

Home Equity Overview

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Home Equity Overview

- Strategy
- Markets and Products
- Service Delivery and Technology
- Risk Management



Strategy

Why fewer *non* HE products in CL portfolio?

- Homeowners are encouraged to consider HE product
- Non-equity secured CL products not proactively sold; sales staff are encouraged to sell one consumer lending product – the HE product, partially addressing the limited “shelf space” struggle
- Sales incentive programs are designed to promote HE loans/lines
- Unsecured personal LOCs are being replaced by HELOCs



Strategy



**Customer experience needs to be
quick and easy**

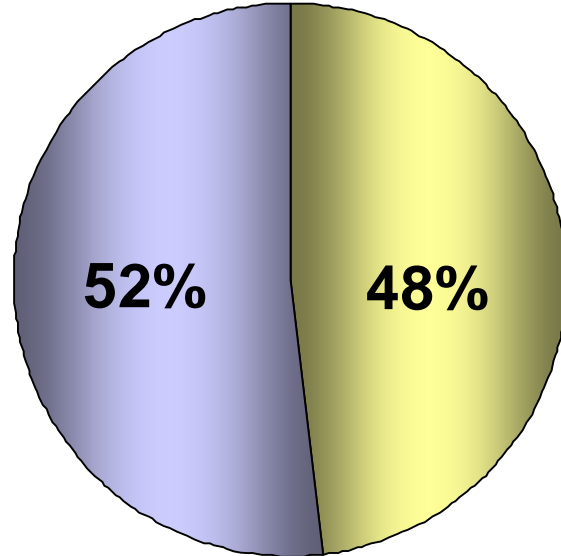


Strategy

Customer experience needs to be quick and easy

- Simplified underwriting policies/requirements
- Balancing customer relationship with processes

Use Automated Underwriting?

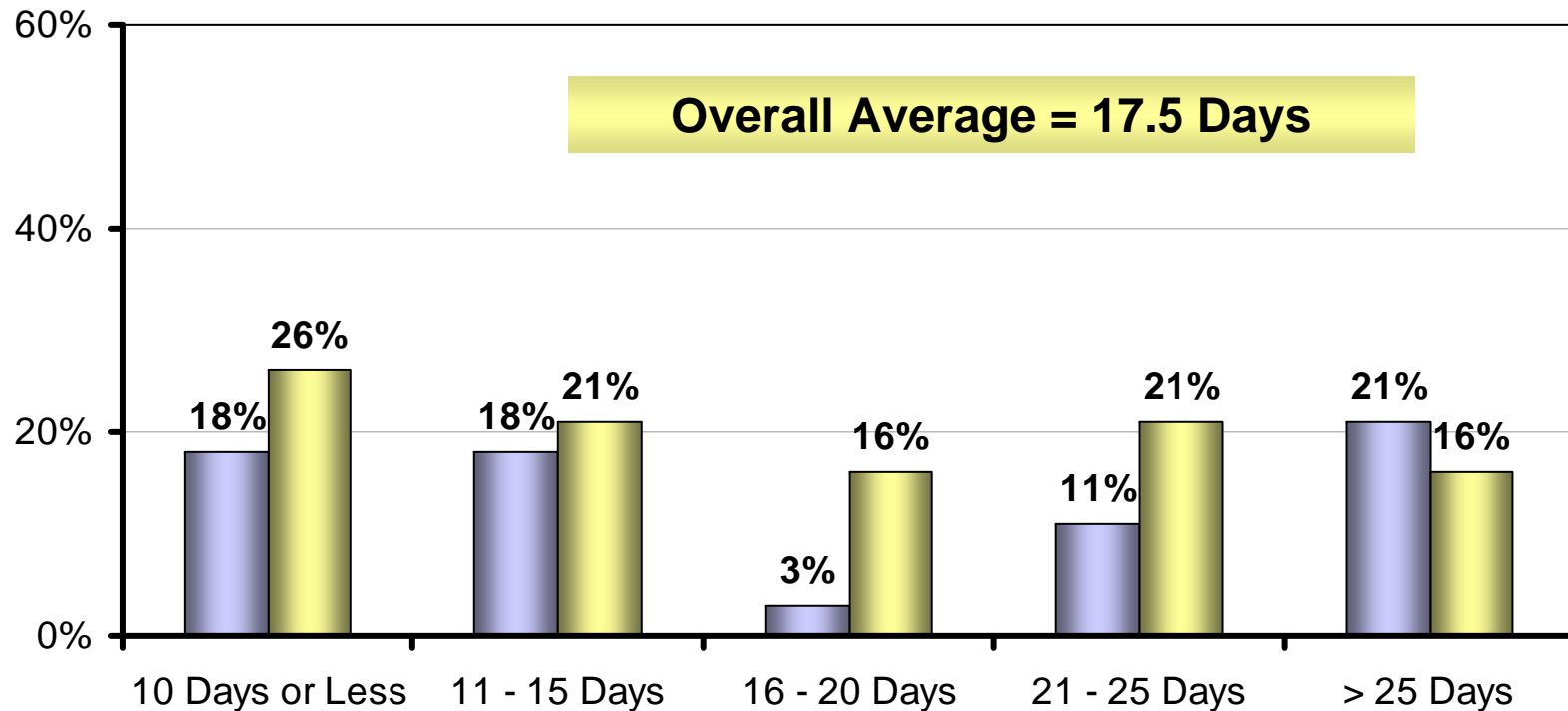


Source: 2004 CBA Home Equity Study



Strategy

Average Turnaround Time (Application Receipt to Closing)



Source: 2004 CBA Home Equity Study

■ 2000 ■ 2004

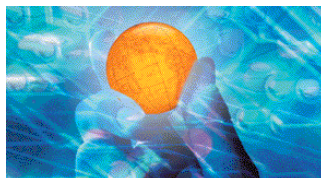


Strategy

Effective strategy balances “quick and easy” with risk. Some of the risks that the regulatory agencies are monitoring include:

- **Interest only features**
- **“Low doc” or “No doc” of assets, employment, income**
- **Higher Loan-to-Value** and Debt-to-Income ratios
- Lower credit risk scores for HE Loans
- **Greater use of automated valuation models and other collateral evaluation tools**
- Increased loan broker or other third party generated transactions

Source: Credit Risk Management Guidance for Home Equity Lending 5/16/2005



Strategy

Cross-selling to existing customers:

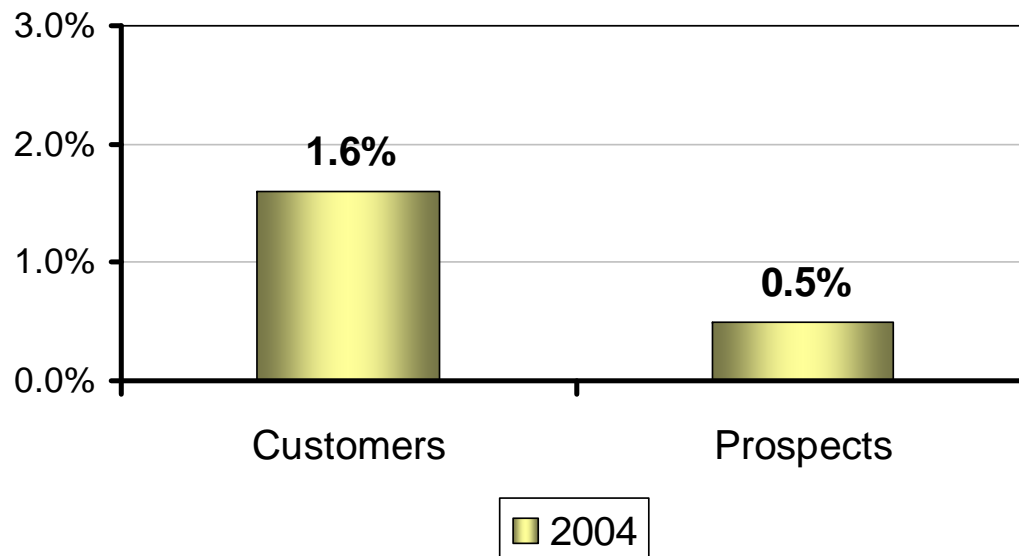
- More success
- Depository and mortgage accounts are best prospects
- Target select customers for direct mailings, along with rate specials and branch campaigns
- Sales support and ongoing training for the branches



Strategy

More direct mail campaign success with existing bank customers vs. prospects

Direct Mail Campaign Booking Rate



Market Strategy

- #1 Existing customers
- #2 Prospects in market
- #3 Prospects out of market

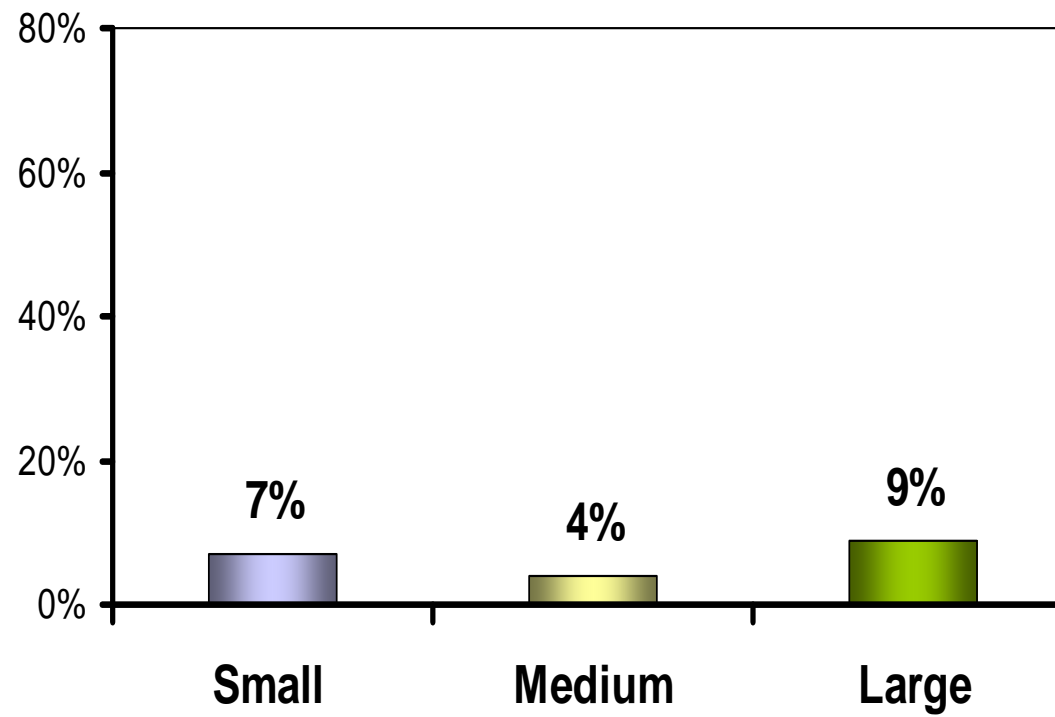
Source: 2004 CBA Home Equity Study



Strategy

Existing HE penetration within the deposit customer base is 9%:

% Deposit Customers with HE



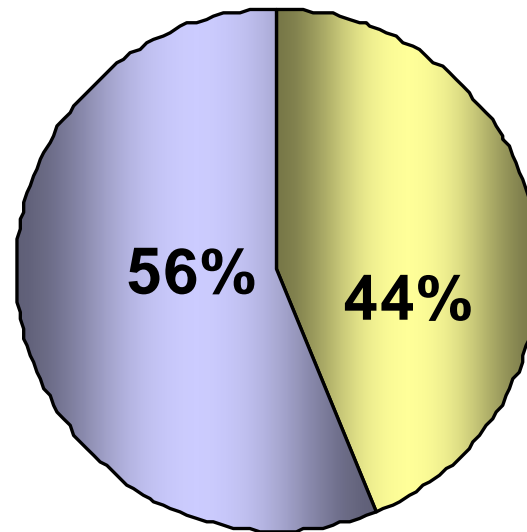
Source: 2004 CBA Home Equity Study



Markets and Products

Heightened consumer demand for fixed-rate equity line products:

**% Offering Fixed
Rate Equity LINE
Feature**



■ Yes ■ No

Source: 2004 CBA Home Equity Study



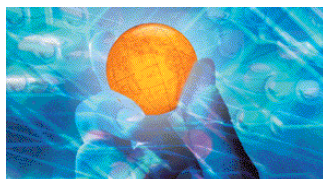
Markets and Products

Fixed Rate Equity Line Draw Product:

- Fixed interest rate
- Allows borrowers to fix interest rates on three to five draws simultaneously
- Experimenting with the term to mirror traditional direct consumer lending such as five year automobile loans

Variable Rate Loan Product:

- Fixed principle and term
- Interest rate is typically tied to the prime interest rate
- Appeals to borrowers with a large, known expenditure and a lower interest rate in the short term



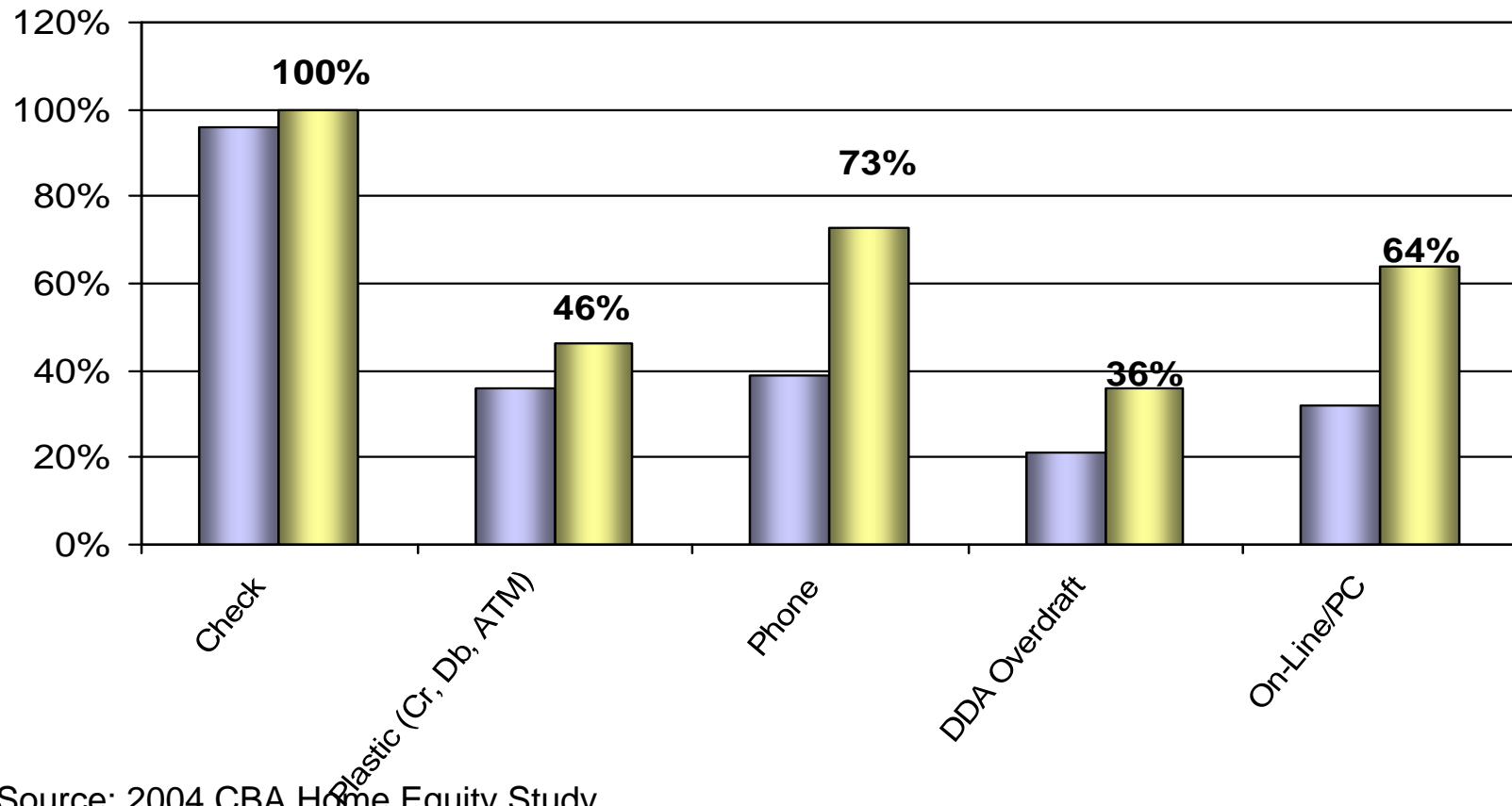
Markets and Products

- In the past, product addressed two customer types:
 - Customer #1-- HE Loans fixed rates/terms
 - Customer #2-- HE Lines variable rates/terms
- Presently, HE lines have expanded to include fixed and variable rates and terms
- In the future, we see product consolidation and loan enhancement

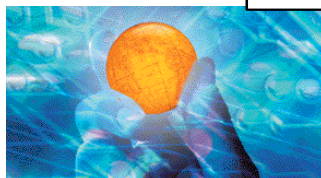


Markets and Products

Equity Line Funds Access Methods:



Source: 2004 CBA Home Equity Study



2000

2004



Markets and Products

Equity Line Funds Access:

- Average Number of Draws per Account = 5
- Average Draw Amount = \$19,162
 - 56% Have Minimum Draw Amount
 - \$50 to \$500 is the *Minimum* Average Range



Source: 2004 CBA Home Equity Study



Service Delivery/Technology

Paper-based workflows impact:

- Application Processing
- Underwriting
- Customer Service
Delivery Time
- Growth

Why is Paper so Persistent?



Service Delivery/Technology

Technology Convergence: Combining Technology For Greater Benefit

1. Is your application on the electronic fast track?
2. Do you *really* have auto decisioning or auto recommend?
3. Do you use exchange networks or service oriented architecture (SOA)?
4. Do you modify stipulations based on vendor results?
5. Do you enable on-demand documents for closing?

