



GROWING. INVESTING. SERVING.

Understanding Credit

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Materials and presentation based upon industry practice and lender expertise. It is meant to serve as an educational tool only and not intended to provide legal advice.



- Founded in 1908
- Headquartered in Lafayette, LA
- Publicly Traded LA Based Community Bank
- Joined NASDAQ (HBCP) in October 2008
- \$2.2B in Assets as of 6/30/19
- 40 Locations in LA and SW MS
- 12 Locations in GNO
- Purchased 5 banks in last 10 years.
- Statewide Bank (2010), Guaranty Savings Bank (2011) and Bank of New Orleans (2015) in GNO market.



Credit is an arrangement you make with a company or individual to receive goods, products, or services **now** that you will pay **later**.

It's a measure of your financial reliability and can be used for small or large purchases. Loans, which are often credit-based, involve borrowed money that you have to pay back — often with interest.

Interest is like “rent”. You pay to use the money. Just like you pay to use an apartment that is owned by someone else.





Revolving Credit

i.e. Credit Card or
Line of Credit



Installment Credit

i.e. Auto Loan or
Student Loan



Mortgage Credit

i.e. Residential
Home or Rental
Property



Service Credit

i.e. Cell Phone or
Utilities

- If you want to buy something expensive, like a house or car, it would take a very long time to save up the money to pay for it outright. Borrowing money makes sense.
 - Save \$1,000 per month – how many months would it take to afford a \$90,000 house. 90 months or 7.5 years. If you put 20% down and borrow the money, it will only take you 18 months or 1.5 years to save up the down payment. Then the \$1,000 that you were saving becomes your monthly payment and you have money left over.
 - Credit Cards should be used to buy something expensive and pay for it over a couple months. If you have outstanding credit card balances, and you are only paying the minimum. Then you spent money before you earned it. You are using future earnings to pay for past spending. This is not good financial planning.

- You want to buy a House
 - **The house Cost \$150,000**
 - You can save \$500 / month towards the purchase of the house.
 - It will take you $\$150,000 / \$500 = 300$ months ($300 / 12 = 25$ years) to save \$150,000
 - **The bank will loan you 80% of the cost of the house = $\$150,000 * .80 = 120,000$.**
 - You can save \$500/month towards the down payment (difference between the cost and what the bank will loan you).
 - The down payment is \$30,000
 - It will take you 60 months (5 years) to save the \$30,000. ($\$30,000 / \$500 = 60$)

- A credit card is good to have to allow you to buy something that costs a good amount that you can pay for over a very short period of time.
 - Example: Refrigerator, Furniture, High End Electronics
 - Credit Card debt is borrowing against your future earnings!
- Debit vs. Credit – How are the different?

