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Whitepaper

Credit Unions: Turning Strong Member Relationships into Market Share

Contents

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Ellie Mae Compliance. Quality. Efficiency.

Credit unions have always been unique in the financial services world. Instead of customers, they have members; individuals in their community or associated with a specific organization, who have a stake in that institution's success. Their trademark is exceptional service, and a reputation for building long-term relationships with the people they serve. Credit union members see the difference, and have, since these institutions began.

In the past, most credit unions limited lending to the basics: auto loans, home improvement loans, or personal lines of credit, leaving mortgages to the bigger banks or specialty firms. But, today, for a myriad of reasons, all of that has changed.

"The credit union mortgage movement started about a decade ago, when institution leaders began exploring alternate means of revenue that didn't tax capital, and at the same time would build a level of annuity value for their organizations," said Joe Brancucci, former president and chief executive officer at GTE Financial and founder of Prime Alliance Solutions, Inc. "Credit union leaders saw that they had an opportunity to build off of the relationships they already had with their members, and to extend that to mortgage lending."

The subprime mortgage crisis fueled that fire.

"Consumers quickly realized that credit unions had nothing to do with the meltdown; that they didn't write any of the bad mortgage loans or do any of the other things that caused the collapse," Brancucci said. "That realization opened up the market, and motivated credit unions that were dabbling in mortgage lending to make a full commitment to it as part of their product line. After all, if you're going to get a 30-year home loan, who better to give it to you than the financial institution you already trust?"

The concept took off.

According to Callahan & Associates, credit unions originated $125.8b in first mortgages in 2015; the highest annual amount in the industry's history. These institutions helped put more than 660,000 members in homes between Q4 2014 and Q4 2015.[1]

But, here's the good part.

Despite gains in originations, asset quality remained high. In fact, reportable first mortgage delinquency at year-end 2015 was 16-basis points lower than in December 2014; the largest drop of any loan product. Net charge-offs declined five basis points over the same period.[1]

So, credit unions not only sold more mortgages, but did so by making sound, no-nonsense underwriting decisions. All of which fits with the fiscally conservative, credit union brand—another reason why members are increasingly turning to these institutions for more than share accounts and auto loans.

Although mortgage lending presents a tremendous opportunity, it's also a complex business. Managing compliance, operating efficiently, and giving members the service levels they've come to expect requires more than good intentions. To succeed as a mortgage lender, credit unions not only need the right people and processes in place, but the right technology to support the effort.

In this paper, we explore mortgage best practices for credit unions, from getting started to what to look for in an LOS (Loan Origination System), with commentary from industry experts.

Getting started

Expanding a mortgage lending initiative is a strategic decision. But, how can credit unions determine when they're ready to go all in?

"Let's say you're a small credit union, with a footprint of 15,000 to 20,000 members. If you're willing to make a commitment to have mortgage activity that supports your community *and* draws in new members as well as supports existing members, it's probably worth doing," Brancucci explained. "Assuming that 50% of your market owns a house and 25% of your membership at any time is either looking to buy or sell a house, the numbers make enough sense to make the effort worthwhile."

How aggressively credit unions enter the mortgage market depends on their resources, commitment, and tolerance for risk.

For example, Oregon-based OnPoint Community Credit Union tested the market by working with another mortgage lender in 2007. At the time, OnPoint had the member relationships to bring in the applications, but not the infrastructure to take the loans all the way to closing. So the institution's initial role was getting the loan process going, then handing it off.

Credit union leaders used that initial entry into mortgage lending as a proof-of-concept.

"That low-risk start not only exposed us to the mortgage industry, but also showed us that there was a real market void that we could fill for our members," explained Andrew Emerson, vice president, mortgage, for OnPoint Community Credit Union. "We decided to make an effort to be a real mortgage division, not simply a credit union that offers mortgages. Our leadership was willing to invest in the resources to make that happen."

By 2015, this $3.4m credit union wrote more than 3,000 mortgages valued at $700m.

California-based SAFE Credit Union was an early entry into mortgage lending, and has seen that business escalate significantly since 2012. It's now the number one loan product, based on volume, for this $2.1b institution.

"Members have been turning to credit unions for mortgages ever since the 'Too Big to Fail' fiasco as alternatives to mortgage companies," explained Paul Rigdon, vice president of consumer lending for SAFE Credit Union. "Few, if any, credit unions were involved in sub-prime lending even before the regulations, so there's already a built-in degree of trust. Our members know, while we make a profit on the loans, the reason we're here is to improve their financial well-being, and that commitment extends to mortgages."

Of course, being an exceptional mortgage lender requires a lot of finesse.

