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Setting Records, Together

2013, can you believe it? I imagine for many of you this is another year filled with lofty goals and challenges… For me it is the eve of my 40th year in the credit union community. I remember way back in 1974 when I started my career in a credit union offering mortgage loans. Things were a lot different back then (needless to say), and even though much has changed, the joy of helping homeowners through the huge decision to buy or refinance their home still exists for all of you today.

Fast forward some 20 years in my career to 1996, many of us in the credit union system were a bit frustrated we weren't doing more to help homeowners. I can recall in 1988 a small workshop with Realtors in the San Fernando Valley in southern California with local credit union executives talking about originating mortgage loans and working with Realtors. Yes we have been working at this a very long time and like many things in life good things take time. In 2012 in my opinion America's Mortgage Lending Credit Unions had your finest year ever! More importantly the production level reaching or surpassing $100 billion will be a milestone we have been waiting for. In addition the product mix is NOT all refinance transactions as we do see more and more evidence that many of the nation's Realtors are finally discovering what we have known for decades, Credit Unions can do it better in many cases and are likely the only lender on planet who can back up the claim of truly placing the borrowers' interest ahead of their own.

I know from speaking with many ACUMA members we are more certain than ever that credit union profitability is definitely and directly tied to your performance in the business of Housing Finance. In addition some of the leading credit union lenders are taking a page from the Wells Fargo playbook and realizing the mortgage loan transaction is the key to opening the door to a greater and more profitable relationship with each member you serve. We see all of these trends as great for the credit union system and individual credit unions.

While nothing comes without consequences, newly regulations on a host of issues may keep you up at night but look at it this way, there is no turning back. We have spent decades creating this foundation and again in my credit union career, compliance has been part of what you do and we have ALWAYS managed to integrate it appropriately and in some ways has been a catalyst requiring us to operate smarter and more efficiently.

So Happy New Year to all… While 2012 will fade into the distance I see this as another record breaking year and ACUMA is here to support you 100%. Please do not hesitate to call upon us as you need. ACUMA's Network like the MasterCard TV commercial states is nothing short of "Priceless."

Bob Dorsa

Bob Dorsa, President

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Credit Unions are Making Headway with the Nation's REALTORS®...

by Bob Dorsa

For the past nine years ACUMA has facilitated the America's Credit Unions exhibit for the Annual Convention and Expo sponsored by the National Association of Realtors. As one of the largest trade associations in the world boasting more than 1.5 million members, the NAR represents the premier professional REALTOR® group in the housing marketplace. While the ranks were a bit thin immediately following and during the recession and housing downturn, activity seemed to pick up in 2012 with the largest attendance in several years.

ACUMA is pleased and proud to represent the mortgage lending leaders within the Credit Union system. Our exhibit included more than 20 representatives from the Credit Union marketplace enjoying a wonderful time with REALTORS® now that we know many are and have been longtime members of Credit Unions.

Many consumers, particularly younger people are getting used to mortgage rates in the low single digits. Those of us that have been doing this for a while realize these are in fact historically low rates and are likely to begin rising as soon as this year. When rates rise, the applications for refinance decline appreciably. During the 17 years of ACUMA we have noticed this a few times. The Credit Union system has quadrupled our market in the past five years from the two percent rate where it stood for many years to exceeding eight percent in the spring of 2012. One of the key strategies we must discuss now is the preparation for the return of high volume Purchase Loans coming relatively soon. The challenges and differences between Purchase and Refinance loans are significant. For those not experienced enough to sustain your loan demands I thought it would a good time to review purchase loan marketing including information provided by our dear friend and Realtor Communicator extraordinaire, Terri Murphy.

So let us review and discuss exactly what Realtors Expect from lenders!

These are a few key items and are not in any priority order but must be reviewed so that your policies and strategies will have a definite impact on the volume you will receive from this channel. If left to chance, there may be serious consequences, including drastic reductions in mortgage lending in the future which may in turn have a concurrent effect on your entire credit union!

Let's start with acquiring Applications and the Origination Process: Since the Purchase loan transaction is opposite of the Refinance transaction you have to find loans as opposed to answering inquiries from members calling the credit union, Realtors are interested in the number of Originators you have, and their work schedule. Realtors for the most part are independent contractors and as such work when they must. They often work weekends and evenings. This should not come as a big surprise since this correlates to when homebuyers are available to view homes and discuss financing options. If your plan is to have in-house staff answer the phone between 8:am and 5:pm Monday-Friday, this will NOT work at all or in just a few exceptional cases. Another policy you will have to develop or sharpen is the manner and frequency your Loan Originators communicate directly with Realtors during the transaction. If you are fortunate to obtain an application is may be with some hesitation from the Realtor unless you have established a track record with them. Please remember the Realtor has a great deal of influence with the borrower. Many folks have responded to me that we will "deal with our member" and no one else. Once again my advice is to re-think this position!

Bill Tessier interviewing a member-Realtor of Navy FCU.

What's in it for your Credit Union? The reward for obtaining and successfully completing mortgage loans is a great chance to secure other business relationships with your member(s) and significant profitability for your Credit Union.

In addition to availability of your Loan Originator please ensure your organizational model concerning the careful recruitment and hiring of Loan Originators with the appropriate training and experience is at least equal to your competition. This market will be very competitive and your resources will have to be as good or better in my opinion to score some business.

The credit union exhibit at the 2012 NAR.

Realtors will ask many questions, what type of loan products do you currently offer; how long does your loan process take; does your Credit Union fund your own loans and perhaps will you service the loan? Again I am fairly confident they will inquire about communication. Most Realtors dislike surprises and delays in the approval and funding process. This is one of the reasons Wells Fargo has a huge market share. They seem to focus on getting the deals done and satisfying the borrower and Realtor! Realtors work strictly on commission and if they sense you do not possess the skills and ability to get the deal done they will move on and you may not ever see them again! Furthermore, when they have meetings with other professional Agents and Brokers they tend to share their experiences so please be forewarned!

Since the loan process itself is now heavily regulated most all of the lenders are on the same level playing field. This means your credit union will need to have all of the resources to expeditiously

See "NAR" continued on page 7

NAR booth staff members did a fantastic job introducing REALTORS® to CU mortgage lending options. Front row (L-R) Denise Vasturino, Denise Warren, (Navy FCU), Sharilyn Shaner (Prime Alliance Real Estate Solutions; Maria Pitallano-Dorsa (ACUMA), Sherry Peyton (Pentagon FCU), Bob Pondelieck (Baxter Credit Union)
Back row (L-R) Dave Mills (myCUmortgage); Bob Dorsa (ACUMA); Wallace Jones (CU Members Mortgage); Tony Bruschi (Radian); Alex Seyal (Pentagon FCU).

2013 Shaping Up as Busy Year in Mortgage Sector

John McKechnie.

As the mortgage market meltdown continues to fade into the rear view mirror and is gradually replaced by a "new normal" of flat prices and anemic interest rates, Washington is coming to terms with the future of housing finance. Questions about the nature and level of federal involvement in housing, the system of financial supports necessary to maintain a secondary mortgage market, and the extremely thorny issue of how to deal with toxic legacy assets still on the books, are all rising to the level of discussion on Capitol Hill and throughout the Administration.

There are three broad areas of policy debate that are likely to emerge in 2013, and each of them will have a real and tangible potential impact on the mortgage business.

First, new rules of the road will mean changes in making, servicing and selling mortgage products. On January 9 the long-awaited Qualified Mortgage (QM) regulation, mandated by the Dodd-Frank Act, will be issued by the Consumer Financial Protection Bureau. Designed to set an "ability to repay" standard for borrowers, the QM rule attempts to define a borrower's "ability to repay" by using a wide variety of factors, including the loan applicant's income, debt-to-income ratio, credit history and several other factors. Additionally, the rule eliminates no-documentation, stated-income, non-amortizing loans, option ARMs and balloons from the marketplace.

QM is not without controversy. One possible outcome would create a "rebuttable presumption" option that would apply when a borrower is unable to repay a mortgage loan due to unforeseen circumstances such as illness or job loss. Mortgage lenders have already expressed concerns that inclusion of "rebuttable presumption" would lead to a significant increase in lawsuits and would, in turn, cause a tightening of lending standards to an unreasonable degree. As an alternative to that standard regulators are considering a second option: a "safe harbor" provision that will shield lenders from lawsuits if they fully comply with QM rules.

Once QM is finalized, the even more complex "Qualified Residential Mortgage" (QRM) will take center stage. This regulation would create new rules for issuers of mortgage backed securities (MBS) requiring a portion of the credit risk to be maintained if a mortgage does not meet more stringent underwriting standards that include a minimum downpayment (the "skin in the game" requirement).

> The new standards would require servicers to credit payments promptly, quickly correct any account errors, provide direct access to entities specializing in helping delinquent borrowers, and promptly evaluate borrowers for foreclosure alternatives.

A proposed QRM rule issued in 2011 by the six federal regulators (FDIC, the Fed, FHFA, HUD, OCC and SEC) tasked with writing the regulation ran into a buzzsaw of criticism from consumer groups, private mortgage insurers, lenders, realtors and a number of members of Congress, primarily over a proposed 20% downpayment requirement. Recently the regulators have hinted that an entirely new QRM regulation will be drafted once the ink is dry on QM.

Second, problems associated with FHA will need to be dealt with, in some form or fashion. Although the Senate confirmed the nomination of Carol Galante to be the next head of the Federal Housing Administration in late December, FHA still faces crucial questions about whether its insurance fund will need a taxpayer bailout later this year. A study by an independent auditor of FHA's finances released in November estimated the fund could face a $16.3 billion shortfall at the end of the fiscal year in September 2013. Galante has expressed confidence they can take steps to fill this hole, but the report has put FHA under greater congressional scrutiny.

Key Republicans are holding out for a deeper commitment from the Administration to overhaul the FHA, highlighting differences between the parties over the future scope of the agency's mission. FHA insurance has allowed first-time homebuyers and minorities to access credit for home loans and has helped prop up the housing market since the crash began in 2007. Since then, private investors have fled, forcing the government, including FHA, Fannie Mae and Freddie Mac, to finance about 90 percent of the housing market. The estimated $16.3 billion shortfall in the FHA's emergency mortgage insurance fund stems mostly from loans insured in the housing buildup before the financial crisis. HUD officials, including Galante, have said the study in November did not account for new revenues in the future or a brighter outlook for home prices, which could help close the gap.

FHA will raise insurance premiums on new loans this year. It will also provide new programs to help borrowers on the verge of foreclosure and facilitate the sale of servicing rights from large banks to smaller firms better equipped

to help struggling homeowners in order to cut losses.

Third, GSE reform will be an ongoing, if undefined, issue. House Republicans, led by newly-minted House Financial Services Committee Chairman Jeb Hensarling (R-TX) and senior Committee member Scott Garrett (R-NJ), are likely to push for some form of privatization for the still-conserved mortgage giants Fannie Mae and Freddie Mac. Nine separate bills passed the House Financial Services Committee in the 112th Congress, addressing GSE-related issues ranging from compensation to the creation of new securitization platforms and covered bond clearing houses; all failed to receive consideration in the Senate. Democratic Senate Banking Committee Tim Johnson (D-SD) held several hearings on GSE reform, but observers on both sides of the aisle say that Johnson is reluctant to move forward on any changes to the GSE status quo as long as the housing finance market remains shaky.

Finally, the actions of the Consumer Financial Protection Bureau (CFPB) will be an overarching concern for every financial service provider. In addition to the above-mentioned QM rule, CFPB is also tackling a handful of other mortgage rules with an eye to improve how troubled borrowers are treated by credit unions, banks and other companies that service the loans.

One proposal would require mortgage servicers to provide more and clearer information to borrowers on their monthly mortgage statements; earlier disclosures on upcoming interest rate adjustments; advance notice and alternatives to force-placed property insurance; and earlier efforts to help borrowers avoid foreclosure. A second set of servicing proposals is aimed at how customer accounts are maintained as opposed to how the companies communicate with borrowers.

Designed to set an "ability to repay" standard for borrowers, the QM rule attempts to define a borrower's "ability to repay" by using a wide variety of factors, including the loan applicant's income, debt-to-income ratio, credit history and several other factors.

The new standards would require servicers to credit payments promptly, quickly correct any account errors, provide direct access to entities specializing in helping delinquent borrowers, and promptly evaluate borrowers for foreclosure alternatives.

Also on the agenda is a rule aimed at loan originators. It would limit the points and fees that loan originators may charge and prohibit compensation incentives that steer borrowers into certain types of loans.

CFPB is working with other regulators on a rule that takes aim at how appraisers are used by lenders. It would require lenders to use a licensed or certified appraiser for higher-risk mortgage loans, with interest above a certain threshold. It would also require lenders to obtain an additional appraisal if the home was purchased in the previous six months at a lower price, an effort to combat fraudulent home-flipping.

All of the mortgage-related rules are expected to be finalized by January 21, the deadline established by Dodd-Frank. **PL**

REALTORS® -
continued from page 5

accept process and approve all of your applications. There and several outstanding technology platforms to guide and assist those who have the size and capacity to take on this work. If you are a credit union that feels compelled to serve your members with mortgage financing options, you also have many options for outsourcing all or part of the process, but if you lack the will and desire to identify and accept applications you will again be placing your organization in jeopardy for the future. This happens to be my personal observation in almost 40 years experience with credit union mortgage lending.

The loan products you offer must be products that homebuyers want and need. If not, they have many alternatives to choose from. Some organizations steer clear of complicated products such as government loans. Your menu of loans products should be directly aligned with your field of membership or community. You may also receive requests for Jumbo Loans or loan for Investment properties. While some of the underwriting and regulatory limitations vary you would be well served to have competitive alternatives to answer these requests as well. With the recent decline in home values some people who can afford to purchase a second home or vacation property may think this is the time to do so. You want to help them as well. This means you will need to possess all of the skills and resources already discussed in this article and more!

What's in it for Your Credit Union? The reward for obtaining and successfully completing mortgage loans is a great chance to secure other business relationships with your member(s) and significant profitability for your Credit Union.

If you have any questions, please contact ACUMA. This is what we do and we will definitely provide you with valuable resources. **PL**

Financing Trends from the 2012 Profile of Home Buyers and Sellers

By Jessica Lautz

In the latest Profile of Home Buyers and Sellers, a report conducted annually by the National Association of REALTORS, 87 percent of recent home buyers financed their home purchase. The report is based on a survey of over 8,500 recent buyers who are typically primary residence home buyers. Among those who buyers who typically financed their home purchase the buyer financed a median of 91 percent of the home.

The downpayment sources among buyers have changed in over the last decade. While savings is still the number source of downpayments, the share of buyers who are relying on savings has grown dramatically from a low of 49 percent in 2003 to 65 percent in 2012. Buyers who are able to rely on the proceeds of the sale of their primary residence has dropped from a high of 44 percent of buyers in 2006 to 25 percent in 2012. Tapping into a buyer's 401k/pension fund and IRA has become more common place, while less than 10 percent of buyers do so.

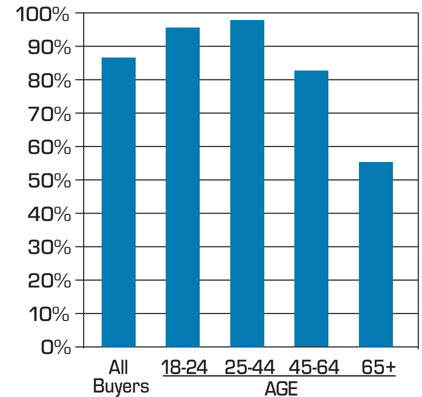
Forty percent of recent home buyers reported that the mortgage application process was at least somewhat more difficult than they expected, while 17 percent reported it was easier than they expected. First-time home buyers were slightly more likely to report difficulty in the mortgage application and approval process compared to repeat home buyers.

Despite the changes seen in the housing market in recent years, most new buyers (78 percent) are confident that their home purchase was a good financial investment percent believe their home purchase was better than stocks. First-time home buyers, single males, and unmarried couples were the most confident types of home buyers in their home purchase as a financial investment.

> Despite the changes seen in the housing market in recent years, most buyers are confident that their home purchase was a good investment

Buyers who financed their home purchase by age

(Percentage of respondents)



For more information on home financing among recent home buyers, the home buying and selling process, and the relationship both buyers and sellers had with their real estate agent, please visit: http://www.realtor.org/topics/profile-of-home-buyers-and-sellers. **PL**

Downpayment Sources Among Home Buyers 1997-2012

Data from National Association of REALTTORS® Profile of Home Buyers and Sellers 2005-2012

	2000	2003	2005	2006	2007	2008	2009	2010	2011	2012
Savings	57%	49%	50%	50%	52%	56%	54%	66%	67%	65%
Proceeds from sale of primary residence	35	37	43	44	43	34	23	22	26	25
Gift from reletive or friend	13	12	11	9	10	13	14	18	14	14
Sale of stocks or bonds	NA	6	6	7	8	8	6	7	10	8
Equity from primary residence buyer continues to own	NA	NA	NA	5	5	4	2	2	3	2
401k/pension fund ncluding a loan	5	5	5	4	4	5	5	7	8	9
Loan from relative or friend	4	5	5	4	3	5	4	6	5	4
Proceeds from the sale of real estate other than primary residence	NA	NA	NA	3	2	2	1	2	2	1
Inheritance	3	2	3	2	3	4	3	4	5	4
Individual Retirement Account (IRA)	3	3	2	2	2	3	2	3	4	5
Loan from financial institution	2	6	NA	NA	NA	NA	NA	NA	NA	NA
Loan from financial institution other than a mortgage	NA	NA	6	2	2	1	1	1	1	1
Sale of personal property	2	NA	NA	1	1	*	*	*	*	*
Life Insurance	1	NA	NA	1	1	*	*	*	*	*
Investment property sales (1031 exchange)	2	NA	NA	1	1	*	*	*	*	*
Equity from refinanced investment property	1	NA	NA	NA	NA	NA	NA	NA	NA	NA
Credit from lease option to buy	1	NA	NA	NA	NA	NA	NA	NA	NA	NA
Loan or financial assistance through employer	NA	NA	NA	NA	NA	NA	NA	NA	*	1
Loan or financila assistance from source other than employer	NA	NA	NA	NA	NA	NA	NA	NA	2	2
Other	8	6	7	4	*	5	4	4	4	4

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Happy New Year

Dan Green
EVP Marketing, Mortgage Cadence

Happy New Year! By the time you're reading this, the books will have been closed on 2012 for the better part of a month, with 2013 off to a fast start. Yet before we think too much ahead into 2013 and beyond, let's take a minute to celebrate 2012.

2012 was the strongest year ever in credit union mortgage lending history. Over $100 billion in mortgage loans. Greater than an 8% share of the US mortgage market. Remarkable performance seven years after we all began focusing on 'two-to-ten': getting to ten percent market share by 2016. Appears as if we may have to rethink what was a lofty goal and make it loftier. More on that later.

2013 may well be a new beginning for mortgage lending in the United States in general and for credit unions in particular. Rates remain low. Housing remains insanely affordable. The housing market is heating up across the country, and many, though not all, of the housing-bust issues are behind us. Yes indeed, the dawn of a new market, one drastically different from the markets of old, is upon us. There's just one piece of old business we ought to deal with during the twelve months, however.

> In some senses, lending is getting easier so long as you have technology that ensures the rules are being followed because rules, more and more of them, are the thing of the future.

Old Business

The old business is the Home Affordable Refinance Program (HARP). Currently set to expire on December 31, 2013, HARP demands your attention this year for a number of tactical and strategic reasons. Short-term opportunity is the biggest tactical reason of all. Two million to seven million homeowners remain eligible. While that is a wide range, in either case it's a lot of loans. Look at it this way. Eight million mortgages were closed in 2012. Two million is 25% of the total; seven million is 87.5%. During 2013, the Mortgage Bankers Association is predicting volume of 7.5 million loans in total, making the HARP opportunity very important.

How did credit unions do with HARP last year? An estimate from late this fall put total US HARP 2.0 volume at 1 million loans, much better than 900,000 or so made under HARP 1.0, which opened for business in 2009. Still, one million compared to the potential number of homeowners in need seems low. While it is difficult to know exactly how many Home Affordable Refinance Program loans the credit union industry closed last year, we can make a pretty good guess. $100 billion in mortgage loans equals about 600,000 units. Assume 65% of last year's business was refinance, and then further assume 20% of the refinance business was HARP. If you buy into the idea that these estimates are directionally correct, then credit unions closed about 80,000 HARP loans in 2012. Somehow, magically, this equals 8% of last year's HARP market. In other words, credit unions grew their share of the overall market, and matched that share in HARP. Darn good performance.

Why more HARP? It is tactically good business purely from a volume perspective. Helping underwater homeowners in the last twelve months of the Program could almost equal an entire year of production. Although volume is good, revenue is better. HARP loans save homeowners between $100 and $1,000 per month, obviously good for them. These

mortgages also tend to be very profitable. Talk with your colleagues who concentrated on these loans last year. They'll tell you what a positive effect helping members and non-members alike had on their income statements. Members win. Your credit union wins, too.

Volume and revenue are good reasons to engage, though we really cannot afford an entire year of tactical thinking, not if growing overall market share above 10% remains an important goal. So here's the strategic reason to embrace the Home Affordable Refinance Program: member relationships. HARP is remarkable for member relationships, both current and potential. Help a member save several hundred dollars per month, and you've increased their loyalty dramatically. Use HARP to help potential members refinance, obviously making them members in the process, and you've created a bond that will last a lifetime. Credit unions are concerned with the member's entire financial life. Strengthen or start that relationship by decreasing their mortgage payment, allowing them to stay in their homes and their communities, and they'll never look elsewhere for their financial service needs. HARP is profitable in both the short and the long runs when you con-

sider the tactical and strategic aspects of the Program.

There is any number of reasons to ignore HARP in its final year. Too much volume and too much risk are two of them. No doubt advertising the Program and focusing your team on these loans will bring in the business on top of the record-setting business you are already doing. Why incur the stress? This may be another strategic reason to engage: growing industry share to 10% and beyond demands learning how to deal with ever increasing volumes. Use HARP as a means of learning to grow. It may be difficult, it may cause operational issues, but do it anyway. The old muscle-head mantra of 'no pain, no gain' may, in fact, be true.