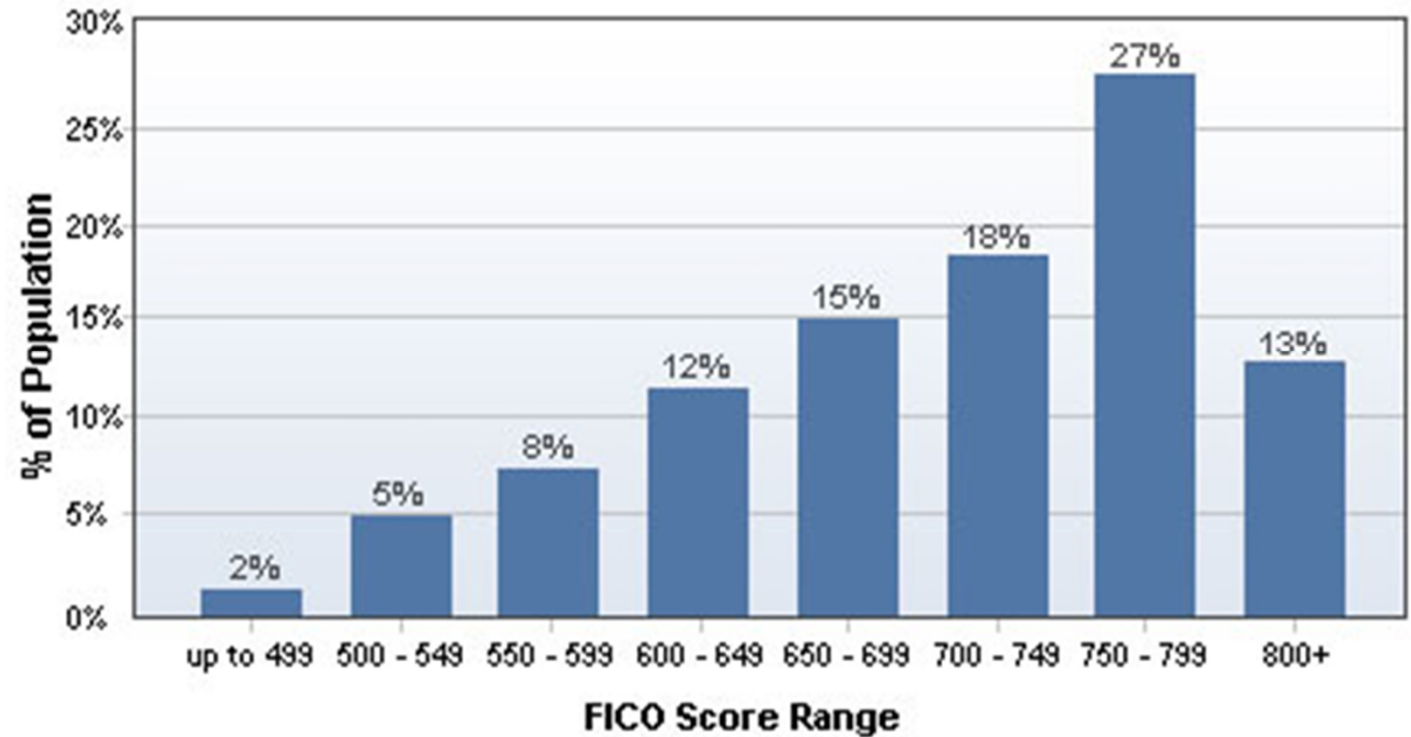


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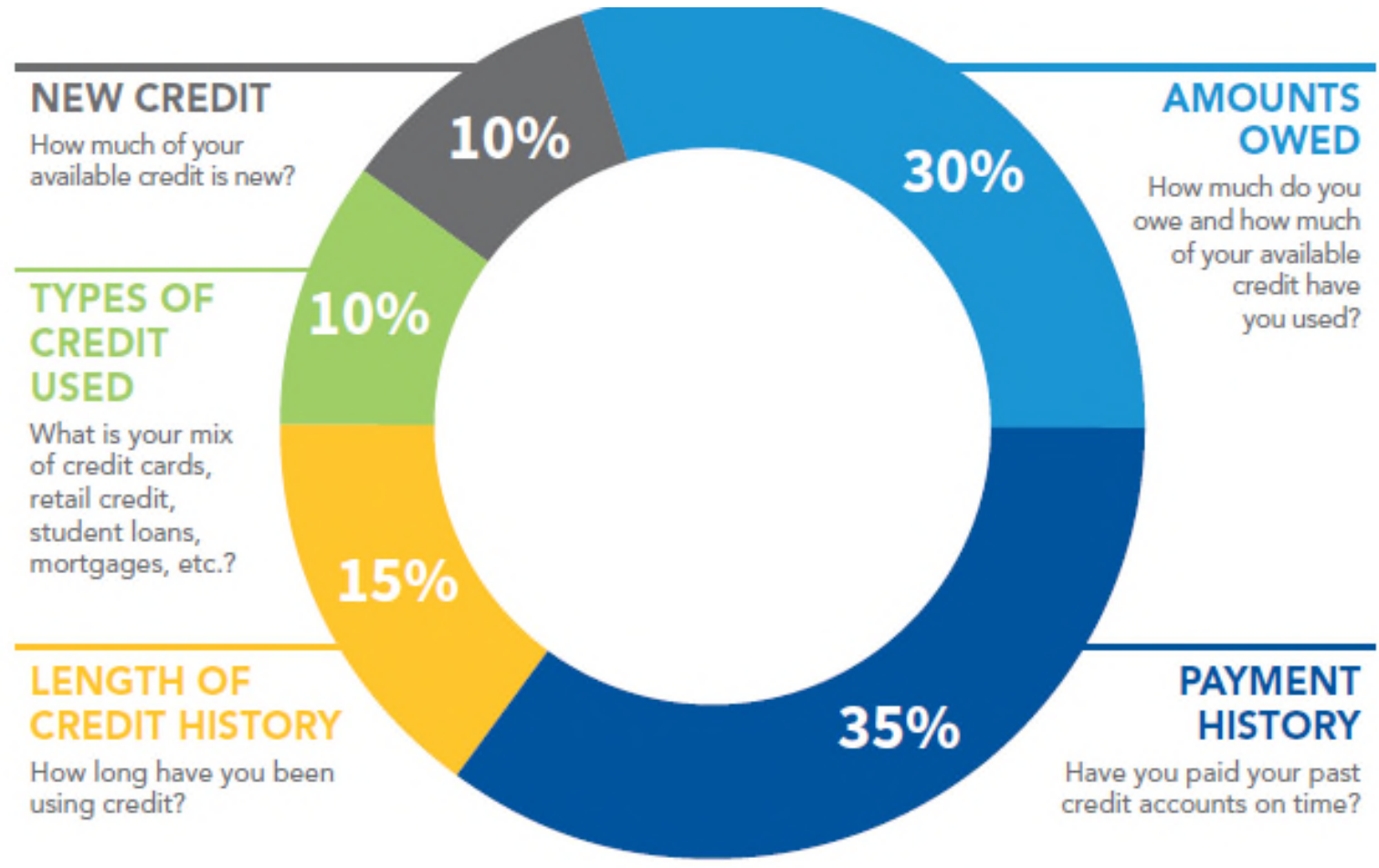
- Credit reports are a summary of your credit history, reported to credit bureaus by lenders and creditors. They contain personal information to identify you; information about your credit accounts, like credit cards, mortgages, student loans, and vehicle loans; and bankruptcies.
- Credit reports are used by lenders as one factor in helping determine your creditworthiness.
- Obtain a free copy of your credit report at: www.annualcreditreport.com