Source: Jim Leath, (June 2005) Technology Convergence in Home Equity Lending—What's on the Horizon? www.benchmarkinternational.com



Service Delivery/Technology

First Examine Current Policies and Processes to:

- Eliminate redundant tasks
- Eliminate support tasks that require manual decision making or duplicate data entry
- Establish monitoring/measurement of business processes
- Enable parallel task execution
- Refine exception processing



Service Delivery/Technology

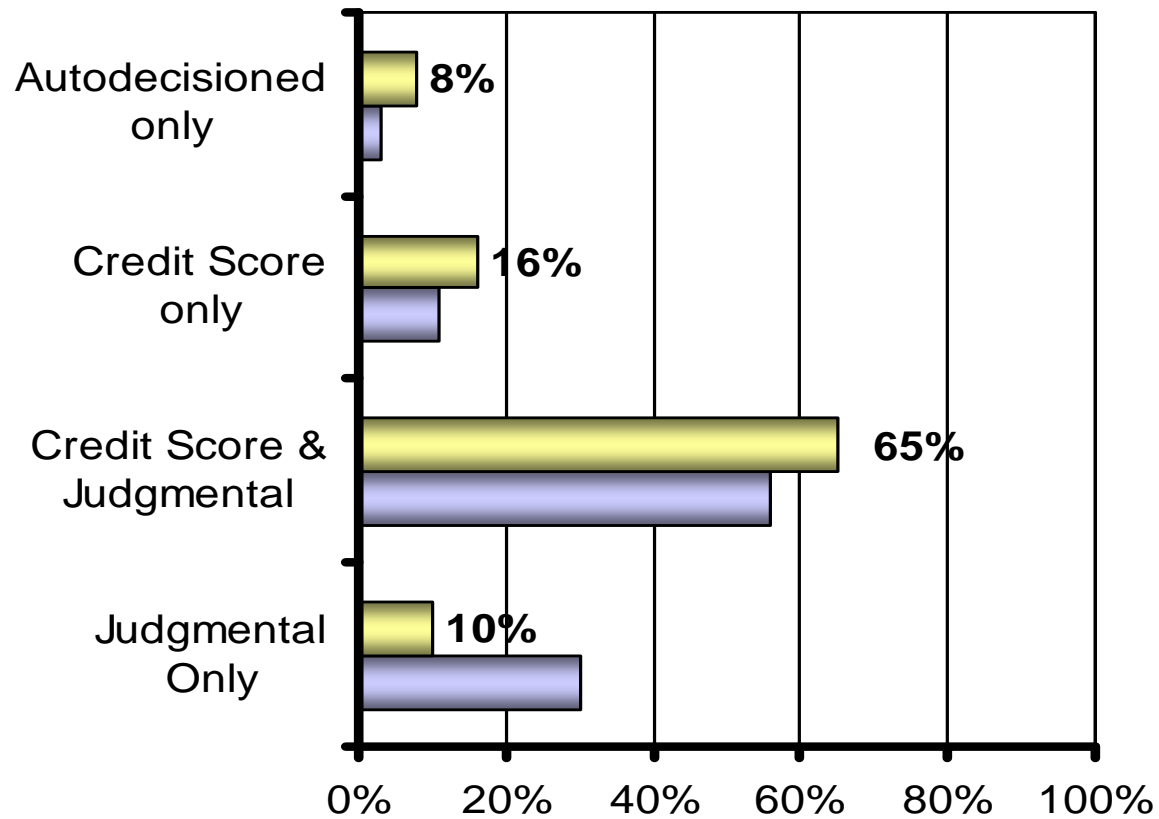
Technology Convergence Challenges:

- Identifying how or where to converge can be difficult
- Developing strategy requires time and a comprehensive understanding
- How is the decision reached to eliminate redundancies?
 - where is the greatest return on investment?
- Must revisit threshold for risk and policies that determine that threshold
 - previous technology investments, policies, etc.



Service Delivery/Technology

Credit Decisioning Types:



Source: 2004 CBA Home Equity Study

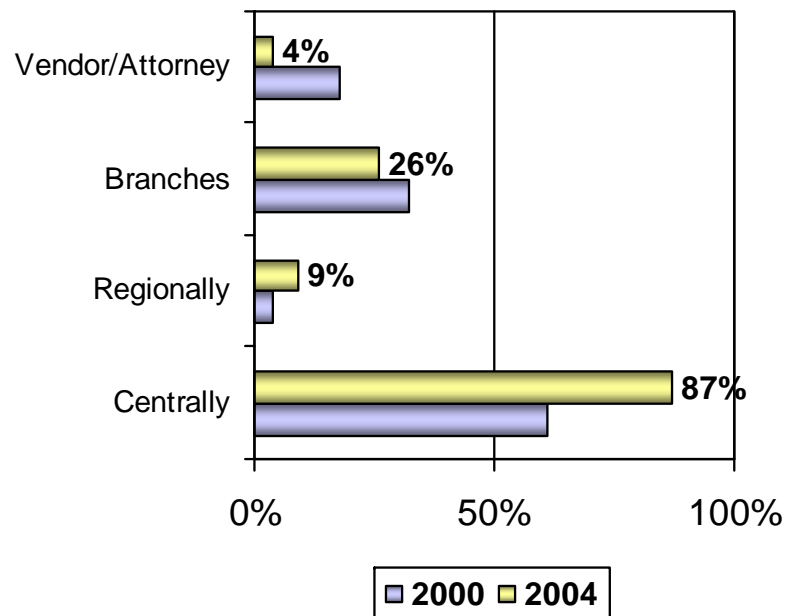
■ 2000 ■ 2004



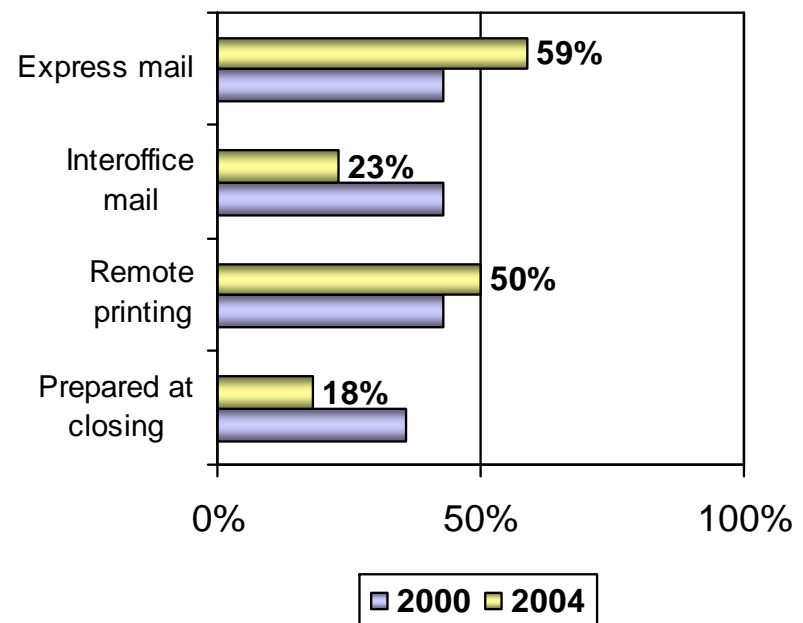
Service Delivery/Technology

HE Documents are Prepared and Delivered (check all that apply)?

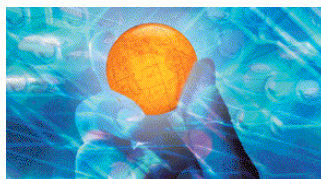
Prepared?



Delivered?

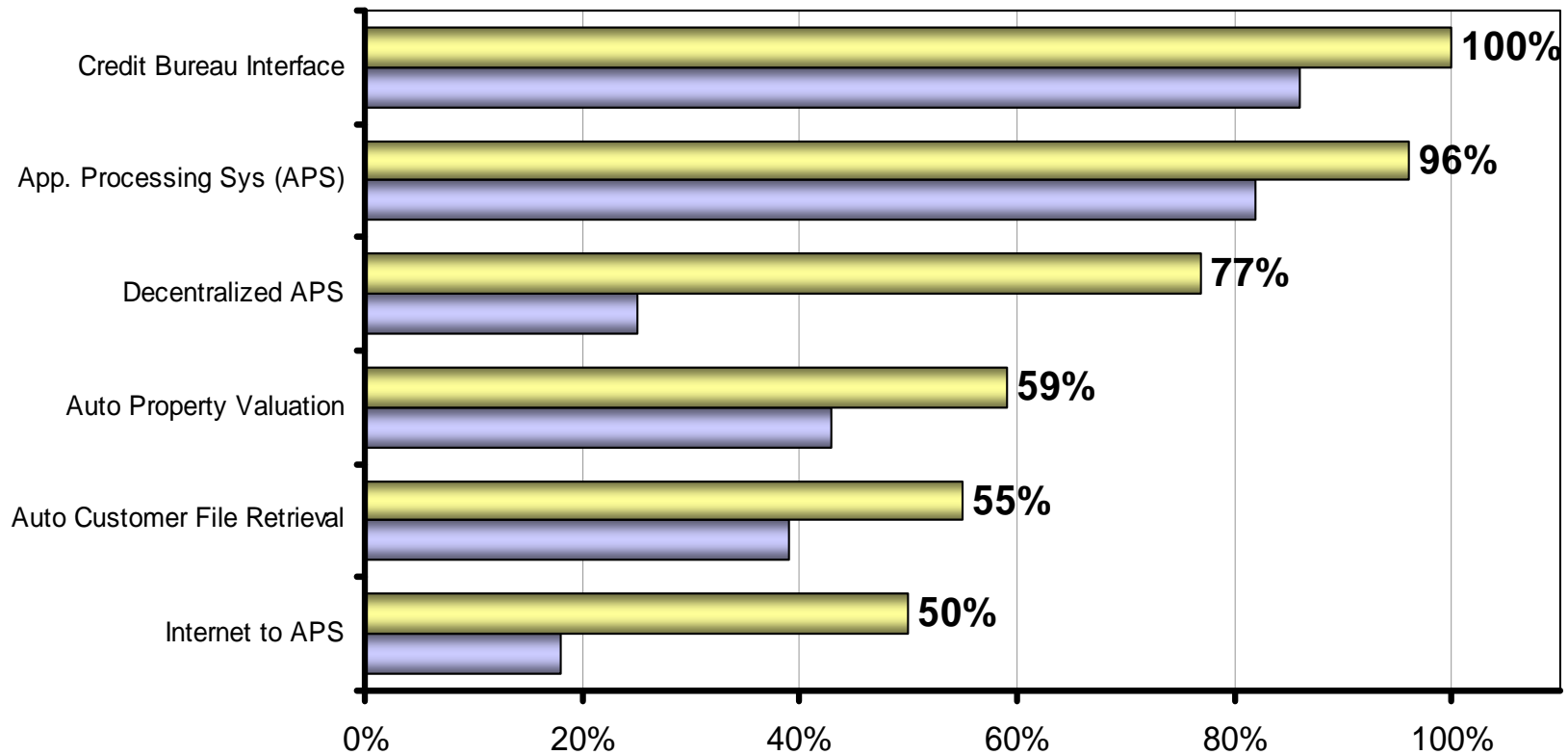


Source: 2004 CBA Home Equity Study



Service Delivery/Technology

What Technologies are in place?



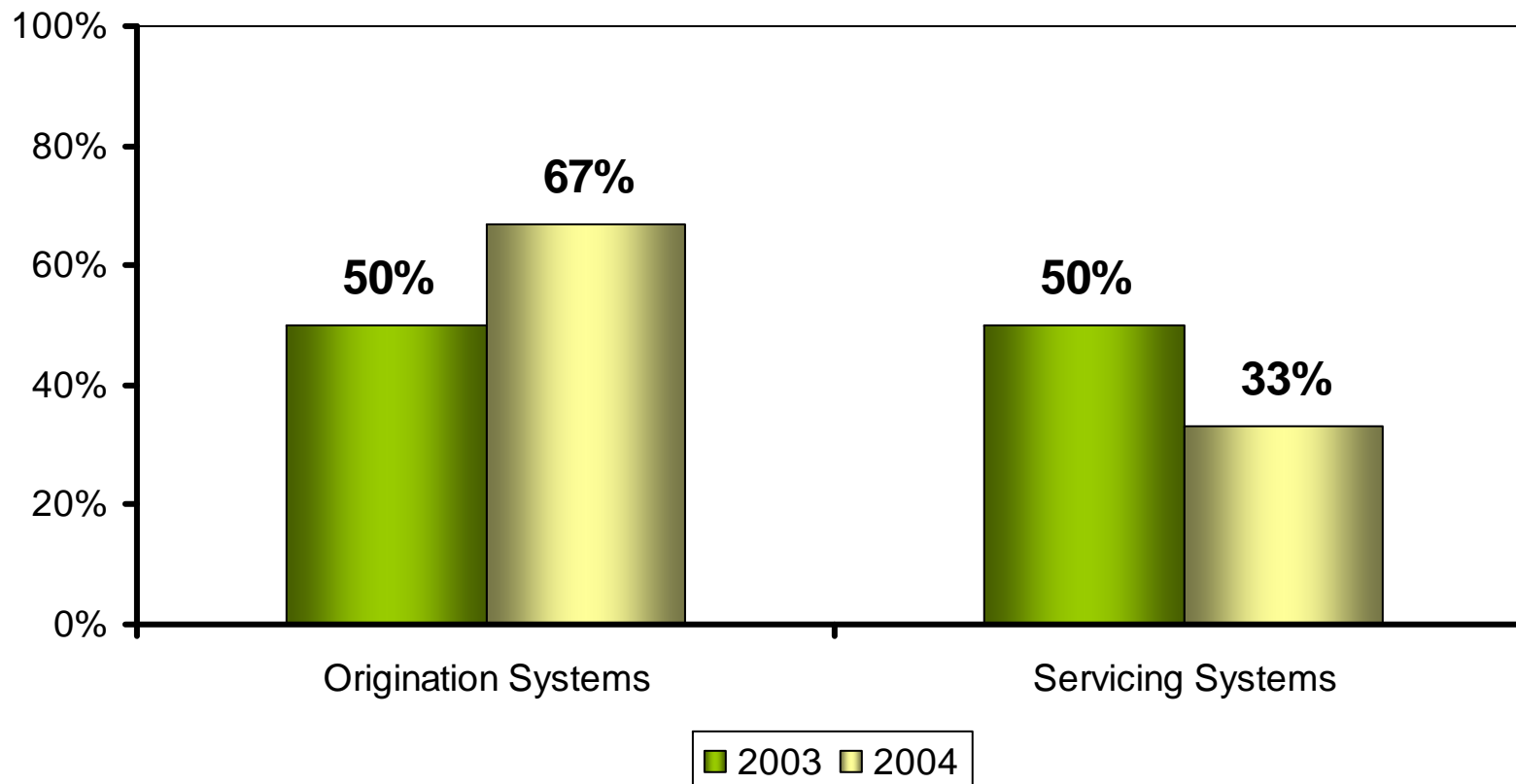
Source: 2004 CBA Home Equity Study

■ 2000 ■ 2004

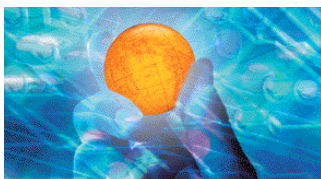


Service Delivery/Technology

What technology purchases are planned?

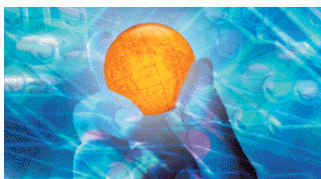


Source: 2004 CBA Home Equity Study



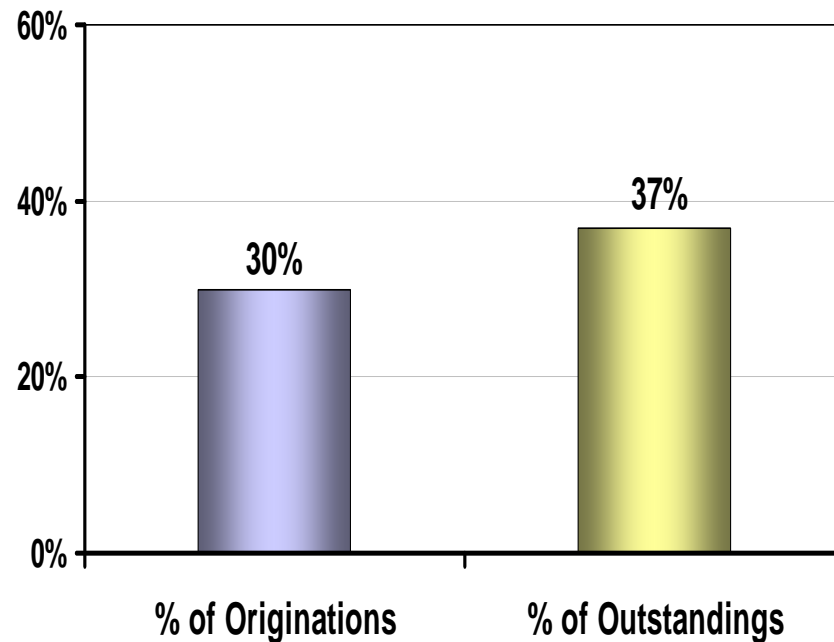
Service Delivery/Technology

- In the past:
 - Non-interfaced APS and Doc Prep Systems
 - Central preparation and print
 - Closing set up and funding / payoff processing very labor intensive
 - De-central payoff processing
- Presently:
 - Interfaced APS and Doc Prep Systems
 - Central and remote print capability
 - Closing set up and funding / payoff processing very labor intensive
 - Central and de-central funding / payoff processing
- In the future:
 - Interfaced APS, Doc Prep, funding systems
 - Central and remote print capability
 - Underwriting policies requiring fewer non-equity debt payoffs
 - Central payoff processing



