



CU Housing RoundTable[®]
Credit Unions Building Community

Founded by: BECU, Callahan Associates and Prime Alliance Solutions, Inc.

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The Credit Union Housing RoundTable (CUHRT) held a working session during The American Credit Union Mortgage Association's (ACUMA) annual Spring Meeting on March 31 in San Francisco. During this afternoon session, participants learned the history of the RoundTable, heard of its purpose and goals, were introduced to its five White Papers and shaped the direction of its latest Paper, 'Challenging the Financial Models'.

Mark Wilburn, Senior Vice President, 66 FCU, and Housing RoundTable vice chair, facilitated the session. According to Wilburn, the CUHRT's purpose can be summed up in four points:

- 1) Focus credit unions on housing finance;
- 2) Heighten public awareness of credit union's role in housing finance;
- 3) Promote cooperation among credit unions; and
- 4) Create and disseminate timely, topical and accurate information to help credit unions formulate and execute their housing finance strategies.

The Housing RoundTable's Big, Hairy, Audacious Goal (BHAG) of raising credit union market share to 10% by 2016 was created at its inaugural meeting in May 2006. Wilburn noted at the end of 2008 our industry reached 4.99%, an almost 300 basis point increase in 30 months.

John Reed, Chairman of ACUMA, spoke about ways in which ACUMA and the CUHRT have been working together and intend to continue working together to help credit unions strengthen their positions as mortgage lenders. ACUMA is an association that provides a unique opportunity for credit union mortgage lending professionals to learn, to network and to exchange ideas. Additionally, throughout its 14 year history, it has helped its members and the industry pay special attention to regulatory and legislative changes that impact credit unions. On the other hand, Reed pointed out, the Housing RoundTable is a Think Tank. It raises major questions we need to think about and then gathers groups of interested volunteers who explore and endeavor to answer those questions. It's done so five times thus far, in the form of five White Papers which are available at www.cuhousingroundtable.com.

Mr. Wilburn then introduced and moderated the afternoon's panel discussion. Joining him on the panel were Jon Paukovich, Vice President of Mortgages, Ent FCU, and Bill Walker, Vice President of National Sales. The panel introduced four questions participants would be considering after the panel discussion. The four questions were:

- 1) How much is too much? What are our balance sheet limits?
- 2) What liquidity alternatives do credit unions have? What options should we

- explore? Create?
- 3) How would your credit union use a loan participation network?
 - 4) What are your thoughts on the Homeowner Affordability and Stability Plan?

Mr. Paukovich began with thoughts on liquidity alternatives past and present. Credit unions have relied heavily on their own portfolios plus Freddie Mac and Fannie Mae (GSEs). Where many credit unions placed most loans in portfolio—the national average is 70%—many have begun to sell as rates dropped to record lows and lending volumes are reaching new highs. The main buyer for most credit unions is the GSEs. This ability is crucial to credit union lending ability.

He then posed the question, "What form will the GSEs take in the future?" Several possibilities are being discussed:

- 1) After housing and the economy are stabilized, the GSEs come back in their previous form;
- 2) The GSEs are re-created as a public utility;
- 3) The GSEs are regionalized, like the Federal Home Loan Bank;
- 4) The GSEs become a government agency; and
- 5) The GSEs—Freddie, Fannie, Ginnie—are merged into one entity.

While it's too early to determine which of the five alternatives are most likely, it is certain change is in the cards. In addition to the liquidity services the GSEs provide, their underwriting engines, DeskTop Underwriter and Loan Prospector, are critical to loan standardization. Questions raised by the participants included:

- 1) Can we use other vehicles, like covered bonds? Yes, perhaps, though most other vehicles are highly structured and regulated, which will take time to master and understand.
- 2) Will legislation require credit unions to sell loans? While legislative action is unlikely, NCUA may impose limitations.
- 3) Where are loan sales proceeds being reinvested? Paukovich said, "At the moment, loan proceeds are being reinvested in short term instruments."

Paukovich suggested learning as much as possible about this issue, so when it comes time, credit unions will be informed participants in the discussion. He suggested reading the Housing RoundTable's 'Re-Imagine Your Balance Sheet' White Paper.