Risk is the other reason to avoid HARP. Or is it? The GSEs announced earlier this year a further relaxation of reps and warrants for HARP loans. They are serious, too, about helping homeowners remain in their homes and in their communities. Theirs is a larger economic issue: continually encouraging the housing recovery, and, therefore, the economic recovery. Reducing HARP risk does that. Lend according to the guidelines, sell the loans, reduce risk, and delight members, both current and potential. Reaching the two to seven million eligible homeowners in the next twelve months is good business for everyone.

> While who we lend to and what we lend on changes, the products we use to finance their purchases, driven by regulation as well as consumer demand, look a lot like the stock-standard lending of the 1980s before exotics were de rigueur.

Everybody's Gone Surfin'

We've been hangin' ten on a gnarly refi wave since 2009. That wave hits the beach this year, and we need to be ready for it. Refinance has gone on way too long, much longer than anyone expected thanks to low rates no one has ever seen before, or may ever see again. Early this year, like now, we need to head out on surfari, searching for the purchase waves that are sure to start during 2013. The signs are all there: housing demand is increasing, housing prices are rising, households are once again beginning to form, and baby boomers are, ever so slowly, on the path to downsizing. The fact is, people have been waiting a long time to purchase homes, and they are not going to wait much longer. Time to plan purchase strategies. Which market segments will you pursue? How will you engage them? What policies, practices, and procedures need refreshing or creating? Purchase-lending is the "in" thing for the next ten years or so. Time to plan for it.

New Business

Here's an interesting factoid for mortgage geeks: the homeownership rate in this country can be traced back 112 years. It hit 62% for the first time in 1960; it is 65% now after declining the last several years from its peak of 69% in 2004. More nerdy: today's rate of 65% equals the long-run average for the period 1960 to the present. The 112 year average is 63%. Here's a prediction: the US Homeownership rate will settle between 63% and 65% over the long-term, which means no peaks or troughs on the horizon and also means a calmer environment over the long-haul driven by demographics. The influence of Baby Boomers on the dawning market will lessen every year. Taking their place will be new formation households, first-time buyers, and a new, much more diverse buyer population than we have ever seen before. Property diversity could very well expand too. Cities are 'thicker' than ever before; where once there was a single-family home, there are now 6 condos or town homes.

> Why more HARP? It is tactically good business purely from a volume perspective. Helping underwater homeowners in the last twelve months of the Program could almost equal an entire year of production. Although volume is good, revenue is better.

While who we lend to and what we lend on changes, the products we use to finance their purchases, driven by regulation as well as consumer demand, looks a lot like the stock-standard lending of the 1980s before exotics were de rigueur. In some senses, lending is getting easier so long as you have technology that ensures the rules are being followed because rules, more and more of them, are the thing of the future.

A Loftier Goal

Two-to-Ten was and is a good goal. We've got ten percent in our sites, which means it's time to think about celebrating success and creating a new goal. How about 15% by 2020. Or 20% by 2020? Has a nice symmetry to it, don't you think? **PL**

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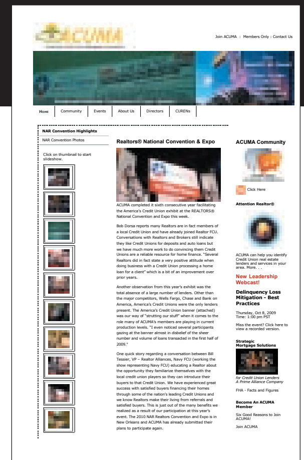
ACUMA HAS BEEN IN OPERATION SINCE 1996. DURING THAT TIME ACUMA HAS FOCUSED ON ONE TOPIC, CREDIT UNION MORTGAGE LENDING.



AS AN ACUMA MEMBER EVERYONE IN YOUR ORGANIZATION IS ENTITLED TO ALL THE BENEFITS OF MEMBERSHIP. INCLUDING...

- **Discounted pricing for ALL ACUMA Webinars as well as Conference and Workshop fees.**
- **Direct connection to the nation's leading mortgage lending experts.**
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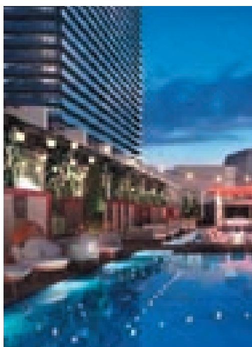
- **The best source for networking with the National Association of Realtors and other mortgage and housing related authorities.**

2013 promises to be the beginning of a new mortgage lending landscape. With the anticipation of the fully implemented Dodd-Frank legislative and new rulemaking by the Consumers Financial Protection Bureau, (CFPB) credit unions may have to revisit the manner and strategies surrounding mortgage lending.



In addition to the regulatory front the hopes of rising home values and concurrent increase in rates, we will edge closer back to a focus on Purchase Money loans and perhaps see a wind down of Refinance transactions which have dominated the lending markets in recent years.

These trends and processes will take time, money and a keen awareness of what to do to stay current and competitive.

We urge you to make the best of your opportunities. ACUMA is the leading trade association dealing exclusively with these issues. We have created an extensive network of knowledgeable individual and organizations that can guide you through whatever your needs are. Now is not the time to rest or pull back but a time to feature home finance as a cornerstone of your organization's services offer to your members.

Join ACUMA today, you'll receive an immediate return on this investment, like the guy with the nice clothes says, We Guarantee it!

CUNA witness stresses CUs' difference at CFPB mortgage hearing

CUNA News Now - Washington 2013-01-17,

Credit unions did not create the mortgage market issues that the Consumer Financial Protection Bureau seeks to address through its new regulations, and therefore should be shielded from regulatory burden where possible, Credit Union National Association witness Pam Davis said at a Thursday hearing.

ACUMA Executive Committee member Davis also represented the Georgia Credit Union Affiliates.

> "There is absolutely no evidence that credit unions have engaged in abusive practices regarding mortgage loan originator compensation and additional requirements will needlessly add to the regulatory burden credit unions already face." - Pam Davis

The hearing was held just after the CFPB released a final rule addressing mortgage servicing on Thursday morning. Regulatory measures addressing mortgage loan origination (MLO) and high-risk mortgage appraisals are also on the agency's docket: There is a Jan. 21 deadline for their release. The CFPB last week unveiled final rules regarding ability-to-repay requirements, escrow accounts, and "high-cost" mortgages.

Davis, who serves as vice president of real estate services at Delta Community CU, Atlanta, said CUNA and credit unions are "concerned about the regulatory burden imposed on lenders and will be reviewing the new rules from that perspective."

The CFPB's final mortgage servicing rule requires mortgage servicers to simplify billing statements, provide additional notice of rate changes to borrowers and help ensure that consumers know all of their options to prevent foreclosures.

The servicing rule contains a number of exemptions for credit unions and other small financial institutions that service 5,000 or fewer loans that they or an affiliate originated.

Those credit unions will be exempted from periodic statement requirements, general servicing policies, procedures and requirements, early intervention and continuity of contact provisions with delinquent borrowers and a vast majority of the loss mitigation procedures, CUNA Deputy General Counsel Mary Dunn noted.

They will not, however, be exempted from the information request and error resolution requirements, Dunn said.

Pam Davis of Delta Community CU, Atlanta, Ga., said new CFPB mortgage servicing regulations will benefit borrowers. She encouraged the agency to recognize the differences between credit unions and for-profit institutions as it develops regulations. (CUNA Photo)

Davis during the hearing said the CFPB's mortgage servicing regulations "do address a number of problem areas" and will be helpful for borrowers. The servicing rules will also address some of the problems associated with misaligned incentives in the servicing market. However, Davis noted, CUNA and credit unions "want to ensure that responsible lenders are not unduly burdened in the process."

Regarding the pending MLO final rules, Davis said, "There is absolutely no evidence that credit unions have engaged in abusive practices regarding mortgage loan originator compensation and additional requirements will needlessly add to the regulatory burden credit unions already face."

CUNA has advised the CFPB to eliminate the use of "proxy factors" to restrict compensation to loan originators, revise proposed restrictions on upfront points and fees, and provide credit unions with some flexibility on the use of arbitration clauses, Davis said. **PL**

Resources available from the Consumer Financial Protection Bureau

Loan Officer Compensation Rule: http://files.consumerfinance.gov/f/201301_cfpb_loan-originator-compensation-rule_summary.pdf

Loan Servicing Fact Sheet: http://files.consumerfinance.gov/f/201301_cfpb_servicing-fact-sheet.pdf

QM (Qualified Mortgage) Rule:

A factsheet further explaining the new rule is at: http://files.consumerfinance.gov/f/201301_cfpb_ability-to-repay-factsheet.pdf

A summary of the final Ability-to-Repay rule is at: http://files.consumerfinance.gov/f/201301_cfpb_ability-to-repay-summary.pdf

5 Ways to Incorporate Cross-Selling into Your Sales Culture

By Mark Marple

I recently read an article about a retiring credit union CEO who in the early days of his career used to stare out the window at the parking lot. He wasn't daydreaming – he was checking out the cars. When he saw an older model, he found the owner, who was most likely in the office cashing a payroll check, and offered up a great rate on a car loan.

Beyond the parking lot

It was certainly a creative approach to uncovering a problem and offering a solution. Now, I'm not recommending that you hire someone to sit in the parking lot to check out the cars. But it is true that the more relationships you develop with each member, the more successful you will be. Do your mortgage holders have checking accounts with you, too? Do the members with car loans know about your savings plans? How about your members with college-age students? Are they aware of your low-interest rate credit card for students?

Research reveals that the number of accounts your member has with your credit union directly relates to:

- **Improved Member Retention:** Your members are less likely to be lured away to your competition when they have a mortgage, a car loan and checking/savings accounts with you.
- **Decreased Defaults:** Lender Landscape statistics show that mortgage holders who also have a car loan or checking/savings account at the same credit union are less likely to default on their mortgage.
- **Decreased Prepayments:** Members with several accounts with one credit union are less likely to refinance their mortgage at a different institution
- **Increased Referrals:** Satisfied members are more likely to refer their friends and family to you

Enhance your value to members

The other aspect of the CEO and the parking lot story is that it shows how promoting the credit union's products and services is not just the job of the sales team. All staff members, from the receptionist to the CEO, should be involved in developing more relationships with your members. Incorporating a cross-selling strategy into your culture is one of the most important things you can do to be measurably successful in 2013.

Cross-selling can be defined as "When a service provider recognizes what a customer is purchasing and then makes suggestions or recommendations of other related or complementary products that may also interest the customer." Businesses incorporate cross-selling techniques to enhance the value that the client gets from the organization.

Consequences of Not Cross Selling

- Lost Business
- Lost Members
- Lost Competitive Edge
- Lost Revenue

So if cross selling shows members you're listening, paying attention, and understand what they may need or want, AND it enhances the value they receive from your credit union, then why aren't you doing it?

How One Credit Union Does It

Northwest Federal Credit Union (NWFCU) has an offer for members closing their mortgage refi.

Their mortgage pricing requires a 1% origination fee, but members who open a NWFCU checking account and have direct deposit of $500 or more each month receive a 1/4 point off the origination fee. On top of that, members who sign-up for ACH for their mortgage payment from a Northwest account receive an additional discount of 1/4 point off the origination fee. **Members who take advantage of both options reduce their origination fee by half!**

NWFCU estimates that **at least 85% of members choose to take advantage of at least one option.**

How it works

For example, a member with a $200,000 mortgage could get $1,000 off the origination fee by:

Open checking account with direct deposit	**0.25% off origination fee**
Set up automatic ACH payment of mortgage	**0.25% off origination fee**
Total Savings	**0.50% off origination fee or $1,000**

But that's not my job

There's a misconception that cross selling is a negative experience for you and your members. You fear that you might offend your member or lose them to the competition because your credit union staff is "too pushy." Maybe your staff figures that a member is just there to cash that check or apply for an auto loan and they shouldn't be bothered with other stuff. Perhaps your staff members don't think they really know enough about your products and services and are afraid they will sound stupid if they start talking with the member. Or worse, they don't want to sound like a "salesperson." After all, sales is someone else's job, right?

Wrong. All staff members are in "sales." Sales is customer service. And one way to provide great service is to cross sell. After all, who better to meet their needs than your credit union? But we know it's not that easy to incorporate a cross-selling strategy into your current sales culture. So here's a place to start: five ways to incorporate cross-selling into your sales culture.

1. Control what you can control.

If you're responsible for one channel of your credit union, then don't wait for the other channels to participate. Instead, take action within your own channel. In the mortgage unit, perhaps you can start cross-selling checking accounts/deposits/investments. With a member's 1003 in hand, you have all the information you need to determine potential sales opportunities. You'll set an example for the other product channels when your team becomes the largest source of new accounts.

Incorporating a cross-selling strategy into your culture is one of the most important things you can do to be measurably successful in 2013.

2. Start somewhere.

What do you want to grow this quarter? Strategically decide what you want to do and then develop a plan to hit those goals. For example, let's say you want to get more new checking accounts. Offer all new mortgage borrowers a slightly lower interest rate or $500 off closing costs to move their checking account to you, with ACH payment of their mortgage. That extra $500 in the member's pocket could overcome the effort involved in moving the account.

3. Reward the cross-sellers.

Offer recognition and perhaps rewards to everyone who actively cross-sells. Talk it up at staff meetings and with the executive team. Create a buzz.

4. Sell it to everyone, from the receptionist to the president.

Everyone needs to be on board with the cross-selling strategy. The best way to do that is with numbers. Use your success to sell the concept to the other business units.

5. Get CU staff the information they need.

When other business units see the light, arrange for educational sessions. Bring in lunch and have the business units educate each other on their products and services. When new products are introduced, be sure all associates are updated. Finally, arrange for cross-selling workshops that provide associates with techniques they can use. **PL**

Mark Marple is Vice President of Business & Product Development at MGIC. He is responsible for lead generation and customer relationship management products. Prior to joining MGIC, he worked for The Travelers Mortgage Services, Citicorp Mortgage and two national mortgage banking consulting firms. He has a total of 25 years of experience in mortgage banking. Mark has been a speaker and panel member at several conferences, including the National MBA, National Secondary, MBA CFO and National MGIC Roundtable.

Cross Selling:

The Ultimate Customer Service Experience

A workshop presented by MGIC

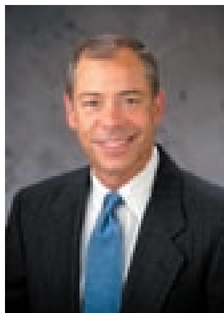
How and when to cross sell can be as simple as listening and asking questions based on what you see and hear. But it's easy to get distracted. Join MGIC for a workshop designed to help you overcome the barriers to cross selling and learn how to really tune into your customers.

This workshop will help you to:

- Identify the cross-selling difference
- Provide three benefits to cross selling
- Discuss qualifiers for key products
- List three ways to uncover customer needs
- Demonstrate probing techniques
- Increase your value

To arrange for a workshop for your credit union, contact:
Margaret Crowley
414-347-6890
margaret_crowley@mgic.com

Limited Change Should Lead to Positive Lending Environment in 2013



By Joel Luebkeman
Director, Product Development and Strategic Partnerships
CMG Mortgage Insurance Company

Buoyed by an improving housing market, the mortgage finance environment in 2013 will most likely follow the old adage, "the more things change, the more things stay the same."

The long-anticipated winding-down of Fannie Mae and Freddie Mac will not begin this year. Nor will Dodd-Frank's regulatory framework be fully implemented. Meanwhile, many states will still be digging out from under the easy money, poor underwriting and overbuilding that began nearly 10 years ago.

Despite these uncertainties, however, 2013 has the makings of a positive year of continuing recovery and progress towards a stable lending and housing environment. Housing fundamentals should be further bolstered by an emerging consensus on the residential lending landscape's ultimate appearance – after all the negotiating, lobbying and rulemaking shakes out in Washington, D.C.

The year will also provide insights into the future regulatory framework that will govern the industry for years to come, and establish the underpinnings of a sustained housing recovery. Having greater confidence in the industry's overall direction should help credit unions in 2013 to develop a sound lending strategy and get a competitive jump on other mortgage market participants.

> By building on the lessons learned during the past five years residential lending should be a bright spot for credit unions in 2013.

The GSEs Are Not Going Away This Year... or Maybe Ever

I'll make the bold prediction that 10 years from now a Fannie-/Freddie-like organization will still be facilitating the packaging and sale of residential mortgages in the United States. With numerous proposals swirling around the industry and outrage still burning hot in certain circles regarding the taxpayer bailout and mismanagement at the GSEs, how can these government-supported entities survive, even as shadows of their former selves?

The answer is simple – powerful economic interests.

Given that jobs, wealth creation and buyer confidence are all supported by a web of direct and indirect government support embedded in the GSE structure, unwinding these institutions is no simple task. A recent *Inside Mortgage Finance* article estimated 70% of the country's new mortgages are guaranteed by either Fannie Mae or Freddie Mac.

As with farm support programs and military spending, legions of well-funded organizations and armies of lobbyists are entrenched in Washington to protect this status quo. These include the National Association of Home Builders, the National Association of Realtors, the Mortgage Bankers Association and many others, their ranks augmented by the Washington legislative advocacy offices of every large financial institution in the United States.

The constituencies of all these groups benefit from long-term, fixed-rate financing that can be refinanced at the borrower's whim, and available to them only because of the backing of an immense organization with extremely deep pockets–in other words, a GSE. Outside of government, few organizations exist that are willing to assume the risks associated with the functions the GSEs perform – fostering both market-making and market-stabilization activities.

Most large multinational corporations do not enjoy comparable access to the relatively cheap, long-term fixed-rate financing that American homeowners expect as a matter of course. The psychological effect of this financing structure in coaxing risk-averse purchasers to buy homes is immeasurable. Certainly many prospective homebuyers would opt not to purchase without the security and peace of mind made possible by this stable, low-cost mortgage finance system.

Without affordable, GSE-facilitated financing, thousands fewer homes would be sold, and significant related economic activity would be lost. Now, it's certainly open to debate as to the GSEs' overall economic benefit to the nation, for the economy might grow in other ways if the capital and productive capacity currently tied up in housing were redirected to other sectors and business pursuits. But the GSEs' disappearance would directly impact those whose livelihoods depend on housing and those individuals and groups will work very hard to protect their interests.

Although some GSE-type of agency is destined to remain on the scene, the political reality is that there must be changes in the GSE structure. Given the political tumult and governmental budget impact caused by Fannie and Freddie's failure, these two entities cannot survive in their present form.

Some modest reforms that could be implemented without significant market disruption:

- Restricting the GSEs' lending limits to the old conforming balances of $417,000
- Combining Fannie's and Freddie's securities issuance into a single MBS and ultimately merging the two institutions

- Severely limiting the GSEs' ability to maintain a retained loan investment portfolio.

The basic industry infrastructure would be retained:

- DU/LP automated underwriting engines, g-fees, and the reps and warrants to which lenders are accustomed
- Mortgage insurance requirements for loans over 80%
- MBS pricing conventions that govern secondary market executions today.

Jumbo Opportunities Beckon to CUs in 2013

Assuming a secondary market environment similar to today's, what are some of the strategies credit unions can adopt for success in the coming environment? First, most secondary markets aggregators and risk counterparties that exist today will be around well into the future. Depending on your credit union's position in the origination hierarchy, trying to find, or create, a conventional execution better than the GSEs' is not a good use of time – even with a restructured Fannie and Freddie.

However, there are other areas of opportunity that are ripe for innovation. These include areas where credit unions can leverage their portfolio lending capacity, instead of competing with the preeminent GSE strength of conforming fixed-rate lending. Specifically, targeting segments the GSEs (and FHA) will likely be forced to exit, such as jumbo lending above the $417,000 limit. The watchword here is, *know your market,* and approach it conservatively, safely and in a measured manner.

Credit unions in certain high-cost markets may find lending above the $417,000 conforming limits presents some interesting portfolio lending opportunities. Best practices for lending to this segment could be the topic of an entire article by itself. However, here are a few quick points to consider if your credit union is going to consider lending in the jumbo space:

- Ensure that the property values on which you're lending are common for the market. If you are making $600,000 loans and the properties securing those loans represent a rarefied slice of your market, you could be exposing your institution to inappropriate risk. However, if the homes securing such loans are common in your market and sales times for these properties are at or better than the market average, chances are you are making a well-secured loan.
- In addition to other standard and prudent underwriting practices, jumbo lending requires special attention to the appraisals. Ensure that values are supported by carefully scrutinizing the appraisals, including comps, their proximity to the subject property, age of comps and appropriateness of value adjustments.

Should CUs Worry About QM, QRM, Basel lll?

Contrary to widely held perceptions, the regulatory environment in 2013 will likely have a benign impact on credit union mortgage lending activities. The new year may finally bring the industry closer to understanding the rules designating a Qualified Mortgage (QM) and those pertaining to the Qualified Residential Mortgage (QRM). As a quick refresher:

- The *QM* provision of Dodd-Frank was intended to encourage financial institutions to make less risky loans by granting them limited protection against homeowner lawsuits when they approve loans that meet this definition.
- Loans meeting the *QRM* definition were intended to be exempt from the 5% risk retention rules on loan securitizations.

The initial rules proposed during the spring of 2011 suggest credit unions have little to fear. Both the QM and QRM definitions closely align with the fully documented, income-qualified mortgage loans credit unions have traditionally made. Also, because of the strong underwriting practices of credit unions, borrower lawsuits are likely not a major issue for the industry, reducing the need for such protections anyway.

> Having greater confidence in the industry's overall direction should help credit unions in 2013 to develop a sound lending strategy and get a competitive jump on other mortgage market participants.

In addition, credit unions generally do not directly securitize loans. When loans are sold, they generally either go to the GSEs or to entities that will ultimately sell to the GSEs – all of which were exempted from the proposed 5% risk retention rules. Under the originally proposed QRM rules, loans sold to the GSEs while in receivership are exempt from any risk retention requirements.

The other area of concern on the regulatory front is Basel lll. Last summer, federal bank regulators released for public comment a set of proposed rules intended to bring American bank capital regulations into compliance with current international banking capital standards, collectively known as Basel lll. Although the proposed rules would not apply to credit unions, the National Credit Union Administration (NCUA) has historically implemented credit union net worth requirements that closely track bank capital rules.

See GSEs - continued on page 19

Want Fries With That?

