



UnionBank Analysis Concludes Powerful Risk Prediction with Scoring Solutions™ Scorecard and Cypress Software Systems' Mark IV

CHALLENGE

Todd Schneeman, vice president, consumer lending at UnionBank, seems to have found the recipe for success.

UnionBank, a 131 year-old community bank, and its parent company UnionBancorp provides 'full-service' offerings for its loan and deposit customers, such as home, auto and life insurance, as well as investment services. With locations in 18 communities throughout Illinois, UnionBank has more than \$55 million in Consumer Loans and HELOC balances.

"We started using credit scoring models in 1996 and we were finding that our old system was too costly and not very efficient for some of the markets we serve," said Schneeman. "We needed to find an alternative solution that would allow us to achieve underwriting consistency at all of our branch locations."

SOLUTION

In December 2002, after a careful evaluation and selection process, UnionBank licensed Cypress Software Systems' Mark IV consumer loan application software, which included an integrated Scoring Solutions™ (SSI) expert scorecard, and quickly went live in January 2003.

"We have 23 branches and we were able to train users at all the branches in less than 60 days. We found Mark IV to be user friendly, cost effective and rich with tremendous features," said Schneeman. "Features such as underwriting rules setting, embedded expert scorecard, e-mail and fax notification methods for making loan decisions, NADA auto valuation guides, color-coded credit bureau results and debt reconciliation capabilities were particularly important to us."

Mark IV is a Windows-based tool that provides lenders with a user-friendly application data entry point, quick retrieval of credit reports, reconciliation of debt information, and deployment of the bank's loan policies. Cypress provides these tools with the goal of speeding a quality loan decision back to the applicant, and assisting the financial institution in maximizing loan performance. Together with a Scoring Solutions™ scorecard, Mark IV's integrated decision engine enables users to automatically decision and price, with confidence, their credit applications. The result is an extremely quick decision occurring within seconds of entering an application.

As with any credit scorecard, the SSI card is designed to predict the

probability of the applicant repaying his or her loan. And one of the steps in moving toward using the SSI card in automating the underwriting process is validating the card's accuracy in predicting which accounts will become seriously delinquent.

Scorecards had always been validated at UnionBank on an annual basis and after approximately 18 months, Schneeman had accumulated enough performance data to run a credit

CUSTOMER PROFILE

Name: Union Bank

Location: Ottawa, Illinois

Founded: 1874

Branches: 23

Assets: \$550 million

Employees: 285

About:

Union Bank is a regional financial services company offering banking, trust, insurance and investment services. It's parent company UnionBancorp provides 'full-service' offerings for its loan and deposit customers, such as home, auto and life insurance, as well as investment services. The company's market area extends from the far Western suburbs of the Chicago metropolitan area across Central and Northern Illinois to the Mississippi River in Western Illinois.

scoring validation. "We had almost 3,000 loans to review for this analysis," said Schneeman.

"We noticed that the odds of making a 'bad' loan greatly decreased as the SSI scores rose and we saw no charge-offs on loans with high SSI scores," said Schneeman. "We concluded that the SSI scorecard, within the Mark IV software, is a valid predictor of risk."

The validation easily identified the pattern of payment performance, which, in conjunction with the prediction capability of the SSI score, allowed UnionBank to accurately assess their applicants' risk. A 'bad' account was defined as one where the applicant made loan payments two or more times 30 days late, over 60 or 90 days late or if the loan was written off as a loss within a 15-month period following origination. The SSI scorecard is scaled to range from 0 to 1,000 with a higher score indicating better credit risk. There were no write-offs on loans with SSI scores over 800 and only a .33 percent overall 'bad' rate for this range, which contained more than 50 percent of the booked loan volume. Conversely, if an applicant's SSI score was less than 600, the 'bad' rate jumped to 7.5 percent and losses were experienced.