Mr. Walker suggested today's lending environment is based on differing needs. Members want 4.50% 30 year fixed rate loans. Credit unions want to make those loans but either don't want to or shouldn't be placing them in portfolio. Consequently, and fortunately, we should be making all the loans we can yet selling most of them.

As the rate environment changes, credit unions could use loan participations as a means to move liquidity around the credit union system. Liquidity exists, but it's often mismatched: credit unions with lending demand lack liquidity; credit unions with liquidity lack demand. Consider, for instance, what 5% market share in 2009 could mean. Assuming credit unions simply keep market share constant, total mortgage lending could total in excess of \$150 billion this year, up from \$70 billion in 2008. Credit unions will have to sell four times the number of loans sold in 2008 to meet this level of demand. Participations are one way credit unions could meet the need within the System, though today's low interest rates make them less attractive portfolio options.

Participations have been used by credit unions for years. Two credit unions get together and 'swap' loans for cash. These have not been, nor are they, complex transactions, simply a buyer and a seller getting together. Done thoughtfully, single participations or a participation network could help credit unions diversify geographically, as well as help manage interest rate risk. Affordably formalizing our industry's participation practices may be one solid alternative to use of the GSEs.

Mr. Wilburn discussed collaboration among credit unions and credit union organizations. Credit unions should be working more closely together to ensure that all members have access to credit union mortgage loans. His credit union, 66 FCU, has created a program for Oklahoma credit unions called the 'Loan Arranger' where smaller credit unions that lack mortgage programs can access the services they need to offer real estate loans to their members. Loan Arranger works with credit unions by filling in for the skills they lack. Importantly, it keeps credit union loan servicing within the credit union system.

Participants were then separated into four groups to consider the four questions posed earlier. Following is a summary of their discussions:

1) How much is too much? What are our balance sheet limits?

Group One discussed the fact that loan-to-share ratios are wide ranging. In their group alone the minimum was 40%, the maximum 125%. In determining limits or the ideal loan-to-share, the group agreed at least three elements must be in place:

- a) Board Policy
- b) Product Mix
- c) Overall Housing Finance Strategy

2) What liquidity alternatives do credit unions have? What options should we explore? Create? (Participations were also discussed in this group.)

Group Two affirmed the importance of the GSEs to credit union mortgage lending. Moving on to other liquidity options, the group discussed the Federal Home Loan Bank, the Corporate Credit Unions, Private Investors, and a credit union-specific GSE-like organization which would provide liquidity, guarantee payments, and possibly have other financial or government backing to help weather economic storms. Perhaps this would be a CUSO hybrid formed by large credit unions and private enterprise that has the ability to issue commercial paper or other like instruments, including participations. Its purpose would be to manage risk and to provide liquidity.

The group further discussed the mechanics of such an arrangement, such as an electronic means to create and market credit union loans, rating credit union loans, and servicing the loans.

3) How would your credit union use a loan participation network?

See question 2.

4) What are your thoughts on the Homeowner Affordability and Stability Plan?

Group Four took a 'benefits and challenges' approach to this question:

HASP Benefits

- Proactive. Helps borrowers who are not yet delinquent;
- Pricing. Lower LLPAs or no LLPAs;
- MI Benefit to borrowers;
- Expanded Eligibility to 105% LTV;
- Streamlined;
- Not limited to Freddie Mac or Fannie Mae;
- Additional revenue to servicer;
- GSE PR benefit;
- Stimulus for 2010;
- Will help bring CU delinquencies down;
- Stabilize the industry, home values; and
- Keeps members in their homes.

HASP Challenges

- 105% LTV not high enough in some areas;
- Modification operational details are not final yet;
- Treasury Contract details - do we participate?;
- 38% DTI; 31% DTI;
- Is modification so attractive it replaces refinance as an opportunity?;
- MI Operation Details;

- Subordinated Seconds (not credit unions);
- Additional cost to servicer;
- Capacity challenges;
- Education; and
- Systems don't support required changes.