Risk Management

1st Lien Representation



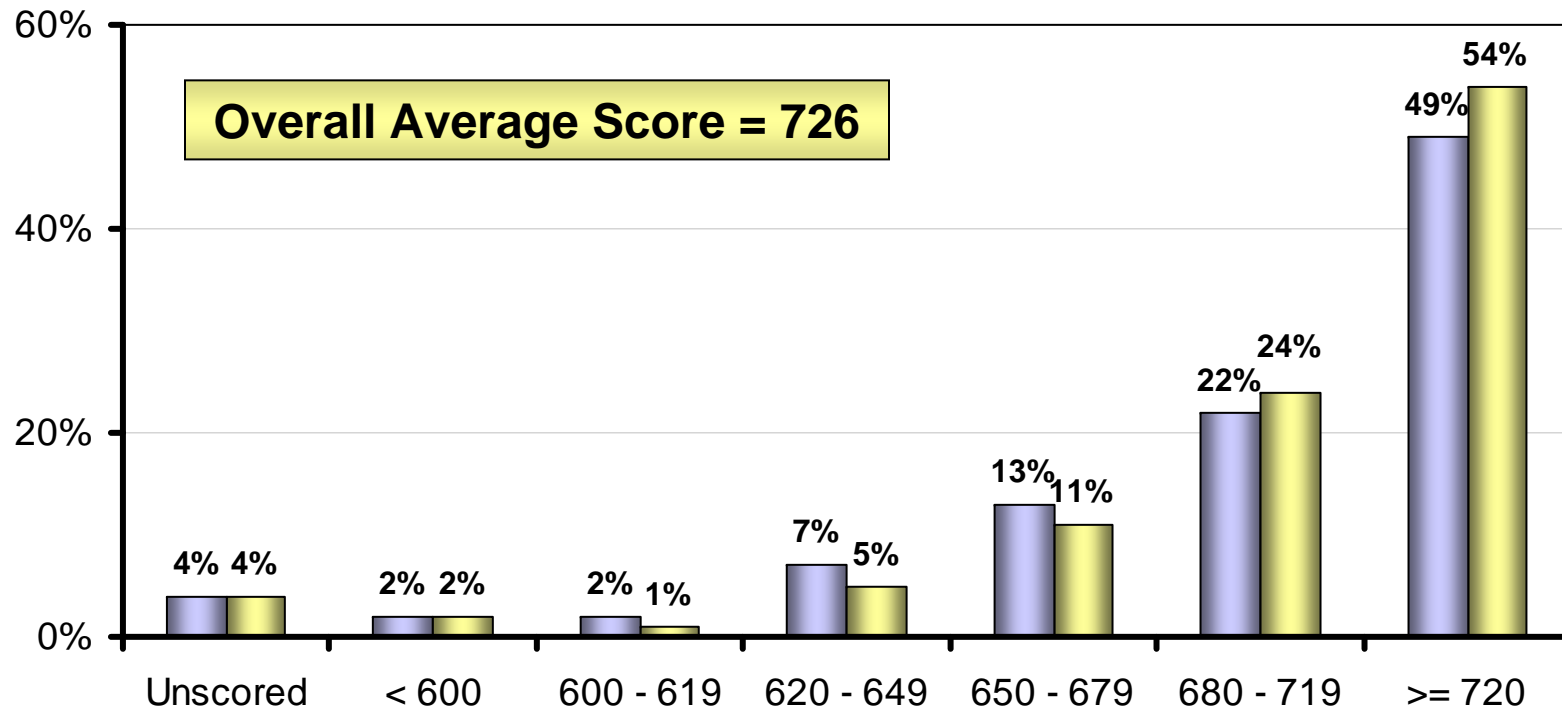
Source: 2004 CBA Home Equity Study

- 1st Lien:
 - 1st lien home equities are growing
- Pros :
 - Borrowers are likely to represent less credit risk
 - Lower expected loss if default
- Cons :
 - If a borrower defaults, more default management responsibilities



Risk Management

**Percentage of New Home Equity
Lines and Loans
(by Score Range)**



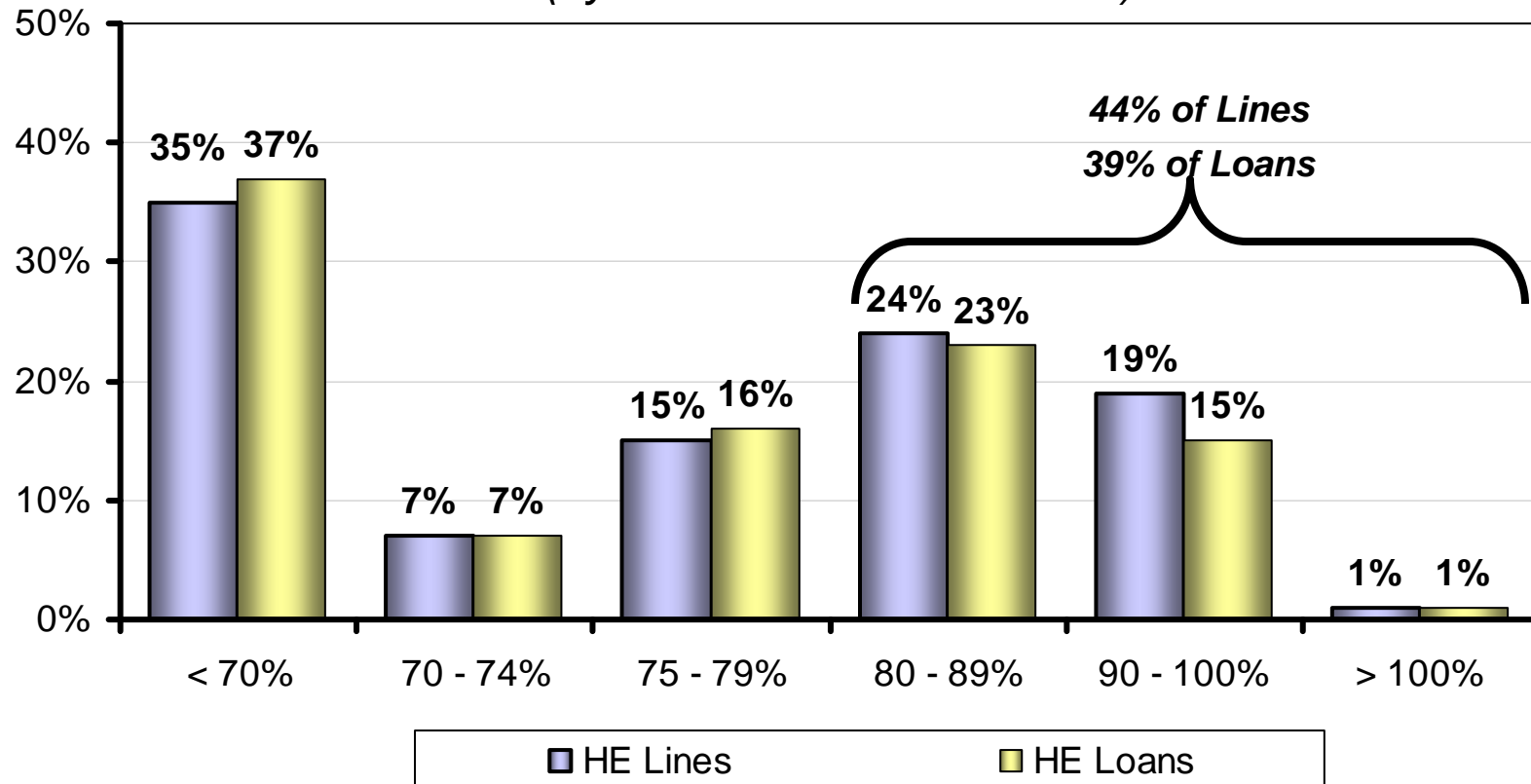
Source: 2004 CBA Home Equity Study

■ 2000 ■ 2004



Risk Management

Home Equity Portfolio Account Distributions
(by Collateral Loan to Value)



Source: 2004 CBA Home Equity Study



Summary

- Is your customer experience quick and easy?
- Do you have an effective strategic balance between 'quick and easy' and risk?
- Do system interfaces eliminate manual efforts?
- Do you have persistent paper?
- Does technology support customer strategy?



Thank You!



Appendix



2004 Survey Details



Respondent Profile

18th Annual Study

- 23 Respondents
 - 43% Commercial Banks
 - 35% Bank Holding Companies
 - 22% Savings and Loan/Other
- **Loan Class Sizes by Home Equity Portfolio Dollars**
 - Large is more than \$2B ←
 - Medium is \$.7B to \$2B
 - Small is less than \$.7B



Repeat Respondents

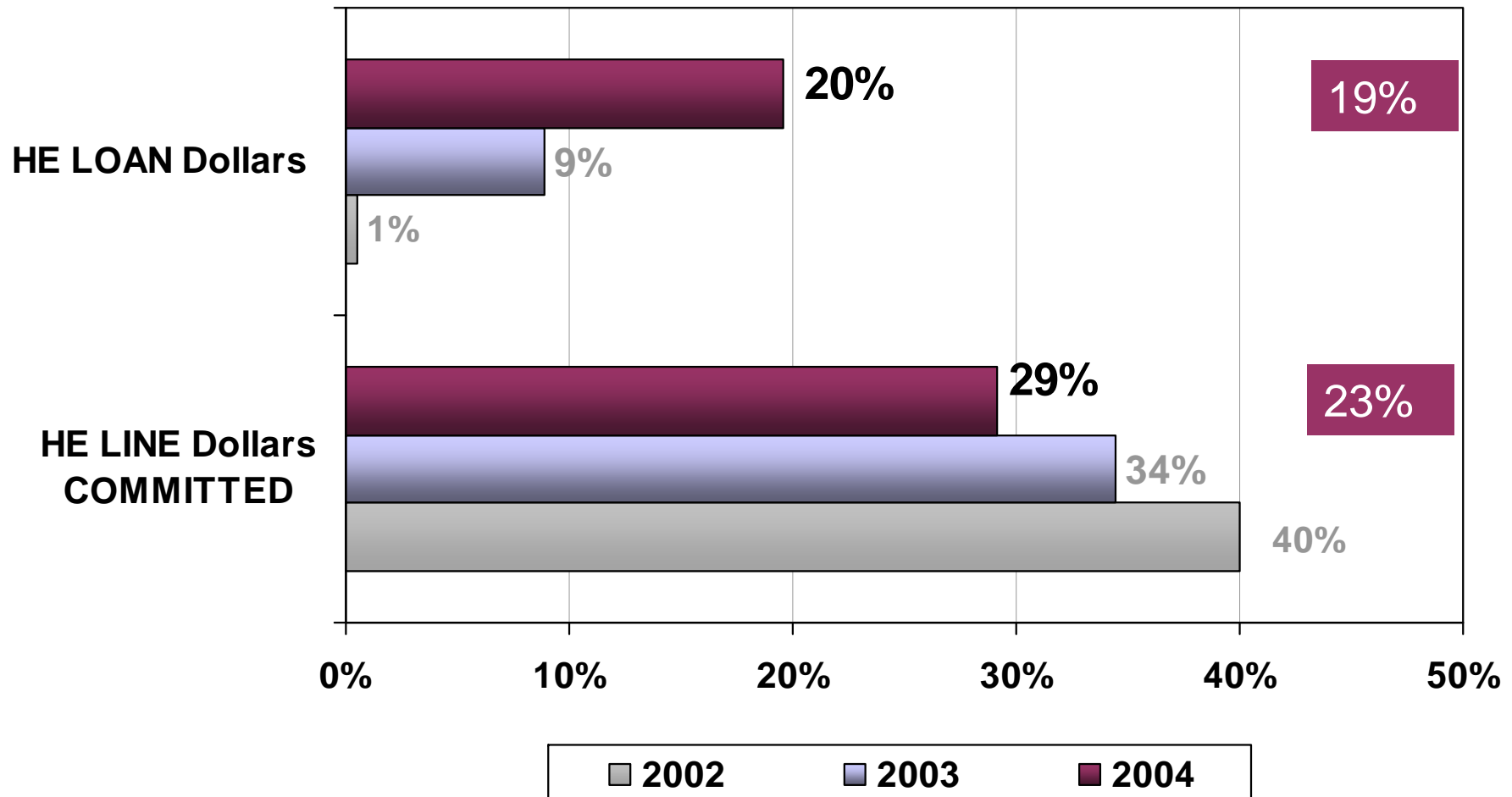
- **15 Repeat Respondents**
- **Responded in both 2003 and 2004**
- **Class Sizes:**
 - 10 Large
 - 3 Medium
 - 2 Small

Repeat
Respondents Data



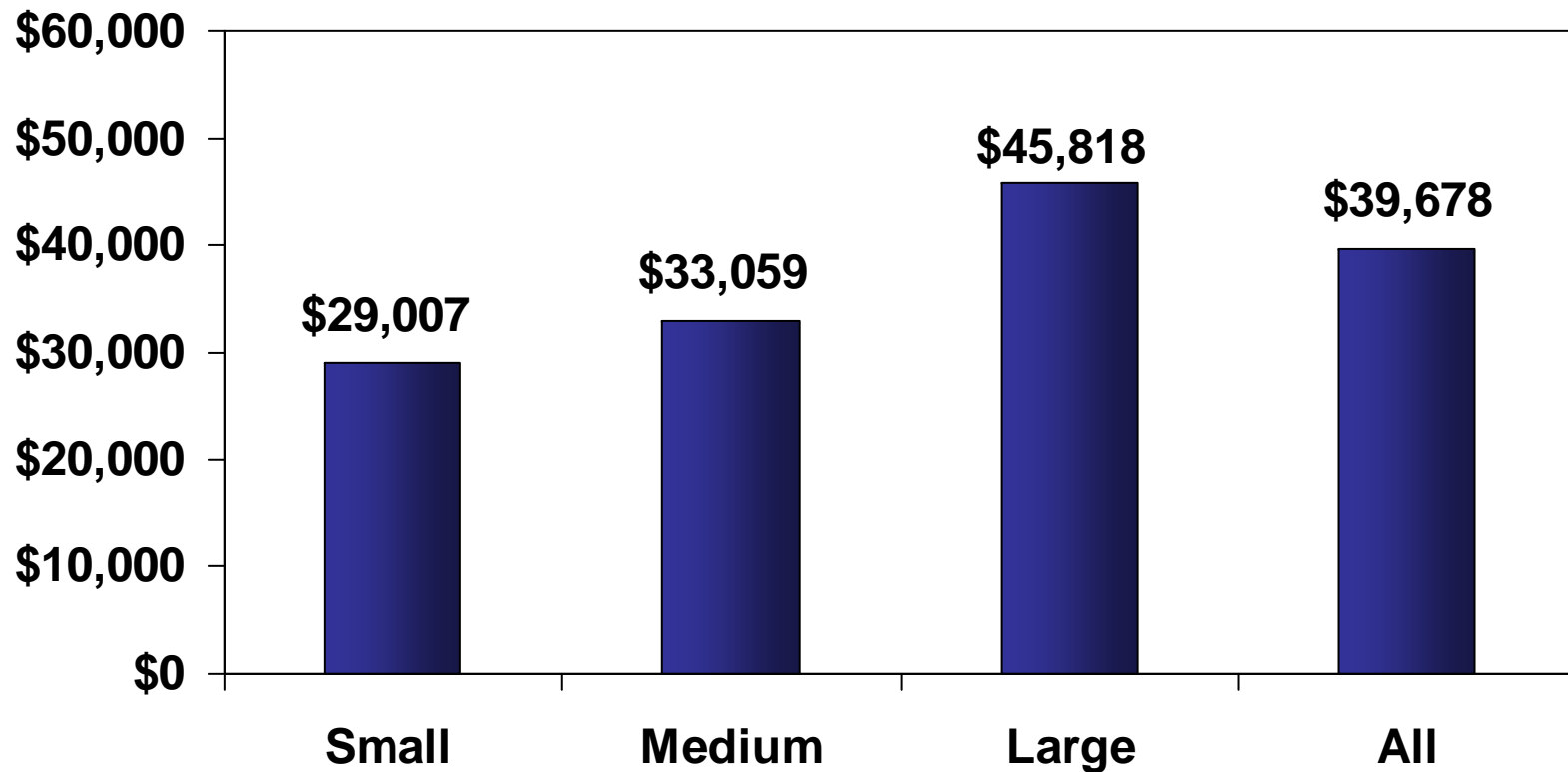
Home Equity Portfolio Growth

(June to June)