"It's not a surprise to us," said Steve Sargent, Cypress president and CEO. "We selected SSI as a partner because of their strong background and experience in

ABOUT CYPRESS

Headquartered in North Richland Hills, Texas, USA, Cypress Software Systems, LP is a leading developer of automated credit application decision support technology. Cypress provides community and regional banks, finance companies and credit unions with loan application decision and tracking tools equivalent to those used by the largest national lending institutions. Clients, nationwide and in 16 countries, use the company's flagship products, Mark IV, BizMark and AppMark, to quickly and consistently process consumer and small commercial loan applications. Mark IV and BizMark may be licensed in the bundled Cypress Suite. Web Site: www.go-cypress

ABOUT MARK IV

Mark IV is a "behind-the-firewall" Windows-based consumer application processing solution that provides lenders with a user-friendly application data entry point, quick retrieval of credit reports, reconciliation of debt information, and deployment of the bank's loan policies. Cypress provides these tools with the goal of speeding a quality loan decision back to the applicant and assisting the financial institution in maximizing loan performance.

the design, development and implementation of predictive models."

SSI distinguishes itself from others by offering customer services relating to the implementation and on-going use of the scorecards for as long as the customer is using them. These include scorecard monitoring, validation and redevelopment services and advice to each customer to help them achieve their objectives.

"These services are integral to getting the most out of your scorecard in Mark IV. We will help maximize its value to you," said Elina Rodriguez, principal, Scoring Solutions™, who is responsible for managing the development and implementation of predictive models for several SSI clients. "We want to encourage others to conduct similar performance studies," added Rodriguez. "They need to feel comfortable and once they see the results, they do."

Based in Atlanta, Georgia, SSI developed and validated general risk, installment and automotive expert models prior to delivering these to Cypress Software Systems. The models were audited by SSI to ensure that they were programmed correctly within Mark IV. The models contain application and credit report data. For each score, the Mark IV system delivers up to four reason codes that can be used for adverse action purposes.

RESULTS

Since the analysis, UnionBank recently switched their tiered pricing structure from a Credit Bureau score to the SSI score. "Using the SSI score to aid in pricing our loan requests will further our goals to approve more applications, reduce our number of overrides and effectively price our loans based on risk," said Schneeman. "In addition, we should experience a significant decrease in consumer loan charge-offs, as we begin relying more on the scorecard in determining whether to approve or deny a request."

While the results at UnionBank today are very positive, users that license Mark IV with an SSI expert scorecard can expect even better results after three years of use, thanks to a unique opportunity offered through the Scoring Solutions – Cypress partnership. With this offer, once clients renew into a three-year agreement and sufficient performance data is available, Scoring Solutions will work with the bank to develop a custom scorecard at no additional cost. The custom model development will be based on analysis of the bank's loan portfolio in combination with demographics captured by Mark IV.

ABOUT SCORING SOLUTIONS™

Scoring Solutions™ is a leading developer of risk management and marketing decision solutions. Since 1993, Scoring Solutions™ has developed predictive models and provided related consulting services to banks, auto finance companies, credit card issuers, consumer finance companies, retailers, credit bureaus, oil companies and telecommunication firms in the United States, Canada, United Kingdom, France, Germany, Austria, Hong Kong, Japan, Indonesia, Taiwan, South Korea, Australia and Mexico.
Web Site: www.scoringsolutions.com

"The custom model will be tailored to the bank's objectives, allowing the bank to have input during the design and development of the model," said Rodriguez. "The benefit of moving from an expert model to a custom model is improved risk prediction resulting in lower delinquencies and losses, a higher volume of approved loans, and greater portfolio profitability."

"Mark IV, with the Scoring Solutions™ Scorecard, allows banks to establish consistency in their underwriting practices," said Steve Sargent. "It all comes together and creates a powerful business proposition for our clients."



CYPRESS SOFTWARE SYSTEMS



9001 Airport Freeway, Suite 800
North Richland Hills, Texas 76180

800.394.5777
info@go-cypress.com
www.go-cypress.com