"You have to understand how to price your loans. If you're selling them in the secondary market, you have to understand the movements in that market that impact not only whether you're going to close the loan, but whether or not you can deliver that loan," Brancucci said. "You have to understand all of the requirements from the three-day right of receipt to disclosure timelines. And, if you don't have the right LOS system to do that for you, along with the infrastructure to support it, you're not going to succeed—even if you're a $10b credit union."

But, what exactly is the *right* LOS? And how do credit union leaders adequately vet the prospective systems and make the right choice? The experts and credit unions we interviewed gave us this list of "must-haves."

The top 10 LOS must-haves for cedit unions

1. Built-in Compliance Tools

"If you're in the mortgage business, you have to make sure you choose a system that lets you view, track, and report compliance consistently and conveniently," Emerson of OnPoint explained. "You have to have access to real-time reporting, and to automate as much of the process as possible."

The LOS should have alerts and features that monitor compliance throughout the lending workflow. That means seeking out a solution with a native compliance engine that performs compliance checks and tests throughout the process and automatically pulls compliant disclosures and closing documents for each type of loan, condition, and state.

"You also have to make sure the company behind the LOS is committed to keeping regulatory, GSE, and all affiliated laws totally current throughout the LOS itself, as well as the systems that are affiliated with the solution," Brancucci said. "For me, that's critical, because if the provider doesn't stay ahead of the regulations and make sure its customers are ready before changes go into effect, the credit union is going to be in a lot of pain down the road."

2. Flexibility and Configurability

Every credit union is unique, with its own way of doing business, terminology, and workflow. So, it's imperative to choose a flexible, configurable solution that enables each credit union to work the way it wants—and make adjustments and create custom fields or forms without hiring outside help or writing code.

For example, SAFE Credit Union, an Ellie Mae client, configured the Encompass LOS to make disclosures a front-end process, now handled by its mortgage officers to speed the processing.

"Basically, we integrated Encompass with a third-party pricing provider. The mortgage officer selects the title company and can immediately quote the fee," explained Paul Rigdon, vice president of consumer lending for SAFE Credit Union.

SAFE Credit Union renamed and reorganized milestones to increase efficiency, and is always looking for ways to do things better.

"We've configured the system to reduce errors and enhance our process flow. Encompass is so flexible, you have the opportunity to continually make things easier and more efficient—you have the tools you need to continually improve," Rigdon said.

OnPoint Community Credit Union is a portfolio lender, but sells the majority of its loans to Freddie Mac and Fannie Mae.

"The ability to customize the workflow—to the way we operate, and to different kinds of loans—is one of Encompass's greatest strengths," Emerson said. "We've customized forms, fields, and our reporting—and built in ways to track approvals on our secondary loans."

OnPoint has also used customizations to solve issues.

"Years ago, we weren't hitting all of our closing dates. So, we created a custom process for tracking closing disclosures, reportable in the pipeline view," Emerson said. "We haven't missed a closing date since."

3. Outstanding Member Experience

Credit union members expect better, more personal service from their institutions—whether they're working with a member service representative or applying for a mortgage loan online.

"When you're looking for an LOS, first look at the consumer-facing experience. What does the application look like? Is the member in control of that application? Do they get feedback from whatever they put in?" Brancucci said. "If they have to enter a whole lot of information and then someone calls and asks them the same questions all over again, that's not a great experience."

The workflow on the loan should be individualized—specific to the member, the property, the product selected, and his or her credit. Just as important, it should let the member know that the application was received, the next steps, and any other documentation required.

"You have to make things very simple, and keep the members in the loop so they know what's going on throughout the process," Brancucci said. "That simplicity and continual feedback makes the process seem less threatening—not like having a root canal without anesthesia, which the mortgage process can feel like if not done properly. Members should never have to call to find out what's happening. Members should continually be looped into the process—so they feel like they're working with an organization that's not just selling them a loan, but one that's committed to helping them move into a home."

According to Brancucci, not only will ongoing two-way communication enhance member trust, it will actually make the credit union's lending process more efficient.

"If borrowers know they have to give you five pieces of verification information and you give them an easy means to do it—and have a mechanism in place to remind them if you don't get the data—the process moves along more smoothly," he said.

4. Efficient, End-to-End Processing

Just as the LOS has to make it easy for members to apply for loans, it should make it equally easy for credit union staff—with an intuitive interface and automated, end-to-end workflow.

"Credit unions have to look at what level of simplicity and straight line of process the system provides for the staff member who's actually manufacturing the loans," Brancucci said.

An all-in-one solution ensures processing staff can complete all of their tasks—from ordering appraisals and credit reports to verifying income and running fraud checks—without ever leaving the LOS.

When OnPoint started searching for an LOS, they were paper-based, with manual processes slowing the workflow down.