Arizona FCU maximizes home lending with cross selling solutions

By: Alison Barksdale, AVP/Marketing Director
CU Members Mortgage

For years, Arizona Federal Credit Union ($1.3 billion; 166,058 members; Phoenix, AZ) and credit union staff sold its products and services with ease. The Credit Union had a "problem" of new business literally walking through the door. As a result, a secure time of growth surprisingly led to staff focused on service and less about sales.

According to the Arizona FCU's Senior Director of Consumer Lending Timothy Johnson, employees became somewhat spoiled during these "easy" times, as members essentially asked for what they needed. Staff simply became order takers, not fully engaged with the members.

One of Arizona FCU's primary business goals has been to increase its mortgage lending activity. To achieve this particular goal, among others, the credit union decided to change their to focus on actively engaging their members. And, just as the economy took a downturn in 2008, when many credit unions started to struggle, Arizona FCU's new sales culture initiative was coincidentally implemented.

> Regardless how rates may change with the fluctuating economy, Arizona FCU is confident that its new cross-selling culture is a good foundation to fuel growth and better provide for the member in every way.

Positive feedback

It was apparent, even from the very beginning, that this sales culture would foster positive feedback from members as the credit union experienced staff/member relationships growing stronger. The bigger challenge, however, would be further bolstering staff engagement; helping them evolve from reluctant employees to proactively investing in the members' needs using effective communication skills that would ultimately foster sales results.

"The biggest obstacle was helping staff understand they weren't pushy sales people but expertly guiding members to discover their financial needs and how we can provide for them," Johnson says. "The mortgage lending process, for instance, can be a confusing and complicated endeavor. Our goal is to have members coming to us because they trust us to help them through a process such as this. They may not realize the need for mortgage insurance products, a specific type of mortgage or consumer loan that matches their situation, or refinancing a current loan. That is where our cross-selling culture has helped immensely.

"Helping our staff understand the vital role they play in serving the member by finding solutions to their needs has been key–especially in successfully applying for and receiving a mortgage loan," he adds.

Performance increase

Arizona FCU's cross-selling culture has certainly prompted members to trust the credit union, as its recent performance has been nothing short of remarkable. For example, the credit union's mortgage loan volume has nearly doubled with a 44% increase in approved loans since last year. This boost has led to a 33% growth in dollars disbursed to members.

Since its cross-sell culture began, the credit union has also shown a dramatic decrease in application denial with only 18% being declined in the last year. "Because of our attentive culture, we are now putting our members in the best financial situation to succeed," Johnson says. "They certainly appreciate that."

Cross-sell cultivation

When Arizona FCU transitioned to its cross-sell culture a few years ago, it was important that support started from the top of the organization down. Having the entire credit union support sales has allowed it to ensure this sole focus from hiring, new employee training, on-boarding staff within the branches, and with ongoing promotions. The credit union ensures its staff is equipped by listening for key words or various life events, understands the features and benefits of the product and/or service–along with asking members open-ended questions for increased information. "Our goal is to fully understand a member's need so we can find the best solution for them," Johnson says.

Over a year ago, Johnson's position of Senior Director of Consumer Lending was created to focus on sales throughout the organization. This enterprise-wide job has allowed him to partner with all areas of the credit union to ensure it is promoting and selling all products and/or services to members. All of these changes support and cultivate their focus on a sales culture within the organization.

"It all begins with proper recruiting, finding and hiring employees with personable sales skills that enable them to talk comfortably with members about their financial situations," he explains. "All our interviews are behavior based with scenarios designed to look for action-oriented traits in possible candidates that will mesh well with our member engaging environment."

Language ingrained within culture

Starting this cross-selling philosophy and experiencing its results takes time, however. Arizona FCU implemented this venture a little over four years ago and is seeing measurable, yet impressive, results. "It takes time to get the language ingrained within our culture to approach each interaction as relationship builders–not as order takers," Johnson adds.

Now that the cross-sell language has been ingrained within its corporate culture, the credit union's staff interacts as

financial consultants, guiding members to the mortgage team who can accurately answer questions and help members find solutions to their needs. Couple this consultant-like behavior with Arizona FCU's new online mortgage application and the credit union now has the best of both worlds, allowing 24/7 access to more information as well as experts who can best advise them.

> "The biggest obstacle was helping staff understand they weren't pushy sales people..."

Comfort in a sales atmosphere

Today, the credit union's front-line staff has cross-selling goals and is equipped to meet and exceed them because of the more investigative training–and comfort in a sales atmosphere. As a result, Arizona FCU's production is up, members' needs are better met, increasing their loyalty. Employee retention is also stronger with more job satisfaction.

"We are greatly impressed with the changes that have taken place with this new initiative and we continue to see how we can make the credit union experience a more positive one for our members," Johnson explains. "Cross-selling was a step in the right direction and we're able to give more financial expertise to the member as a result."

Regardless how rates may change with the fluctuating economy, Arizona FCU is confident that its new cross-selling culture is a good foundation to fuel growth and better provide for the member in every way.

Tim Johnson will be sharing more about his cross-selling implementation at the National Lending Conference coming up July 15-16, 2013. For more information on attending this conference please go to www.cumembers.com **PL**

GSEs - continued from page 17

However, as with QM and QRM, if the final rules look anything like the original proposals, most credit unions' mortgage origination activities should experience minimal change. There is no planned alteration in capital requirements for residential mortgages held in portfolio that are guaranteed by the U.S. government (FHA/VA), or government agencies (Fannie/Freddie).†

For loans that are not guaranteed by a U.S. government or agency, capital requirements will increase depending on the loan's risk characteristics and conformity with certain regulatory criteria.† Once again, the relatively high quality of originations and sound guidelines that credit unions apply to their real estate loans should mute the impact of these new regulations.

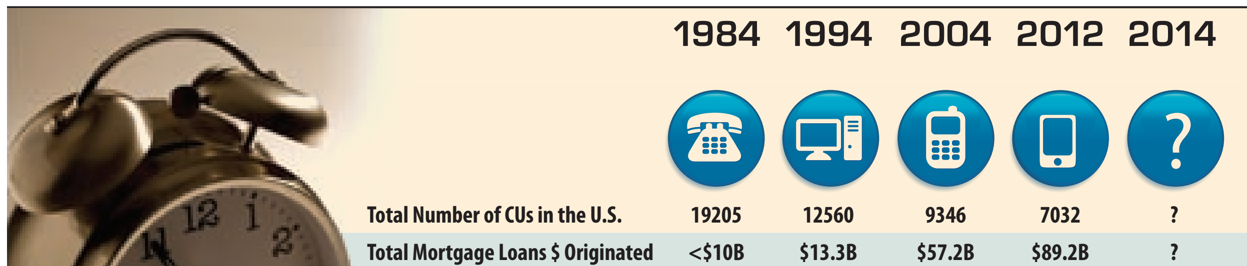
Based on the initial proposal, however, there is one area where credit unions should expect to hold additional capital: Mortgages held in portfolio with loan-to-value ratios in excess of 80% that are not in a Ginnie Mae or Freddie/Fannie MBS, regardless of the presence of private mortgage insurance. Credit unions may be able to tailor guidelines to minimize capital charges on these loans while pricing for the required capital holdings, and still have a marketable product. Certainly credit unions will have an advantage in this area, given their lower cost of capital as compared to commercial banks.

> The GSEs' disappearance would directly impact those whose livelihoods depend on housing and those individuals and groups will work very hard to protect their interests.

The last item that concerns credit unions is the direction of the economy overall and housing specifically. Despite a weak economic recovery, the last few quarters have shown increasing strength in housing markets around the country. Indicators cited by many housing economists include improving new home starts, increased builder confidence and rebounding housing sales. The Mortgage Bankers Association estimates that home sales could rise from around 4.6 million this year to more than 5 million a year by 2014. The housing market is being helped by record affordability and growing consumer confidence that the long-awaited housing recovery has started. These factors all point to an encouraging environment for credit unions to plan their residential lending strategies.

By building on the lessons learned during the past five years – maintaining underwriting discipline, sticking to traditional loan products and understanding the economic fundamentals of the markets in which we lend – residential lending should be a bright spot for credit unions in 2013. The underpinnings of the residential finance system are strong and will be there to support credit unions. With this knowledge, the industry should confidently plan for a vibrant lending environment in the year ahead. **PL**

Mortgage CUSOs, The Time Has Come!



More than 30 years ago, the 1984 Inaugural CUSO regulations revitalized the concept of credit unions, allowing them to exercise their cooperative muscle. In addition to operational (back-office) functions permitted since the 1970s, the NEW CUSO Regulations permitted credit unions to challenge new frontiers for financial services including mortgage lending. The time is right, nearly 30 years later, to assess the evolution of Mortgage CUSOs and their standing and performance at present, and the possibilities for the future.

New rules, new opportunities

1984 CUSOs Rules and Regulations were modernized under the leadership of NCUA Chairman Edgar Callahan. These expanded powers were granted to create opportunities for Credit Unions to invest in a wider range of profit-making subsidiaries for the purpose of providing "non-traditional financial products and services" to more consumers. The most popular products and services included investments; insurance; operational services and mortgage banking.

The proposals from Credit Unions considering originating mortgage loans at that time reflected their concerns about secondary mortgage markets at that time, and forward into the 90's. Their concerns included the fear that large volumes of originations would be required to effectively compete. Only a select few credit unions at that time had the membership base and ability to originate a volume sufficient to make mortgage lending profitable. Even these larger credit unions typically had just enough volume to service their in-house lending needs relative to overall member service and revenues. Mortgage loans were serviced in a very different way then compared with that of today and recent years.

Mortgage origination and loan servicing process is more complex and costly than ever and will get more difficult in the near future. In this environment the "cooperative" approach becomes a logical solution.

A relatively insignificant part of the 1984 regulations permitted CUSOs to serve non-members, principally included to allow mortgage banking entities an opportunity to accumulate more volume from homebuyers who were NOT current credit union members. This concept has diminished over time with more emphasis on community and open chartering. That was then and this is now.

Fast forward to 2013.

My assumption is there are approximately 50 to 75 active mortgage CUSOs in operation today. For the sake of discussion I make another assumption that each CUSO has an average of 12 individual Credit Union owners and that some credit unions may be invested in more than one CUSO. Another assumption is that approximately 900 Credit Unions own a portion of a CUSO and an equal number of other credit unions offer mortgage services through a relationship with a third-party entity having no equity ownership in the providing entity.

Missed opportunities

To my point and the title of this article, if the final assumption is the total number of credit unions is around 7,000 than more than **60% of the all credit unions are NOT properly serving their members.** I make this statement based on my interpretation of the term Cooperative. Wikipedia gives us...

> A cooperative ("coop"), co-operative ("co-op"), or coöperative ("coöp") is an autonomous association of persons who voluntarily cooperate for their mutual, social, economic, and cultural benefit Cooperatives include non-profit community organizations and businesses that are owned and managed by the people

who use its services (a consumer cooperative) or by the people who work there (a worker cooperative) or by the people who live there (a housing cooperative), hybrids such as worker cooperatives that are also consumer cooperatives or credit unions, multi-stakeholder cooperatives such as those that bring together civil society and local actors to deliver community needs, and second and third tier cooperatives whose members are other cooperatives.

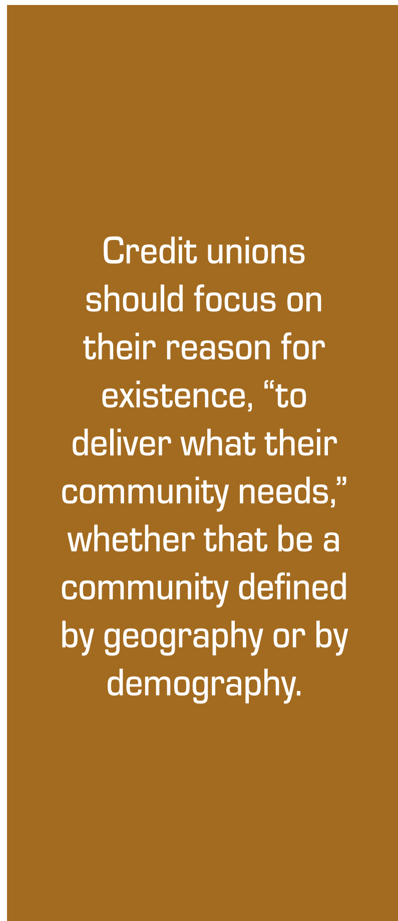
Just look at the reduction in the number of credit unions since 1984. I contend the primary reason for this disappearance is that smaller credit unions could not keep pace with consumers needs. Even more importantly they stayed away from offering their members one of the most important products a financial organization can offer, residential home loans.

A cooperative approach

I completely understand that the details of mortgage origination and the loan servicing process are more complex and costly than ever and these issues will get more difficult before they are likely to ease. That's where I feel the logical value of the "cooperative" is the solution.

I have heard many reasons over the years why credit unions in need of these services cannot seem to pull the trigger to align with, or invest in, those organizations (primarily owned by credit unions) engaged and offering mortgage originations and servicing alternatives to secure their future. Frankly, in my mind, many reasons are very outdated and based more on prejudicial fears for their individual security than reality. Rather than focus on fears these credit unions should focus on their reason for existence, "to deliver what their community needs," whether that be a community defined by geography or by demography. We are well into the 21st century and those credit unions in question need to act!

I thought to seek input from those "with the goods" so-to-speak. Some of ACUMA's members are CUSOs. They all operate in the mortgage banking business but their approach to their overall business and client service differs slightly from one to another. I think the best compliment we can pay to our dear friend Ed Callahan is to finally realize the vision he recognized several decades ago. CUSOs offer a diversity of solutions and all credit unions can offer mortgage banking services to all their members and families, now including multiple generations.



The time is truly NOW!

I leave it to each reader to draw your own conclusion and evaluate your own organization, "if the shoe fits, wear it." Everyone has a stake in this outcome. The term "Credit Union" is considered by some to be a brand whether you like it or believe it.

The accompanying comparison chart highlights a number of CUSOs from throughout the nation. These examples are presented for comparison purposes only, there are dozens of other mortgage CUSOs all around. There are also several other non-credit union mortgage loan origination and servicing alternatives available. There really is no excuse for thousands of credit unions to reply "NO" to members seeking home loans. This is a concept I simply can not, and will never understand. Can they really believe once they decline to serve their member, the member will likely ever call again?

The Sunday edition of the NY Times published an article titled "The Credit Union Alternative" (by Lisa Prevost/ Published: December 13, 2012). When I first spoke with her she had very little knowledge about the capacity and desire of many credit unions to offer mortgage loans. Our best kept secret may be getting out!

The answer must be YES!

I refer you to my comparison chart as a starting point. Are you offering ALL of the products and services your members want and need? Just because you offer a home-equity loan product, leaving other needs unserved, would actually be a NO answer to my question. In some cases a CUSOs may supplement what you are already doing. In others you might find that a CUSO opens an entirely new world of opportunities for you and your members.

We are on track to break the $100 billion mark for first mortgage loans originated in 2012. While this may seem like a dream come true I contend we have just begun to scratch the surface and if we can get another few thousand credit unions to answer YES we can do much better. Yes there are fears and yes there is a lot of work to do to put these programs in place. There will never be a better time!

My final question is this. Review the chart and graphics in the title of this article again. Will you join the group of credit unions dissolved since 1984 or does your organization have what it takes to carry on? We need to be aware of the fact we still share something of value, which some may describe as a market advantage position. In the end it will be what we make of it... **PL**

Bob Dorsa is President of ACUMA. He can be reached at bdorsa@acuma.org

CUSO "State of the Market" Survey

Recently ACUMA conducted a survey of mortgage CUSOs asking them to describe their services and market focus We would like to thank these organizations for providing us with a glimpse at the variety of services available to credit unions from these and many other CUSOs nationwide. *This exhibit illustration is a sample of some of the CUSOs in operation and is NOT meant to be an endorsement. Each credit union should select their business partners based on the criteria best suited for them.*

CUSO	Features and Benefits
CU Companies New Brighton, MN S. Brad Crandall, Chief Executive Officer Year Started - 1987 # of CU Owners - 68 using one of 5 business # of Credit Unions Served/Contracted - 102 # Full-Time Staff - 65 # Loans FundedIn 2012 - 3,462	Supports multiple Origination channels ■ Retail Channel- CU uses our CUSO technology solution to facilitate the application. CUSO does the rest. Credit Unions opportunity to earn fee income. ■ Correspondent Channel- Credit Union originates; processes and closes loans. CU Companies purchases loans. ■ Also offers Sub-Servicing to Credit Union clients. ■ Offers opportunity to sub-service loans for CU clients ■ CUSO does NOT solicit any financial products or services to CU Correspondent borrowers. ■ A lot of time spent with Sr. Management of Correspondent CUs aimed at increasing productivity. ■ Licensed to conduct business in seven (7) states and plans to expand to several more this year.
Central Star Financial Solutions Wichita, KS Matthew Hamm, President Year Started - 2011 # of CU Owners - 1 # of Credit Unions Served/Contracted - 16 # Full-Time Staff - 4 # Loans FundedIn 2012 - 191	■ Strategy focused on targeting smaller Credit Unions Face-to- Face with Correspondent CU staff for best results. ■ Service area is correspondent from within their home state. ■ Strategy to serve as the Correspondent CUs' "Back Office" for mortgage lending. ■ Heavy focus on use of technology for efficiencies. Most CU's today are focused on unrelated fee income, and uses CUSO for that purpose. Emphasis on cross-selling to their correspondent CUs as a way to maximize their effectiveness.
myCUmortgage Dayton, OH Tim Mislansky, President SVP / CLO - Wright-Patt CU, Inc. Year Started - 2002 # of CU Owners - 1 # of Credit Unions Served/Contracted - 165 # Full-Time Staff - 88 # Loans FundedIn 2012 - 11,000	■ Relationship serves as a third party mortgage department for the CU which is a great option for CUs who don't have the resources or who wants to benefit from an aggregator's scale and efficiencies. CU maintains relationship and contact with borrower throughout the mortgage. Everything is branded in the credit union's name from the web site to the loan documentation to the funds for closing. ■ CUSO staff performs intricate tasks such as underwriting, processing, access to the secondary market etc., allowing the CU to focus on the member's loan experience. ■ Our stakeholders' model is the perfect answer. Programs are designed to evenly benefit four groups; the credit union client, the borrower, WPCU (the parent organization) and our employees. ■ CUs gain access to government loan programs such as VA, FHA and USDA. ■ myCUmortgage provides a value proposition that focuses on collaboration with its CU partners, complete transparency, strong economics to the member and the CU and superior technology. ■ CUSO conducts business with CUs in 18 states and is licensed to do business in a total of 41 states.

CUSO	Features and Benefits
First Heritage Financial LLC Philadelphia, PA John Giordano, CEO Year Started - 1998 # of CU Owners - 4 # of Credit Unions Served/Contracted - 63 # Full-Time Staff - 39 # Loans FundedIn 2012 - 3,010	■ Offers a comprehensive, turnkey first mortgage program with customized business models. ● Direct Member Communication – Correspondent CU invites CUSO to speak directly to members ● Indirect Member Communication; CU presents CUSO products to members ● Hybrid Communication Model – Combination of previous two ■ Develops unique online mortgage applications for each Partner's website ■ Fully services All Closed Loans ■ All FNMA, FHA, VA, PHFA, USDA government loan programs available ■ Conducts portfolio risk analysis and sells loans for Credit Union's on the secondary market ■ CUSO conducts business in 2 states and plans to expand adding 5 states in 2013.
Member First Mortgage Grand Rapids, MI Kathy Carlson, President/CEO Year Started - 2001 # of CU Owners - 13 # of Credit Unions Served/Contracted - 80 # Full-Time Staff - 73 # Loans FundedIn 2012 - 3,411	■ Offers CU partners to originate loans in house if they chose and refer loans that they do not offer to CUSO. ■ Promotes correspondent CU maintain contact with their member. ■ Credit Unions use CUSO for product offerings; secondary market availability; compliance expertise and opportunity to reduce their staff; (Outsourcing model). ■ Works closest with the Lending Manager at each CU client. ■ Currently services more than 19,300 loans. ■ CUSO conducts business in 23 states.
TruHome Solutions Lenexa. KS Sherri L. Smith, SVP, Business Development Year Started - 2005 # of CU Owners -3 # of Credit Unions Served/Contracted - 80 # Full-Time Staff - 195 # Loans FundedIn 2012 - 6,467	■ Offers customized business models for CUs including; full private label mortgage program whereby the credit union is not involved in the loan origination; private label mortgage program whereby the CU is involved in loan origination process and processing the mortgage loan. CUSO is responsible for underwriting and closing/funding. and CUSO provides private label subservicing, ■ Primary CUSO objective... steadfast focus on exemplary customer service for its credit union clients and engages clients to help increase member awareness of the CU's mortgage product. ■ CUSO mortgage expert is always available to answer questions, enhancing the connection between the CU and their member. Services through the CUSOs Call Center. ■ CUSO acts as a conduit to deliver mortgage loans into the secondary market under a servicing retained model to help deepen the member relationship with the CU ■ Strives for a collaborative efforts forming strong, trusting relationships with Management of CU. ■ Business objectives align with CU who desires to offer members a complete private label mortgage process through a trusted resource beneficial to both. ■ CUSO is licensed in 22 states for Origination and all 50 states for servicing.

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Pare Offerings, Upgrade E-Channels in the Face of Economic Headwinds

By Ben Rogers
Research Director
Filene Research Institute

Imagine a young PhD earning $125,000 per year but not qualifying for a mortgage because of $110,000 in student loan debt, like 28-year-old Roshell Schenck. Or consider the plight of a 34-year-old friend of mine who, with a two-income family, and two small kids can't afford to move out of his Utah home because of the bath he would take. He bought before being laid off from a well-paying job, and his new job isn't replacing the former income. He can't afford to walk away, and he can't really afford to stay.

These are two snapshots of young America in 2013. In the rush to sign up as many young members as possible–Debit cards! Auto loans! A lifetime of mortgages!–we rarely stop to ask what exactly younger members want and what they face. Yes, they are consumers, and yes they are passing milestones like their parents passed. They are studying (often for longer), serving in the military, starting families (often later), and tending new jobs and hopeful careers. They want the usual milestones of a college degree, a first home, a new car, but it's harder than ever.