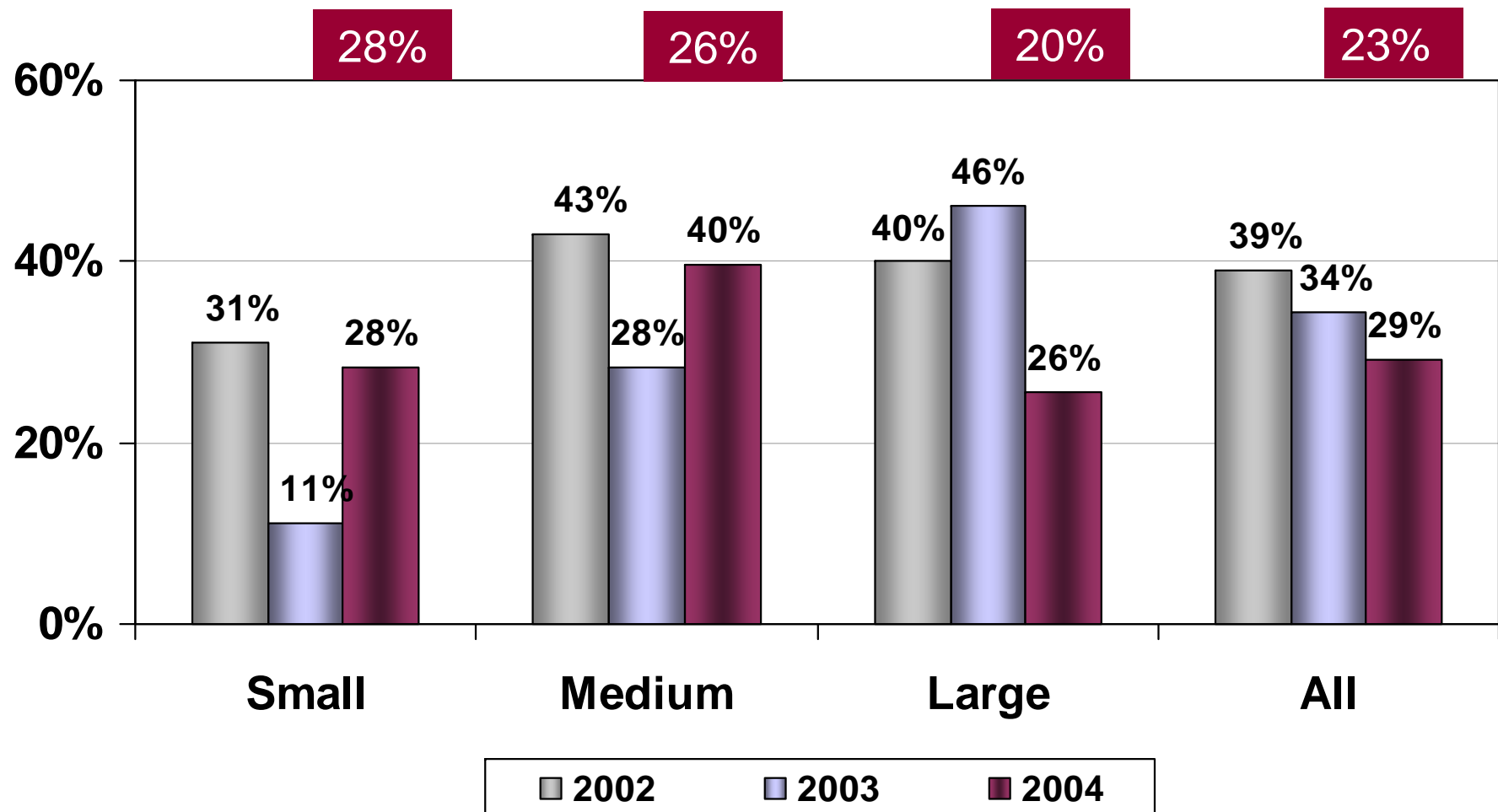


Average Loan by Class Size

\$ Outstanding

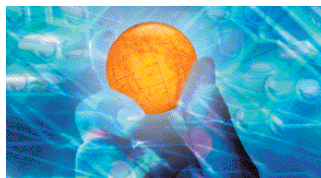
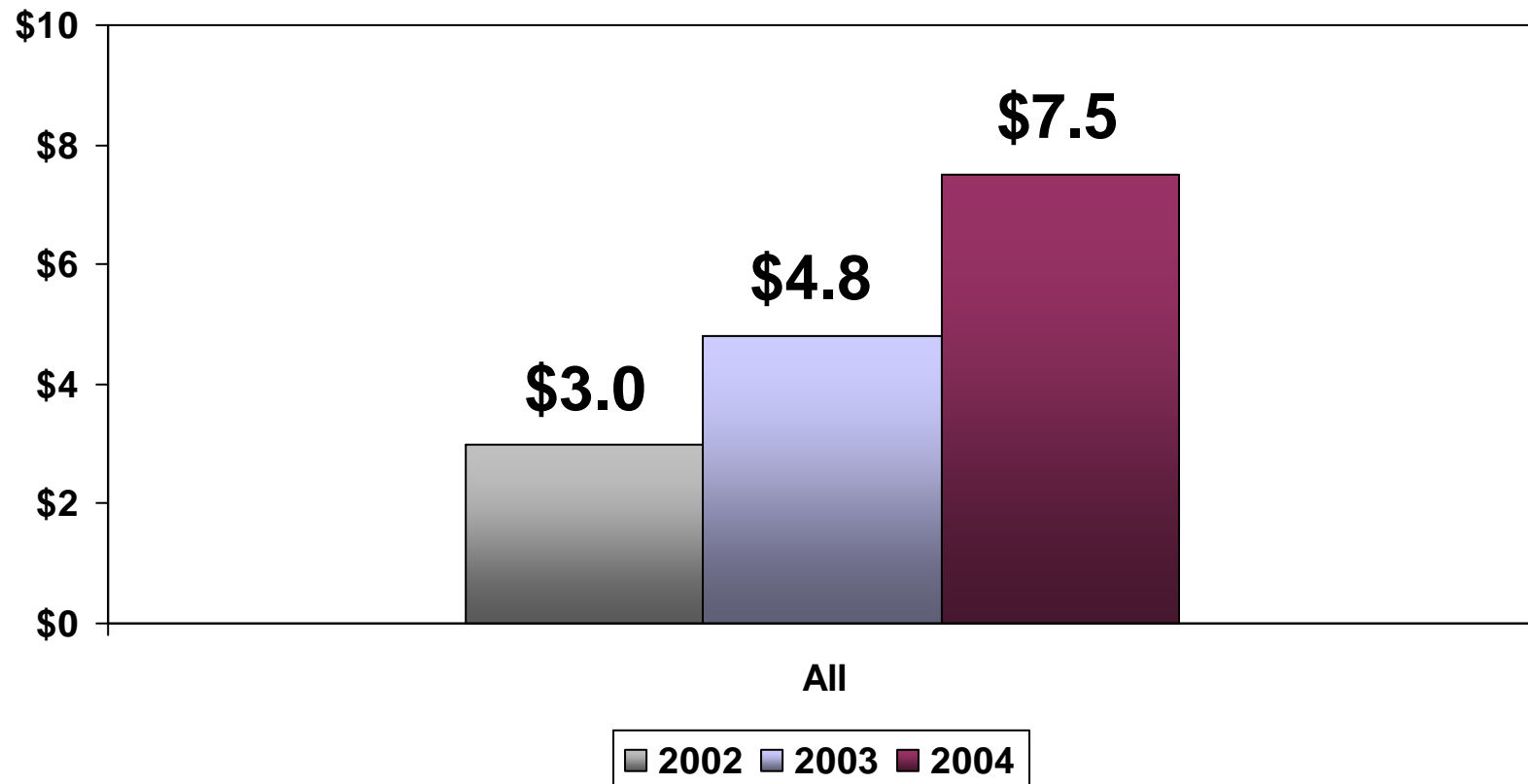


Home Equity Line Commitments



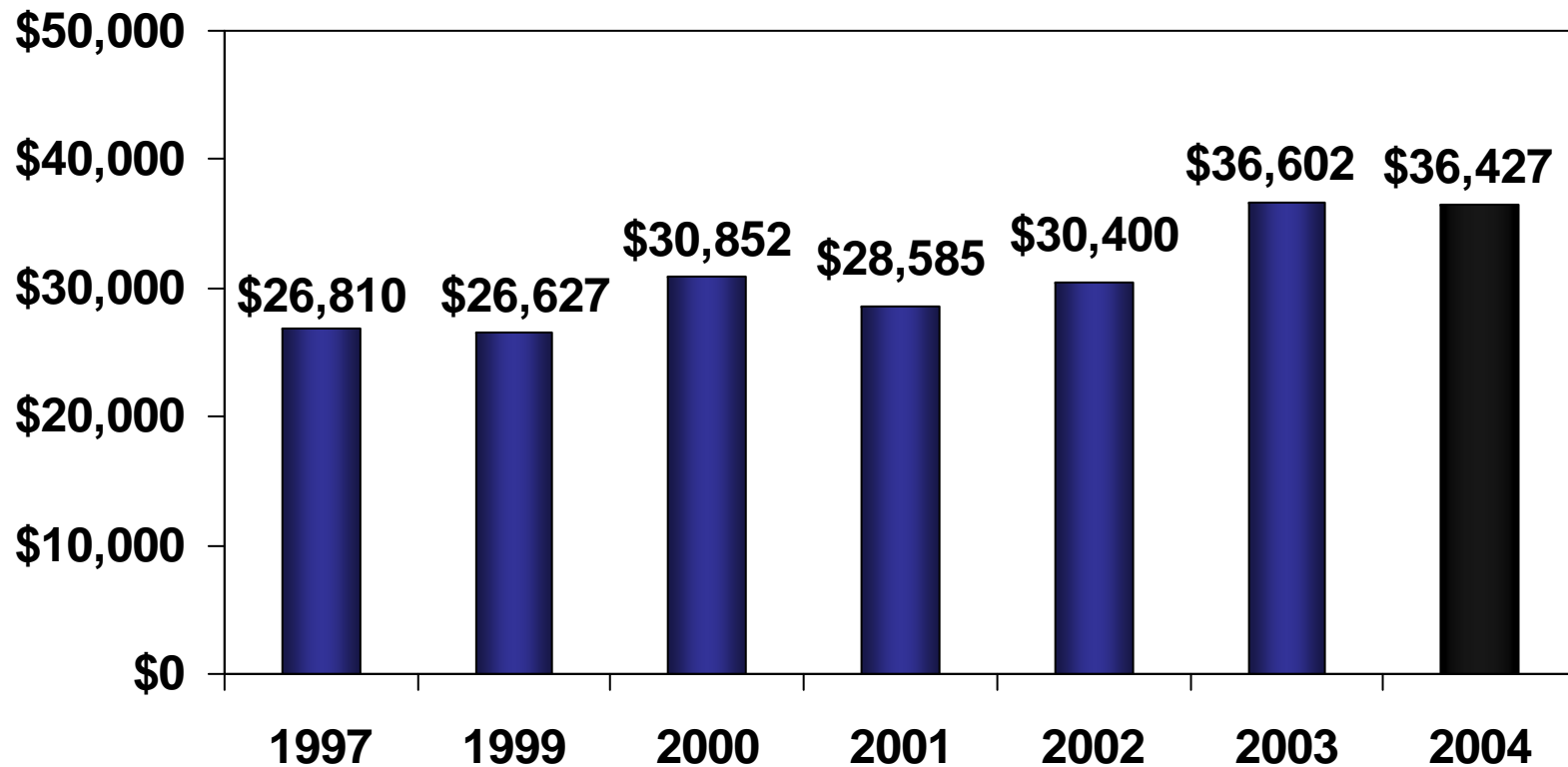
HE \$ Portfolio

- Average Outstandings (Billions)



