



The Art and Science of Consumer Loan Decisions

Tips to assess Loan candidates





Loan Decisions— Part Art, Part Science

As you weigh different factors in assessing a consumer loan candidate, your final decision requires a balance of art and science. Sometimes a candidate appears to be a good choice for a consumer loan, but the facts indicate otherwise. The opposite can also occur with a candidate who raises questions at first glance but a deeper look tells a different story. In both cases, it is worth the time to investigate a bit further and seek explanations from your prospect to have all the elements to make a good credit decision.

In this eBook, you'll discover practical tips to help you closely assess candidates to make a good loan decision. There's also some great ideas on how to maintain good customer relations throughout the process.

Bad Credit Reports: What to Assess

A bad credit report can often be a reason to reject an application, but there are three criteria to investigate first.

1. For a bankruptcy, discuss the reasons with the applicant. Perhaps it was due to an illness or job loss. Check if the applicant paid off outstanding debt when they recovered.
2. When there's a judgment against an applicant, uncover the reason for the judgment. It could be for a small dollar amount or part of a dispute with a merchant.
3. Negative ratings on credit bureau reports may be inaccurate. If the applicant record doesn't show a history of negative credit ratings, there may be a reasonable explanation.

If your research indicates problems are more than minor infractions, reject the loan and let the applicant clear up any inaccuracies and reapply.



Personal Financial Statements: Exaggeration?

People rarely exaggerate income of their tax return. However, the opposite is often true when looking at a personal financial statement, especially in these three areas:

Personal property needs close examination. Clients often value items like artwork, clothes, jewelry or household items at higher values than a financial institution would receive in a liquidation. Deducting personal property when calculating an applicant's net worth offers a more accurate picture.

An applicant often lists jointly held assets at 100% of value. A typical asset valued this way would be a home or vacation property jointly owned. If the joint owner will not pledge the asset, a prudent lender will deduct the value from net worth.

Some candidates will list term life insurance as the cash surrender value life insurance. If this happens, subtract the value from net worth.

Mistakes can occur on the personal financial statement because the form is confusing. A prudent lender will walk the applicant through the form to ensure they know how it should be filled out.

Fraud: 3 Signs

Unfortunately, there are loan applicants who deliberately give you false information to obtain a loan they cannot or will not repay. Here are three ways applicants commit fraud.

1

Supplying doctored tax returns. It is so very easy these days to use a software program to create a fraudulent tax return and then forge an accountant's signature. To prevent this, require all loan applicants to fill out IRS form 4506-t. This allows the financial institution to get a copy of the actual return and will deter applicants from filling out a fictitious return.

2

Giving false information about the value or condition of collateral. To verify collateral, set up a process to make sure it exists, checks the condition and meets the value described. For real estate, an appraisal offers a good checkpoint.

3

Misrepresenting who they are. Make sure you get at least two pieces of valid identification. One of the pieces of acceptable identification should include a recent photo.