> Digital natives switch their attention on average 27 times per nonworking hour. So if the way you talk about mortgages doesn't comprise short engaging chunks, you will start to lose them.

Two fundamental pressures push each of these milestones and are making borrowing very different for this generation: first, the long and lingering downturn, and, second, the immediate almost visceral electronic connection to, well, to everything. The first is a challenge for borrowers and lenders alike. The second changes the way we, as lenders, have to act.

Young adults aren't buying as much

As an auto lender, prepare to be terrified. Writing in *The Atlantic* Derek Thompson explains that in 2010 21- to 34-year-olds bought 27% of all new vehicles in America. A generation before, in 1985, they had bought 38%. The proportion of teenagers with a license fell by a quarter in the ten years leading up to 2008 (before the recession), and even miles driven are down. Some of this may be recessional, of course, but what if the demands of monthly bills that didn't exist in 1985–$100 cell phone charge, $150 all-in cable TV and Internet bill, $300 student loan payments–are shouldering aside money that would otherwise be spent on cars?

Nobody is arguing that auto sales will vanish, never to be seen again, but what if we are seeing a generation in which only 70% rather than 90% of consumers care about owning a car? And even if they do care, economic prospects are pushing the ability of many to buy one years into the future.

> Research has shown that the assumption that consumers always benefit from having more options to choose from does not always hold and that in some cases consumers benefit from fewer, rather than more, options.

Autos are one thing, but what about mortgages? Even emerging independents need a roof over their heads. But according to the Federal Reserve, 9% of 29- to 34-year-olds got a first-time mortgage from 2009 to 2011. That's down from the go-go 17% percent 10 years earlier. Recession-fuelled fumble or long-term trend?

Bloomberg cites Census data to show that almost 6 million 25- to 34-year-old Americans lived with their parents in 2011. In 2007, before the recession, that number was 4.7 million. If you took each of these nesting adults out of their parents' homes and put them together, you could plunk a new city the size of Houston wherever you liked.

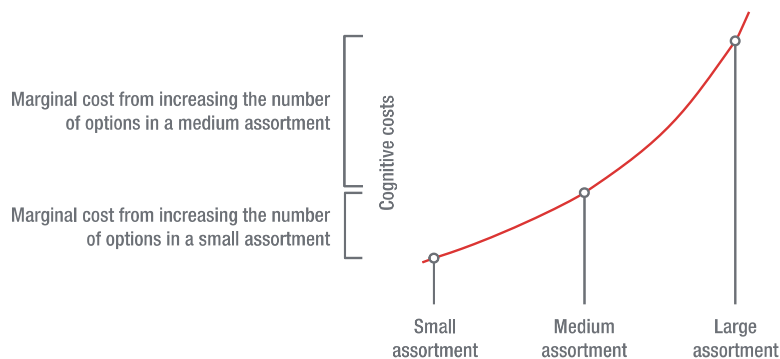
Last spring, mortgage prophet Robert Schiller suggested that we may lose a generation of homebuyers to a weak labor market, high gas prices, and permanent unease among buyers who watched friends and parents lose so much equity to the real estate bubble.

Choice overload forces a focus on user experience, automated advice

In a scarce environment like this, credit unions have to acknowledge that they can't get every mortgage borrower they would like.

Recent Filene research in consumer psychology and behavioral economics has shown that the assumption that consumers always benefit from having more options to choose from does not always hold and that in some cases consumers benefit from fewer, rather than more, options. Every day, consumers reel from information overload and decision overload, so they look for easier decisions. Larger product assortments also lead to higher expectations, which firms might not be able to fill. And the ongoing drive to build the "right" product for every taste means, paradoxically, that not every need can be filled. All of these factors make it harder to choose, and when it's hard to choose, the easier option is to not choose at all.

The Cognitive Costs of Choosing from Large Assortments



> In the rush to sign up as many young members as possible–Debit cards! Auto loans! A lifetime of mortgages!–we rarely stop to ask what exactly younger members want and what they face.

Fewer buyers, more wary borrowers, cognitive overload. What's a lender to do? First, the traditional things like relationships with agents and effective advertising. But if you want to make more of your existing young members mortgage borrowers, focus on user experience and automated advice. For user experience, consider Northwestern University Professor Alex Chernev's advice from Filene's choice overload report:

- Less is more. Interviews with credit union CEOs indicate that many recognize the need to pare their offerings, especially operations-heavy loans, to an efficient core group. Other Filene research shows that heavy product diversification is a drag on performance.
- Actively curate your offerings. This is critical for mortgage lending. Rather than reducing the number of available options offered by the credit union, consider focusing on a smaller number of options promoted by the credit union. Thus, instead of overwhelming a new member, you might choose to promote only a subset of options that will most likely appeal to a new member. Sometimes just telling consumers which option is the most popular is enough to help them make a decision.

The aesthetic appeal is essential. Online and smartphone users, even those with little money, are used to operating in a sleek, well-designed electronic world. Does navigating to your page from the bespoke confines of a Google, People magazine, ESPN, or Bank of America site feel like leaving a posh department store for an aging strip mall? For a sense of how hungry financial startups and huge banks (who are both fishing for your members) treat design, visit: simple.com, serve.com, mint.com and creditsesame.com.

Finally, how can you automate and perk up your mortgage advice? There may never be a good substitute for a mortgage loan officer when doing the actual paperwork, but consumers–especially young consumers–are easily distractable. Digital natives switch their attention on average 27 times per nonworking hour. So if the way you talk about mortgages doesn't comprise short engaging chunks, you will start to lose them. Check mint.com again, or debt management tool (and Filene partner) savvymoney.com for good examples of how to make lending information engaging.

The bar is higher than ever to capture young mortgage borrowers, but it's not insurmountable. As mortgage lenders, we can't outrun a bad economy, but we can pay attention to what young adults want and what they respond to for keeping our own mortgage pipelines full. **PL**

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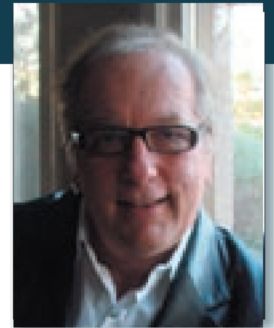
ACUMA President Bob Dorsa

Every year ACUMA strives to make our annual conference the best ever. We do it by bringing nationally known speakers, a program tailored precisely to your needs and state of the art conference technology together into a seamless educational experience. Throw in an outstanding venue, sumptuous dining and time to network with the best and brightest in the CU mortgage industry and you have a one of a kind, can't miss experience.

What will we do to make it better in 2013?

Plan to join us again September 22-25, at The Cosmopolitan of Las Vegas, and find out.

THE COSMOPOLITAN™
of LAS VEGAS

2012 ACUMA Annual Conference, the Biggest and, many say, our Best Ever!

By Bob Dorsa

I can remember our first an annual conference many year ago with about 50 people. The size group you could almost host at your home for dinner. We've come a long way in 17 years.

ACUMA is such a unique association among many in the Credit Union system. We formed ACUMA to address one single concept, to promote the awareness that credit unions are in the mortgage lending business. With one photo worth a thousand words, I think our most recent annual conference accentuates that point.

A few years ago we began using the ACUMA Community to connect our members. That also seems to echo sentiments in these photos. Most people pictured in these photos have been ACUMA members for years. All of them are seasoned mortgage banking professionals, another unique ACUMA characteristic,

The photo to the right featururing (l-r) Bill Walker, John Murphy, Rick Hite and Thomas Boswell), talks to the typical friendly reunited of professionals at our event. Bill Walker and I have been working for more than 30 years to realize our dream. I can recall a day in the late 1980's when Bill and I were meeting with a group of Realtors in the San Fernando in Southern California. Bill went on the found the CUREN groups in Southern, CA which lead to the discussion and formation of ACUMA.

Above: ACUMA has always maintained a great rapport with both CUNA and NAFCU. ACUMA Secretary and VP Lending for Delta Community CU seated in the far right facilitated a well attended break-out session featuring Jared Ihrig, Sr. Assistant General Counsel for CUNA and Steve Van Beek, Director of Regulatory Compliance for NAFCU, covering what was the upcoming regulations back in September which are now dazzling many of you. One the best things from the meeting planner's prospective, this session happened to be one of the closing sessions from the conference. I give a huge shout to all our attendees who as we have stated several times are very serious in all they do and cannot get enough education and networking. I remind you our event was set in one of the finest hotels in one of the most exciting cities in the world's and our break out room was this full!

Rarely have we included the dynamics of industry leading CEOs in a frank discussion about the present and future for mortgage banking. Pictured (r-l) Facilitator, Nader Moghaddam, President, Financial Partners CU (and ACUMA Vice Chairman); Mike Valentine, President/CEO , Baxter Credit Union; Terry West, President/CEO, Vystar Credit Union and Patsy Van Ouwerkerk, President/CEO of Travis Credit Union. Their commentary was spot on from the CEO's view of what opportunities are present and ideas of what and how they should be addressed.

The photo (l-r) featuring John Dill and Glen Ogden from Tulsa FCU with Joyce and Rick Marshall also speaks to long time friends and ACUMA members gathering every fall to network and help push our market.

(l-r) Session Moderator Mark Marple, MGIC Steve Yaninek, Fifth Third Bank; Jeff Leep; United Credit Union; Barry Stricklin, Tower FCU and Tim Mislansky, President myCUmortgage, present and discuss the differences between how credit unions address cross-selling to mortgage applicants. We could and maybe should take a lesson from the mortgage lending market share leader, Wells Fargo and their "Eight is Great" slogan. Their goal is to obtain eight additional financial products and/or services from the single real estate mortgage loan transaction. This session provided great information and gave everyone a lot to think about...

A sign of the times (l-r) Brandon Riechers, Originations Sales Manager for Royal CU), (relative newcomer to the CU industry), Mile McCarthy, Originations Sales Manager for Kinecta FCU and Lisa Malone, Originations Sales Manager for Hudson Valley FCU interviewed by Tracy Ashfield, the CU system's "Diamond Queen of Mortgage Lending" share experiences in this frontier for the CU mortgage lending community.

Photo (l-r) Steve Eisenberg, General Counsel to Pentagon FCU; John McKechnie, Veteran Credit Union Regulator and Trade Association Attorney; and Larry Blanchard, one the most respected and revered people in the entire Credit Union system and perhaps our greatest industry asset in the last forty years, which is close to the time Larry and I have been friends.

The many other images now memorialized in ACUMA history include some of the brightest minds devoting their time and energy on behalf of Credit Union mortgage lending.

Below: A lighter moment for conference participants.

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noun [**koh**-op-er-**too**-ni-tee]

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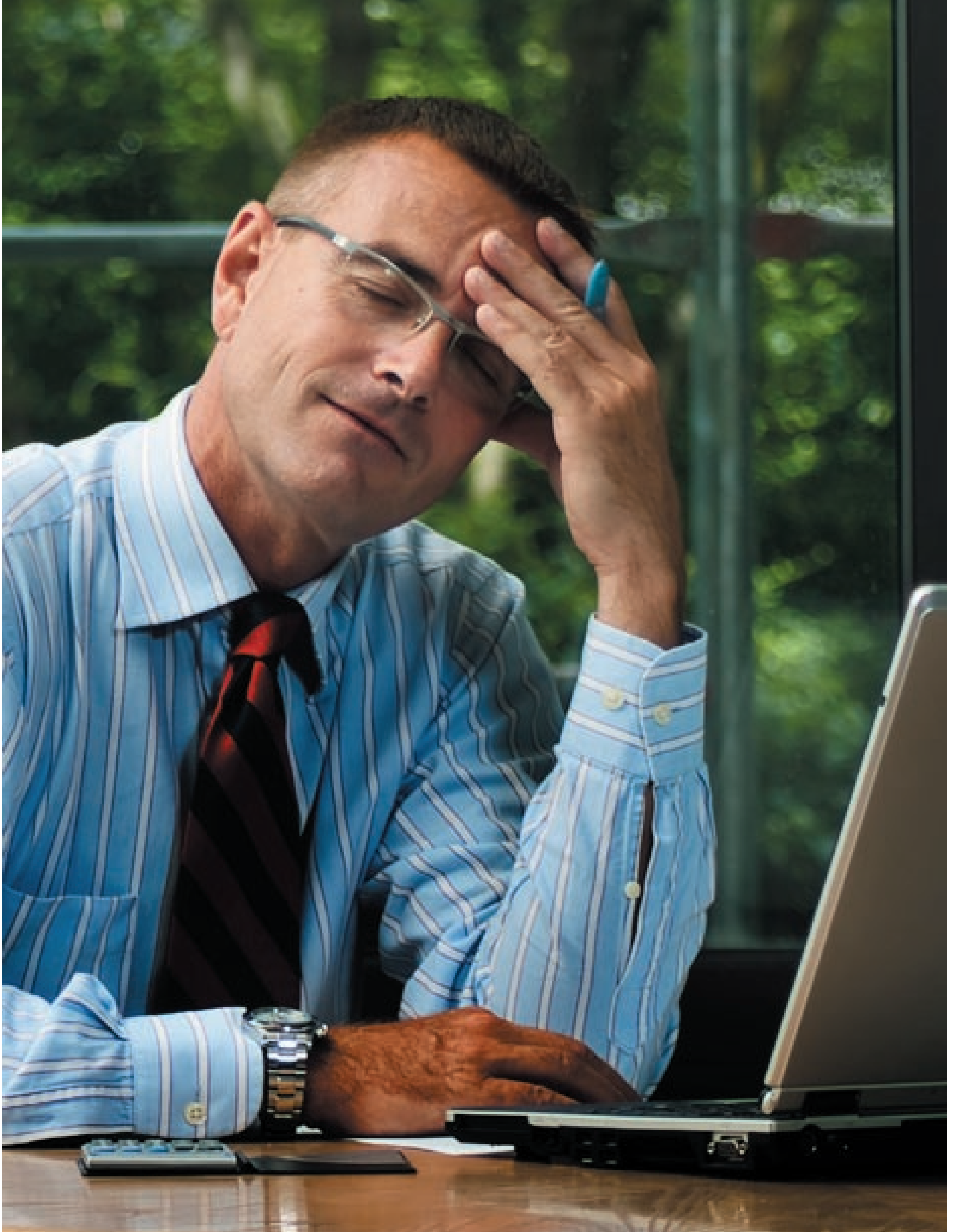
Pictured (l-r) John Hernandez, Prime Alliance Solutions, engaging with Joe Pazienza, President and Ron Wilse, Vice President of CUSO Mortgage in California on some of the topics that will keep us all up at night. They may have also been discussing find dining or some of the best shows in Las Vegas, but in any event everyone has a great time...

While the months and weeks leading up to the event is to me akin to the Academy Awards or Super Bowl in terms of excitement. It is however really about reminiscing with long time friends and meeting new ones. We really believe we have something special. Our designed growth model is to carefully add members to reflect our principles and beliefs and take their place adding to our community.

We will return again this year to the amazing Cosmopolitan Hotel of Las Vegas. The property is one of the most unique hotels in the city and defiantly provides a great setting for this wonderful to convene. We truly hope to see many of you later this year... **PL**



What's Keeping Mortgage Lenders Awake at Night?

Robert Rubin

One industry insider's "worry list," and what lenders could be doing to sleep better.

The mortgage industry is facing a period of extraordinary change in the wake of the subprime meltdown and subsequent recession. As mortgage lenders try to move on, they face mountains of new regulation and legislation, as well as a market that has changed dramatically. ■ Almost every business owner or decision-maker has things that keep him or her awake at night. Unfortunately, the past few years have given rise to an inordinate number of bogeymen and demons for mortgage lenders-some regulatory, some market-driven. ■ Perhaps the most frightening challenge we face today is the uncertainty. ■ We know there has been some improvement in the market, and we now know who will be enforcing the blast of regulation aimed our way. But we still don't know exactly how the recovery will proceed or exactly what we must do to stay perfectly compliant. ■ I've worked in this industry for more than 40 years. For much of that time, I've kept what I call a "worry list" for both myself and my clients. ■ I don't use the worry list to scare people, but instead as a planning tool. I believe strongly that with change comes opportunity. It is not always easy or pleasant, but it's there.

Right now, it seems quite a bit of change is coming our way. How we-individually and as an industry-choose to adapt to it will likely determine who survives and who doesn't.

It is now painfully clear we will not be given a clear road map to what the future holds. So let us instead examine some of the most insomnia inducing possibilities and, more importantly, how we might react to them.

THE DIRECT IMPACT OF GOVERNMENT-RELATED ACTION

This is the most obvious category of worry-and the most uncertain. We can react to proposed rules, bills or unusual enforcement actions. But we can rarely predict what might be coming next.

Faced with a new enforcement agency with unprecedented power and a very short track record-the Consumer Financial Protection Bureau (CFPB)-most mortgage lenders are straining to craft policies and processes that will ensure compliance. Unfortunately, they're being forced to do so with a crystal ball.

"The industry has a lot of worries right now," says mortgage banking and financial services attorney Brian Levy, of counsel with Katten & Temple LLP, Chicago.

"I'm seeing a high level of concern about the role of government in housing, and how things will shake out. Lenders are concerned with the general direction of government involvement, the new regulations and their enforcement, the fate of Freddie [Mac] and Fannie [Mae] and so forth," he says.

One thing of which we can be reasonably certain is that more intrusive regulation is coming to the mortgage industry. Stan Gordon, managing partner for Gordon & Associates, Costa Mesa, California, and long-time counsel for multiple mortgage lenders, refers to the impending regulations as "micro-management rather than guidance."

Gordon says, "The marketplace will likely be impeded in its efforts to respond to the needs of qualified buyers."

Gordon says, "The marketplace will likely be impeded in its efforts to respond to the needs of qualified buyers. It's surprising to see how much detail the Dodd-Frank [Wall Street Reform and Consumer Protection] Act requires of the CFPB in its forthcoming regulations. We're going to see our industry excessively constrained for an extended period of time."

Gordon credits the trade associations for fighting a worthy fight on behalf of the industry. Nonetheless, he says, there is simply too much requiring their engagement. "They're making some headway on the most excessive proposals of the CFPB, but there's simply too much to push back on. We face a long, uphill battle to reach equilibrium."

John E. Jacobs, shareholder with Maddin, Hauser, Wartell, Roth & Heller PC, Southfield, Michigan, agrees. "This is the most highly regulated industry in the United States," he says. "We are facing tremendous scrutiny right now, and these regulations are making it more and more difficult to originate loans."

WORRY NO. 1:
THAT FHA 'COMPARE RATIOS' ARE FURTHER TIGHTENED

The Federal Housing Administration (FHA) loan remains a key product in the origination industry. It is also a critical conduit for otherwise worthy borrowers who might not have the highest of FICO® scores.

Of course, a compare ratio is a particular lender's rate of default in comparison to its local market. The FHA's tolerance for default has been shrinking in recent years, and it is not inconceivable that its tolerance will drop further. The more lenders that are unable to provide FHA loans, the fewer choices borrowers will have. The market will contract to those willing and able to settle for the "plain-vanilla" mortgage.

Unfortunately, that is not what the FHA mortgage was intended to be. Rather, the FHA loan program was designed to put deserving homeowners who could not otherwise afford such credit into homes.

Jacobs points to the 5 percent risk-retention requirement under the Qualified Residential Mortgage (QRM) provision of the Dodd-Frank Act for lenders originating "non-qualified" loans as proof that the industry is being pushed in that direction. "This requirement eliminates a number of loans," he observes.

"Are we going to be allowed to provide financing for all qualified borrowers?," asks Andrew Peters, chief executive officer of First Guaranty Mortgage Corporation, McLean, Virginia.

Peters adds, "It's inevitable that rates will see an uptick. Refinancing will not always be robust. When we once again face a purchase market, will the rules and legislation put in place now make it so restrictive that it becomes difficult to place deserving consumers into new homes?"

On its face, the tightening of FHA Credit Watch compare ratios attempts to address the concern that too many high-risk mortgages were originated for unworthy borrowers before the meltdown of 2007-2008. However, the likely (and unintended) consequence of tighter compare ratios is the sterilization of a program designed to reach beyond the highest credit scores to aid perfectly worthy borrowers who may have suffered a setback affecting their credit histories.

Most can agree that a FICO score is only one way to measure a borrower's creditworthiness. The tightening of compare ratios, however, drives lenders further away from extending credit to those same people for whom FHA mortgage insurance was designed.

WORRY NO. 2:
THAT MORTGAGE BANKERS MAKE MISTAKES REGARDING THE TYPES OF INSURANCE COVERAGE TO OBTAIN

Although this worry isn't making the biggest of headlines, it is critical. Just how prepared must a lender be in this day and age of rampant buyback demands, mortgage fraud and incredible compliance penalties? How much of a firm's budget should be set aside for the proverbial "rainy day?"

A lender unprepared for any number of potential financial disasters could find itself out of business in the blink of an eye. Levy notes that already new and creative kinds of insurance are emerging in an attempt to cover any number of very real threats.

"I have heard of one company offering insurance at the closing table, to cover defalcations that would typically be the province of insured closing letters. It appears that some warehouse lenders are now requiring the purchase of such insurance," he says.

Clearly, this worry is part of a larger worry for any and all lenders. Even before 2007, the mortgage lending industry did not have superior operating margins. Compliance and related costs have only exacerbated that reality. Increased insurance costs most certainly will not provide incentive for lenders to increase and extend credit, pushing the American dream a bit further out of reach for too many potential homebuyers.

THE INDIRECT IMPACT OF GOVERNMENT-RELATED ACTION

Quite a bit of the change looming in the mortgage business has been or will be caused by the indirect consequences of government action. For example, if laws and regulations require securitizers buying non-qualified mortgages to retain an economic interest in the credit risk of asset backed securities issued to the secondary market, it stands to reason that the vast majority of lenders will push toward vanilla loan products that meet the standard of "Qualified Residential Mortgages."

Some of the most serious issues facing us will not stem directly from government action, but rather from the actions our industry is forced to take in reaction.

