

Targeting the Credit Challenged

Presented by:

In Touch Today

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“Whether the economy is good or bad, things happen in people’s lives that cause them to not qualify for A-paper loans. Originating sub prime loans sets you apart from other lenders because if you only originate A-paper loans, you’re just a commodity.”

What We Will Discuss



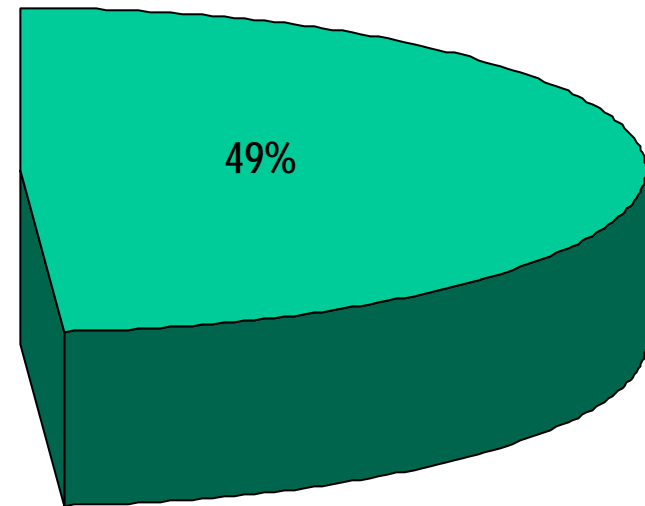
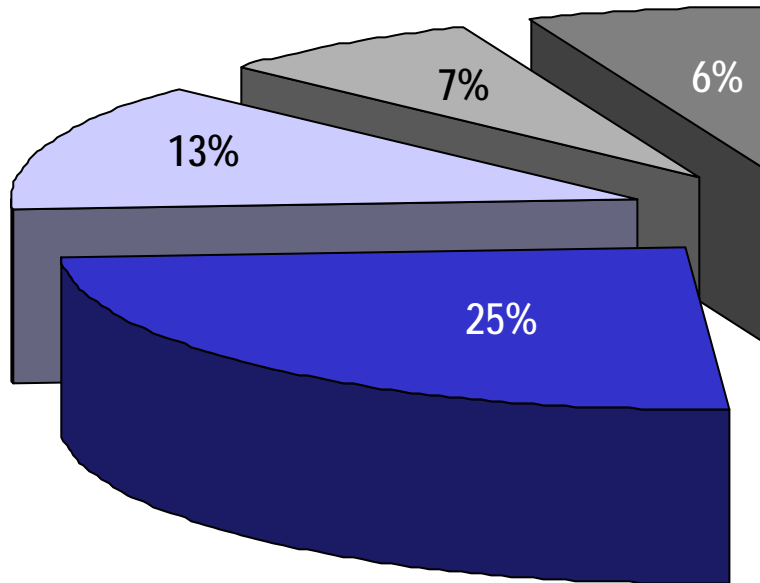
- Seven reasons to do subprime loans
- Seven reasons not to do subprime loans
- Five credit scoring factors that influence your client's credit score
- Ten factors that negatively affect your client's credit score

What We Will Discuss



- Nine ways to raise your client's credit score
- Using professional referral sources to build your subprime business
- Eight ways to market your subprime specialty
- How to target your subprime loan candidates' mailings

What is Your Approach to Subprime Lending?



■ Quite a bit ■ Some ■ Done none ■ Too busy ■ Too difficult

Why Clients Become Credit Challenged

- Medical bills
- Job loss
- Death of a spouse
- Divorce
- Poor spending habits
- Lack of discipline



Three Loan Types



1. Quality loans

- good borrower
- good credit
- purchasing a “typical” property within their means
- income, assets and capital can be verified

2. Challenging loans

- spotty credit history
- issues with verifying assets
- purchasing a unique or unusual property that may be more than they can afford
- income or employment verification issues

3. Tough loans

- contains multiple elements listed above

Seven Reasons to do Subprime Loans

1. Good learning experience
2. Avoid having to say no to a potential client
3. Get to be a hero to your client
4. Receive referrals



