program
 - Custom whole loan programs
 - Third-party loan sale
 - Modern loan participations



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Modern Loan Participations

- Modern participations
 - Hold 10% stakes of each loan
 - Mitigate concentration risk
 - CUSO
 - No broker needed
 - Real-time transactions
 - Audit support

Reduce geographical and communal risk



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This sounds great,
but **how?**



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BUY	BUILD	PARTNER
PURCHASE THE TECHNOLOGY & STAFF	BUILD & MAINTAIN A DIGITAL LENDING TECHNOLOGY PLATFORM IN-HOUSE	PARTNER WITH A TECHNOLOGY COMPANY
<p>PROS: Complete control</p> <p>CONS: Costly, time intensive, on-going maintenance and operating expenses, regulatory and compliance burden</p>	<p>PROS: Complete control, personalized platform</p> <p>CONS: Costly, time and resource intensive, on-going maintenance and operating expenses, risk of being outdated by the time it's integrated</p>	<p>PROS: Low cost, decreased time-to-market, limited operating expenses, continuously improved products, regulatory and compliance support</p> <p>CONS: Less control, limits on full customization</p>

NAFCU

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Partnering and Lending-as-a-Service

Demand Generation	Online Decisioning	Loan Origination	Full Loan Servicing	Balance Sheet Management

NAFCU

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Case Studies for Student Lending

Lender ABC Challenge

Launched both an in-school private loan and student loan refinance program in April 2015

Looking for an optimized a white-labeled loan offering



LendKey Impact

LendKey has serviced 100% of over \$800+ million in loans originated

Utilized their branding and underwriting guidelines to create a nationwide product offering for millennials, gen-z and their parents

Lender XYZ Challenge

In need of a student loan refinancing program to meet the demands of young, online borrowers

Required a cost-effective program with the ability to update underwriting quickly to remain competitive



LendKey Impact

Delivered a quick, cost-effective platform that reduced credit decisioning time to within a day

Leveraged our online marketplace to expand marketing reach

90% of education lending borrowers are new to the institution

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Q&A

Thank you

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lendkey.com/lend

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