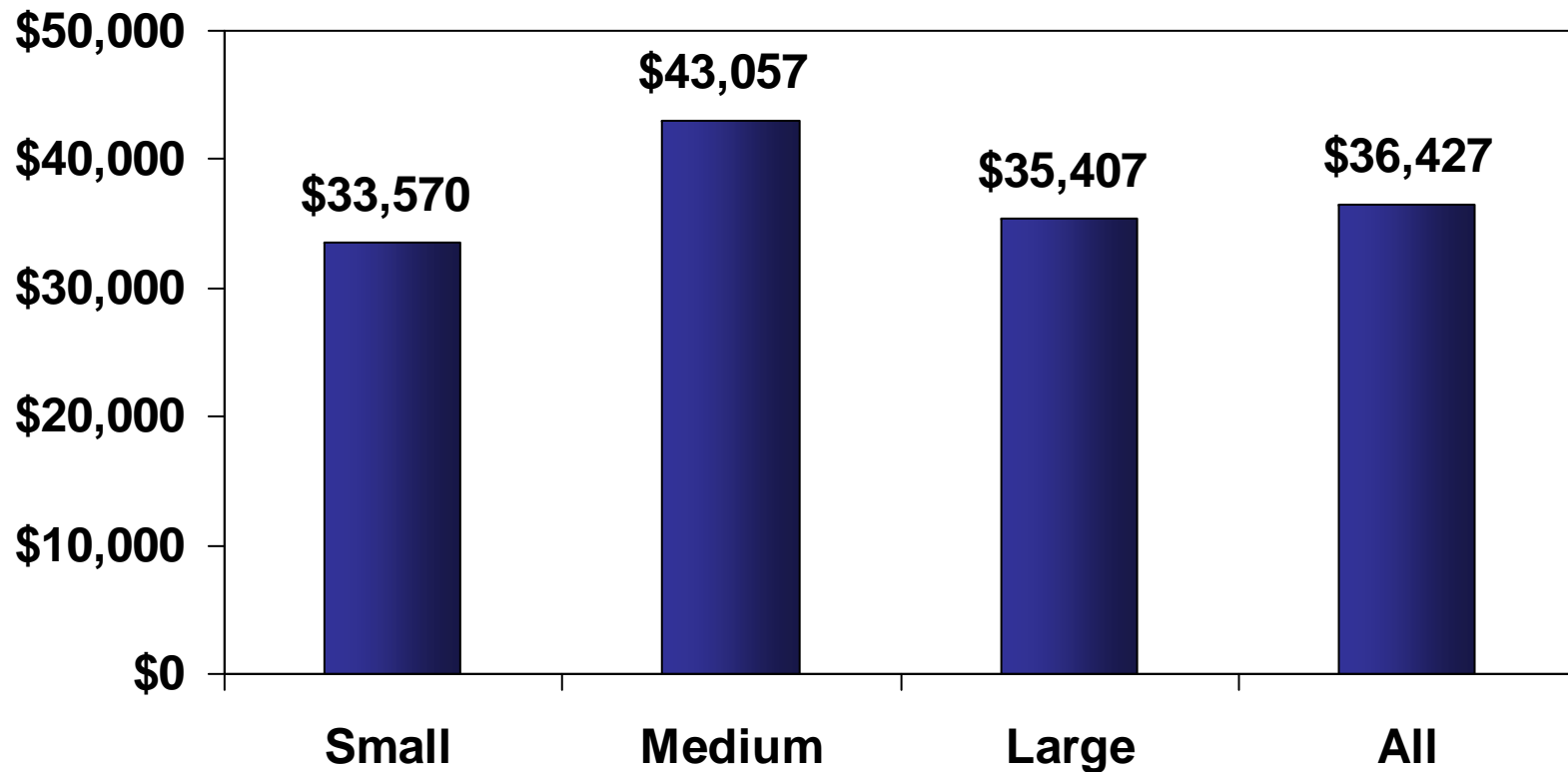
Average Line Account Sizes

\$ Outstandings

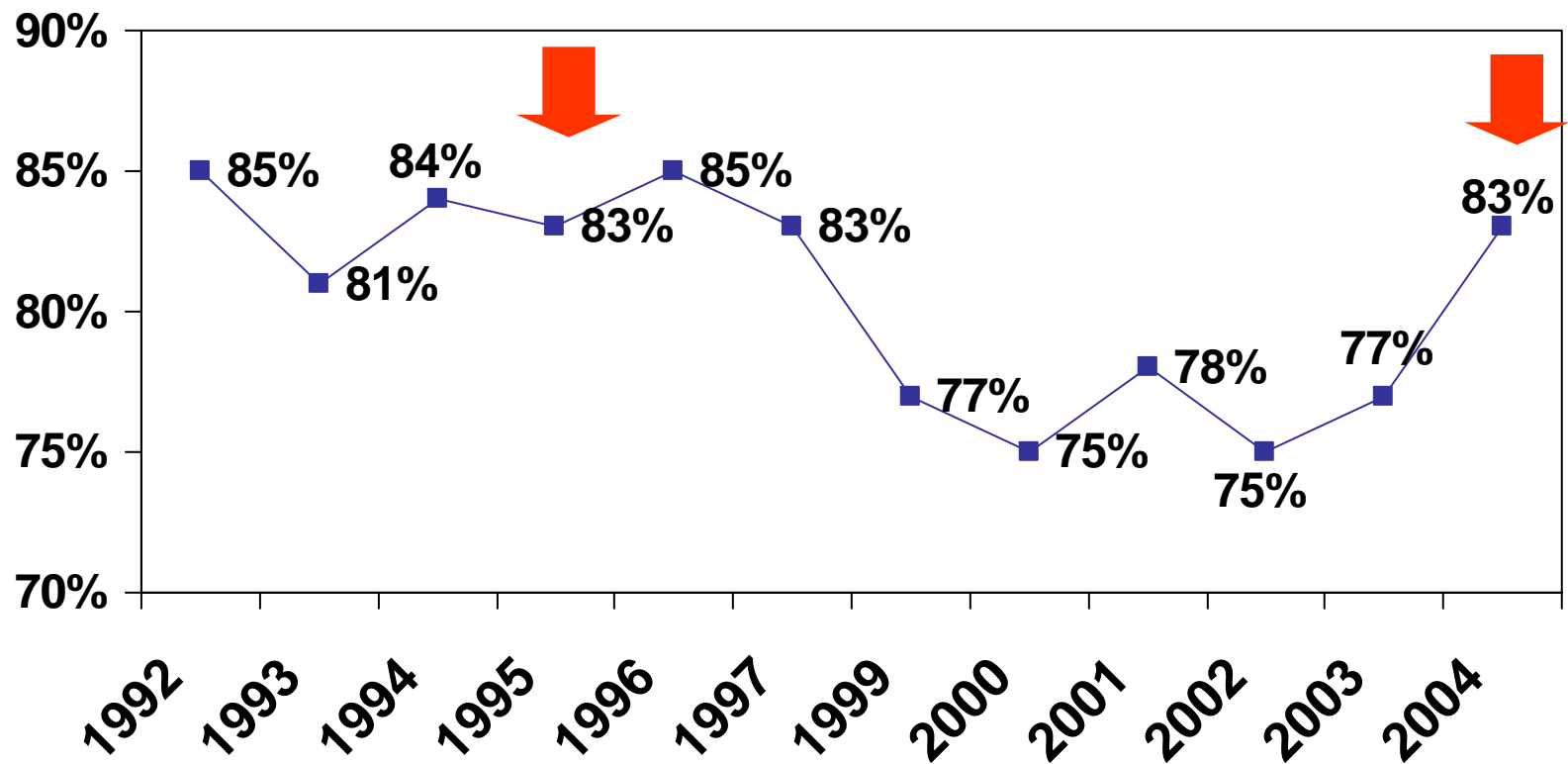


Average Line by Class Size

\$ Outstandings

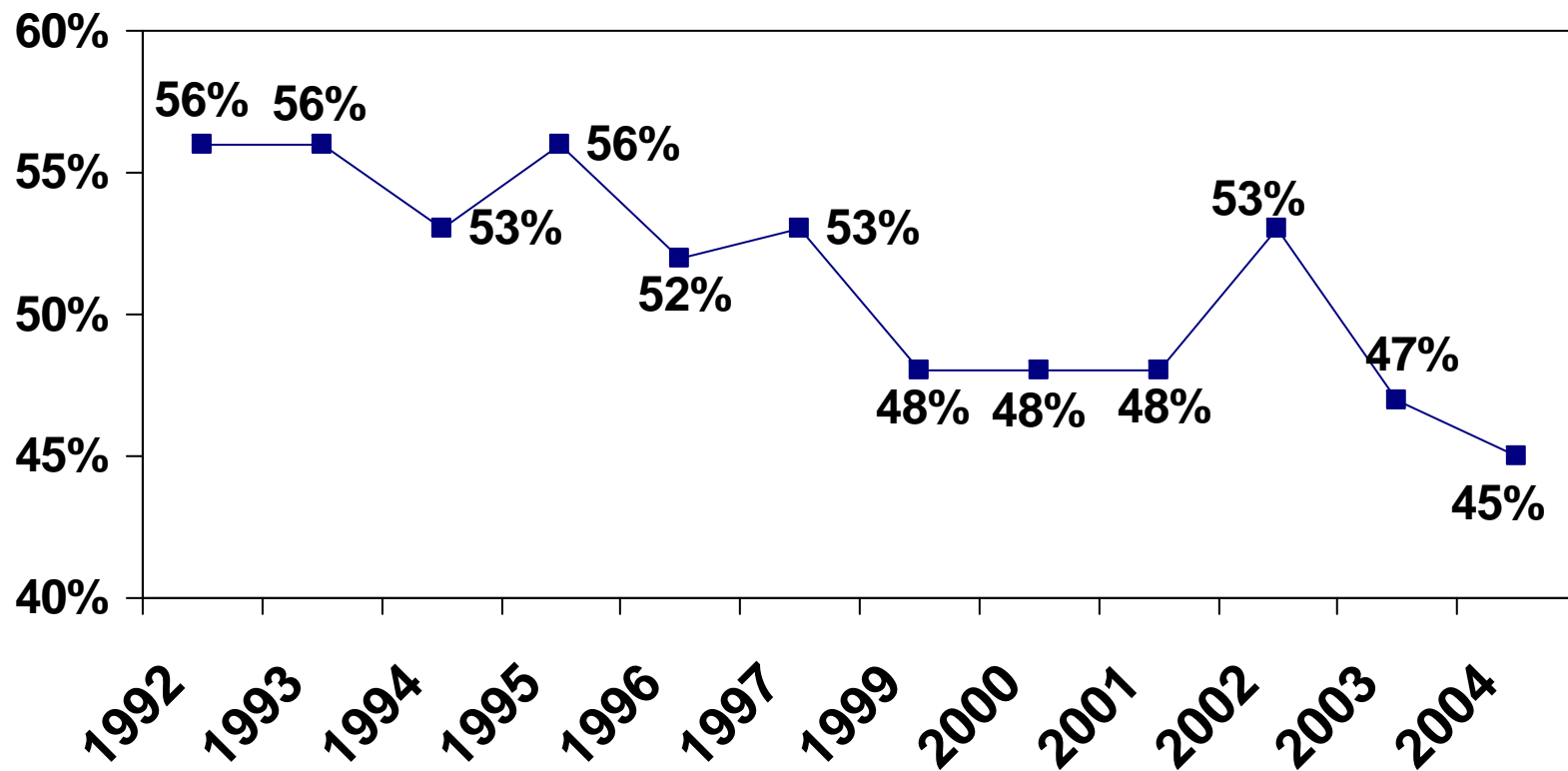


Active Lines *at* Mid 90s Levels



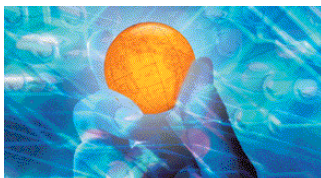
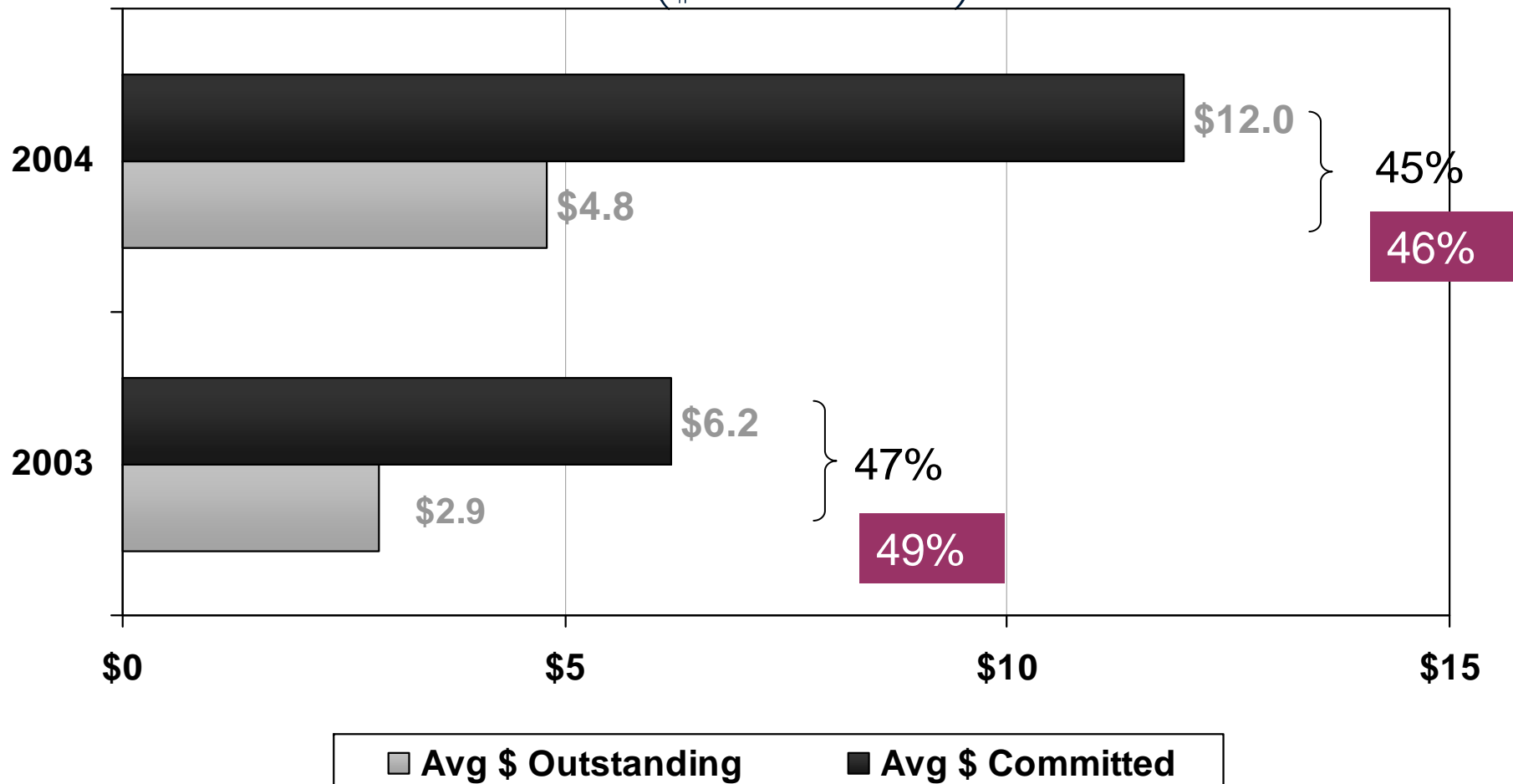
Line Utilization

\$ Outstanding as a % \$ Committed



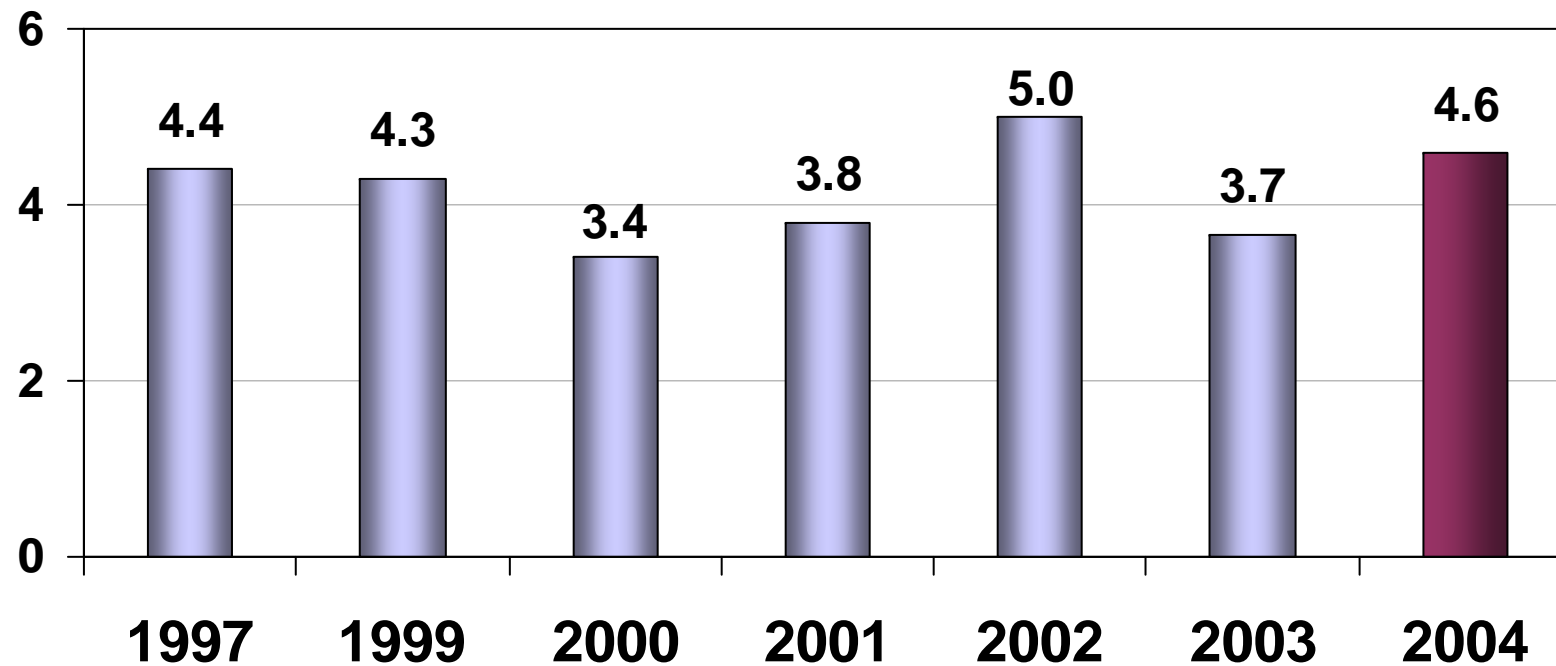
Utilization

(\$ in Billions)



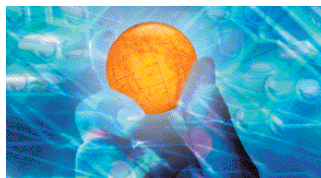
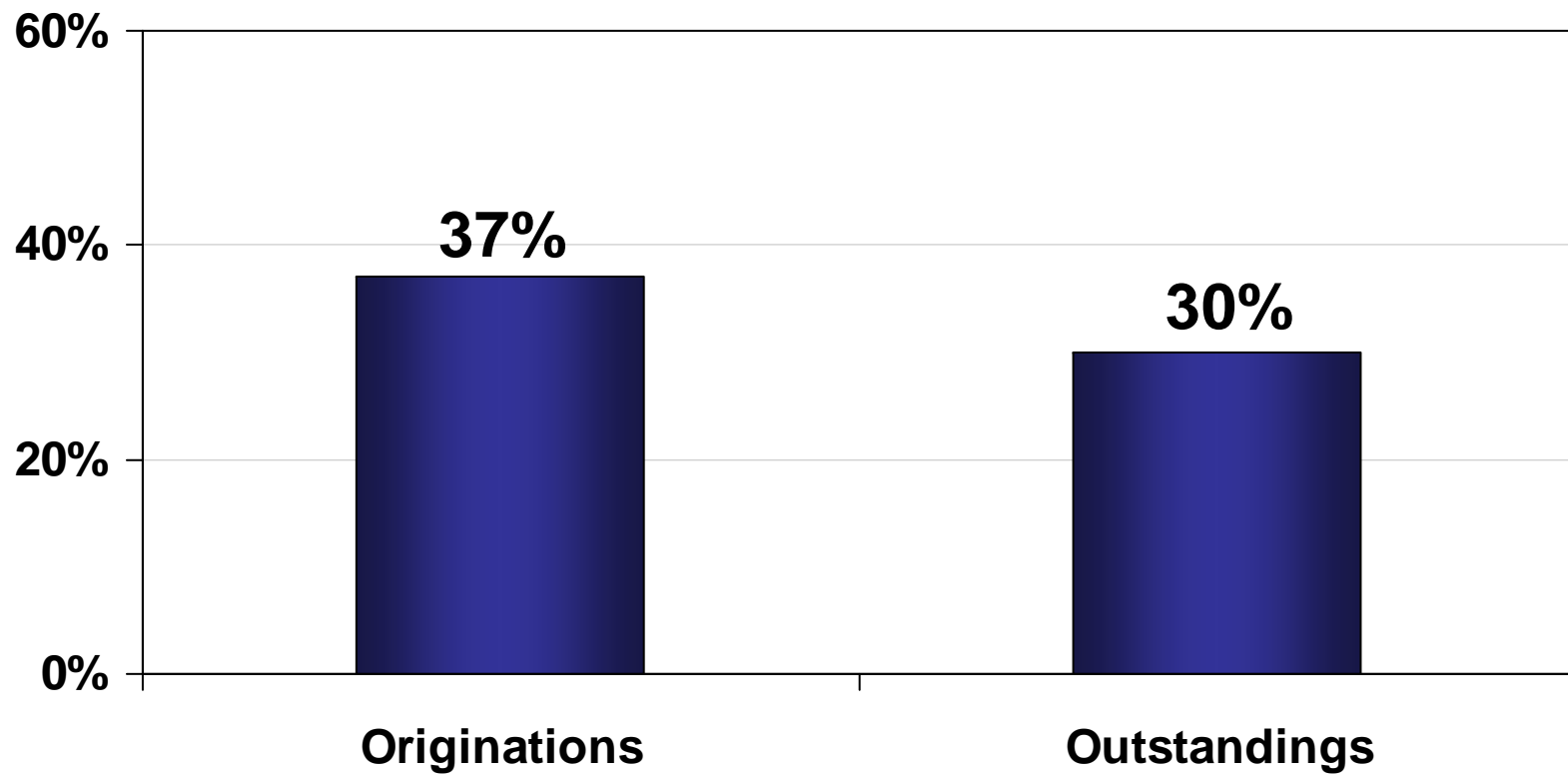
Average Draws per Account

(12 Month Period)

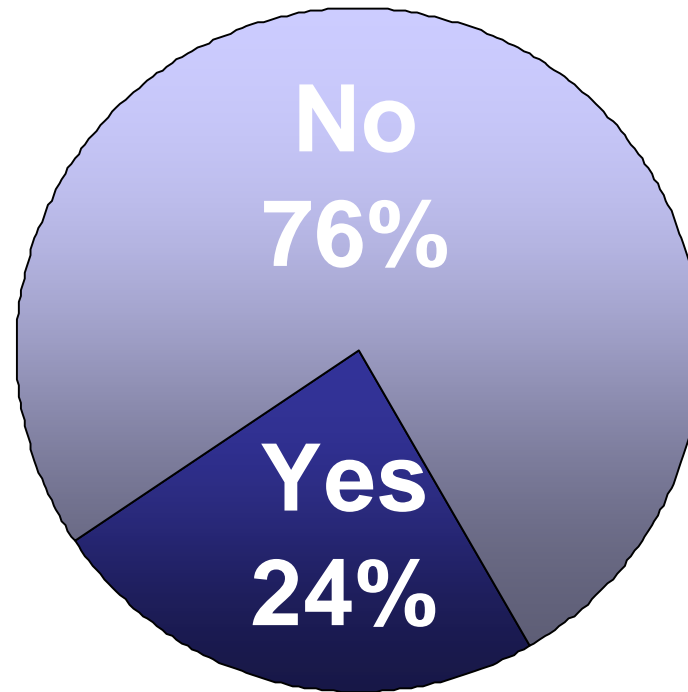


% First Lien

Volume



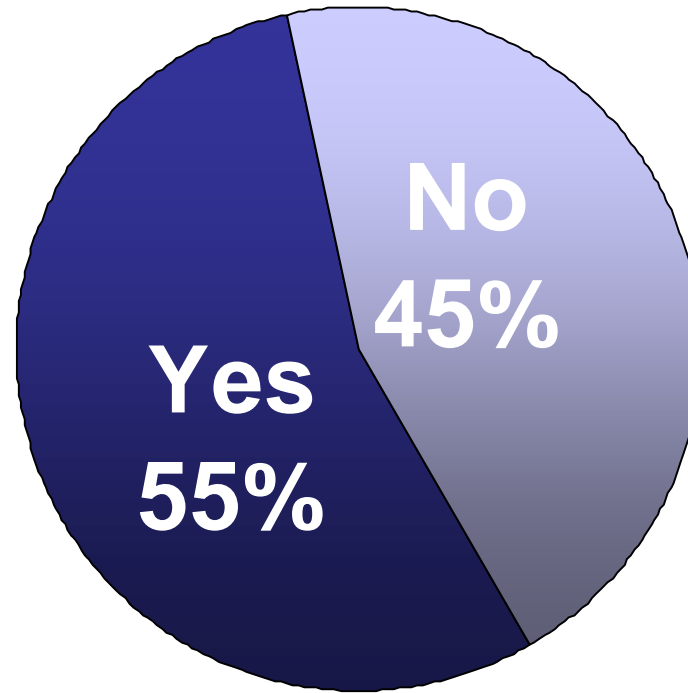
Provide Alerts on Taxes/Insurance?



First Lien



Force Place Insurance if Lapse?

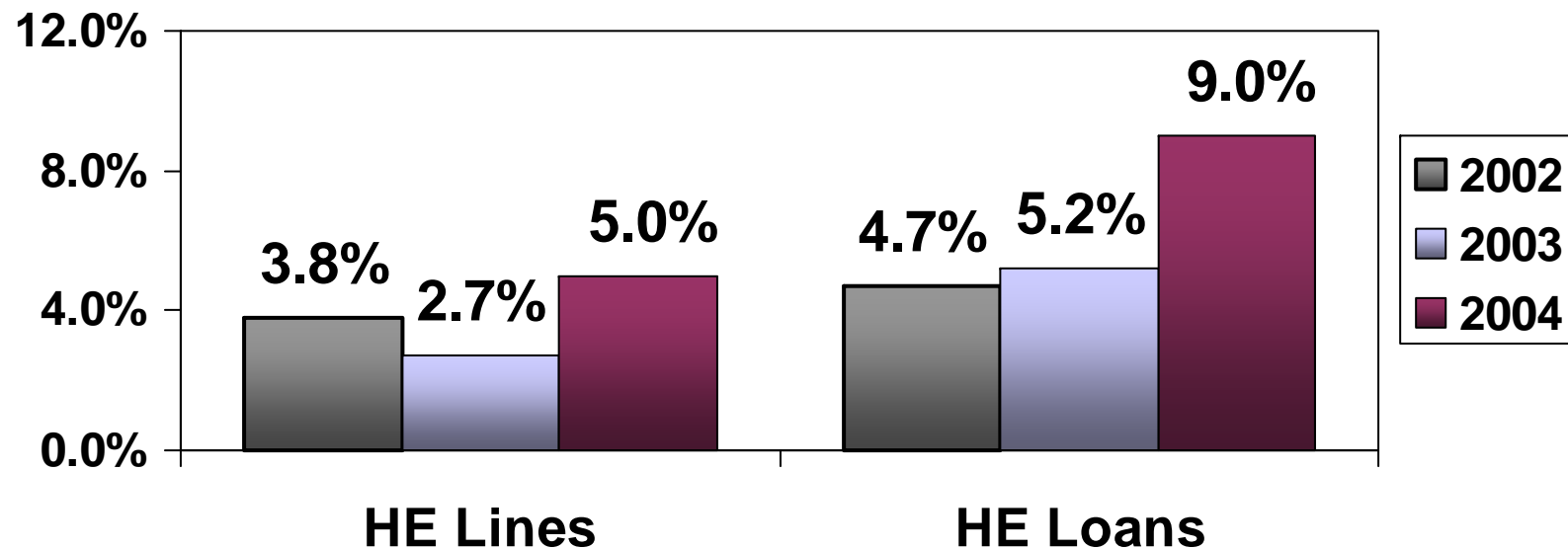


First Lien



More Nonprime Loans?