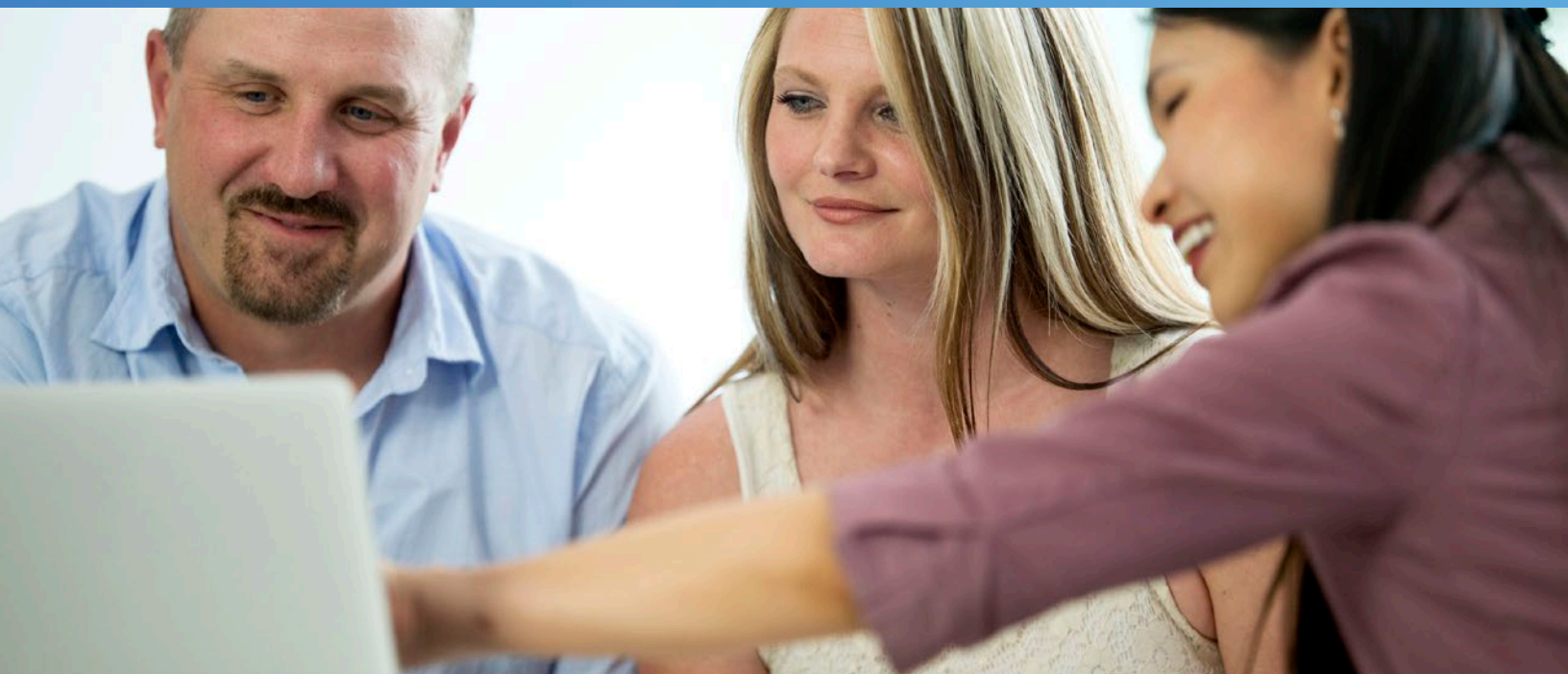
Fraud, as it grows, concerns all lenders. It also impacts conscientious borrowers who must bear higher loan costs to make up for losses due to this criminal behavior.

Good Customer Relationships: 4 Tips

When rejecting any request, always consider the long-term relationship. You don't want to lose the applicant's other accounts or as a potential customer for other products. **These tips can help.**

1. Call the applicant promptly. A phone call demonstrates your institution's personal interest in the customer. Be sure to call before the written rejection notification is received.
2. Be open and honest. Discuss the rejection in terms of the applicant's best interests.
3. Don't embarrass the applicant. Rejection of any sort is hard to accept and to deliver. Treat the customer politely and cordially. If you feel embarrassed, the customer will as well.
4. Offer other services. Discuss other areas that might benefit the applicant. It is important to leave the customer with the feeling that the institution would like to work with the customer in some other way.

Remember, earning customers takes a big effort.
It's worth going the extra mile.



Documentation: What to Request

Most loans are secured by collateral that the borrower keeps in his or her possession. For repayment from the sale of the collateral in case of default, documentation must be in order. These three tips will help you file a claim in case of default.

1. Make sure the borrower signs the security agreement that reports the transfer of property from the borrower to the lender. This borrower's signed pledge documents that the applicant will surrender the property to the lender.
2. Make the claim (lien) public by registering it with the proper government office (called "perfecting the security interest").
3. When a person other than the borrower is pledging collateral, he or she must sign a hypothecation agreement giving the lender security interest in the property, equivalent to a security agreement. Signing this agreement does not make the owner of the property responsible for repayment of the debt.

Make sure that all required documents are present in the borrower's loan file. These documents protect the institution's claims in the event of fraud or default and supports your loan decision.

Art, Science and Good Decisions

A loan decision is part art and science. By asking good questions and taking a deeper look at applicants, you'll perform a great service for your customers and your organization.

For additional help with this important issue, contact [OnCourse Learning Financial Services](#).

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