WORRY NO. 3:
THAT PROGRAM CHANGES WILL MAKE IT MORE DIFFICULT TO QUALIFY CLIENTS IN THE WAREHOUSE LENDING SEGMENT; AND

WORRY NO. 4:
INCREASED NET-WORTH REQUIREMENTS FOR ISSUING MORTGAGE BANKERS

The Dodd-Frank Act (the ongoing rulemaking process of which is likely to add further constraints), the impending implementation of Basel III and a number of other developments have severely constricted the amount of risk most players in the industry are willing to take. The past year has been rife with changes (and rumors of changes) to the way takeout investors, government-sponsored enterprises (GSEs) and warehouse lenders determine their risk.

Some GSEs have considered making their qualifications for issuing institutions more stringent, including raising net-worth requirements. Some larger lenders have exited the space altogether. Other warehouse lenders have increased their standards as well.

The result has been, and likely will continue to be, a reduction in the amount of warehouse lines available to mortgage originators and, consequently, the amount of choices available to the consumer.

Levy notes that the stronger capital requirements of Basel III are a major reason for the subsequent tightening of standards. "The upshot of Basel III is consolidation and scale," he says. "Only the larger businesses will be able to thrive, while those lenders without the necessary overhead will struggle to profitably originate and service. The liability is overly punitive, and the result could easily be a constricted lending market."

Jacobs asserts that warehouse lending is already, to some degree, contracting. "Warehouse lenders will continue to require a greater net worth on the part of originators. It is already harder to get warehouse lines because there is a limited quantity of qualified borrowers," he says.

Peters agrees with Levy that the program changes and increased net-worth requirements, although perhaps necessary to calm nervous takeout investors and regulators alike, will favor the larger players in the field.

He also observes that the simultaneous pullout of several of the larger warehouse institutions will have its own impact.

"The smaller companies don't have the capacity to replace the bigger players pulling out," he says. "That has a real impact on the consumer. Most of the smaller operations, which have lower capacities, simply don't have the same turn times on the loans. That would likely only get worse if more of the larger institutions exit the space."

> **Levy notes that already new and creative kinds of insurance are emerging in an attempt to cover any number of very real threats.**

WORRY NO. 5:
FEAR THAT OPERATING MARGINS WILL BE FURTHER COMPRESSED AND THE BOTTOM LINE WILL SHRINK BEYOND TOLERANCE

The bottom line to all of this is just that: the bottom line. Where lenders are further restricted in the products they choose to offer (and the markets) and where they are held to an increasingly higher and, at times, uncertain compliance standard, their costs will likely go up and potentially their revenue will go down.

The mortgage industry was already built not on margin, but on volume. A further tightening of margins could have a number of negative consequences, including contraction in the industry (squeezing out the smaller businesses); a further decrease in available credit; and ultimately even fewer choices for consumers.

"The company that wants to stay in business must now accept that the regulatory environment now demands a higher percentage of its time, budget and focus," says Gordon. "The new rules are complicated and come with significantly stronger penalties. We can expect even greater class-action litigation risk from the forthcoming changes. Banks and mortgage companies are now in an even more highly regulated world. To survive, they'll need to prepare by staffing up and increasing their compliance budgets. Ultimately, this will raise the cost of borrowing and reduce market participation."

"There will definitely be an opportunity for some companies to acquire smaller firms with successful LOs [loan officers] selling product," says Gordon. "The higher net-worth qualifica-

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tion will probably mean that the larger and stronger mortgage lenders will have a real chance to acquire those unable to meet the rising minimum net-worth requirements."

Levy is even more concerned that warehouse lenders faced with increased costs will pull back on available lines with little or no notice. "The smaller lenders will have no time to find alternatives, which could quickly take many out of business. The little guy, in essence, faces the very real risk of being shut down simply because a larger lender gets nervous," he says.

The incredible irony of the emerging regulatory makeover in the mortgage industry is that it seems the rules and restrictions designed to protect the consumer may ultimately hurt that consumer.

"It's obvious that there is a quest on the part of the government to educate the borrower about mortgage loans," says Gordon. "Unfortunately, under the complicated regulatory scheme being put forth, we are now farther away from that goal than ever before. We've seen a 1,000-page proposal in an effort to 'simplify' the Good Faith Estimate form. At this point, even the professionals are struggling to understand the rules including the regulators themselves as they exhibit a lack of true understanding of the business. We've really missed the mark."

WHAT SHOULD THE INDUSTRY BE DOING?

It is very easy right now to point fingers and bemoan the growing restrictions and uncertainty facing mortgage lenders. There are certainly a number of troubling developments. Nonetheless, this industry is not simply going away. Now is the time to prepare and adapt, which will likely amount to several serious competitive advantages down the road for those who can. So what should lenders be doing to prepare for new regulations and their practical consequences?

Some maintain now is a time for reasonable innovation. Cheryl Carl, executive vice president of Spectrum Financial Consultants, New York, observes that, in the warehouse lending segment at least, some smaller banks and lenders are already coming up with creative solutions to the challenges created by increased net-worth requirements and other developments likely to crowd out the smallest originators.

"I am starting to see syndication," she says. "It is good for warehouse lenders to be aware that their clients need larger lines, and they must be willing to work with smaller commercial banks to meet those needs."

Levy concurs. "Those who can get more unconventional-where and if financially viable, and if they are willing to assume a bit more risk could see returns from a more lucrative product. There are actually some very interesting opportunities out there," he says.

Jacobs sees the likely consolidation in the industry as a positive-at least for those willing to grow. "There is a real opportunity for the survivors in that there will be, for example, more high-quality LOs on the street for those willing and able to grow and improve," he says. "Right now, mortgage originators will need to find ways to increase their net worth via profitability, or else find mergers or acquisitions that enhance their net worth."

Of course, government-imposed change is not our only worry at the moment. And while several of the issues I've categorized as "market- or economy-driven" could just as easily fall under the category of "indirectly caused by the government," the fact remains that not every change or challenge facing us today was caused by Uncle Sam or state legislatures.

Interest rates, unemployment and consumer confidence all have very real effects on our business. We may not have yet seen the full long-term impact of the London interbank offered rate (LIBOR) scandal. As always, we must attempt to predict the future of our economy and the housing markets. This has been a significant challenge recently, and will likely remain one for the foreseeable future.

ACTIONS, OMISSIONS OR REACTIONS BY INDUSTRY PLAYERS

In terms of the national economy, the last five years have been simply unprecedented. Although the Great Recession did not reach the depths seen during the Great Depression, the more recent crash was, in some ways, more complex in cause and impact.

With many placing the focus on the mortgage industry, specifically faulting the subprime sector as a primary cause of the financial crisis, it only stands to reason that our industry, independent of government prodding, has reacted and adjusted in very significant fashion.

> Jacobs sees the likely consolidation in the industry as a positive–at least for those willing to grow.

Today, terms like "buybacks" are not simply theory. They occur daily, as the GSEs and larger lenders torched by the default crisis attempt in any way possible to recoup some of their losses.

WORRY NO. 6: MASSIVE COLLECTION EFFORT FOR BUYBACKS FROM FORMER AND CURRENT INVESTORS

This might be the most self-explanatory concern on my entire worry list. Although not all buyback efforts are to be faulted, an industry does not move forward when it is busy collecting on past transactions.

Smaller lenders hammered by multiple buyback demands lose time in defending or scrutinizing the original loans. More importantly, they lose money-and quite a bit of it. Some small lenders live in very real fear of going out of business because of the burden imposed by buyback demands.

"I am seeing a lot of buyback requests that are overbearing," says Gordon. "Some lenders are scrubbing their files, finding minor issues that were never raised before and going back to the correspondent lenders to share the loss regardless of fault. A lot of businesses made it through the meltdown by employing sound principles, yet now they're getting hit. Some lenders are even taking current loans and projecting default for example, that x percent of their loans won't perform. As

a result, they're demanding that their correspondents start to pay for future defaults now. This will lead to consolidation."

Carl sees the same thing. "There is a massive collection effort for buybacks right now," she asserts. "This is going to hurt a good number of lenders who simply lack the capital to manage it."

Levy estimates that he spends 50 percent of his time with clients working on buyback issues. He faults unnecessarily punitive contractual remedies in sales agreements that are being enforced in unintended ways.

This, he explains, is exacerbated by efforts to shift massive losses and the environment created by heavier regulation. "It used to be an issue only for loans which demonstrated actual fraud, but now it's a risk driven more by default and loss. It's only natural that credit standards will tighten," he says.

Peters suggests more financial planning is becoming necessary as a result. "Many companies did relatively well in 2012," he says. "It's important that, when they're successful, those businesses reserve funds and build their loan-loss reserves. The industry is facing a huge number of buyback demands. This was inevitable."

"I am seeing a lot of buyback requests that are overbearing," says Gordon.

The bottom line is most lenders today live in fear of buyback demands. The results can range from the ultimate cost (death of the business) to significant hits (time and cost spent battling or even complying with the demands). While some may be justified or even necessary, buybacks are a retrospective approach in an industry that probably needs more prospective solutions.

WORRY NO. 7: FEAR THAT MORE TAKEOUT INVESTORS WILL GET OUT OF THE MARKET OR WILL TAKE TWICE AS LONG TO SETTLE TRADES;

WORRY NO. 8: FEAR THAT MORTGAGE BANKERS WON'T KNOW WHERE TO GO TO SELL THEIR LOANS;

AND WORRY NO. 9: FEAR THAT CURRENT WAREHOUSE LENDERS WILL GO OUT OF BUSINESS

The warehouse lending segment was the focus of serious discussions in 2012. The pull-out of some of the largest institutional investors; the discussion of increased requirements for issuing lenders by the GSEs; and the overall increase in hesitation and caution led some to very real questions about the space.

"As new loan products appear, some warehouse lenders are hesitant to allow them on their lines for a lack of takeout investors," says Carl. "The rule of thumb is that a bank will want three takeout investors lined up before it funds a new product. An originator shouldn't want to originate a loan without knowing there are at least three investors at the other end, willing to buy."

Should even more takeout investors depart the space, the possible result is fairly clear: fewer investors, fewer available lines, fewer loan choices for deserving homebuyers and, perhaps, fewer warehouse lenders.

Others do not share these concerns, and feel the warehouse segment will remain strong.

Peters argues that warehouse lending can be one of the most profitable segments in mortgage lending when done well.

"The biggest opportunities are there for direct issuers, as opposed to pass-throughs," he says. "Those lenders can do retail, dynamic wholesale operations and the like. There are many ways in which they can go. Do you want to win wholesale volume? Do you want to work more correspondent volume?"

Carl agrees. "Warehouse lenders must be more diligent in what they actually fund or who they wire funds to," she says. "I don't foresee too many going out of business beyond the captive lenders. The large, institutional lenders may be exiting the business, but banks [that] have done warehouse lending for years are likely not going anywhere. They're in it for the long haul."

Whether you agree that warehouse lending faces an uncertain future or that it will emerge stronger than ever, the fact is warehouse lending as we knew it is changing dramatically. Where there is change, there is opportunity, but these are clearly developments that bear monitoring-and planning.

ECONOMIC PRESSURES

The economic disaster of 2007 was a great reminder that our industry does not operate independently of the larger economy. In fact, we have a huge impact on it-and it upon us. This, too, won't be changing anytime soon.

WORRY NO. 10: FEAR THAT INTEREST RATES MAY RISE, SLOWING SALES

Of course the Federal Reserve has insisted it will be keeping rates low for the foreseeable future. This, of course, has been mostly good for mortgage lenders, stimulating demand and keeping the refinancing sector alive. But inevitably, whether in 2014 or 2016, rates will increase.

How high will they go? Would a change of leadership at the Fed mean a change in policy?

Few economic indicators affect the mortgage industry quite like interest rates. And as powerful as the Federal Reserve is, it is only one (large) part of the interest-rate equation.

For proof, see Japan and Germany, where, in spite of the efforts of central banks in 2012, interest rates began to rise as investors purchasing money market and debt instruments began to demonstrate an even more acute concern with credit risk.

This worry is a long-term one. But in spite of the countercyclical odyssey we've experienced over the past five years, we can rest assured that interest rates will rise again. The timing, therefore, will be critical. Should it happen after the industry

See "A Good Nights Sleep" continued on page 55

The Top 300

Reviewing the wonderful data as of September 30, 2012

We have been providing this data each year so our readers can follow their own progress as well as the progress of the Credit Union system overall and that of the very best in mortgage lending and originations...

It is great to see that the total alone from September 30th is roughly equal to the annual volume in recent years. We know the 2012 markets were brisk and filled with refinance transactions and loans of all types. Exceeding the $100B total for the entire year was a goal early on when we realized a market share increase to 8% by mid-year. We continue see tremendous growth and development in many segments of the credit union system. It's easy to say more originating over $100 alone is a positive statement for the future for credit unions. ACUMA has known for a long time the quality of credit union mortgage lending has been strong for decades. Now the word is spreading as we are take another large step toward our market share goal and the respect we have earned over the years.

We asked Tracy Ashfield to review the statistics and she provided some interesting insights...

1. Only four credit unions out of the Top 50 highest volume lenders kept 100% of the loans they granted.
2. Wisconsin showed exceptional growth with six credit unions in the Top 50 resulting in total loan volume just under $3 billion
3. 78% of all credit union first mortgages were made by 300 credit unions
4. Only four credit unions in the Top 100 show no servicing right ownership on loans they have sold.

Once again congratulations to all for a job well done!

TOP 300 FIRST MORTGAGE GRANTING CU MARKET SHARE

	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
Top 300 1st Mtg Originated CUs	69,442,547,158	371,068	160,227,119,831	37,766,612,352	117,541,382,137
All Originating CUs (3,495 CUs)*	89,251,310,299	536,708	245,409,450,218	47,249,367,831	133,169,892,880
Top 300 Share	77.8	69.1	65.3	80	88.3

**CUs who granted $10,000 or more 01/12 - 9/12*

TOP 300 FIRST MORTGAGE GRANTING CU AS OF SEPT. 30, 2012

Rank		Name of Credit Union	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
1	VA	Navy	7,180,954,341	30,786	13,929,990,940	$3,083,299,991	16,434,741,292
2	CA	Kinecta	2,825,558,271	8,964	1,435,349,314	$2,731,666,484	4,951,016,934
3	VA	Pentagon	2,352,540,685	8,630	7,320,412,192	$851,773,789	3,190,869,148
4	CA	Star One	1,409,818,516	3,653	2,227,766,431	$0	19,942,091
5	AK	Alaska USA	1,268,838,554	5,738	632,185,853	$1,220,588,004	3,763,110,201
6	CA	First Tech	1,196,987,800	4,682	1,955,089,334	$603,942,397	2,038,780,762
7	NY	Bethpage	1,103,798,724	3,667	1,632,832,442	$725,211,247	2,721,808,866
8	MI	Lake Michigan	1,063,216,884	7,305	1,137,710,382	$1,462,694,710	2,917,701,043
9	WA	BECU	1,042,364,630	5,823	2,485,858,977	$514,753,321	3,742,676,037
10	NC	State Employees	1,021,524,241	7,740	11,083,584,287	$0	450,497,367
11	CA	SchoolsFirst	852,084,185	3,478	2,052,500,175	$441,781,582	1,068,694,487
12	UT	America First	806,659,882	7,419	803,547,741	$599,230,604	2,229,776,227
13	WI	Summit	716,291,365	4,973	650,234,090	$527,951,485	1,302,227,782
14	CA	San Diego County	599,937,241	2,265	2,360,487,174	$220,984,607	635,255,986
15	CA	Patelco	593,921,397	1,832	1,253,658,115	$271,490,738	907,891,789

Rank		Name of Credit Union	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
16	MN	Affinity Plus	592,543,148	4,080	441,815,696	$561,777,894	1,547,073,022
17	WI	University Of Wisconsin	570,606,726	3,446	252,542,236	$521,794,000	483,004,304
18	NY	Teachers	562,794,152	2,184	1,030,894,903	$241,063,708	1,002,695,633
19	MA	Digital	554,915,193	2,220	1,915,452,051	$181,414,394	761,361,032
20	IL	BCU	554,846,587	2,491	580,620,900	$392,374,788	1,373,804,788
21	CO	Elevations	534,879,355	2,265	345,233,833	$467,943,773	868,546,185
22	CA	Evangelical Christian	523,568,991	111	760,586,608	$259,565,246	1,626,732,902
23	CA	Logix	522,093,800	2,063	1,645,058,547	$201,781,560	616,071,491
24	CA	Provident	515,428,610	1,700	674,678,592	$419,107,012	891,348,696
25	NY	Hudson Valley	478,199,693	2,427	612,290,685	$257,269,708	1,138,659,472
26	WI	Royal	477,146,144	3,415	535,770,968	$351,298,645	1,077,854,659
27	VT	New England	476,070,562	2,799	417,386,722	$366,894,859	1,081,848,473
28	IL	Alliant	476,011,173	1,121	2,463,406,717	$98,503,875	105,890,711
29	MD	State Employees CU of MD	469,536,026	2,250	969,951,218	$175,736,099	522,566,562
30	DC	Bank-Fund Staff	428,724,222	929	1,683,393,835	$100,475,327	486,543,253
31	WI	Landmark	421,651,539	2,747	588,421,643	$305,859,397	1,246,743,049
32	TX	Randolph-Brooks	419,813,154	3,114	1,421,782,403	$75,256,701	232,453,551
33	OR	OnPoint Community	409,945,102	3,383	556,467,653	$280,587,853	975,252,688
34	IL	CEFCU	409,093,641	2,588	2,060,231,121	$0	224,640,489
35	CO	Ent	408,485,327	2,772	1,141,077,677	$166,453,780	565,802,838
36	WI	Community First	408,376,681	3,418	843,409,512	$92,504,000	9,290,485
37	MO	CommunityAmerica	407,248,077	2,337	493,480,727	$339,243,087	957,508,769
38	ID	Idaho Central	395,805,435	3,034	381,234,369	$276,056,721	416,322,335
39	FL	GTE	386,678,291	2,329	337,815,280	$328,804,584	838,805,140
40	VA	Northwest	383,288,150	1,471	337,275,840	$309,153,362	1,232,367,638
41	CA	Chevron	375,322,000	1,297	1,178,853,086	$0	21,057,187
42	FL	VyStar	358,419,874	2,827	1,574,476,896	$36,828,744	265,195,074
43	CA	The Golden 1	356,651,267	1,991	1,487,532,197	$117,923,773	499,481,037
44	AZ	Desert Schools	356,471,317	2,244	488,247,982	$299,273,526	1,352,242,316
45	NC	Coastal	346,304,379	1,639	658,740,665	$163,474,812	791,249,443
46	NY	State Employees	344,332,191	2,081	273,817,602	$311,811,563	907,910,261
47	UT	Mountain America	344,086,974	3,110	906,677,939	$396,380,316	893,010,838
48	WI	Altra	341,145,248	2,404	317,733,228	$247,410,687	688,772,879
49	PA	Police And Fire	338,437,327	2,165	1,321,044,169	$80,416,591	483,049,816
50	OH	Wright-Patt	338,150,395	2,637	360,741,848	$266,731,478	1,938,397,812
51	WA	Washington State Employees	310,961,807	1,673	225,605,876	$252,057,313	1,296,350,756
52	IA	Veridian	304,692,417	2,057	657,086,842	$84,190,809	1,301,422
53	CA	Mission	296,909,850	1,252	522,806,827	$161,733,753	538,934,720
54	MD	Tower	293,921,477	1,238	548,335,893	$267,297,664	1,143,483,289
55	TX	University	287,812,360	1,370	263,513,201	$216,817,757	101,616,528
56	NY	ESL	283,040,984	2,170	375,322,175	$208,933,928	1,009,844,518

Rank		Name of Credit Union	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
57	GA	Delta Community	280,384,808	1,431	1,279,467,263	$81,364,746	310,071,323
58	AZ	Arizona State	277,148,395	1,718	492,189,483	$219,958,866	415,156,649
59	MO	First Community	258,700,670	1,649	337,074,011	$168,273,942	501,273,687
60	IA	University Of Iowa Community	256,398,922	1,343	762,782,838	$442,536,740	35,046,989
61	AL	Redstone	256,032,693	1,791	357,596,113	$211,952,589	631,521,473
62	WI	Educators	252,669,280	2,524	650,979,419	$28,663,419	124,130,307
63	RI	Pawtucket	251,168,886	1,500	873,862,765	$75,760,719	210,134,691
64	CA	Financial Partners	249,717,200	878	330,590,064	$130,229,110	526,410,721
65	TN	Eastman	247,589,456	2,082	1,198,125,081	$334,889	11,903,826
66	CA	Wescom	239,700,250	1,053	643,092,438	$233,074,027	1,186,322,252
67	IA	Dupaco Community	238,125,195	1,658	205,748,726	$169,331,825	489,147,625
68	PA	American Heritage	235,860,848	1,189	411,840,500	$237,969,060	629,331,738
69	OR	Advantis	235,324,064	1,116	324,591,779	$141,207,529	334,468,365
70	CA	SAFE	233,848,036	1,153	457,047,767	$159,444,347	307,996,053
71	CA	Redwood	228,572,617	936	674,521,378	$128,548,738	560,351,816
72	MA	Metro	224,725,760	1,012	339,358,379	$162,542,147	375,749,343
73	NJ	Affinity	223,464,830	781	1,143,473,522	$96,066,773	323,008,476
74	IN	Forum	223,384,829	1,197	290,577,651	$160,565,184	484,492,411
75	FL	Suncoast Schools	220,739,968	2,150	1,608,913,209	$64,430,205	463,045,422
76	UT	Goldenwest	219,310,309	1,323	197,130,676	$174,074,178	0
77	CA	NuVision	219,261,057	809	381,873,933	$152,626,600	351,089,996
78	WA	Spokane Teachers	218,781,927	1,436	755,400,445	$52,464,584	174,551,254
79	MA	HarborOne	211,589,875	1,004	875,351,820	$127,382,319	482,238,779
80	CO	Bellco	210,189,179	1,115	543,358,778	$159,909,172	505,091,761
81	NY	Nassau Educators	210,036,100	625	517,331,522	$87,923,000	241,558,188
82	WA	Whatcom Educational	208,999,875	1,101	466,568,152	$125,950,989	275,520,652
83	MI	DFCU Financial	208,345,019	1,400	792,333,393	$63,502,743	330,273,087
84	OH	Superior	202,971,622	1,665	152,377,151	$172,323,528	610,961,010
85	TN	ORNL	202,856,349	1,468	514,561,490	$76,644,906	466,499,080
86	PA	Members 1st	200,299,467	1,174	436,906,065	$129,061,337	0
87	FL	Space Coast	199,169,746	1,201	772,399,003	$80,234,747	1,006,638,376
88	TX	Advancial	194,343,070	664	275,175,929	$92,195,051	243,836,313
89	CA	Premier America	190,969,432	680	592,773,616	$118,470,523	199,968,781
90	TX	TDECU - Your	187,085,672	1,445	695,448,204	$6,205,499	140,119,459
91	PA	TruMark Financial	184,711,647	865	450,962,627	$100,346,566	316,793,696
92	CA	California Coast	179,224,458	877	484,498,122	$75,380,260	11,876,525
93	NY	Visions	178,556,930	1,042	972,110,264	$7,954,400	81,826,950
94	NY	Sunmark	177,628,449	984	74,626,268	$153,742,277	0
95	NV	One Nevada	177,112,364	939	187,392,310	$176,192,513	93,366,801
96	CA	Partners	176,872,060	737	349,031,973	$110,120,922	412,181,672
97	UT	Utah Community	175,727,715	1,033	162,901,494	$140,831,505	10,378,777