% C or D Credit Rating



Borrower Trends

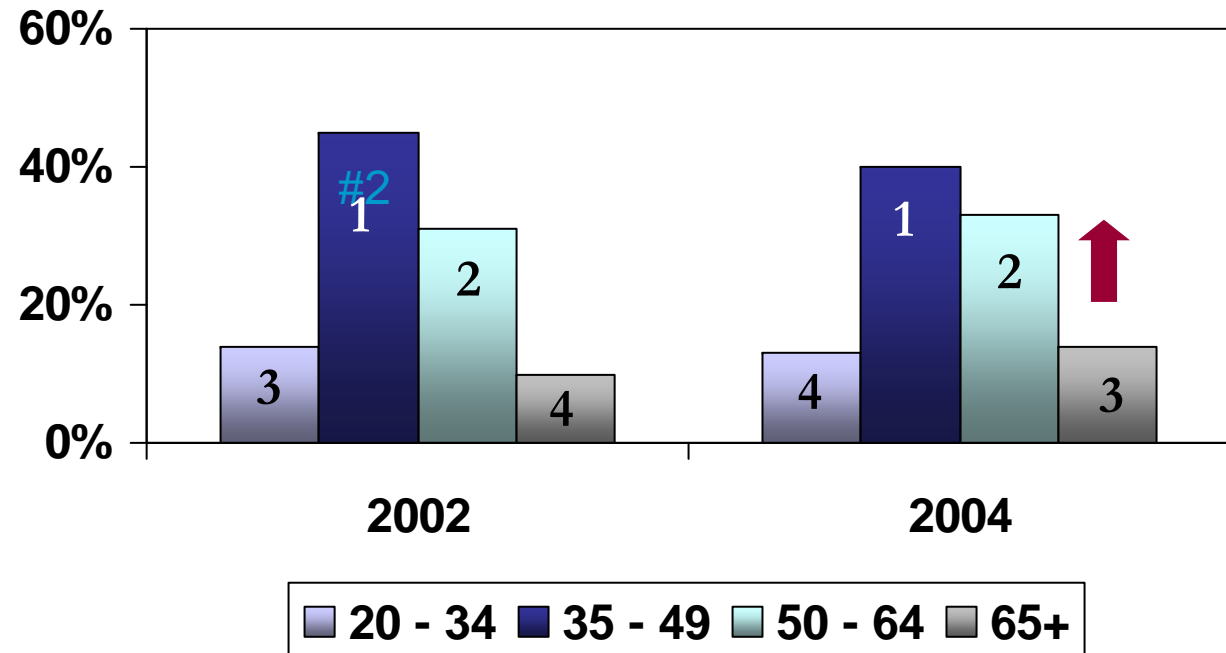


Continued Shift in Age Category

“The growth of senior household debt...is really quite remarkable, because compared with younger groups, their increase is the largest.”

-AARP magazine
September, 2004

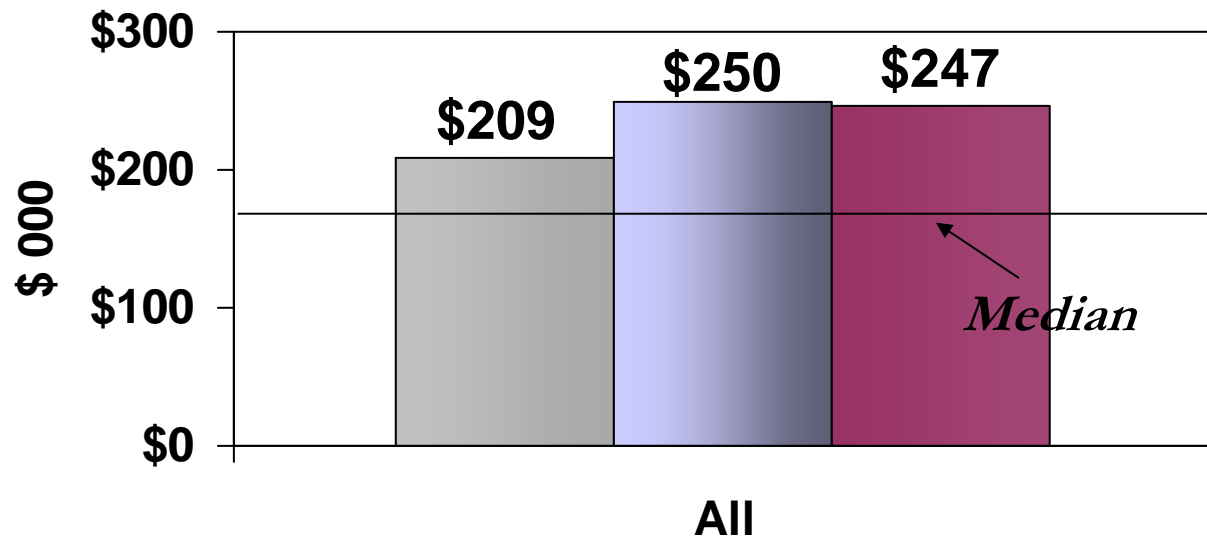
Borrower Age Categories



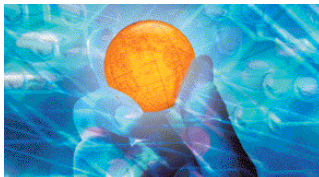
Lending Above the Median

Appraised Value

Nat'l Median Price
\$170,000
-www.realtor.org

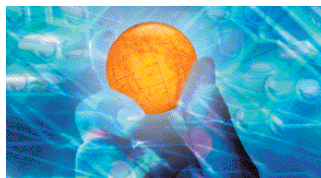
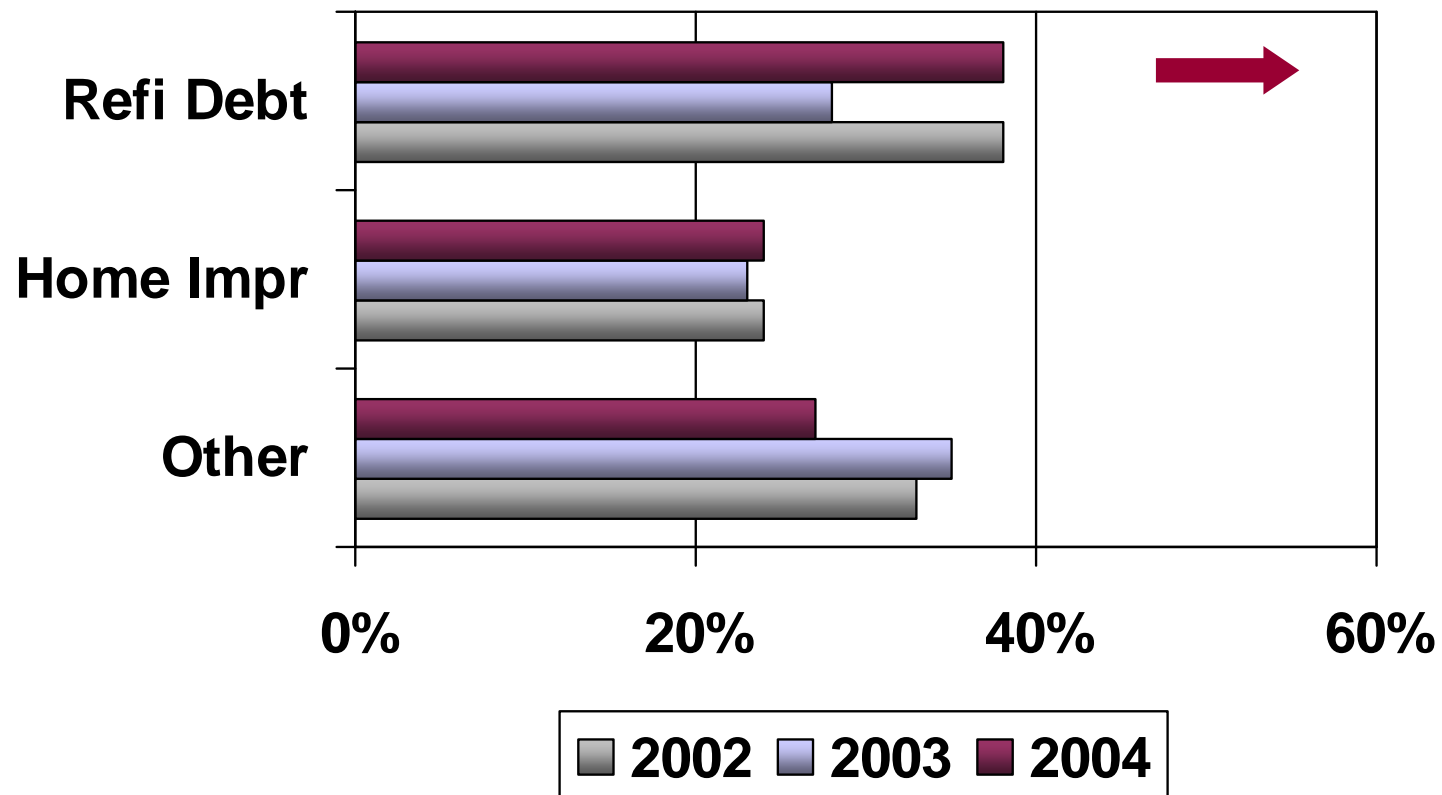


2002 2003 2004

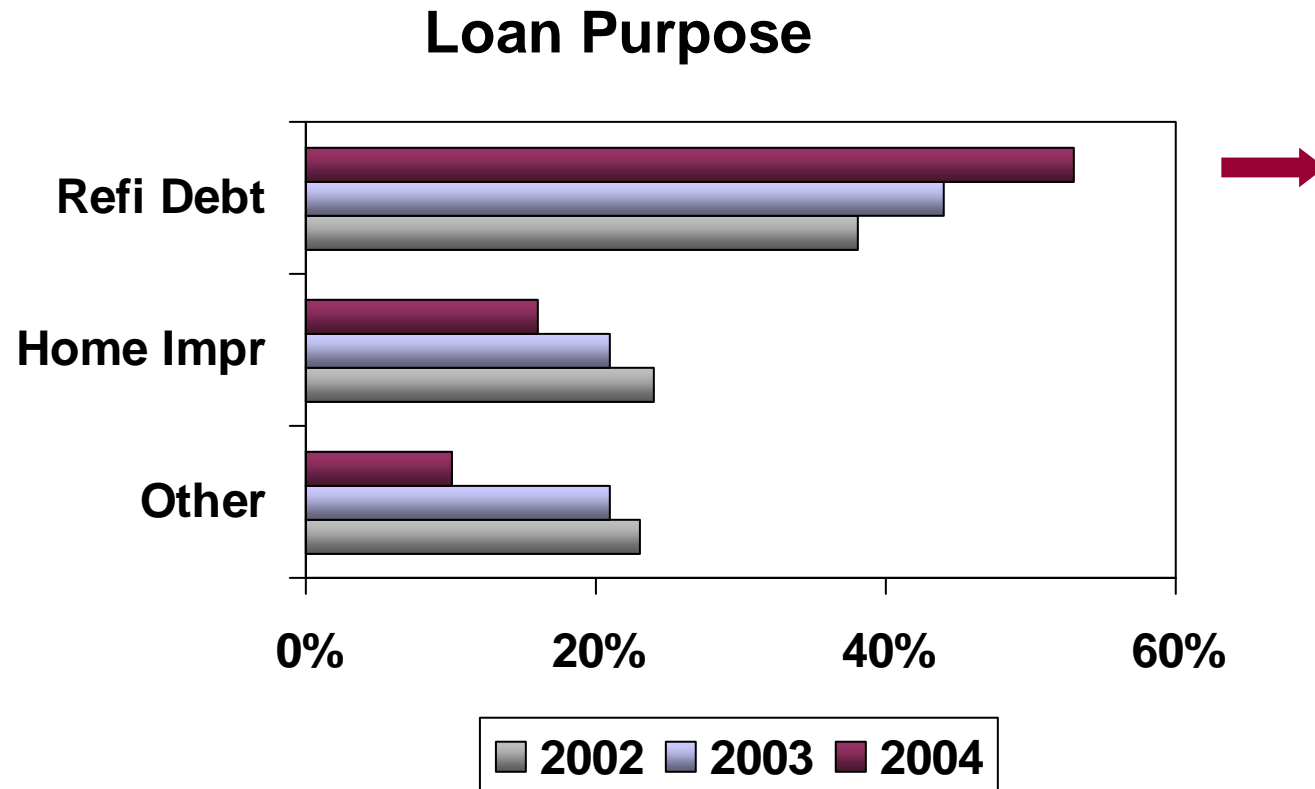


Refinancing Debt #1, Lines

Line Purpose

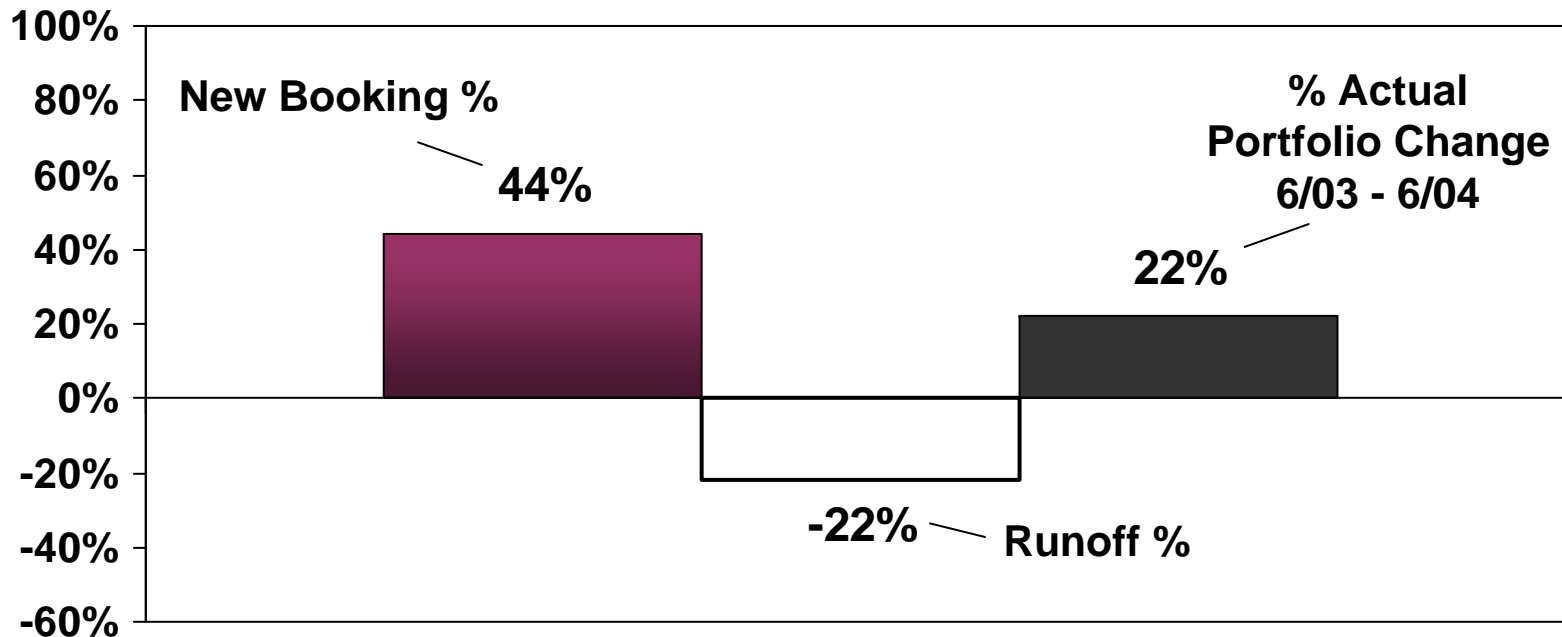


Refinancing Debt #1, Loans



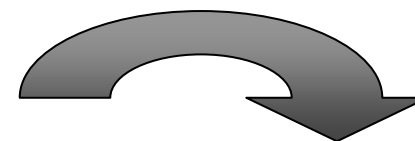
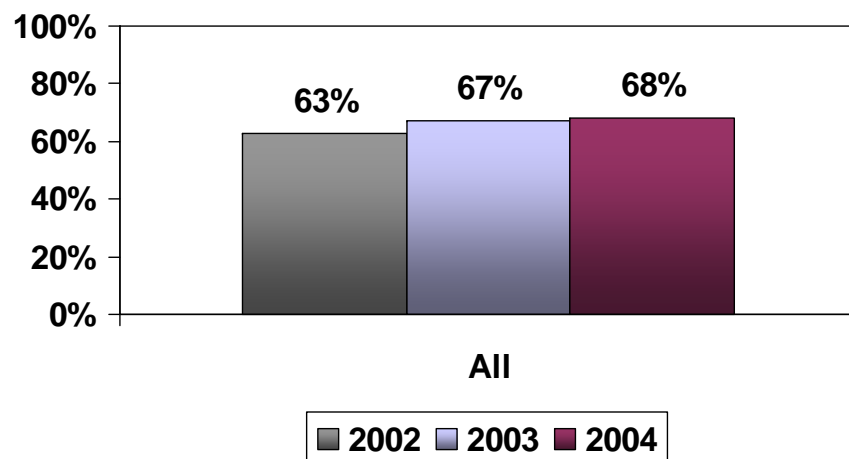
Home Equity Runoff

Line and Loan Commitments

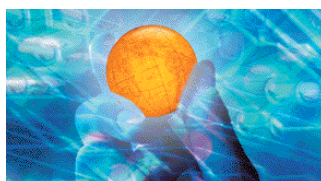
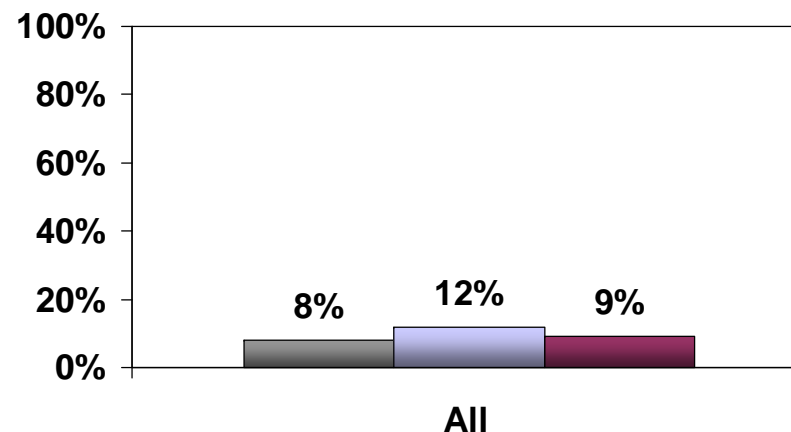


Winning Deposit Customer's Vote?