Seven Reasons to do Subprime Loans



5. Open the door to doing business
6. Get paid
7. Provide you with work



Seven Reasons NOT to do Subprime Loans



1. Burn bridges if you have to ask for exceptions or favors
2. If it doesn't work your client thinks poorly of you and everyone involved in the transaction is disappointed
3. If it does work you become known as the person who does the tough deals
4. These loans take more time and effort



Seven Reasons NOT to do Subprime Loans Cont'd



5. Taxing emotionally and physically
6. You may work with tough clients who are demanding, unresponsive or worse – shady
7. May tarnish your efforts to establish yourself as a top quality mortgage lending professional

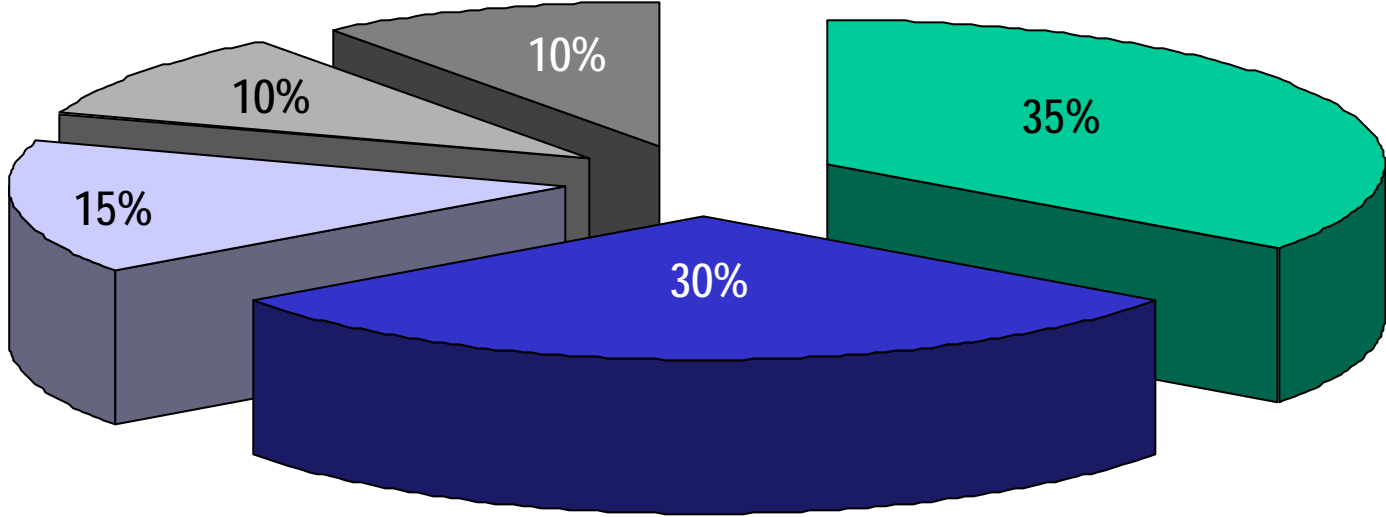


What it Takes to do Subprime Loans

- Excellent communication skills
 - Ability to present the deal as the “best” available
 - Listen to the emotional “whys”
- Ability to “judge” the probability of the loan closing
- Appropriate client risk-grading
- Reputable, dependable lenders



Five Factors of the Credit Scoring Model



- Payment History
- Outstanding Credit Balances
- Credit History
- Credit Type
- Inquiries

Ten Factors that Negatively Impact a Credit Score



1. Serious delinquency
2. Public record or collection filed
3. Derogatory public record or collection filed
4. Time since delinquency is too recent or unknown
5. Level of delinquency on accounts
6. Number of accounts with delinquency
7. Amount owed on accounts
8. Proportion of balances to credit limits on revolving accounts too high
9. Length of time accounts have been established
10. Too many accounts with balances

How to Improve a Credit Score



- 12 months of positive credit behavior – or at least 3 months of good payment history
- No new accounts opened even if they're payment deferred
- Pay down balances on revolving accounts to less than 50% of their limit

How to Improve a Credit Score



- Make all home financing applications within 14 days of one another
- Spread debt accumulated on one card to others that may have a zero balance
- Dispute those items that are incorrect to the credit bureaus in writing