Rank		Name of Credit Union	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
98	IA	Collins Community	175,292,619	1,236	279,649,001	$122,731,718	0
99	CA	Western	170,077,206	656	525,166,973	$61,899,644	240,496,046
100	WI	Westconsin	169,710,926	1,390	299,894,250	$205,974,234	636,006,929
101	TX	American Airlines	162,952,368	939	1,578,849,238	$0	12,001,758
102	MN	Wings Financial	160,843,341	893	468,268,637	$82,118,407	345,724,256
103	MA	St. Annes Of Fall River	160,591,962	803	383,025,623	$92,564,659	319,126,213
104	MN	Central Minnesota	160,342,499	1,093	282,580,725	$43,859,768	99,237,765
105	TX	Navy Army Community	156,853,639	1,342	572,562,754	$0	0
106	NJ	Polish & Slavic	155,413,457	741	692,147,463	$21,128,257	81,142,375
107	NH	St. Marys Bank	152,332,755	934	261,858,317	$114,013,412	294,101,379
108	CA	Stanford	152,157,931	200	419,569,979	$151,804,545	508,266,696
109	MO	Anheuser-Busch Employees	151,001,299	994	368,426,469	$100,055,145	257,128,462
110	IN	Eli Lilly	150,523,452	898	263,831,327	$63,855,932	0
111	CT	American Eagle	150,034,353	780	416,120,547	$58,165,199	283,410,396
112	CT	Charter Oak	148,268,211	972	419,757,445	$30,488,543	52,259,628
113	MN	TruStone Financial	147,515,440	835	216,512,842	$75,244,383	162,110,714
114	NY	United Nations	142,158,450	417	957,971,436	$15,883,025	70,637,678
115	VT	Vermont State Employees	142,145,796	938	203,179,222	$72,228,057	300,594,252
116	PA	Citadel	141,294,354	574	520,214,755	$68,355,211	282,540,633
117	MI	United	141,259,728	795	553,376,964	$8,008,954	35,996,627
118	MD	National Institutes of Health	138,503,117	465	118,423,225	$117,735,782	275,973,358
119	VA	Apple	137,860,197	518	569,999,929	$61,353,883	192,139,546
120	MD	NASA	137,520,227	476	308,428,263	$112,242,705	15,804,175
121	CA	Christian Community	136,721,964	268	412,609,115	$20,479,041	95,888,072
122	MO	Missouri	136,477,577	1,041	35,716,001	$127,969,208	311,710,219
123	TX	Security Service	136,450,591	1,230	658,605,004	$19,846,040	13,153,131
124	WA	Verity	136,376,569	683	131,152,506	$91,750,027	273,586,874
125	FL	Fairwinds	136,274,879	1,086	454,242,545	$54,525,398	146,638,039
126	ND	Town and Country	136,089,193	786	119,114,517	$88,742,224	0
127	MA	Workers	136,028,821	829	366,887,261	$57,609,191	130,840,253
128	WI	Fox Communities	135,778,450	1,169	511,869,534	$29,701,132	84,321,172
129	RI	Navigant	135,616,860	676	616,855,967	$47,490,905	97,687,411
130	WA	TwinStar	134,660,351	775	132,625,908	$133,973,421	165,611,305
131	CA	USE	132,299,461	441	229,471,082	$70,323,010	180,852,752
132	MA	Greylock	131,946,656	881	492,030,240	$99,595,048	374,555,308
133	WA	Gesa	131,552,885	772	173,959,951	$62,072,207	208,279,399
134	NM	New Mexico Educators	130,922,259	640	260,376,887	$59,794,433	92,400,777
135	CA	American First	130,624,226	591	138,680,657	$115,537,584	452,988,017
136	PA	Pennsylvania State Employees	129,957,688	1,037	404,829,550	$44,553,041	221,100,251
137	WA	Numerica	128,167,148	821	325,623,944	$36,754,307	247,916,315
138	WI	Covantage	123,631,263	1,205	467,268,709	$48,890,619	123,198,042

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Rank	Name of Credit Union	$ Originated 1st Mortgages (Fixed & Adjustable)	# Originated 1st Mortgages (Fixed & Adjustable)	$ Outstanding 1st Mortgages (Fixed & Adjustable)	$ Sold 1st Mortgages	RE Loans Sold but Serviced by CU
139 CA	Travis	123,480,737	723	305,413,245	$58,617,419	228,919,950
140 GA	Robins	123,135,750	1,049	274,358,341	$57,965,024	216,184,402
141 CA	Orange Countys	122,615,073	494	295,078,707	$70,242,952	92,297,958
142 IN	Evansville Teachers	118,563,981	1,242	269,333,867	$20,850,770	27,025,097
143 CA	First Entertainment	117,539,394	336	318,563,100	$64,509,920	68,243,164
144 OK	66	116,397,644	646	134,962,476	$93,696,182	401,671,014
145 NY	Corning	116,295,510	865	235,615,320	$62,811,587	353,482,347
146 NC	Truliant	114,447,621	852	392,949,437	$46,351,070	0
147 IN	Three Rivers	114,210,992	851	218,297,204	$23,154,963	147,753,744
148 NY	AmeriCU	113,134,085	856	216,811,609	$52,223,935	222,229,785
149 NY	CFCU Community	111,597,158	770	320,286,702	$25,913,000	194,085,882
150 KY	L & N	111,240,309	894	270,460,096	$58,396,079	193,646,545
151 VA	State Department	111,115,236	441	420,899,696	$45,478,858	89,398,208
152 CA	Los Angeles Police	110,489,707	463	224,828,774	$66,395,507	196,804,473
153 CA	California	110,230,888	456	287,077,347	$81,210,076	625,889,391
154 IL	Deere Employees	110,150,631	670	251,755,463	$28,512,074	287,338
155 FL	Grow Financial	110,009,518	753	482,618,068	$19,613,173	118,501,402
156 WI	Marine	109,794,617	1,106	169,683,727	$85,520,957	470,361,889
157 MI	Michigan State University	109,227,602	781	553,729,785	$745,099	0
158 NY	Self Reliance New York	108,899,066	227	557,928,812	$0	0
159 MI	Lake Trust	108,094,937	793	457,550,517	$0	49,410,912
160 PA	Franklin Mint	107,757,900	536	186,153,401	$66,332,309	278,039,389
161 IN	Teachers	107,067,512	995	637,205,331	$299,351	6,038,290
162 NE	Centris	105,701,273	830	165,764,987	$50,956,658	140,018,659
163 NH	Service	104,470,898	622	409,102,909	$0	0
164 CA	Bay	104,021,550	421	152,977,185	$75,596,871	174,580,281
165 OH	General Electric	103,356,933	623	369,870,141	$497,200	0
166 IN	Beacon	103,154,721	573	531,624,624	$0	0
167 NY	Melrose	102,785,440	108	318,408,235	$0	1,174,063
168 MD	Mid-Atlantic	101,977,552	343	66,276,580	$86,045,564	215,050
169 CA	San Francisco Fire	101,855,692	314	270,007,588	$68,191,600	216,892,042
170 CA	Technology	101,076,045	291	513,520,332	$59,830,073	134,135,539
171 MA	Jeanne DArc	99,785,544	471	415,516,301	$25,919,090	102,427,045
172 MA	Direct	98,986,413	421	111,627,845	$69,964,347	286,396,893
173 TX	GECU	98,459,029	1,036	416,854,356	$38,580,823	208,961,501
174 MD	Andrews	97,955,220	312	114,873,684	$9,113,835	28,197,357
175 MA	Hanscom	97,704,738	444	211,434,707	$49,278,350	183,878,758
176 FL	Community First Credit Union of Florida	97,586,380	589	348,059,622	$86,636,410	286,043,440
177 MA	NMTW Community	97,027,991	465	180,891,833	$61,875,292	148,752,481
178 MN	Hiway	96,905,876	677	347,648,976	$40,371,898	152,954,853
179 MA	IC	96,824,999	617	232,581,589	$62,497,957	214,428,865

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180 IN	Centra	96,080,360	739	270,322,432	$36,944,540	129,734,621
181 UT	Deseret First	95,399,293	568	132,054,518	$58,221,758	0
182 WI	Guardian	95,274,403	635	63,767,080	$84,522,450	237,871,265
183 MI	Community Financial Members	94,862,606	585	219,642,610	$51,395,314	131,309,837
184 WA	Qualstar	94,816,669	528	63,503,146	$86,949,380	254,454,092
185 IN	Indiana University	94,766,743	758	246,610,010	$25,002,703	26,641,039
186 CO	Westerra	94,723,536	569	360,596,904	$22,731,974	155,612,802
187 NC	Local Government	94,602,890	818	400,267,863	$67,543,956	0
188 OR	Unitus Community	93,184,572	552	165,471,671	$60,400,844	363,269,571
189 IN	Purdue	92,943,851	471	330,855,906	$95,497,290	355,528,732
190 MD	APG	92,190,325	519	160,724,138	$58,506,835	195,319,461
191 WI	Pioneer	91,996,783	804	181,021,989	$46,307,000	128,215,930
192 AZ	Arizona	91,298,724	617	81,101,615	$26,080,759	0
193 SC	Founders	90,891,428	2,165	560,297,252	$3,151,083	0
194 PA	APCI	90,049,692	612	164,978,410	$0	0
195 VA	Virginia	89,800,069	601	400,443,818	$32,703,875	195,981,641
196 SD	Sioux Empire	89,773,873	636	3,473,839	$80,980,614	8,963,357
197 GA	Georgias Own	89,749,790	546	325,160,369	$25,669,963	60,479,000
198 UT	University First	89,508,000	544	87,854,508	$63,751,505	133,716,887
199 NY	The Summit	89,158,646	833	135,838,261	$46,281,458	192,010,659
200 NY	Island	88,687,970	382	110,846,549	$31,872,000	143,259,416
201 CA	CoastHills	88,506,379	431	232,176,991	$23,903,300	62,336,650
202 NY	Capital Communications	88,386,247	773	445,351,549	$226,549,611	321,967,974
203 MA	Harvard University Employees	87,932,863	287	172,756,668	$42,457,909	104,405,066
204 CA	Xceed Financial	87,479,618	309	413,885,081	$34,835,177	49,693,210
205 SC	South Carolina	87,283,690	581	311,227,466	$14,069,900	84,510,453
206 SD	Sioux Falls	86,690,429	592	13,261,961	$80,032,243	0
207 CA	Aerospace	86,209,650	279	6,458,364	$87,434,818	209,419,869
208 CT	Connecticut State Employees	84,832,965	389	230,176,566	$0	0
209 VT	Vermont	84,779,748	559	71,381,885	$68,307,222	175,784,770
210 CA	Kern Schools	84,683,463	386	233,111,720	$27,086,679	314,446,088
211 DC	IDB-IIC	84,568,459	197	244,990,240	$0	19,552,586
212 IA	Ascentra	83,662,846	669	61,302,870	$70,690,104	211,781,821
213 MA	Rockland	83,543,298	409	313,725,977	$32,045,369	69,659,077
214 OH	KEMBA Financial	81,950,347	735	222,649,095	$8,375,909	0
215 IL	Consumers	81,762,949	516	110,447,652	$69,960,742	249,098,299
216 TN	Ascend	81,463,536	796	480,819,063	$0	0
217 WA	Seattle Metropolitan	81,186,714	360	204,321,857	$46,876,156	207,392,898
218 HI	HawaiiUSA	79,566,054	171	213,227,535	$29,026,200	0
219 IN	Indiana Members	79,354,023	452	393,281,421	$34,835,560	7,230,542
220 FL	Eglin	79,161,662	495	259,884,673	$1,030,212	4,479,501

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221 NM	Sandia Laboratory	78,644,133	417	559,682,634	$15,171,946	0
222 NE	Liberty First	78,594,430	587	36,790,315	$72,212,561	0
223 FL	MidFlorida	78,519,271	340	495,777,567	$92,049,635	296,048,021
224 TN	Knoxville TVA Employees	77,560,209	643	394,424,725	$0	0
225 UT	Cyprus	77,412,644	476	128,917,529	$47,596,668	0
226 MA	Quincy	77,036,674	359	135,938,895	$23,815,413	51,555,798
227 IN	Inova	76,998,868	628	62,529,622	$64,216,308	244,600,825
228 VA	University of VA Community	76,943,248	389	48,383,288	$65,958,098	0
229 MA	Sharon	76,830,929	449	170,123,587	$25,102,010	82,751,373
230 HI	Hawaiian Tel	76,668,000	237	148,880,455	$68,274,500	0
231 NE	SAC	76,425,126	581	100,346,086	$43,914,678	115,368,401
232 MI	Honor	76,032,581	675	163,289,533	$48,124,871	120,708,064
233 OK	Weokie	75,428,405	574	210,561,767	$23,785,404	170,763,299
234 MA	St. Marys	75,166,726	317	221,000,145	$28,430,349	77,510,173
235 WA	Global	74,905,601	497	84,160,051	$61,088,012	8,350,701
236 NY	Mid-Hudson Valley	74,462,837	385	210,179,740	$38,526,542	238,900,183
237 MA	Leominster	74,352,759	462	161,756,802	$22,513,578	32,299,398
238 OR	Oregon First Community	73,884,348	539	184,141,510	$52,327,678	224,907,681
239 CA	Schools Financial	73,679,279	606	169,442,720	$17,046,750	76,955,021
240 MT	Whitefish	73,513,466	394	636,847,603	$0	0
241 IN	Heritage	73,507,678	707	74,666,951	$45,488,011	182,695,112
242 TN	Tennessee Valley	73,158,079	269	166,170,190	$29,867,005	0
243 NY	Quorum	72,793,099	277	267,686,465	$20,204,919	67,394,293
244 HI	Aloha Pacific	72,478,273	241	257,164,790	$28,284,193	0
245 FL	Tropical Financial	72,080,891	378	144,690,578	$42,506,654	165,876,561
246 DC	Congressional	71,932,429	233	148,061,007	$53,702,560	0
247 IL	Great Lakes	71,808,284	260	125,547,631	$30,695,416	113,501,703
248 WI	Westby Co-op	70,732,935	529	126,989,720	$34,431,997	121,547,663
249 CO	Denver Community	70,564,805	313	52,578,347	$68,017,882	121,307,396
250 CO	Air Academy	70,325,260	322	106,067,488	$54,431,146	0
251 AR	Arkansas	70,160,963	568	212,366,703	$45,589,451	48,713,958
252 OK	FAA	69,886,104	622	92,905,451	$38,849,357	169,497,489
253 CO	Public Service Employees	69,595,221	518	113,612,953	$20,245,120	138,247,189
254 CO	Colorado	69,192,078	285	18,014,343	$65,730,969	0
255 MA	Central One	69,041,688	346	122,594,309	$57,631,545	186,361,054
256 WA	Red Canoe	68,992,876	474	208,080,900	$30,401,077	74,149,587
257 FL	IBM Southeast Employees	68,519,272	426	241,571,067	$40,915,486	203,308,834
258 MI	Educational Community	68,412,100	580	155,543,785	$24,402,524	84,862,370
259 VT	NorthCountry	68,351,751	381	108,218,834	$35,165,083	0
260 WA	Solarity	68,286,599	481	142,720,661	$36,599,162	81,140,264
261 AL	APCO Employees	68,101,029	493	296,744,630	$0	0

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262 WA	Hapo Community	67,741,317	488	267,491,952	$0	0
263 WA	Sound	67,541,504	380	171,043,302	$28,624,360	0
264 CA	Keypoint	67,468,902	177	277,064,604	$0	0
265 AL	Alabama One	67,081,520	1,325	165,835,776	$41,635,581	169,309,928
266 NC	Allegacy	67,061,240	448	190,277,942	$80,558,250	220,255,221
267 MS	Keesler	66,006,353	575	278,567,903	$12,019,859	47,002,325
268 OK	Tulsa Teachers	65,716,573	477	173,136,121	$32,313,915	60,821,853
269 IN	Notre Dame	65,228,549	503	150,221,776	$43,120,596	73,383,241
270 FL	Achieva	65,176,475	412	184,348,971	$41,817,900	92,599,513
271 NH	Northeast	64,507,284	506	124,890,549	$23,258,902	117,497,744
272 VA	BayPort	64,278,519	366	372,414,264	$17,183,411	0
273 TX	Firstmark	63,723,024	506	234,115,716	$0	0
274 CA	Sacramento	63,465,534	297	20,609,990	$54,196,492	74,211,617
275 AL	Americas First	63,376,085	540	373,108,513	$10,477,735	0
276 GA	Associated	63,255,760	506	145,465,162	$40,263,468	221,663,937
277 WI	Blackhawk Community	63,161,181	630	121,248,635	$54,306,935	300,633,888
278 IN	Professional	62,958,340	593	61,366,410	$54,571,258	149,584,772
279 MT	Missoula	62,380,588	394	53,178,427	$56,421,160	186,556,678
280 MI	Dow Chemical Employees	62,158,588	506	297,152,908	$2,075,400	44,003,877
281 IA	DuTrac Community	62,074,184	459	179,489,000	$7,726,023	0
282 MD	NRL	62,068,401	279	128,165,124	$53,502,505	169,362,369
283 OR	Selco Community	61,960,401	932	224,483,736	$0	0
284 CA	USC	61,942,500	192	61,376,579	$54,992,769	13,905,049
285 KS	Hutchinson	61,770,780	960	70,102,983	$34,024,976	0
286 LA	Barksdale	61,591,082	471	141,593,176	$27,948,153	151,507,940
287 VT	Heritage Family	60,927,941	455	98,133,797	$26,021,288	150,566,286
288 AL	MAX	60,345,522	361	129,875,251	$39,004,953	179,248,262
289 IA	Community Choice	59,966,284	410	15,475,057	$58,951,514	0
290 TX	United Heritage	59,880,927	432	258,310,648	$22,113,230	5,268,974
291 CA	SF Police	59,763,408	184	227,489,418	$0	0
292 SD	Dakotaland	59,728,570	599	55,723,491	$36,236,199	106,826,224
293 MA	Freedom	59,477,471	390	211,383,446	$18,015,092	25,703,858
294 NY	Suffolk	59,137,095	315	230,178,315	$5,824,800	0
295 AL	Army Aviation Center	58,901,554	624	86,075,498	$10,072,724	0
296 TX	Austin Telco	58,675,505	446	225,562,647	$0	0
297 WI	Connexus	58,559,927	398	185,564,047	$30,962,609	45,860
298 SC	Sharonview	58,007,150	385	452,541,383	$141,600	25,895,939
299 IA	Linn Area	57,940,813	398	50,547,866	$42,474,055	0
300 CT	First New England	57,926,475	295	14,360,038	$53,528,578	242,912,630

Social Media: A New Fair Lending Frontier

By Anand S. Raman, Joseph L. Barloon and Darren M. Welch

The growing use of social media by mortgage lenders carries its own set of fair lending risks.

Social media are a huge and growing part of American life. More than two-thirds of adults who go online use social media websites, such as Facebook™ and Twitter®. Not surprisingly, lenders are increasingly making use of social media as a tool for marketing, reputation management and enhancing customer service. ■ Information about a person's Web-surfing habits, online "friends" and other data points can be put to myriad uses, from the identification of individuals to receive solicitations for credit to the pricing and underwriting of loan applications. The potential lender uses of social media are limited only by the imagination and creativity of a lender's marketing professionals, underwriters and third-party vendors. ■ Legitimate uses of social media, however, come with fair lending risks.

For example:

- Lenders can obtain information from online social media "profiles," photos and affiliations about a borrower's race, ethnicity, marital status, sexual orientation or other status that may be a prohibited basis under federal and/or state fair lending laws.
- Social media contain a wealth of new data elements about individuals that carry fair lending risks, such as an individual's "friends" or other associations.
- Fair lending complaints about lenders can be shared instantly by disgruntled customers among a wide audience.
- Lender outreach to individual customers on social media websites provides new public visibility into the consistency of customer service, which can be a fair lending issue.
- Different levels of access to the Internet and social media-the so-called digital divide-could result in disparate impact in connection with services distributed through those outlets.

The purpose of this article is to raise awareness about the implications of the use of social media so that lenders can more effectively manage the associated fair lending risks.

There are other potential compliance risks associated with social media use, such as information privacy and compliance with the Fair Credit Reporting Act (FCRA) and laws governing consumer disclosures and advertising that are beyond the scope of this article.

This discussion will concentrate on the more common current uses of social media and reported demographics of users, and will delineate the fair lending risks inherent in each type of use.

SOCIAL MEDIA USE AND USER DEMOGRAPHICS

Statistics published in New York-based Nielsen's State of the Media: The Social Media Report-Q3 2011 provide a good snapshot of social media usage in the United States and the demographics of users. Nearly 80 percent of active U.S. Internet users participate in social media networks and blogs.

Social media represents, by far, the single biggest component of time spent on the Internet-nearly triple the time spent on email. Facebook, which is the leading website as measured by time spent by users, had more than 140 million unique users in May 2011 (or 70 percent of active U.S. Internet users) who logged 53.5 billion minutes of use that month-more than four times the hours spent on Google™.

There are significant differences, however, in the manner in which different groups use social media.

Although these users span all ages of the U.S. population, the highest concentration among adults is found in the 18-34 age group, while those aged 65 or older constitute the lowest percentage.