% HE with Deposit Relationship



% Deposit Customers with HE



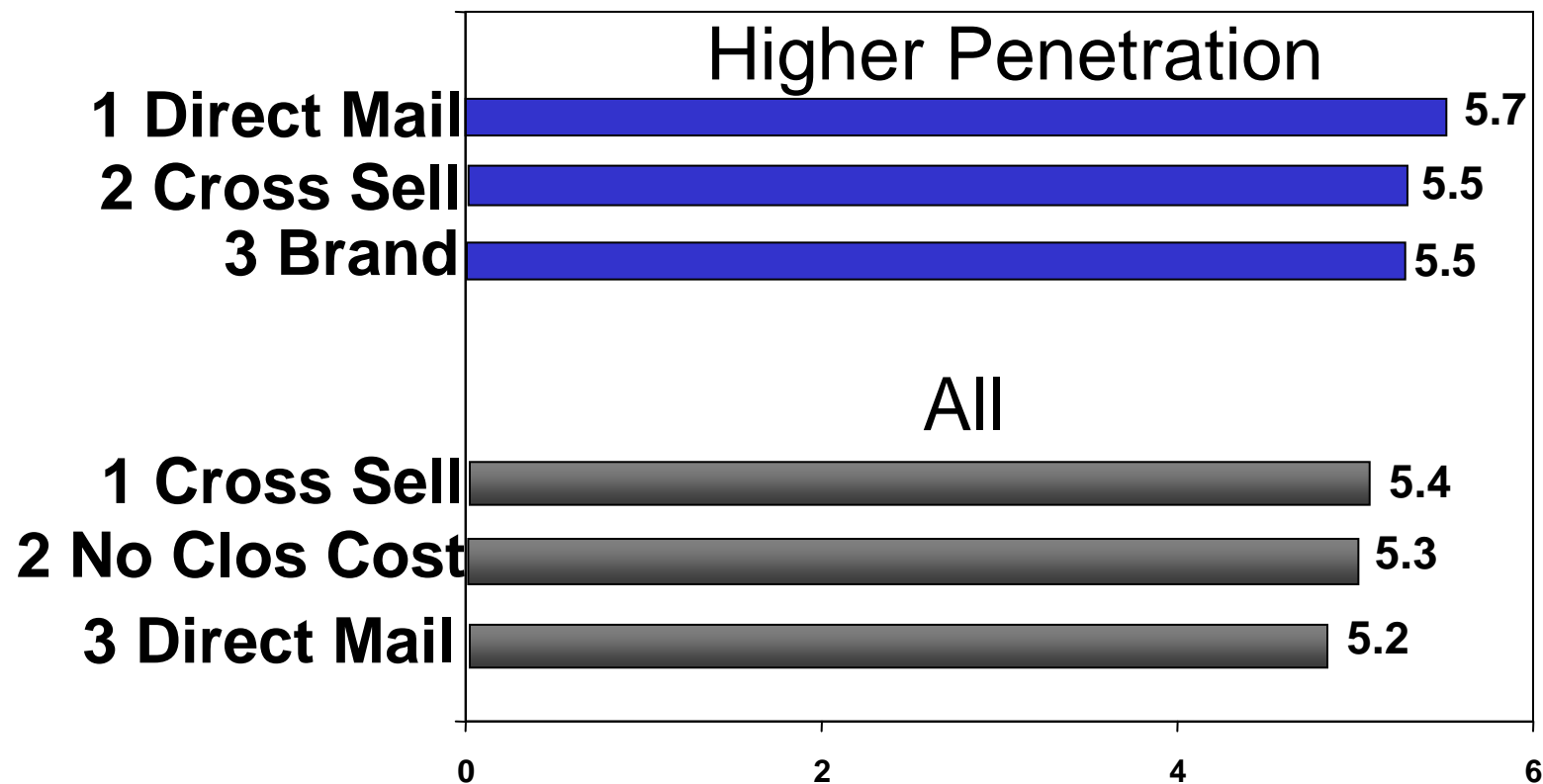
Higher Penetration Trend 2004

- 100% Formal Customer Retention Program
- Measure Customer Profitability
- Do Filter CIF, Deposit, Consumer LAS Systems
- Do not Buy External Databases
- Conduct Preapproved and Non Preapproved Direct Mail Campaigns for Lines (Avg. 15)
- Perform Proactive Follow-up Using Internal Telemarketing and Branches



Marketing Activity Importance Scores

Scale of 1 (Low Importance) - 6 (High Importance)

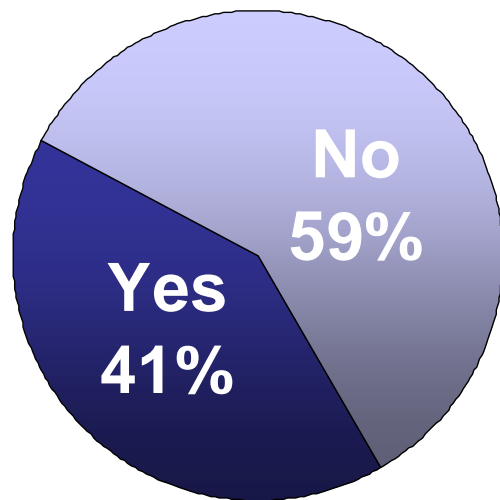


Technology Trends

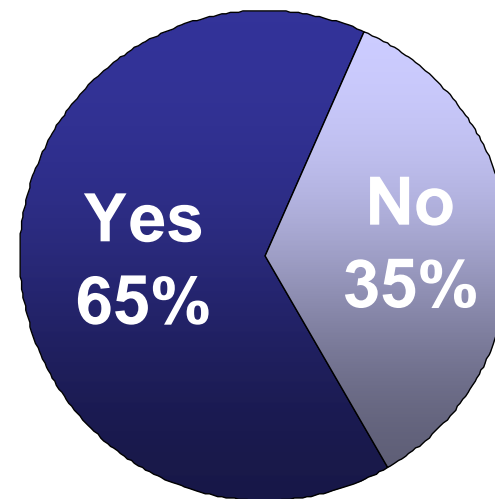


Major Technology Investments?

Prior 24 mos.



Next 24 mos.

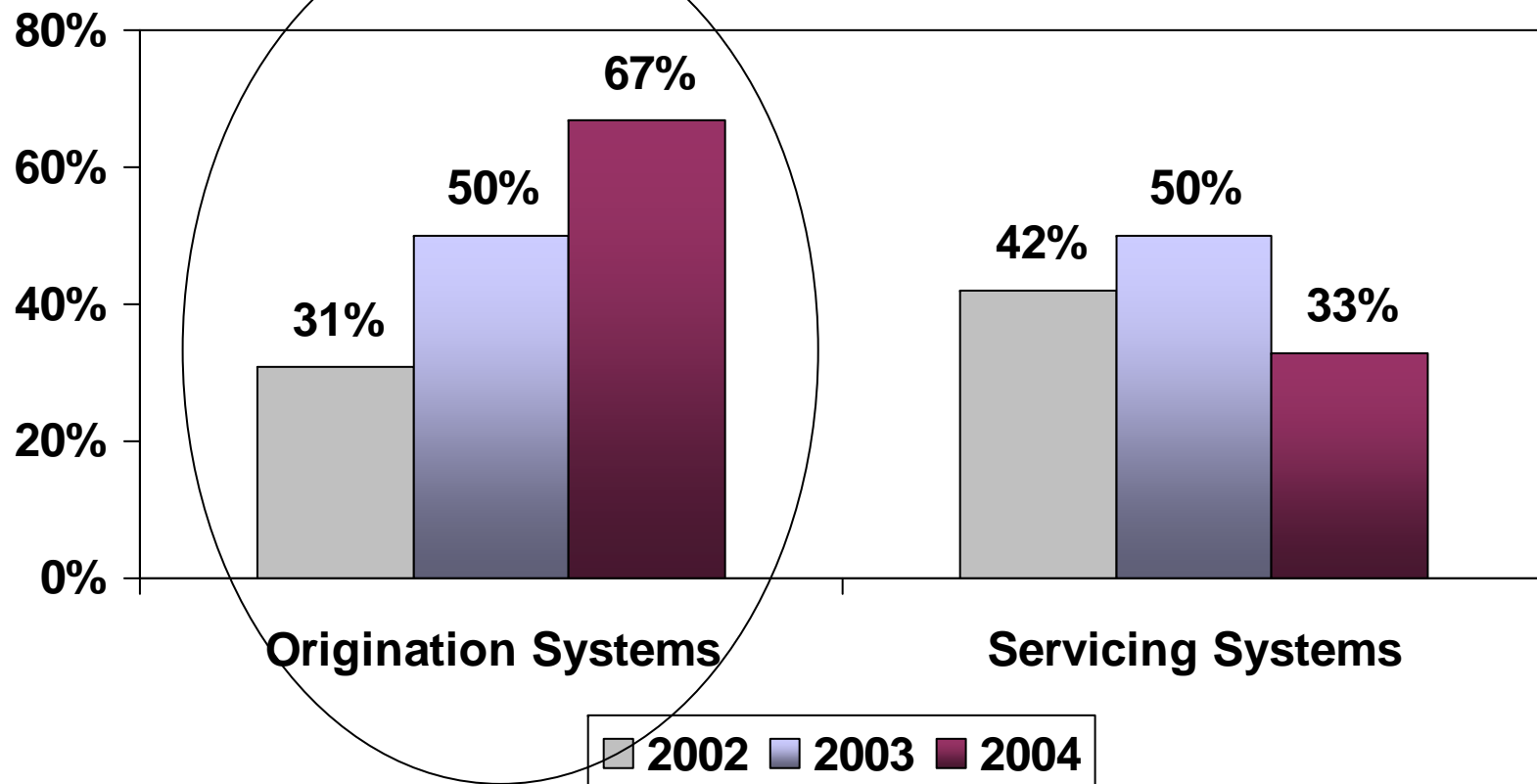


% of Respondents

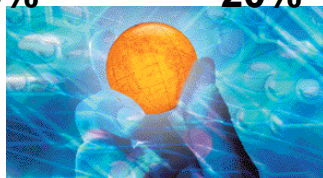
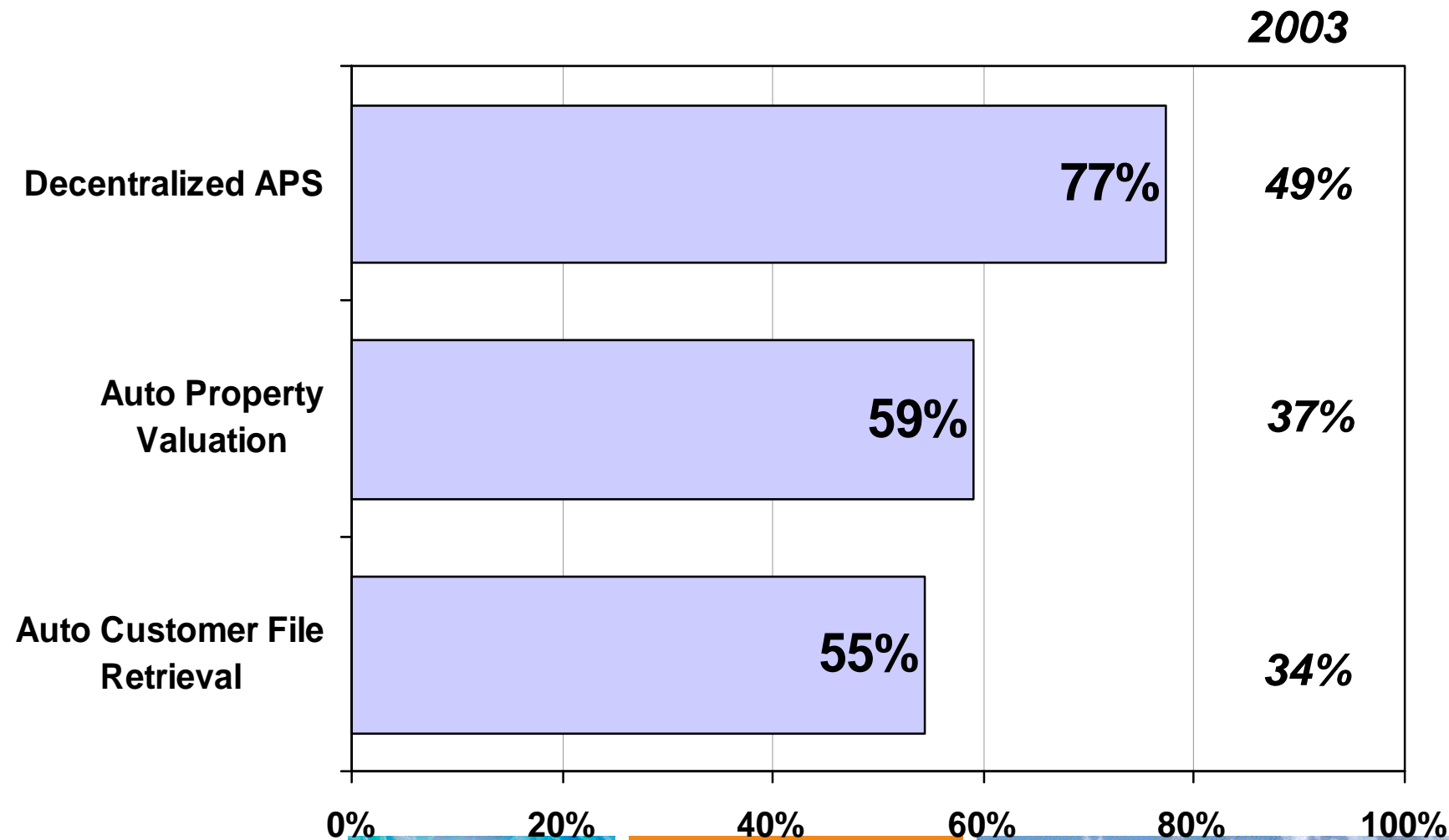


What Systems Planned?