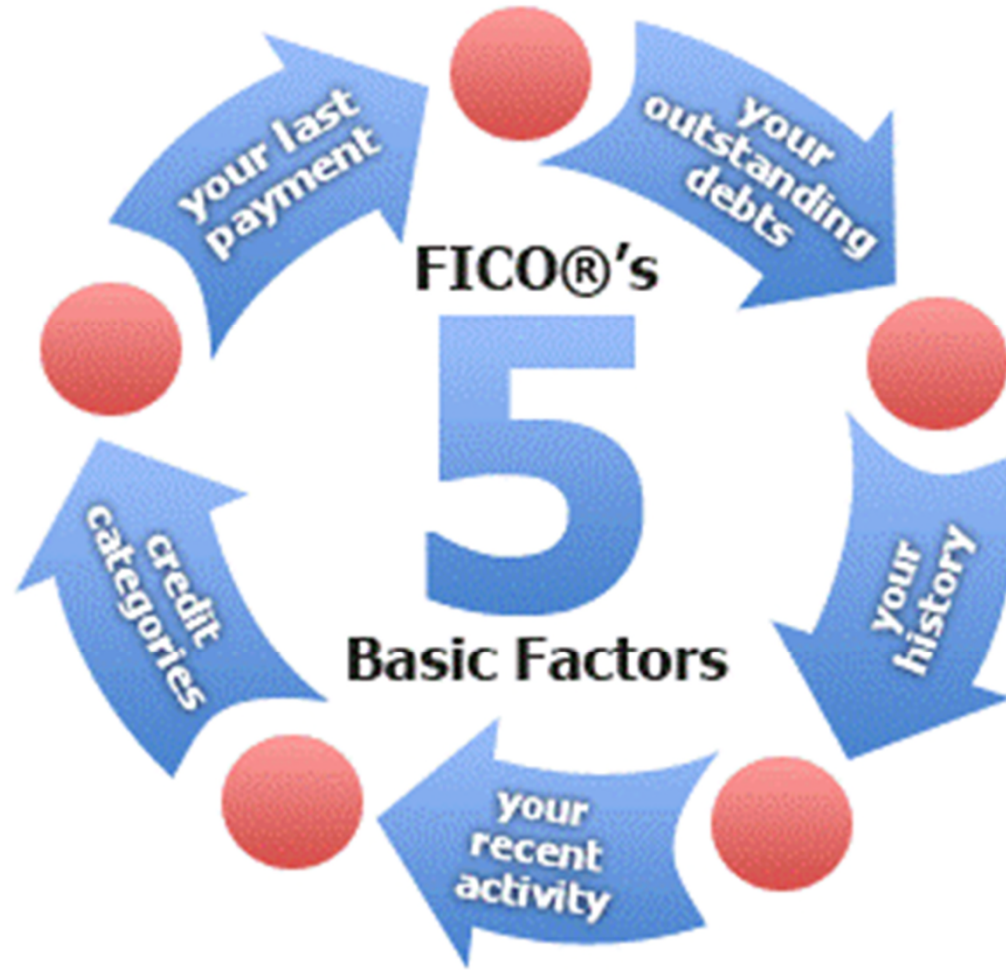


- A FICO (Fair Isaac Corporation) score aggregates information from an individual's credit record to give an indication of their probability of default within in two years of the granting of the credit.
- Scores Range from 300 to 850.



What Factors Make up a FICO Score?





Credit Score Ratings Chart:

760-850	EXCELLENT
700-759	VERY GOOD
723	MEDIAN FICO SCORE
660-699	GOOD
687	AVERAGE FICO SCORE
620-659	NOT GOOD
580-619	POOR
500-579	VERY POOR