While the level of detail on social media use by race, ethnicity or other demographic characteristics is not as robust as in the field of mortgage lending, studies suggest some salient differences. For example, Asian-Pacific Islanders are more likely to visit social networks and blogs than average Internet users, while African Americans are less likely than average Internet users to visit social networks and blogs.

Moreover, social media use varies with education and income levels-although, interestingly, increased social media use is correlated both with higher levels of education and with lower income.

Moreover, general studies of Internet access and usage have shown significant differences among ethnic and racial groups, ages, geographies and socio-economic groups. An April 2012 study conducted by the Pew Research Center's Internet & American Life Project, Washington, D.C., found that 80 percent of white adults use the Internet, compared with 71 percent of African-American adults and 68 percent of Hispanic adults.

That same study shows that 94 percent of those aged 18-29 years old use the Internet, whereas only 41 percent of those age 65 or older use the Internet. While this digital divide has narrowed over time, differences in use and speed of Internet connections still exist.

There is **no law or regulation** that specifically governs fair lending in the social media context

FAIR LENDING RISKS TIED TO SOCIAL MEDIA

APPLICABILITY OF EXISTING FAIR LENDING LAWS:

There is no law or regulation that specifically governs fair lending in the social media context. Rather, as often occurs with emerging technologies, such as the transition from manual to automatic underwriting that occurred many years ago, laws written for a different time (here the Equal Credit Opportunity Act [ECOA] and Fair Housing Act [FHA]) must be applied to the new technology.

This presents numerous challenges, as lawmakers and regulators apply current law in contexts that their authors never could have imagined.

The absence of specific laws or regulations does not mean, however, that regulators and enforcement agencies are not interested in these emerging issues. To the contrary-regulators have indicated in the *Interagency Fair Lending Examination Procedures* that fair lending compliance in this context is a priority.

Bank examiners have been instructed that "in view of the increasing capability to conduct transactions on the Internet, it is extremely important for examiners to review an institution's Internet sites to ensure that all of the information or procedures set forth therein are in compliance with any applicable provisions of the fair lending statutes and regulations."

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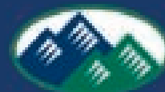

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USING SOCIAL MEDIA DATA FOR PRE-SCREENED SOLICITATIONS:

Lenders can readily obtain data that has been aggregated from various online sources, including tweets, status updates, a person's online clubs or other relationships, and posts or comments on blogs. This information can identify active social media users, their favorite networks and the types of fan pages they visit.

Based on this information, data aggregators create "social graphs" to identify people who have relationships with account holders at a particular lender, which can be used for marketing purposes.

This data can be used by lenders to identify segments of consumers to whom they wish to send pre-screened solicitations for credit, or to choose the particular products they will market to a given individual.

For example, a lender might market a credit card that is branded with a celebrity's likeness for people who follow that celebrity on Twitter. Or a lender might send an email or direct-mail advertisement for a consumer loan to people whose social media profiles indicate that their relationship status has recently changed to "engaged" or "married," saying, "Let us help you take that great honeymoon you've always wanted."

Similarly, a lender might send solicitations for a rewards credit card to users who have friends who already have similar credit cards with that lender.

With these innovative (and nearly innumerable) marketing strategies comes the potential risk for disparate treatment, particularly if lenders are perceived as using pre-screening criteria that are defined by, or could be seen as a proxy for, protected-class status. Moreover, even if the pre-screening criteria are facially neutral, they may result in the sort of statistical imbalances that create a risk of disparate impact.

The extent to which the fair lending laws apply to pre-screened solicitations is unsettled and could depend on the type of solicitation.

Regulators have interpreted the Fair Housing Act as prohibiting discrimination in connection with pre-screened solicitations for mortgage loans. However, ECOA's anti-discrimination provisions apply only to applicants, and for this reason, federal regulators have taken the position-as reflected in the *Interagency Fair Lending Examination Procedures*– that "pre-screened solicitation of potential applicants on a prohibited basis does not violate ECOA."

Nonetheless, Regulation B does require preservation of pre-screened solicitations and the pre-screening criteria.

In addition, the Consumer Financial Protection Bureau's (CFPB's) examination guidance suggests that the CFPB views use of pre-screened solicitation criteria associated with a protected class as potentially constituting impermissible "discouragement" in violation of Regulation B. Although such a view appears to conflict not only with prior regulatory guidance but also with at least one court decision, there is considerable risk in utilizing pre-screened solicitation criteria that are associated with protected-class status.

USE OF SOCIAL MEDIA DATA FOR LENDING DECISIONS:

Fair lending risk also exists where lenders use social media data for underwriting or pricing purposes. While there is little evidence to suggest that this information is commonly used in underwriting, it is conceivable that an underwriter might log on to Facebook or Twitter to obtain information about an applicant.

In addition, data aggregators are currently developing products that classify and group individuals based on social media sources, providing metrics not dissimilar to credit-report metrics for use in credit underwriting.

Similarly, a June 2012 enforcement action by the Federal Trade Commission (FTC) against Pasadena, California-based Spokeo Inc. under the FCRA alleged that the company had gathered information from sources including social media that identified the marital status, ethnicity and religion of individuals, and that it had sold this data to employers for potential use in employment decisions.

The temptation to use such information may be strong, as the information could be inherently valuable in assessing the risk of a given loan. For example, if an applicant's Facebook profile indicates that he is employed somewhere other than at the employer he has listed on his application, this information would be an indicator of potential fraud.

Likewise, a loan officer might conduct online research to determine what types of stores, companies or organizations the applicant "likes," which might shed light on the applicant's sophistication or negotiating abilities, and thus influence the pricing of his or her loan. A lender may also obtain information from a data vendor about the type of email account or computer a person uses and make a judgment about the person based on whether he or she has a .edu or .gov email domain or accesses accounts from a mobile device as opposed to a computer.

In addition, a lender might review its experience with an applicant's online friends and use that information to assess the applicant's own creditworthiness.

Use of this information could significantly elevate an institution's fair lending risk. Indeed, discrimination allegations have been raised in the employment context based on employers' use of social media data in the employee vetting process. Given that employment discrimination litigation has long provided precedents for fair lending discrimination cases, lenders are well advised to follow closely how the courts treat employer use of social media information.

> The way that a **lender responds** to online complaints is also important

Ad hoc use of social media information–for example, reviewing and relying on Facebook page information for some but not all applicants on a case-by-case basis-presents a disparate treatment risk because inconsistent treatment can be considered evidence of discrimination.

For instance, if an underwriter views an applicant's online profile to obtain information about the applicant, the underwriter may learn information or form an opinion about the applicant's protected-class status from a profile photo or other information on a social media web site, such as race, ethnicity or marital status-that the lender might not otherwise have known.

Lenders should consider **clarifying applicable policies** and procedures to address how to treat social media complaints.

And this risk is not just abstract. As reported in a *Consumer Reports* article in June 2012, in the last year, 7.7 million Facebook users "liked" a Facebook page pertaining to a religious affiliation and 1.6 million users "liked" a page pertaining to a racial or ethnic affiliation. If an underwriter were to factor this information into his or her decision in a way not authorized by law, this could present significantly elevated fair lending risk.

Moreover, even if such information is not purposefully factored into the underwriter's decision-making process, the mere fact that the lender gains access to such information could enhance practical fair lending risk.

A more systematic use of social media information-identifying desirable or undesirable borrowers based on some of the aforementioned social media factors-presents a disparate impact risk because of the likelihood that various groups would be affected differently by the consideration of social media metrics.

For example, if an underwriter considered applicants who "like" certain high-end retailers to be more creditworthy than other applicants (or utilized a vendor-generated score based in part upon such information), it might be alleged that the practice has an impact based on a prohibited basis if it were shown that minorities were under-represented among those retailers' customers.

LENDER SOCIAL MEDIA ACCOUNTS AND COMMUNICATIONS:

Many lenders maintain Facebook profiles or Twitter accounts and other social media presence. While these activities can enhance customer service and no doubt increase competitiveness, lenders should be cognizant of potential fair lending issues in maintaining such accounts.

Finding customer complaints against a lender on social media sites is not difficult. For example, on Facebook, the complaint may be included in comments on the lender's own site. And on Twitter, one can very easily search for recent tweets that contain the lender's name.

The mere fact that stating a written "complaint" against a lender is significantly facilitated by the rise of social media increases fair lending risk. Moreover, even if a lender does not actively monitor such complaints, it may well be charged with knowledge of the complaints.

The way that a lender responds to online complaints is also important. Some lenders have dedicated social media customer service teams responsible for monitoring and responding to complaints about the lender on social media.

For example, a tweet from the customer service team in response to a complaint might say, "@[customer account name], Is there anything I can do to help?" For privacy reasons, lenders generally do not engage in substantive communication about specific accounts over social media in a way that allows others to see the communication. But the initial reaching out to a customer by the customer service team is often done in a way that all can see.

Many fair lending issues could arise in connection with lender social media accounts. Lenders are well advised to ensure that their posts and direct messages on Facebook and Twitter do not indicate a discriminatory preference or give the appearance of endorsing any discriminatory posts made by others.

This concern could also extend to personal social media posts maintained by an employee of a lender, and lenders may wish to consider providing guidance to employees regarding references to the lender in their personal social media usage.

When lenders use social media for customer service outreach, additional fair lending considerations come into play, because providing customers a different "level of assistance," "amount of assistance" or "quality of assistance" based on a prohibited factor may constitute a fair lending violation, according to bank regulatory guidance.

These risks are heightened with respect to social media customer teams because the people to whom a team chooses to respond and how it responds are very visible to the online world. Regulators or litigants may seek to assess how a lender's social media customer service teams respond to complaints from people of different apparent race, ethnicity, sex or age as indicated by their name or profile photo.

Regulatory "testers" may even engage in high-tech "mystery shopping" by using different profile names and photos and asking questions or making complaints against the lender in social media to test how the lender's social media customer service team responds.

Finally, social media complaints could present additional compliance issues for large bank lenders subject to CFPB examination specifically.

Section 1034 of the Dodd-Frank Wall Street Reform and Consumer Protection Act imposes obligations on large banks to provide certain information to both the CFPB and to a customer in response to complaints and inquiries from that customer. Whether a complaint in response to a lender's Facebook post or in a tweet falls within the scope of the statute is unclear.

When does a "chat" between a lender and its customer transform itself into a "complaint"?

The difficulty in knowing how to categorize such communications-as well as the difficulty in monitoring such communications-has ramifications not only with respect to the lender's complaint-handling process, but also with regard to the lender's document-preservation policies and procedures and its response to civil litigation discovery requests. Lenders should consider clarifying applicable policies and procedures to address how to treat social media complaints.

BLOGS:

Some lenders host their own blogs. Posts on these blogs provide information about special events, products, the industry, consumer protection and other topics. Just as in the traditional advertising context, lenders should ensure that the messages and images posted by them on their blogs do not indicate a discriminatory preference or suggest endorsement of such statements made by third parties on their blogs.

This might occur, for example, if a lender approves and posts a comment made by a third party on a moderated blog that expresses a discriminatory preference, or if the lender fails to remove a post that indicates such a preference.

HERE TO STAY

Social media have become a major presence in American society. Banks and lenders, like other businesses, are responding to this trend by using social media to increase their competitiveness. Some uses of social media, such as for marketing and customer service, are already commonplace among major banks. Other potential uses, such as considering information from an applicant's social media profile or social networks in the decision-making process, may become more commonplace.

As with any other emerging technology used in commerce, lenders should ensure that their use of that technology is consistent with fair lending laws. To do so, lenders should consider conducting a comprehensive review of their use of social media with a view toward developing formal policies for fair lending compliance in this area. **PL**

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has seen real recovery, such a rise in rates would perhaps even be an indicator of a return to some kind of normalcy. Should it happen during the early stages of a most fragile recovery, well let's not go there.

THE KEY TO A GOOD NIGHT'S SLEEP

I have long believed that change can bring opportunity. However, that is only true if one is prepared and able to adapt. So what should lenders be doing now to be ready?

Regarding the dramatic changes in warehouse lending, Maddin, Hauser, Wartell, Roth & Heller's Jacobs suggests good, old-fashioned shoe leather. "There are lenders, outside of the biggest ones, out there that are providing warehouse lines without prohibitive requirements," he says. "The correspondents just need to search them out."

Levy says, "There is a real opportunity right now for the warehouse lending segment to reinvent how warehouse lending is done. Perhaps a new form of insurance will need to come into being. There is an opportunity for invention that could help lenders avoid risk and hedge themselves against having their warehouse lines pulled quickly and with little notice. It will just take some creativity."

Gordon suggests the largest and smallest companies may be best positioned to deal with impending market and economic changes. "Well-run small firms may actually be below the direct line of regulatory pressure as long as they deliver compliant loans to lenders. And of course the largest lenders, provided they have their compliance processes in place, also stand to thrive because of the likely market consolidation to come."

Carl sees the need for a new focus upon due diligence and quality. "Some people don't realize just how important what we call 'back-office work' really is," she says. Investors won't waste time on a loan they can't purchase immediately."

Peters adds, "As an industry, we've put so much emphasis on production and sales in the past that it has come back, in many ways, to haunt us. Some may grumble about the increased costs of compliance, due diligence and quality control, but the fact is that those lenders willing to put a bit more into their underwriting, compliance and due diligence may find their margins improving in the long run."

Carl hopes the lessons of the past will help the industry adapt to the future. "I'm truly hoping our industry has realized what happened in the past and learned from it," she says. "We were hit hard. It will take a long time to even approach the way the market used to be. But make no mistake. We won't be going back, completely, to where we were." **PL**

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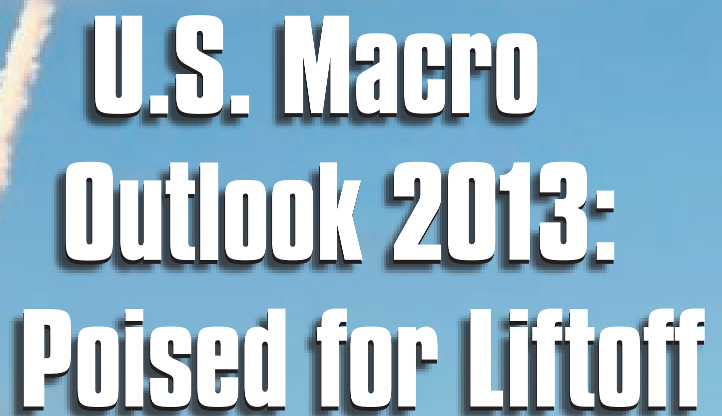


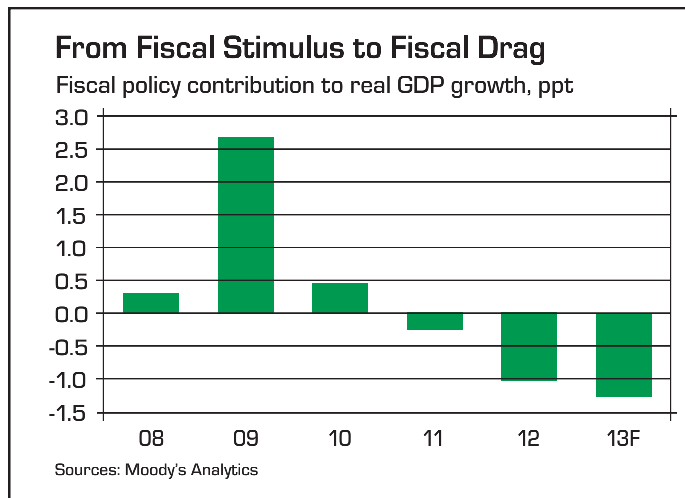
U.S. Macro Outlook 2013: Poised for Liftoff

By Mark Zandi

Moody's Analytics U.S. Macro Forecast.

- Fiscal headwinds will prevail in the first half of 2013, but the U.S. economy will pick up in the second half.
- The biggest threat to the outlook would be a failure by Washington to settle key tax and budget issues.
- Lawmakers are likely to scale back the fiscal cliff and agree on a comprehensive budget plan in January.
- Fiscal policy will continue to drag on U.S. growth next year but at about the same level as in 2012.
- The private sector is poised for much stronger growth once clarity returns to federal policy.

The U.S. economy in 2013 will feel the contrasting drafts of a retrenching federal government and a reviving private sector. Stiff fiscal headwinds will prevail during the first half of the year and growth will be weak, but by the second half, business investment will be rising, as will bank lending and households spending on cars and homes. The biggest threat to this outlook remains a failure by Washington to reasonably address the nation's fiscal challenges. But assuming Congress and President Obama do roughly the right thing (and the political stars are aligned so that they should) the economy will be back to a healthy growth pace by 2014.



INTENSE FISCAL DRAG

There are many ways the current tax and budget negotiations could play out, but the most likely scenario has lawmakers agreeing on a comprehensive budget plan in early 2013. The plan we envision would scale back the tax hikes and spending cuts now set to take effect in January, raise the Treasury's statutory debt ceiling and lay out a credible path to fiscal sustainability.

The scheduled tax hikes and spending cuts known collectively as the fiscal cliff will be reduced enough to prevent a new recession. There are various ways for Congress to do this; each would add some fiscal drag, holding back economic growth over the year. The most likely agreement would allow the 2011-12 payroll tax holiday to expire (adding a fiscal drag equal to 0.6% of GDP); phase out the emergency unemployment insurance program (fiscal drag equal to 0.35% of GDP); end the Bush-era tax rates for households with income of more than $250,000 per year (0.24%); and allow taxes to rise on higher-income households to help pay for healthcare reform (.06%).

STABLE TAXES, MOSTLY

This means lawmakers are likely to extend the Bush-era tax rates for households making less than $250,000 a year; eliminate the spending cuts scheduled under the 2011 sequestration agreement, and extend the inflation adjustment to the alternative minimum tax and Medicare's reimbursement schedule for doctors and hospitals.

Together, these changes will produce fiscal drag equal to 1.25% of GDP in 2013 (see Chart 1). The impediment to growth will be significant-particularly during the first half of next year-but manageable. Real GDP will grow around 2%, roughly the pace since the recovery began. The level of fiscal drag will also be roughly unchanged from 2012, a year in which federal, state and local government cut spending. There should be little drag from state and local governments in 2013.

As part of the fiscal-cliff agreement, the debt ceiling will be raised high enough to last past the 2014 elections. But this won't happen without the consent of House Republicans, who in summer 2011 used the debt ceiling as a lever to cut $1 trillion of government spending over 10 years through discretionary spending caps, and another $1 trillion through sequestration. House Republicans will happily jettison the sequestration deal and the resulting cuts to the defense budget, but they will insist on other spending cuts.

REFORM IN 2013

The resulting agreement will thus have to include a broader program of deficit reduction, including tax and entitlement reform. Doing all this will be impossibly complex in a short period; therefore lawmakers will likely lay out a broad framework and let Congressional committees hash out the details next year.

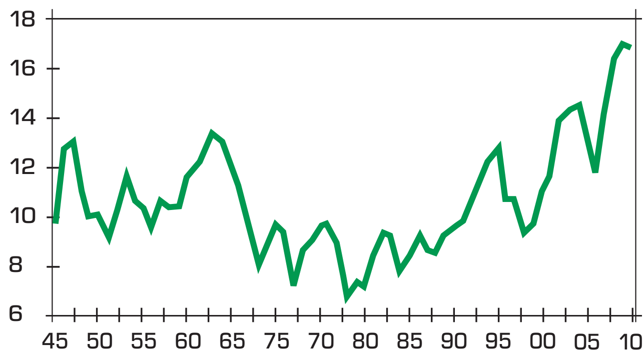
A plausible framework could include $1.5 trillion in tax revenue increases over the next decade, $750 billion from higher

President Obama and House Speaker Boehner are concerned about their legacies, giving them reasons to aim for an historic deal and put the U.S. economy back on track.

tax rates and the remaining $750 billion through tax reform. The framework will also include $2 trillion in spending cuts, including cuts to Social Security and Medicare. Including the $1 trillion in spending cuts agreed to in the 2011 debt-ceiling deal, the ratio of spending cuts to tax increases would be 2 to 1. Assuming future lawmakers stick to this plan, deficits a decade from now will be small enough to allow the U.S. debt-to-GDP ratio to decline.

Business Have Never Been as Profitable

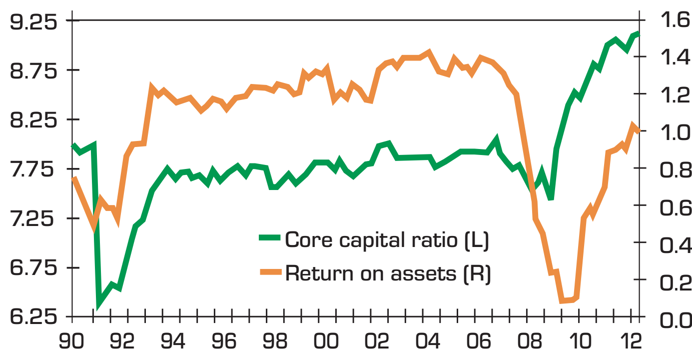
After-tax corporate profit margin, %



Sources: FDIC, Moody's Analytics

Banks are Well Capitalized and More Profitable

Commercial Banks



Sources: FDIC, Moody's Analytics

FORTRESS BALANCE SHEET

Despite the fiscal drag, the economy should gain traction by the second half of 2013, powered by a reviving private sector. An excess of leverage led to the Great Recession, but firms and households have rapidly pared down their debts since then, and balance sheets now are strong. With some additional clarity from Washington on taxes and budgets, businesses, banks and households should all become more aggressive in investing, hiring, lending and spending.

U.S. companies are in especially good shape. They significantly lowered their cost structures during the recession, and have kept unit labor costs – compensation per unit of output – unchanged since the downturn. Profit margins thus expanded, and have never been wider (see Chart 2). Strong profits and low interest rates have allowed firms to substantially lighten their debts and generate a flood of cash. But businesses increasingly realize that to keep their earnings and stock values healthy, they need to seek new growth opportunities.

The U.S. financial system has arguably never sounder. Depository institutions have raised hundreds of billions in new capital, putting important benchmark ratios near all-time highs (see Chart 3). Tighter underwriting since the recession has greatly improved credit conditions. The quality of commercial and industrial loans, credit cards, and auto loans is about as good as it gets. Even among first mortgage loans, the number delinquent between one and two months are at record lows. The missing ingredient to stronger bank profits is more lending, and banks are steadily opening the credit spigot.