"We not only wanted a paperless workflow with visibility throughout the process, but to add business rules that ensured files moved through the workflow more quickly and accurately. We all know that loan officers are not always known for dotting their i's and crossing their t's," Emerson said. "Not only are we more accurate today, but we're far more efficient. Our loan volume has increased by 25%, but we've only had to increase our staff by 10%. And, we're still closing in less than 30 days, even post-KBYO."

5. Integration

To reduce manual processes and keep efficiency high, credit unions also need a solution that integrates with their core solution and other third-party providers. It's essential that the information flows directly from place to place. In addition, integration with the core enables institutions to auto-fill member data on applications and provide a seamless flow of information to back office accounting systems or loan servicing providers.

Interface is very different than integration. Seamless flow of data is essential for credit unions to compete in the mortgage space, particularly in today's digital world.

6. Scalability to Support Growth

When a credit union purchases an LOS, it's not to maintain status quo. Leaders have to determine if the solution will scale to where that credit union wants to go.

"When we did our due diligence on LOS solutions, we looked at the other credit unions and lenders using Encompass. We saw a lot of regional lenders, who were operating at much larger volumes than SAFE," Rigdon said. "We discovered that Encompass was a major player among lenders doing substantial volumes. That told us it could scale with our projected volumes—and it has."

The ideal is finding an LOS that fits what the credit union is doing today, and has the capacity to take the institution beyond its goals.

7. Cloud-based

Credit unions expanding their presence in mortgage lending have to put the right infrastructure and personnel in place. Does it make sense to build out an IT department too?

Most credit union lenders agree: go with a Cloud solution.

"When you choose a Cloud solution, life is a lot easier," Rigdon of SAFE Credit Union said. "New releases are handled for you, the system is available 24/7. Just as importantly, our employees have remote access to our system. That makes a big difference."

Employees come in, log on, and everything is up and running.

8. Complete Range of Optional Mortgage Tools

The best solution provides built-in options that streamline processes. For example, pricing tools that provide live, up-to-the-minute rates eliminate the need and cost of an outside pricing engine. Business intelligence, marketing, and CRM tools enable effective relationship marketing. Alerts that ping loan officers on member birthdays, or "when" triggers (like refinance opportunities) come up gives officers a reason to reach out to specific members. This extra effort builds loyalty and increases repeat business and referrals.

9. Effective Pipeline Management

Visibility and pipeline management tools are essential—particularly for the lender that also happens to be a credit union. The service bar is simply higher from the start.

"If you're a credit union in the mortgage business, you have to keep your eye on service; you have to keep that member relationship strong," Emerson of OnPoint said. "We use pipeline management to focus in on what we can do to be more efficient and offer better service throughout our process, and we actually share the pipeline views with our entire mortgage staff. That way, if 50 purchase transactions are closing on Friday, they're ready. We have the tools to forecast what's coming, with no surprises."

10. User Community Involvement

Finally, when choosing an LOS, determine if the provider is as committed to that system as the credit union making the purchase. How often does the provider come out with new releases? How active and well-funded is its R&D efforts? Can company leaders discuss what's coming down the road and are they already on top of mobile and other ways to digitize the loan process?

As trends change, the LOS provider should be a step ahead.

Equally important is a mechanism through which clients can play an active role in system development. User forums, developer interaction, and portals for requesting enhancements all indicate that the provider truly wants to partner with its clients.

The right partner to get the job done

No question, credit unions have a great opportunity to enhance member relationships, help their communities, and improve their balance sheets through mortgage lending. Putting the right infrastructure in place—from personnel and processes to LOS—is critical to success.

Over the years, Ellie Mae's Encompass has grown to be an industry-leading, all-in-one mortgage management solution of choice for credit unions and other lenders nationwide. Although Encompass is ready to go out of the box, it gives clients the flexibility to make the system their own—and do it on their own. So, you can operate in the way that works best for your institution, and apply different workflows to the myriad types of mortgage loans you offer.

Encompass' built-in compliance ensures that you're always up to date with the latest regulations—long before the zero hour. Ellie Mae clients will tell you that KBYO was a "non-issue" and was ready long before the extended deadline.

Most importantly, like you, Ellie Mae has built the organization on relationships. Ellie Mae partners with its clients, strives for open communication, and delivers a true commitment to making Ellie Mae solutions a catalyst for their success. And, that makes all the difference.

For more information on Ellie Mae and Encompass, to see a demo or to talk to some of our credit union clients, please contact us at 1-888-955-9100 or sales@elliemae.com.

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[1]CreditUnion.com, *Industry Performance By The Numbers (4Q 2015)*

What to ask when vetting an LOS

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