DELINQUENCY RATES BY FICO SCORE

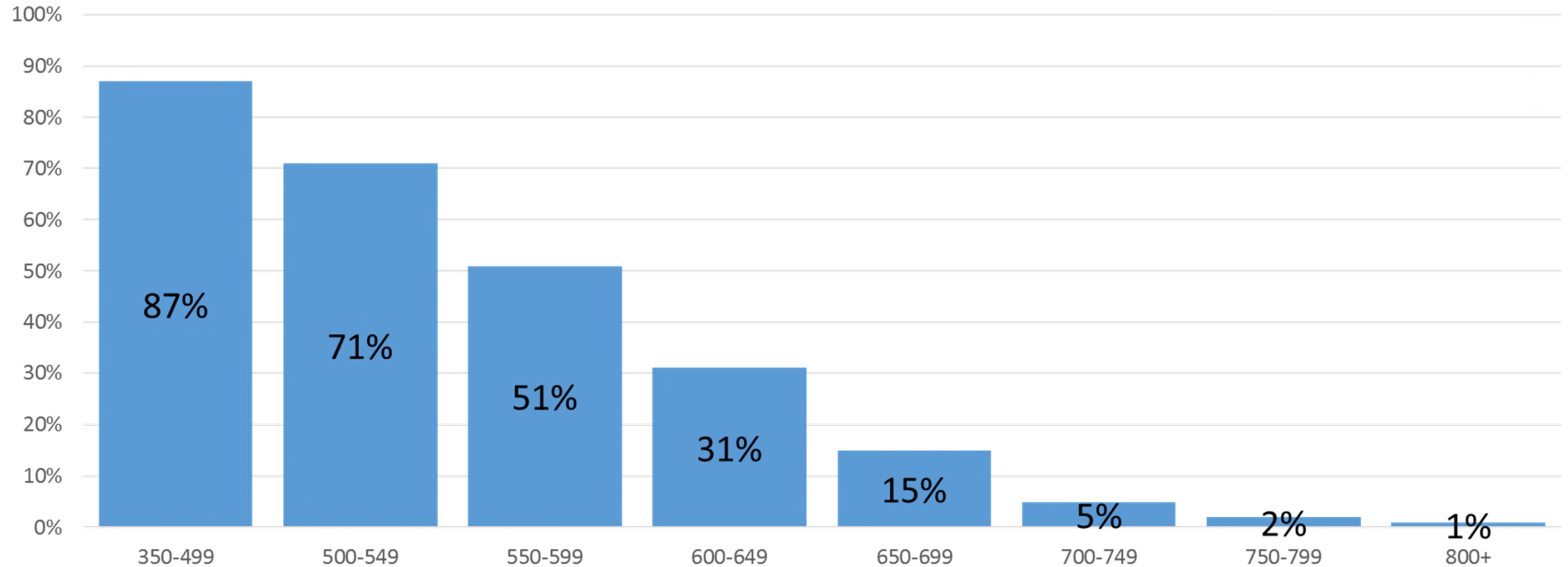


Table 1: All Eligible Mortgages – LLPA by Credit Score/LTV Ratio

Representative Credit Score	LTV Range								SFC
	Applicable for all mortgages with terms greater than 15 years								
	≤ 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	95.01 – 97.00%	
≥ 740	0.000%	0.250%	0.250%	0.500%	0.250%	0.250%	0.250%	0.750%	N/A
720 – 739	0.000%	0.250%	0.500%	0.750%	0.500%	0.500%	0.500%	1.000%	N/A
700 – 719	0.000%	0.500%	1.000%	1.250%	1.000%	1.000%	1.000%	1.500%	N/A
680 – 699	0.000%	0.500%	1.250%	1.750%	1.500%	1.250%	1.250%	1.500%	N/A
660 – 679	0.000%	1.000%	2.250%	2.750%	2.750%	2.250%	2.250%	2.250%	N/A
640 – 659	0.500%	1.250%	2.750%	3.000%	3.250%	2.750%	2.750%	2.750%	N/A
620 – 639	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.500%	N/A
< 620 ⁽¹⁾	0.500%	1.500%	3.000%	3.000%	3.250%	3.250%	3.250%	3.750%	N/A

(1) A minimum required credit score of 620 generally applies to all mortgage loans delivered to Fannie Mae; refer to the *Selling Guide* and the *Eligibility Matrix* for additional detail.



- Banks evaluate risk in determining whether to lend someone money and what rate to charge.
- Risk vs. Return - If the bank takes a bigger risk they normally charge a higher rate to compensate for that risk.
- Credit Score is a very good indication of your payment history and overall financial situation.
- A person's credit score does not always reflect the situation, however, it is all some banks have to go on.
- Length of employment, rent vs. buy, credit history, liquidity, net worth are some of the criteria used to evaluate a the risk.

Credit Score 740

- Mortgage Loan
 - 30 Year Fixed Rate
 - LTV 80%
 - \$150,000
 - 4.25%
 - Monthly Payment: \$737.91
 - Total Payments: \$265,647.60
 - For the same monthly payment you can borrow \$160,000

Credit Score 620

- Mortgage Loan
 - 30 Year Fixed Rate
 - LTV 80%
 - \$150,000
 - 4.75%
 - Monthly Payment: \$782.47 (\$44.56)
 - Total Payments: \$281,689.20 (\$16,041.60)



RENT

- Average Rent for 3/2 in Metairie
- \$1,055 per month

Per UNO Real Estate Report 2016

BUY

- If you spent \$1,055 on a house per month, how much could you afford to borrow?
- **Answer: \$171,565**

Assumptions:

- \$844 P&I + \$211 Taxes & Ins.
- 4.25% for 360 months



2015 Toyota Camry

Cost: \$22,000

Down Payment: \$ 3,000

Loan Amount: \$19,000

Interest Rate: 2.9%

Payback Period: 4 years

Monthly Payment: \$419.71

Interest Rate: 7%

Payback Period: 4 years

Monthly Payment: \$454.98



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