The picture among household balance sheets is less uniformly good, but they too are much improved. Higher-income households have shed debt, most have only fixed-rate mortgages that have been made cheaper through refinancing. Lower-income households still struggle to make mortgage and student loan payments, but across all households, the debt service burden – the proportion of after-tax income needed to stay current on outstanding debt– will soon be at record lows (see Chart 4). Households aren't likely to ramp up borrowing anytime soon (and lenders are unlikely to give them the opportunity) but most consumers no longer have to curtail spending to manage their debts.

> What Winston Churchill is reputed to have said about Americans doing the right thing-after they have exhausted all other possibilities-should still apply.

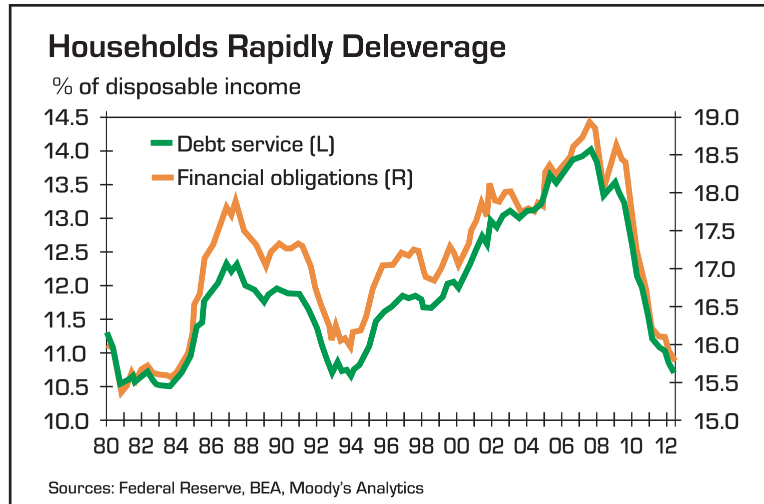
POLITICAL RISKS

Optimism that a stronger private sector will lift the economy by this time next year is tempered mainly by political risk. An agreement to tackle the nation's fiscal issues is clearly easier said than done. To generate the necessary political will, negotiations will likely need to extend into 2013. That is, the nation will need to temporarily go over the fiscal cliff, experiencing the scheduled tax hikes and spending cuts at least temporarily. The effect won't be catastrophic, particularly if the Treasury decides not to change tax withholding schedules in anticipation of a deal being struck during the first few weeks of the new year. Government agencies could also delay their most draconian budget cuts for a time.

However, the economic damage will mount with each passing day, as businesses, investors and consumers begin to doubt policymakers can come to terms. By early February, as the Treasury runs out of options to avoid the debt ceiling, stock prices will slump, bond and CDS spreads will widen, and business and consumer confidence will slide. Political pressure will grow, which is precisely the stress needed to forge an agreement. The danger is that instead of comprehensive deal, lawmakers could choose to kick the can, extending current tax and spending policy for a few months or another year while raising the ceiling enough to get past this period.

With less fiscal drag the economy will grow more quickly in 2013, but the long-term prospect would be much worse. Kicking the can down the road would be a signal that policymakers had failed, and that progress towards fiscal sustainability would require a serious financial crisis. Businesses would remain under a cloud, unsure of their taxes, the size of future government contracts or the nation's long-term fiscal situation. The economy would throttle back to a new normal, characterized by a much slower pace of growth.

But while the threat of political failure can't be dismissed, the times appear favorable for something out of the ordinary. This President and Congress do not have to be made of different stuff than their predecessors; they just have to respond in the usual ways to unusual circumstances. If they don't act, tax rates are going up on everyone, which no legislator-particularly not House Republicans-wants. Neither do they want spending to be cut across the board, with chaotic results to defense and nondefense programs. The debt ceiling also gives House Republicans significant leverage that they have shown a willingness to use. And both President Obama and House Speaker Boehner are concerned about their legacies, giving them reasons to aim for an historic deal and put the U.S. economy back on track.



What Winston Churchill is reputed to have said about Americans doing the right thing-after they have exhausted all other possibilities-should still apply. **PL**

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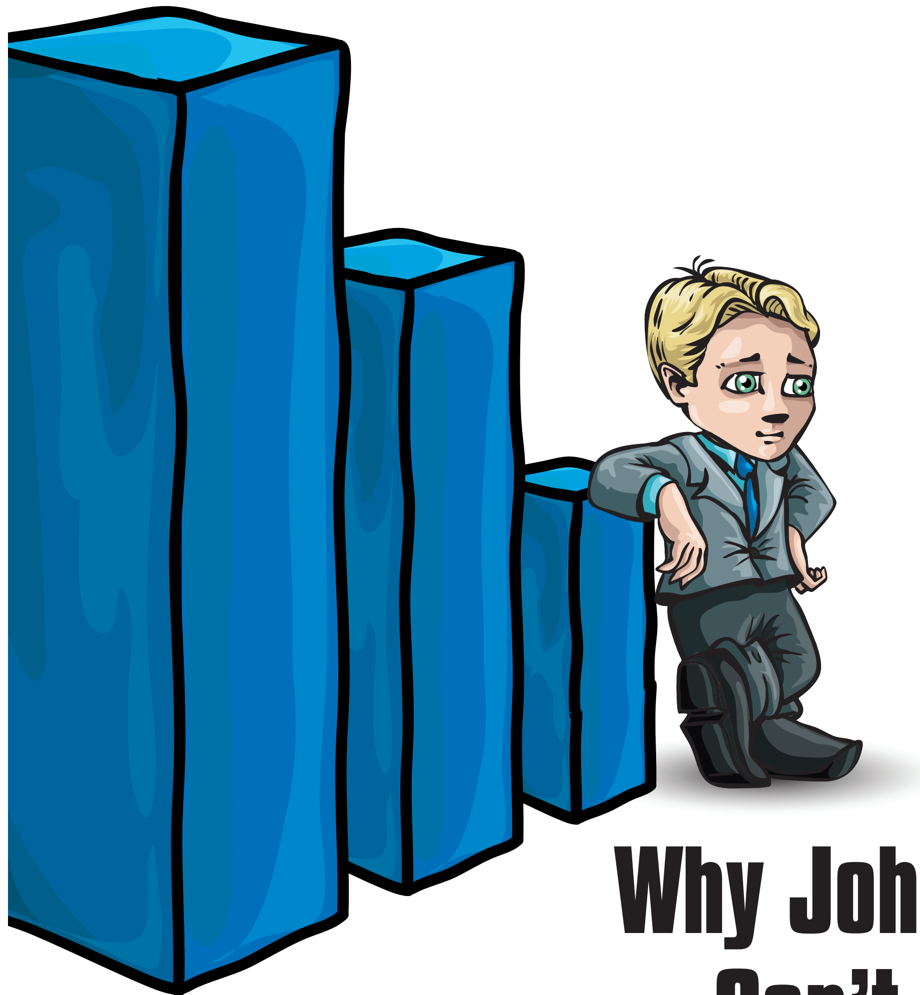
Assuming Congress and President Obama do roughly the right thing (and the political stars are aligned so that they should) the economy will be back to a healthy growth pace by 2014.



Why Johnny/Jane Can't Originate

By Patricia M. Sherlock

Don't settle for originators who don't have what it takes. Research shows what makes for a strong producer, and much of it can't be trained. ■ Most executives agree the current banking crisis is unlike any other business downturn they have ever experienced. The new normal in lending has much different drivers than in previous years: consumers lessening their debt loads while being wary of lenders; government re-regulation of mortgage lending from appraisals to compensation; and weak loan growth at a time when interest rates are historically low.

To thrive during these times, the future sales model is a lean and mean organization where superior performance is a result of profitability and not financial engineering.

Part of the new sales order is that the old way of hiring originators has received its final nail in the coffin. Customers are fed up with originators who don't know their products, won't return calls and don't have their best interests at heart.

Poor service has been compounded by raising a generation of order-takers who cannot bring in quality production with a large percentage of referrals for their banking products. "The originators who do not have a process, high service levels or know how to build a client base are not winning in the competitive marketplace," says Patrick Casey, senior vice president with SunTrust Mortgage Inc., Richmond, Virginia.

The $64,000 Question is this: Do we recruit an originator who has a refinance-centric portfolio with high volumes but is an operational nightmare? Or do we look for an originator with a quality book of business and strong relationships with clients and referral sources, but who has lower volumes?

The answer was easy a short time ago-the high-volume producer was the most desired by hiring managers, even if he or she came with warts. Today, the decision would not be the same because of the focus on quality lending and the cost to originate.

THE OLD NORMAL

Mortgage lending has always had a catch-22 component because of the borrowers' ability to put back the mortgage at their option by choosing to refinance. While refinancing has been a good thing for an origination company's profits (and frankly, individual incomes), it can have long-term negative consequences for a sales group because it continues the employment of sales personnel who can't create additional demand for the lender's products.

What makes refinance-oriented salespeople a problem is they fail to establish deep relationships with customers and referral sources, which results in a book of business that has a small number of referrals.

"As any manager knows, transactional salespersons are simply not the first to be called when customers have future lending needs," says Jennifer Livingston, regional sales manager for Union Bank, San Diego. Eventually, when the refinance market wanes, these types of originators will not survive.

WHAT DO A CONSUMER AND LENDER EXPECT FROM AN ORIGINATOR?

Today's customer has more choices and access to practically unlimited amounts of information due to the ! Internet and technology. While selling was challenging before, it has reached a new level of difficulty with the increase in commodity products, operational hurdles and lower valuations on the consumer's property.

But surprisingly, when surveys (such as Waco, Texas–based Baylor University's Keller Center Research Report) are completed regarding what consumers and lenders expect from a salesperson, it is pretty much what they wanted from a salesperson in the past. Consumers want to be comfortable working with the producer; they want to be listened to and work with someone who is straightforward, honest, knowledgeable, trustworthy and competent.

More important, they want the salesperson to make the transaction happen with as much ease as possible. "In many ways, sales is still about building a relationship with the customer and solving their problems," says Danny Deaton, executive vice president with SWBC Mortgage Corporation in Plano, Texas.

From the lender's viewpoint, not much has really changed in terms of what they are looking for, either. Lenders want the salesperson to collaborate with the operational side of the business and work within the lender's system; they want the customer to receive extraordinary service so customers will refer their friends and family; and, of course, they want the loans to be of high quality.

In a broader context, the customer and lender expectations boil down to simply wanting and demanding originators to be true sales professionals.

> Customer and lender expectations boil down to simply wanting and demanding originators to be true sales professionals

WHAT SCIENCE TELLS US ABOUT THE TRAITS OF A GOOD ORIGINATOR

When looking at what it takes to excel today, it comes down to possessing traits that fall into two categories: people/communication skills and self-motivation. These traits also have not changed over the last decade. What has changed is the risk for lenders when they do not hire a quality producer.

Since 1999, my company has analyzed the personality traits of top, middle and poor originators in mortgage sales. I have authored numerous articles for Mortgage Banking sharing our findings on originators and sales management competencies (see "Raising the Bar," November 2009 issue; "Stop Talking-Start Doing," June 2008 issue; and "Producing Managers: Time for a Change?," June 2007 issue). As a former head of sales, I know all too well the ramifications of a poor hire on expenses and lost sales opportunities.

We have conducted nationwide validation studies with lenders both large and regional on the subject of originators-retail and wholesale. The studies have included trait analysis,

WHY JOHNNY CAN'T ORIGINATE:

ONE COMPANY'S INSIGHT: KINECTA FEDERAL CREDIT UNION

by Patricia M Sherlock

Michael McCarthy

Kinecta Federal Credit Union had served southern California since 1940. In 2012, Kinecta originated $3.7 billion in mortgage loans with $1.3 billion in retail origination. Retail has 90 mortgage originators and 25 Wholesale originators. Michael McCarthy is First VP and Director for retail production and operations. Mr. McCarthy graciously agreed to share his CU specific insights with author Patricia Sherlock and Pipeline readers.

PL When Kinecta decided to add mortgage origination to their business was management's view that they could use the credit union's current staff or they knew that they had to go outside the credit union to hire professional originators and install a sales culture?

MM *"In 2008, we started a third party origination business. In 2010, we expanded to include a retail origination effort trying to take advantage of the opportunity in southern California where we are located."*

PL Was hiring commission loan officers a hard issue for the credit union since they had not done that before?

MM *"Since we had hired commission account reps for our third party business, hiring for the retail business was not a big leap for us. We have currently 90 retail loan officers. 60% of the retail loan officers are within our footprint. "*

PL What are the challenges that a credit union has when recruiting originators in your opinion?

MM *"When we started hiring in 2008, many originators were looking for the stability that a credit union offers, so we were attractive. In the originator's world of employment options, we feel that as a credit union we fit somewhere between the big banks and the broker world."*

PL What does the hiring process look like at Kinecta and what changes have you made?

MM *"We realize that not everyone is a match for us. So I am interested in any tools that can help us select who is a better match for us. I believe that the more scientific we are in the selection process, the more we will save in the long run with lower turnover and higher production per loan officer. That is why we were interested in a tool such as QFS's pre hire assessment which helps us to determine who would be more successful in mortgage origination and helps our managers make better hiring decisions."*

PL Has hiring right made a difference in your business results?

MM *"We grew our business very fast initially and learned in how important hiring is for our business. With the right tools in place, we feel that our sales performance has improved."*

PL How has the role of the loan officer changed in originations in the last few years?

MM *"For us, service is very important for our members. Because of our high service standards, not all loan officers will be a match for our credit union. As a result, we need loan officers that will fit our business model. In many ways, I think that the loan officer needs to be smarter today because of changes in the business, but fundamentally, the building blocks are what they have always been knowledge of the mortgage business coupled with understanding the credit union business model and excellent customer service these are always a winning solution in my opinion."*

PL With the market switching to purchase money, do you feel that a different type of sales professional is needed by the credit union?

MM *"I think that realtors want the same thing as members-a loan officer that will service them well; is knowledgeable and able to execute appropriately. We are currently doing 20% of our production in purchase money."*

PL How has assessment testing helped your sales managers when interviewing candidates for an originator's position?

MM *"As a senior manager I recognize that not all managers hire well. I think assessment testing helps to ensure that we have a level of consistency in our selection process. With assessment testing, recruits are all going through the same filter and process which is good for all managers."*

PL How difficult was it to get your managers to use assessment testing because the tests are screening out potential hires, thus causing managers to continue recruiting?

MM *"I think that with anything managers were initially apprehensive because it is new and different from what they were doing before. After about 30 days, they bought into assessment testing and rely on it not only for its recommendations but also to identify an individual candidate's motivation and training needs. "*

PL Anything else that you think would be interesting for the readers?

MM *"Credit unions have an excellent opportunity to take advantage of the mortgage upheaval that has occurred in the last few years. I believe that in five years, credit unions will have 20% market share."*

production performance numbers and manager reviews of individual salespeople. We have looked at sales performance in good and bad market conditions (including the current banking crisis), and we continue to find that originators have a set of personality characteristics that predicts sales success.

The nine personality traits and their definitions are as follows:

- Social: Enjoys clients/customer contact;
- Optimistic: Weathers adversity well;
- Assertive : Possesses a confident sales presence;
- Self-reliant: Takes charge and gets things done;
- Low expressiveness: Reserved;
- Positive about people: Balanced outlook regarding people and their intentions;
- Energetic: High enthusiasm, hard work, visible effort;
- Follows through: Completes tasks and follows through on commitments; and
- Resilient: Able to handle criticism and rejection well.

Six of the traits (social, optimistic, assertive, energetic, follows through and resilient) are found in most sales positions, and three (self-reliant, low expressiveness and positive about people) are distinctive to mortgage commission positions and not usually found or required in other sales jobs.

The personality traits listed here are shown in order of importance. Because each personality characteristic has a weighted scale to it that determines the ranking of the trait, not all traits are of equal value-just as not all loan factors equally predict a loan loss.

From a larger perspective, four of the traits are people/communication skills (social, assertive, low expressiveness and positive about people) and the other five traits are self-motivation traits (optimistic, self-reliant, energetic, follows through and resilient).

THE REASON WHY JOHNNY/JANE WON'T ORIGINATE

From a scientific standpoint, originators who are not successful lack the necessary traits to perform well. These traits are developed early in life and no amount of knowledge, training, time or experience will enable the individual to bridge the gap to perform at the same level as someone who has the sales success character traits. This was confirmed in a 16-month longitudinal study that my company conducted.

This is a significant finding, because it reinforces that the interviewing/screening process in selecting sales personnel with the right traits is the most important activity completed by sales organizations.

Once a person has joined a sales team, if he or she does not have the right combination of personality traits, the likelihood of changing the person through training and coaching is slim, making for a futile battle that requires too much investment in a world of limited resources. Of course, a small percentage may be able to change and develop the right traits, but that will be the exception rather than the rule. The reality for a producer without the needed traits is they better hope that a refinance period continues or comes back.

In selecting sales talent correctly, companies face the same issues that any sports team does each year in trying to remain competitive in its league. The competition does not stand still in sports, nor does it in the financial sector. What worked two or even five years ago is ancient history for both the sports franchise and the mortgage industry.

WHY JOHNNY/JANE HAS THE TRAITS BUT STILL DOESN'T PROSPECT

As every sales manager knows, individuals with the talent or the right traits do not always become successful. Why is that? In our experience with sales teams, there are typically three reasons, and they can be addressed in a structured interviewing process.

The first reason is the new company's system is not a fit. Every company has a way of doing business, supporting its employees and rewarding them for certain behaviors. One of the biggest flaws in interviewing experienced personnel from well-known companies is the assumption that if the sales candidate was successful at Company A, then he or she will be successful at Company B.

Research tells us this is a false assumption, because the environmental variables for success can be different at each firm. Because of this, the hiring manager should conduct a thorough analysis of the drivers behind the candidate's success (this is especially true in a refinance market) by asking the person in-depth questions regarding marketing, process impact and managerial support that they received. It is a smart idea to ask the candidate for a brief marketing plan to help identify important issues that may not match with your company's processes.

The second reason is a poor direct manager. A poor manager has a negative impact not just on individual salespeople, but on the whole sales team. Because the manager sets the standards for the group as to how they interact with each other and external customers; assists in developing a successful business model that matches the strengths of the salesperson; and teaches sales techniques to enhance the salesperson's success, a weak manager can have a devastating impact on a salesperson.

> What makes refinance-oriented salespeople a problem is they fail to establish deep relationships with customers and referral sources, which results in a book of business that has a small number of referrals.

One of the core problems of poor managers is failure to train or coach individual salespeople. Whether it is a weekly sales training session or a ride-along, the opportunity to teach and provide feedback is critical for salespeople if they are to change and improve their sales skills.

Too often, training is defined as taking over a sales call or closing a deal. This does not help the salesperson get better. Such efforts actually harm the salesperson because the manager has set the standard that the manager's sales method is the only way to conduct a sales call, when in fact there can be several winning strategies.

Similar to a batting coach in baseball, the player must be permitted to swing the bat if he or she is to move to the next level of hitting. The manager will never know if he or she has the next Ryan Howard (the Philadelphia Phillies' slugger), if that salesperson is not allowed to practice in front of the manager.

> Today's customer has more choices and access to practically unlimited amounts of information due to the Internet and technology. While selling was challenging before, it has reached a new level of difficulty with the increase in commodity products, operational hurdles and lower valuations on the consumer's property.

One way for managers to deliver quality sales training is to determine specifically what sales knowledge that salesperson possesses or lacks.

Typically, in our research there are six topics in which the salesperson should be proficient. Those are: prospecting/pre-qualifying; first meeting/first impressions; probing/presenting; overcoming objections; influencing; and closing.

As a part of the various validation studies that we have completed on loan producers, we have measured what sales knowledge the individual should have and have developed online courses that address the areas in which the salesperson is deficient. This is the future of sales training: customized training to meet the needs of the individual salesperson. Mass training is a waste of money and time for the salesperson and the manager.

The third reason why salespeople with the right talent or traits fail to achieve is personal problems. Even high achievers can have personal problems that hold them back from reaching their full potential.

The problems can range from immaturity/lack of responsibility to drug/alcohol issues, to name a few. These types of problems are more difficult to correct and, frankly, need to be addressed by the individual. At the macro level, personal problems are a type of issue that we call a "won't" issue. A "won't" issue is a behavioral problem that is not appropriate for company training solutions.

> As every sales manager knows, individuals with the talent or right traits do not always become successful. Why is that?

WHAT IF JOHNNY AND JANE REFUSE TO CHANGE?

Managers often complain they don't understand what has happened to the individual who is talented, possibly even a former top producer, but who can't accept the changes that are required today or outright resist changes such as learning to properly disclose the Good Faith Estimate.

Are there traits linked with this issue? From our research, there are two traits that can be indicators of salespeople who have difficulty in making the changes: low optimism and low resilience.

Not surprisingly, these traits can be masked during an interview-if the hiring manager does not ask specific behavioral questions that allow the candidate to discuss his or her views of the recent industry changes or situations where the candidate had to change quickly. Pre-hire assessments can help the manager to identify these problematic traits.

FINAL THOUGHTS

When looking at other types of sales positions in the financial services industry, such as financial advisers or stock brokers, customers are rebelling against incompetent sales forces that don't know their products, give misleading/wrong advice and are not trustworthy. Certainly, the passage of the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) is a step in the right direction of requiring the salesperson to understand the legal requirements in lending.

The next hurdle for sales organizations is determining whether Johnny and Jane are sales professionals who can drive in the business while establishing a relationship with the customer that ensures they will be the first lender contacted when the client has financing needs. Companies can only answer that question by scientifically evaluating candidates for the right traits and following a structured interview process that identifies who is a match for their company culture.

In my opinion, the future successful sales organizations will be those with the more professional originators. Or as Stacy Blair, senior vice president at EverBank, Jacksonville, Florida, states, "It really is an equation of less is more." **PL**

Patricia M. Sherlock is president of QFS Consulting Inc., Medford, New Jersey. QFS is a sales consulting firm providing managers with predictive assessment tools and consultative sales training workshops. She can be reached at psherlock@qfsconsulting.com.

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