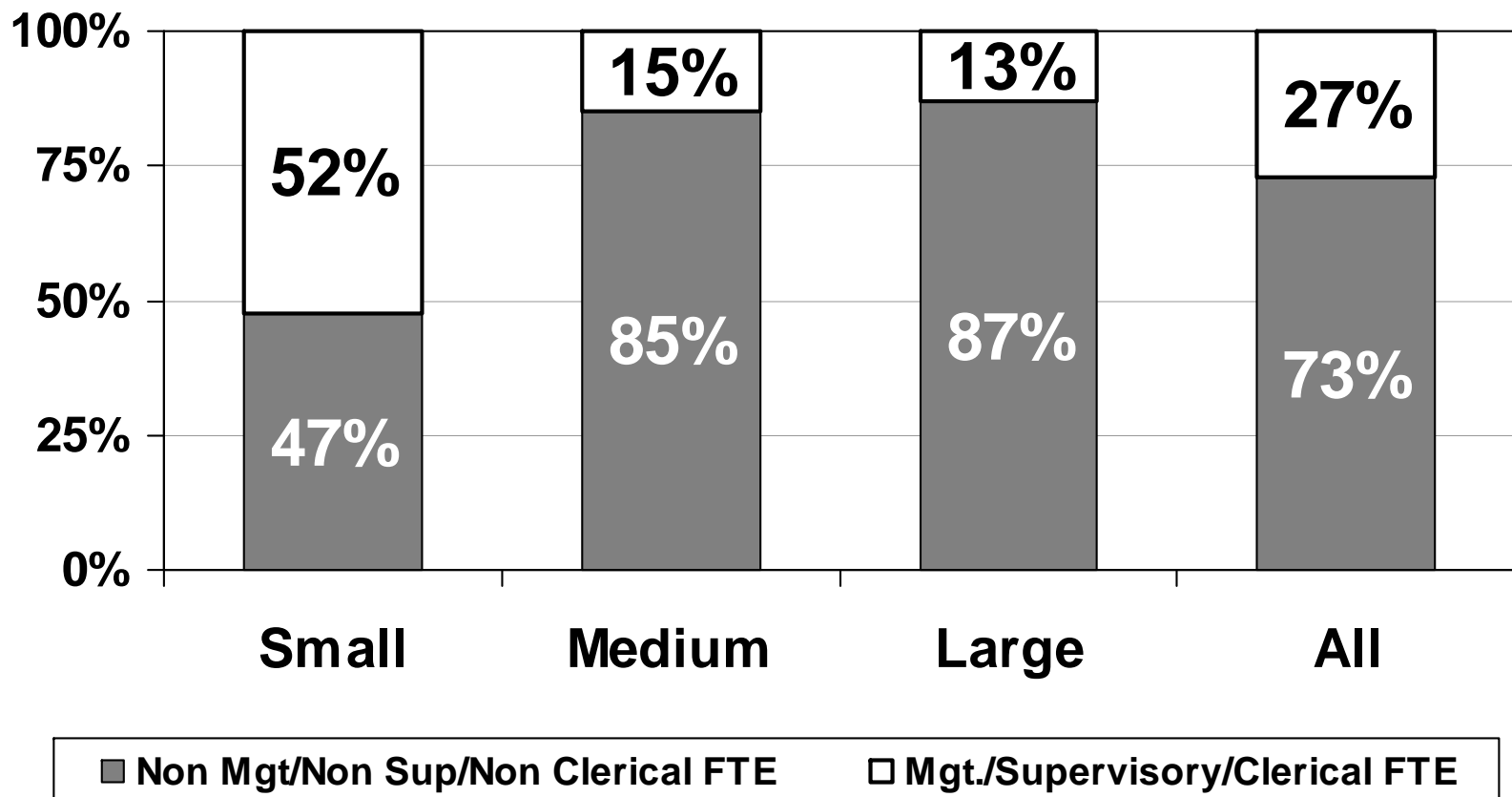
in the Next 24 Months



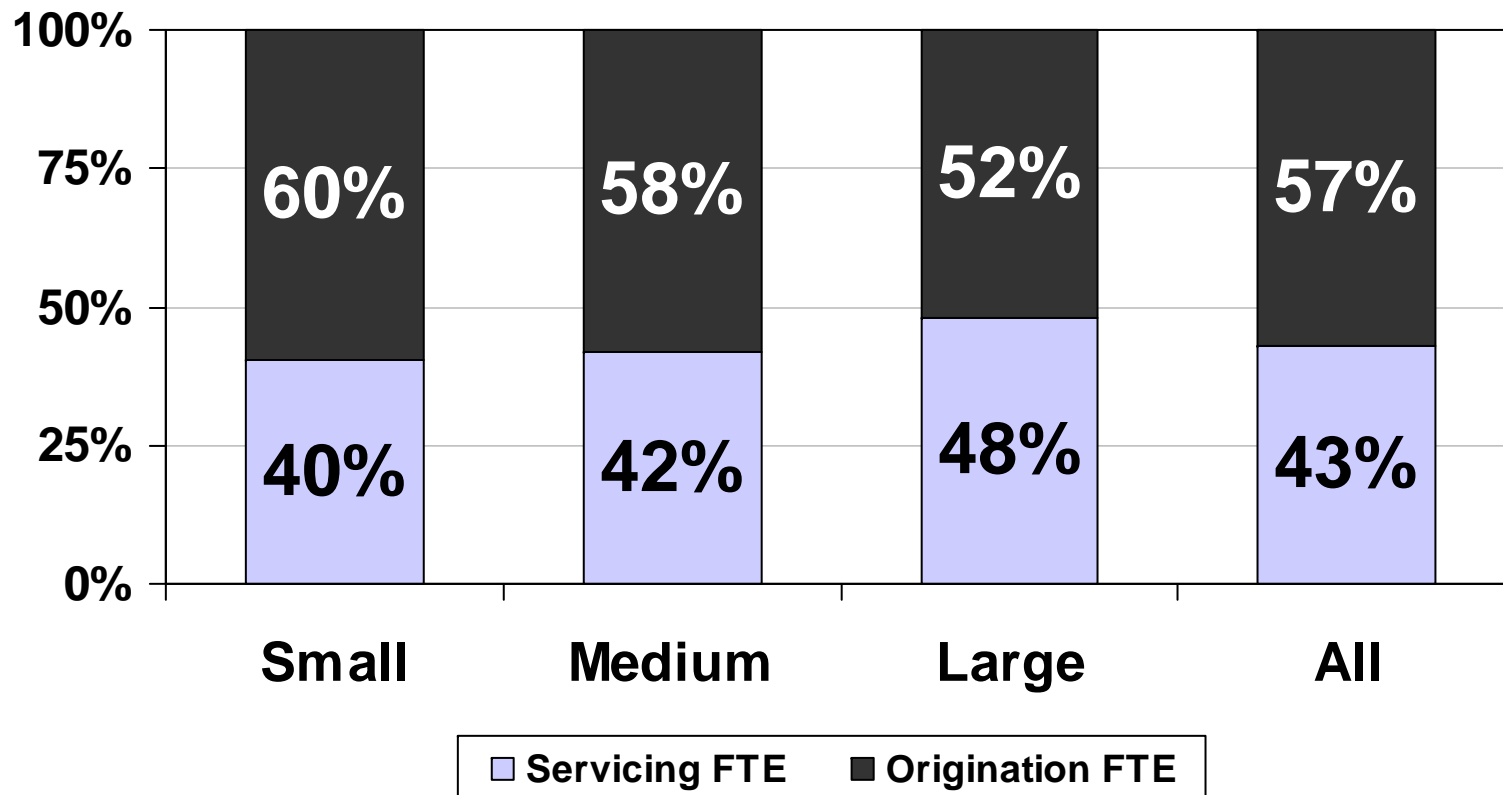
2004 HE Technology Usage



Home Equity FTE by function

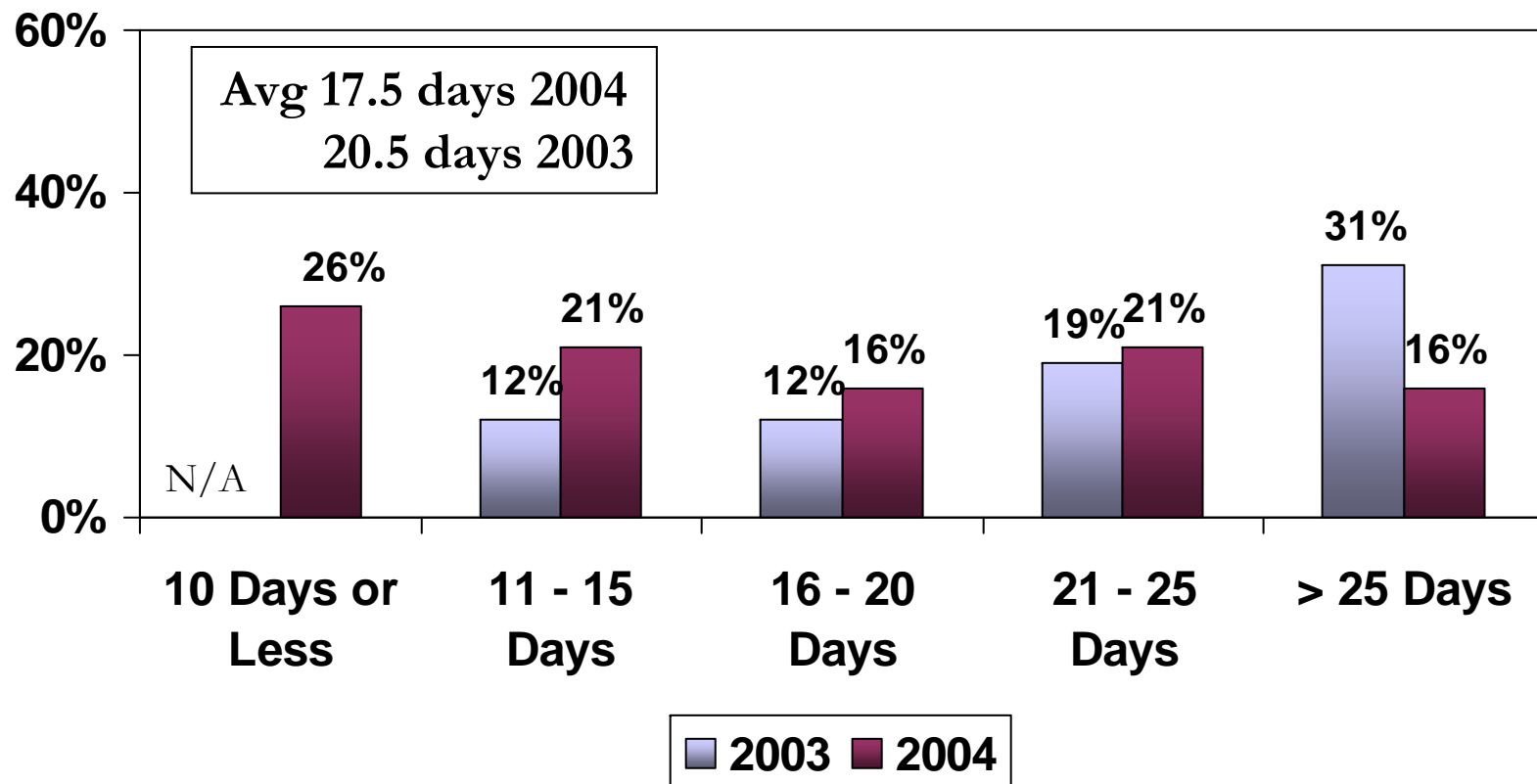


Origination and Servicing



Turnaround Time?

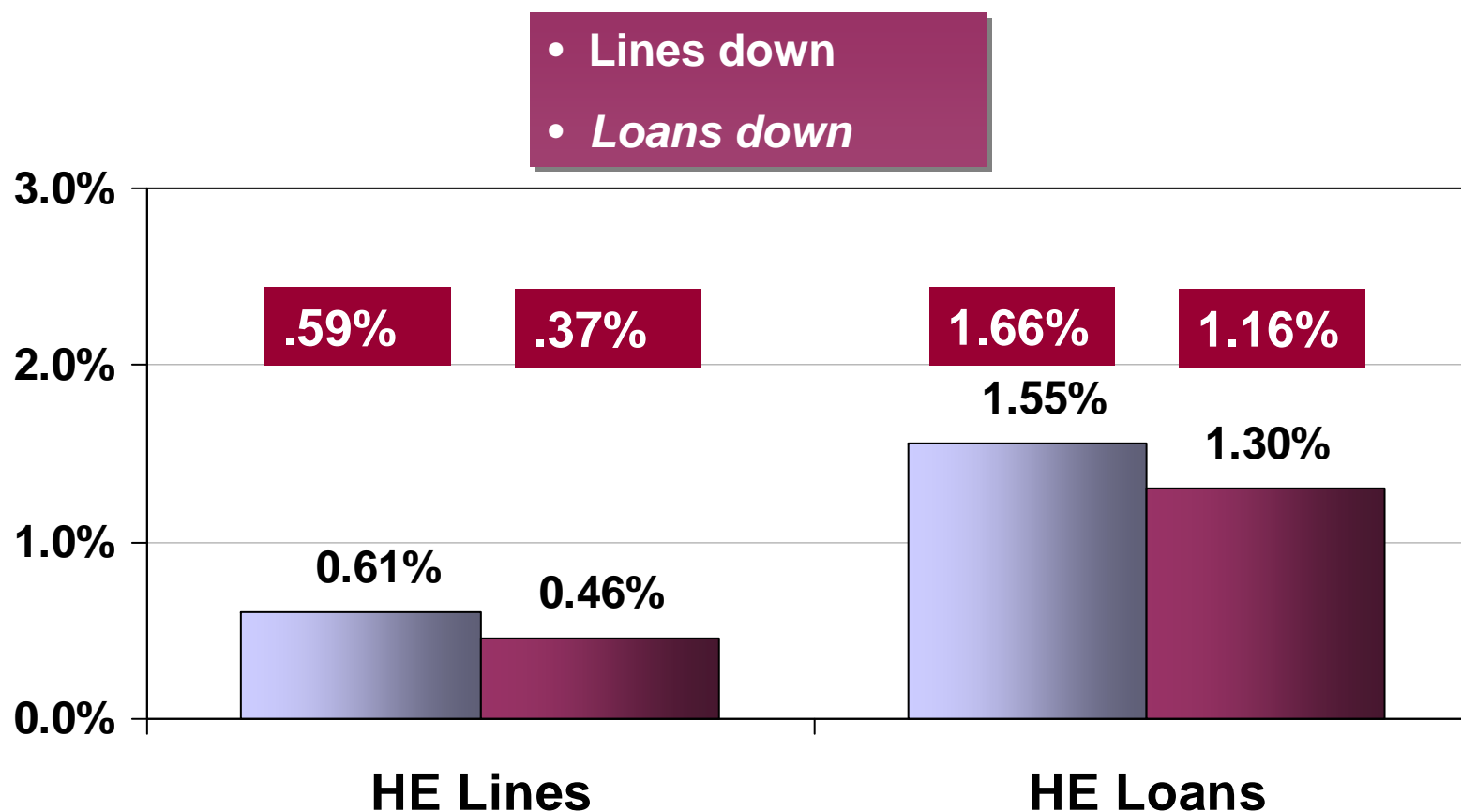
Application Receipt to Closing



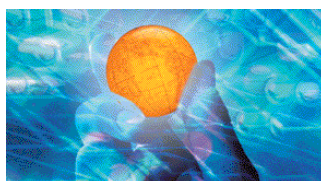
Portfolio Quality Trends



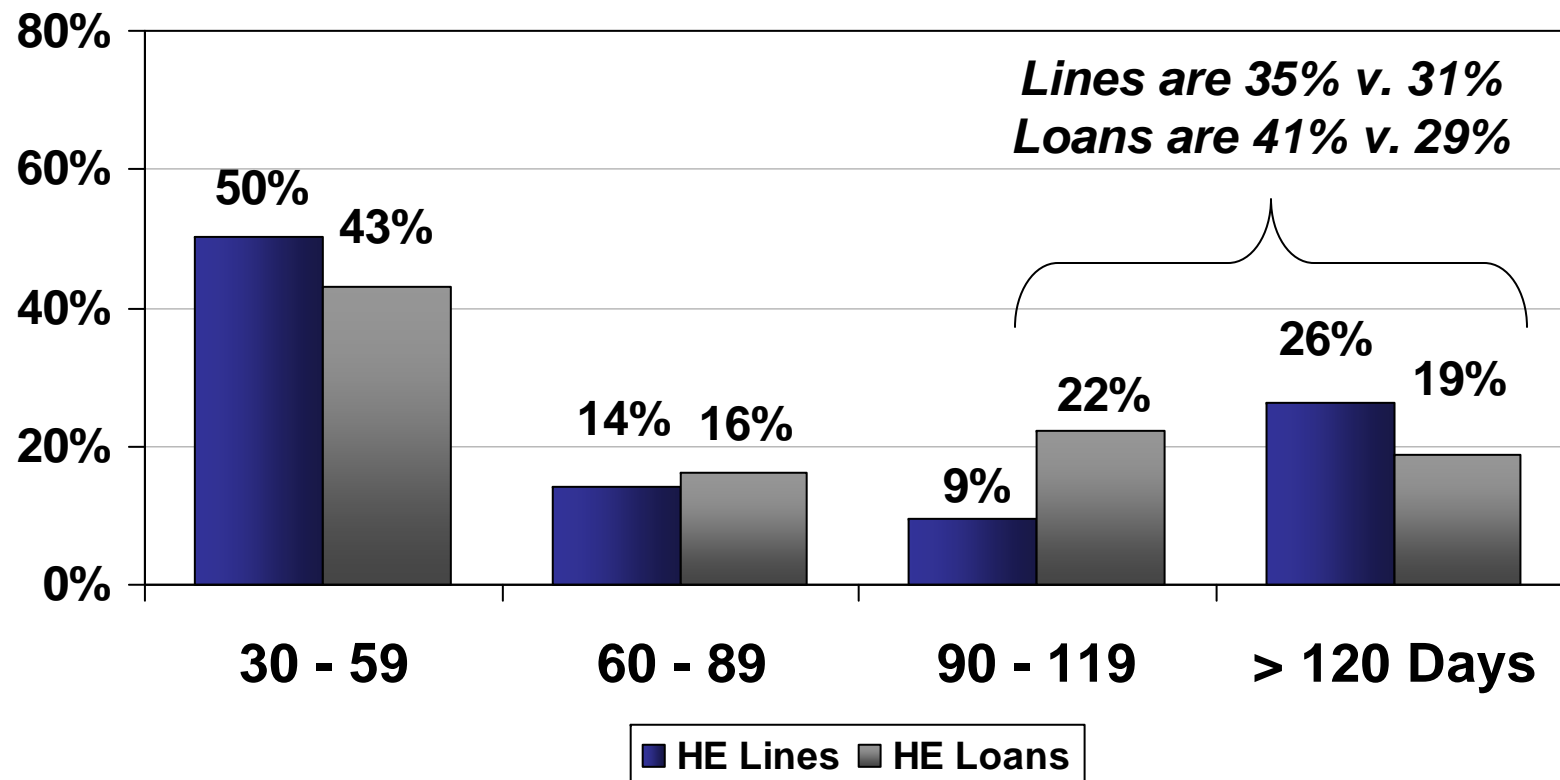
Delinquencies



■ 2003 ■ 2004

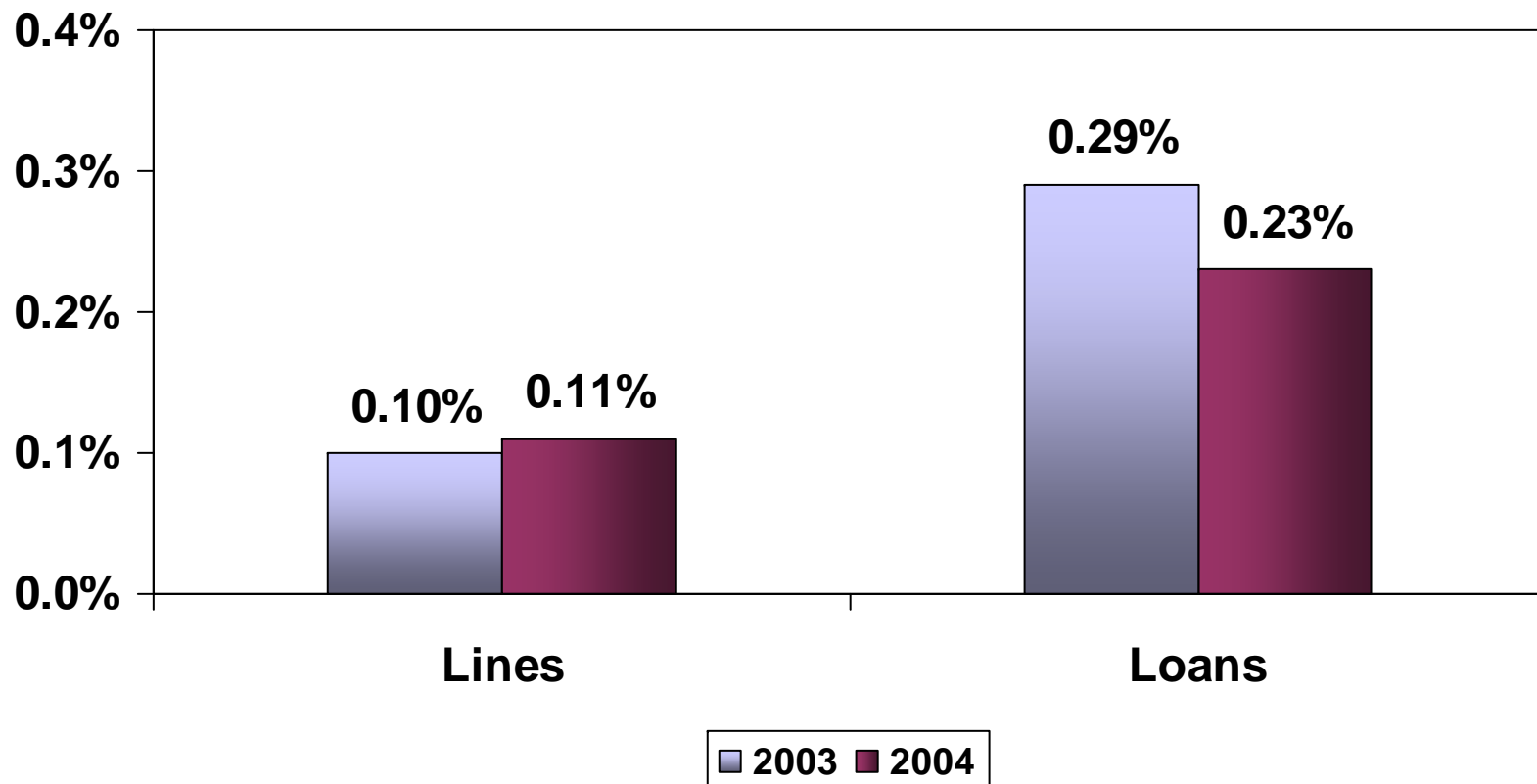


Delinquencies and the Aging Band



Annual \$ Charge Offs

\$ as % of Outstandings



Summary

- **HE Portfolio**

- Home Equities Continue to Drive Consumer Portfolio Growth
- 2004 HE Line Year-Over-Year Growth Percentages Off 2003 Highs
- 2004 HE Loan Growth Doubled
- C & D Paper Percentages Up



Summary

- Consumer

- Refinancing Debt #1
- Demographics Show Seniors Still Rank Higher than Youngest Borrower Group
- Borrowers' Appraised Home Value Average is Well Above the Median
- Low Deposit Customer Penetration



Summary

- **Technology**

- 65% Plan to Invest in Technology

- Focus on Origination Technology

- Contributing to Greater Efficiency

- Big Increases in Decentralized APS; APV;
Auto Customer File Retrieval



Summary

- Credit Quality
 - Delinquency Rates Down
 - Higher Concentrations of Delinquencies in > 90 Day Delinquencies
 - Annual \$ Charge Offs Slightly Up for Lines; Down for Loans

