SAS® helps Wescom Credit Union forecast potential portfolio losses and save millions

Forecasting models and scorecards increase the credit union's decision accuracy by at least 50 percent

Industry

Banking and Depository

Business Issue

Focus on credit risk, meet regulatory requirements, improve performance and protect against credit losses.

Solution

SAS for credit risk modeling, forecasting and scorecards including SAS Forecast Server and SAS Forecast Studio.

Benefits

Saved millions in charge-offs, reduced risk and improved business performance with greater accuracy in lending decisions; rapid deployment meant faster ROI.

Wescom Credit Union used SAS to establish a brand new credit risk department to protect the business against losses and better serve members in an increasingly complex economic environment. SAS has enabled the institution to forecast potential portfolio loss, meet regulatory requirements, improve performance, increase lending and forecasting accuracy – and save millions of dollars in potential losses.

A leading credit union, Wescom serves more than 275,000 members and has more than $2.5 billion in assets. Like all financial institutions, this California-based not-for-profit member-owned institution has been weathering tough times: "You have to know far more about so many facets of your business," says David Gumpert-Hersh, Wescom's Vice President of Credit Risk. "SAS is helping us achieve this as the foundation of our credit risk department, enabling us to forecast five years ahead and mitigate loan losses."

SAS is helping credit unions, which were once limited to tools that considered risk only at the individual loan level, to gain a better understanding of how broader economic variables, such as a high unemployment rate, could affect both the individual loan risk and portfolio risk. Wescom needed a solution that would forecast possible losses and enable mitigation activities, from declining loan applications to improving collections. "We still want to provide members with credit and at the same time ensure the ongoing safety and soundness of the credit union," says Gumpert-Hersh. "Now we are able to measure risk more effectively than we would by using a single attribute, such as FICO (Fair Isaac Corporation), in making credit decisions."

Confidence and stability

"We need confidence, to be accountable to others and to have a stable system we can depend on," Gumpert-Hersh continues. "SAS surpasses all other vendors in stability, confidence and accountability." The "people factor" was also important: "SAS asks the right questions, understands what you need, documents what has to happen, and then delivers – with magnificent delivery times. The SAS consulting team, project managers and everyone else all listened to Wescom, and had the knowledge to deliver what we needed."

The solution includes a forecasting engine with an easy-to-use interface. It also enables credit risk modeling and scorecards. With the help of SAS consulting and training, initial forecasts were delivered in two weeks rather than six months as originally anticipated. "That was our entire ramp-up, and it resulted in enormous gains," says Gumpert-Hersh. "SAS provided a full package in terms of project delivery, informed and supported by consulting. Return on investment was huge."

Avoiding losses, protecting the business

SAS enables Wescom to "access, extract and transmit data in a very secure and consistent form" from multiple

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“With SAS we transformed Wescom from not having a standalone credit risk department to a position of industry leadership among more than 8,000 credit unions nationwide.”

David Gumpert-Hersh
Vice President of Credit Risk, Wescom Credit Union

sources, including six internal operational systems covering 20 different products and external sources including Moody’s and Experian, plus automated value models from First American CoreLogic. “We can use up to 3 million records,” says Gumpert-Hersh, “and pull in 350 economic indexes with 25 years of forecasts. Without SAS we wouldn’t be able to pull all of that together.”

Wescom is using SAS models and scorecards to:

- Forecast losses through the use of demographic data.
- Accept or decline local applications.
- Focus on particular sectors, such as transportation, and even include impacts such as fall-off in international trade.
- Concentrate on potential problems with current members, targeting efforts to avoid bad debt.

“SAS allows us to work with at least 50 percent greater accuracy when deciding whether a loan will ‘perform’ or ‘not perform,’” Gumpert-Hersh says. “We can also avoid adverse selection, which can be very detrimental.” SAS also helped him be more productive and use his own work time more effectively, providing more opportunities to work strategically with other executives at the credit union.

Multimillion-dollar savings

With a single-focused credit risk department, Wescom can deliver immediate, more personalized and more risk-aware lending decisions. “Without forecasting, you’re dead,” says Gumpert-Hersh. “It’s about having accountability and being able to forecast with confidence, which is priceless. Our people can now plan business strategies one, two, three, five years ahead with confidence.” Soon after introduction at the credit union, the value of SAS was visible to executives, the credit risk committee, asset liability committee and more. Gumpert-Hersh adds, “By better understanding risk, we’ve been able to use updated criteria for the extension of credit, more effectively set credit lines and introduce new collections procedures. Thanks to forecasting, mitigation and strategic planning enabled by SAS, we’ve saved millions of dollars and been able to improve forecast accuracy. That’s what the credit risk department is delivering – with SAS as its foundation.”

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