National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
www.ncua.gov

Media Contact: Steve Bosack
Phone: (703) 618-4096 (cell)
Office: (703) 518-6305
Email: sbosack@ncua.gov

NCUA Press Release

PALS Workshop Helps Credit Unions Make More Mortgages

200 CU Leaders Share Ideas to Reach New Markets, Manage Risks

June 3, 2004, Boston, Mass. – As millions of potential credit union members struggle to keep up with soaring home prices, 200 credit union leaders exchanged ideas to make more affordable mortgages and manage rising interest rate risks at NCUA's Partnering and Leadership Successes (PALS) workshop in Boston.

"I hope the ideas shared in this workshop will inspire more credit unions to reach new markets and help people from all walks of life achieve the American dream," said NCUA Board Member Debbie Matz, who organized the workshop. "Low-to-moderate income families, single mothers, and minorities are among the fastest-growing markets for potential homebuyers. That's where the growth is. By forming partnerships to leverage resources and share risks, credit unions can rebuild their mortgage market share and find new homebuyers who will become loyal members."

Workshop panelists agreed with Matz that credit unions have many opportunities to increase their 2% share of the mortgage market and reverse their trend of declining membership growth. Jim Blake, CEO of Harbor One Credit Union in Brockton, Mass., challenged fellow credit unions to make affordable mortgages in new markets. "With our net worth ratios well over 10%, how can we *not* make these loans? These loans are opportunities to show the real difference between credit unions and banks."

Panelists also agreed that standard loan programs don't meet the needs of many first-time homebuyers. So they shared innovative partnerships that have opened the door of homeownership to people who could not qualify for conventional mortgages. For example:

- St. Mary's Bank Credit Union in Manchester, N.H., is partnering with Manchester Neighborhood Housing Services to help low-to-moderate income borrowers earn rental income by buying into multi-family owner-occupied properties. Borrowers receive down payment assistance and counseling on life skills, financial management, and property management. Bruce Croteau, the credit union's senior vice president of community outreach, said the partnership has been a “major success in revitalization of our worst neighborhoods.”

- The Summit Federal Credit Union is partnering with the City of Rochester, N.Y., local businesses, and Fannie Mae to offer “Employer-Assisted Housing” to inner-city homebuyers. The Summit waives $400 in mortgage fees and provides a credit equal to 1% of the principal, which homebuyers can use toward their down payment or closing costs. The Summit’s legal and appraisal partners discount their fees up to $250 per loan, and the City matches employers’ contributions up to $3,000. Mark Gregory, vice president of lending, said the program removes the top two “obstacles to homeownership: money for a down payment and closing costs, and finding an affordable, likeable home.”

- Workers’ CU allows first-time homebuyers to make down payments as low as 3% with no closing costs. To save these borrowers from private mortgage insurance premiums, Workers’ CU partners with the City of Fitchburg, Mass., to finance the other 17% of the down payment with a “soft” second mortgage that is forgivable after 15 years.

- Service CU in Portsmouth, N.H., is partnering with the U.S. Department of Agriculture (USDA) to offer 100% financing on mortgages in rural areas. The partnership also reduces the credit union’s risk, as USDA guarantees 90% of each mortgage.

Panelists encouraged their peers not just to open up their product lines, but to open up their philosophy. For example, at Vermont Development CU in Burlington, the motto is “We don’t say ‘no,’ we say “when.’” CEO Caryl Stewart explained how through “counseling-based lending, we look at everyone as either ‘qualified,’ ‘near-term qualified,’ or ‘long-term qualified.’” As Workers’ CU CEO Fred Healy put it, “We look for a good reason to make every loan we touch.”

Mortgage partners at the workshop explained how they can help credit unions find potential homebuyers in new markets. Nelson Merced, director of national initiatives for Neighborhood Reinvestment Corp., said referrals are available in 2,500 underserved communities through Neighborhood Reinvestment’s network of NeighborWorks organizations. Last year alone, NeighborWorks organizations helped more than 80,000 low-to-moderate-income families buy or improve their homes. More than half of those families are minorities.

One of those NeighborWorks organizations is Manchester MHS, which is partnering with St. Mary’s Bank CU and many other Manchester-area CUs. Executive Director Felix Torres noted that in addition to referring mortgage applicants to credit unions, NeighborWorks organizations like his can also receive loans from credit unions, provide joint financing to reduce borrowers’ down payments and closing costs, and provide up to 100 hours of counseling to ensure that each borrower will become a successful homeowner.

As credit unions make more mortgages, they also need to manage interest rate risks. Experts from NCUA, Fannie Mae, Freddie Mac, the Federal Home Loan Bank of Boston, and other advisors offered strategies to manage those risks. With the prospect of rapidly rising rates, credit unions were urged to conduct asset/liability management models with shock tests up to 500 basis points. If a test shows more risk than is acceptable under an individual credit union's policy, experts suggested taking one or more actions immediately:

1) Sell long-term fixed-rate loans to the secondary market;
2) Lengthen the duration of liabilities by borrowing and/or promoting longer-term savings;
3) Shorten the duration of assets by hedging and/or promoting shorter-term loans.

Otherwise, as NCUA Director of Examination and Insurance Dave Marquis put it, "Some credit unions holding 6% fixed-rate mortgages in portfolio could be in a painful situation."

However, Matz reminded, "We do not want to send the message that credit unions should stop making mortgages. Credit unions do not need to *avoid* risks; they need to *manage* risks. And by managing interest-rate risks, they will free up liquidity to make more mortgages."

This workshop was the sixth in Matz's PALS initiative. Co-hosts were the Massachusetts, New Hampshire, New York, and Rhode Island Credit Union Leagues, the National Association of Federal Credit Unions, and the National Federation of Community Development Credit Unions.

The next PALS workshop, "New Ideas to Reach New Members," is scheduled for Oct. 27 in Honolulu on the final afternoon of the Credit Union National Association's Future Forum.

A 24-year public service veteran, Matz is a member of three credit unions and resides in McLean, Va. with her husband and two children. Before her appointment to the NCUA Board, Matz was appointed by President Clinton as Deputy Assistant Secretary for Administration in the Department of Agriculture.

NCUA, governed by a board appointed by the President, is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the savings of more than 82 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

# # #