How to Improve a Credit Score



- Offer settlements on unpaid judgments, liens and medical bills to show “paid” status rather than active delinquent status
- Discourage shopping sprees
- Leave zero balance accounts open unless the available credit lines create potential large debt load

What Cannot be Deleted from a Credit Report



- Bankruptcies
- Judgments
- Tax liens



When Credit Repair can Help



- Negotiate late payment settlements with creditors
- Merged file contains fraudulent, incorrect information, authorized user account information
- Build finance and budgeting skills

Using Professional Referral Sources to Gain Business



- Real estate agents
- Attorneys (bankruptcy and divorce)
- Banks/credit unions
- Other lenders
- Collectors



How to Approach Professional Referral Sources



- Let your referral sources know that you do subprime loans
- Create an informational flyer and include:
 - the types of subprime candidates you can help
 - the typical subprime loan process
 - the time line adjustments for off site processing and underwriting
 - the pricing differences
- Contact banks and credit unions and offer your services
- Contact those lenders who prefer/only work A-paper loans
- Give seminars to educate referral sources about factors that create subprime scoring system



Tapping into Collection Account Agents as a Referral Source



- Every time you pull a credit report you have potential referral source partners
- Collectors are good referral sources because:
 - Have monthly collection goals
 - Receive commissions on production
- Look for alternatives to pay off debt – home equity loan becomes a possibility



Why Collectors Can be an Attractive Referral Source



- Unlimited source of business since it's debt driven
- Customers call you; no cold calling
- Business isn't dependent on rates or the economy
- Prospects aren't as likely to rate shop
- Every time you're referred a loan you have other potential partners listed on the credit bureau



Forming a Partnership



- Call the agency and ask to speak to the agent working the account
- What you can offer these agents:
 - Systems to ensure smooth loan processing
 - Communication throughout the process to keep them in the loop
- Multi-state licensing

Challenges You May Face



- Conversion rate – fallout can be as high as 75% due to lack of equity or current credit situation
- Rate objection – barometer of a good deal
- Limited state licensing

Ways to Market Your Services



1. Email:

- Purchase opt-in lists
- Provide important information on a weekly basis
- Track your customer actions

2. Direct mail:

- Send a monthly campaign
- Offer something of value

3. Seminars:

- Credit repair education
- Credit score/credit bureau education
- First time buyer education
- Subprime loan education (prospects and referral sources)

4. Newspapers:

- Advertise in the Homes and Apartments for rent category

Ways to Market Your Services Cont'd



5. Weekly Shoppers
6. Letters to those who've declared bankruptcy
7. Fliers:
 - Real estate agents
 - Grass roots advertising in community centers, gyms and grocery stores
8. Internet

How to Target Your Subprime Candidates' Mailings



- High debt loads
- High debt ratios
- One mortgage late in the last 12 months
- Equity credit line established within the last 12 months
- Refinance within past 2 years with a high interest rate
- Prior bankruptcy
- Low credit scores
- Tax liens
- LTV



Key Take Aways



- Doing subprime loans sets you apart from those who only do A-paper loans
- Doing subprime loans isn't for everybody
- Treat all subprime clients equally without regard to sex, religion, age, financial status
- Doing subprime loans requires excellent listening skills to uncover emotional reason for refinance
- Able to judge the probability of the loan closing



Key Take Aways Cont'd



- Work with reputable subprime lenders
- Three months of positive credit behavior can favorably affect credit score
- Evaluate credit report to rebalance debt to improve score
- Use credit repair agencies to negotiate late payment settlements and rectify fraudulent or incorrect information
- Professional referral sources need to know you do subprime loans



Key Take Aways Cont'd



- Collection agents can provide potential business that is largely untapped
- Put systems in place to keep collector in the loop during the loan process
- Conversion rate of collection agency leads may only be about 25% due to LTV or credit issues
- When purchasing a mailing list include specific subprime parameters to identify prospects
- Choose one or more ways to market your services to prospects



Action Plan



1. Review the current subprime lenders you use to identify the types of subprime prospects you can serve (A-, B, C, D).
2. Create a basic product matrix to easily determine the probability of closing a loan.
3. Contact a collection agent and explore the possibility of working together.

Thank You!



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