

Credit Unions Respond Positively To Rocky Market

By Phil Hall

When Todd Hatfield is asked how the ongoing mortgage banking crisis is affecting the residential home loan originations at First Family Federal Credit Union in Orem, Utah, you wouldn't know there was a crisis.

"Things are wonderful and busy as heck," says Hatfield, vice president of mortgage lending.

Over in Tampa, Fla., Dean Clark reports an identical situation. "We are now doing abnormally well," says Clark, manager for real estate lending and servicing at Tampa Bay Federal Credit Union (TBFCU). "We are adding three additional staff to the six we current have."

Credit unions have traditionally occupied a very small slice of the residential lending sector, but the recent upheaval in both the housing market and the mortgage banking industry have emboldened many credit unions to push further into mortgage origination. The Credit Union National Administration (CUNA) predicts that real estate lending by credit unions will double to 12% by the end of this year. This is a substantial leap, considering that the majority of credit unions are not active in mortgage loans.

"Our market share is close to five percent, which isn't bad, considering that four out of five homeowners don't belong to a credit union," says Bob Dorsa, president of the American Credit Union Mortgage Association. "Only 15 percent of credit unions are making residential mortgages. But their business has almost doubled year over year, and some are so busy that they cannot do much of anything else."

Dorsa points out that the evaporation of the markets for other consumer products is spurring more credit unions to seek out home loans. "More credit unions are getting in because there's no other place to go," he says. "They are not issuing credit cards or making automobile loans. Where else are they going to loan money?"

Furthermore, Dorsa notes that the instability facing larger financial institutions has helped to bring more attention - and more dollars - to credit unions. "The credit unions are also seeing a lot of deposit growth," he adds. "Consumers recognize they are safe and sound."

So who is seeking out the credit unions? Many borrowers are coming to credit unions because other mortgage banking entities have severely tightened their standards. Hatfield notes that his credit union has recognized this and responded with an uptick in marketing outreach to attract these new borrowers.

"We're seeing an increase in non-members applying for mortgages through us," he says. "We work with real estate agents that refer to us. We are also pushing home loans on our Web site and in our mailers."

Even more curious is the large number of new borrowers who were already credit union members, but who never considered seeking their home loans from their institutions.

"As a credit union, we never ventured into mortgages with full marketing and awareness," says Clark. "Before, members didn't know we were doing this."

"That used to be a big issue," concurs Hatfield. "Now, we are getting the word out that we have a great mortgage department."

Hatfield adds that, at the moment, the only competition he sees in his market are other credit unions. "I see other credit unions marketing home loans with billboards and mailers," he says. "The banks out there are not advertising mortgages. When people compare feeds and interest rates, they see we're better than banks on both counts."

However, much of the activity involving credit unions centers around refinancing. Mike Schenk, a senior economist at CUNA, states that the current environment has placed a disproportionate amount of activity into refinancing, which might cause more harm than good.

"It is simply a reflection that rates are pretty low, that there are incentives out there and that a lot of refinancing is going on," he says. "Refinancing is quite large, and it is really stressing institutions' ability to keep up."

Tun Wai, chief economist with the National Association of Federal Credit Unions (NAFCU), also points out that other concerns may be lurking. "We have a little bit of concern with slightly rising delinquency rates and charge-offs," he says. "But you would expect that in an economy as bad as this one and with people being laid off."

So what is going to happen to the mortgages being originated by the credit unions? Schenk points out that these institutions have traditionally not been active partners with the government-sponsored enterprises (GSEs).

"Credit unions operate differently," he says. "They're portfolio lenders. Seventy percent to 75 percent of what they are originating stays on the books. The rest of the market was the opposite."

Schenk observes that keeping loans in the portfolio required the credit unions to perform strict due diligence, thus generating safer loans. NAFCU's Wei adds that the GSEs also helped keep the credit unions at arm's length.

"In recent years, the GSEs placed fees associated with adverse market conditions," he says. "That discouraged some institutions from selling to Fannie and Freddie. Even though they had A-paper, the credit unions preferred to hold the loans in their portfolios and not pay that fee."

However, some credit unions are seeking out new or expanded partnerships with the GSEs. TBFCU has

announced it has expanded its secondary marketing efforts with Fannie Mae's Refi Plus program. Clark notes that the Tampa Bay, Fla., area is starting to show signs of economic stability, and continued good news would benefit his credit union's ramped-up mortgage program.

"We are now selling 15 percent to 20 percent to Fannie," he says. "We are aiming for 50 percent. And as the market turns around, we're going to get stampeded as people come in."

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