

[Lending](#) (1/5)

What do falling underwriting standards mean for CUs?

By **Michael Bartlett**

Published January 27 2017, 5:57pm EST

More in [Mortgages](#), [Mortgage originations](#), [Qualified mortgage rules](#), [Lending](#), [Donald Trump](#), [Ohio](#), [Oregon](#), [California](#)

Print

Email

Reprints

Share

Interest rates are on the rise and the Trump administration and GOP-controlled Congress are dead-set on rolling back regulations to improve business conditions, all of which has some analysts forecasting a return to looser underwriting standards.

Credit unions by and large did not make the “bad” mortgages that led to the housing crisis, but CUs must still compete with banks for that business. So if underwriting standards fall at other lenders, how can CUs still be successful?

According to Tim Mislansky, who wears two hats as SVP and chief lending officer for \$3.4 billion Wright-Patt Credit Union, plus president of the myCUMortgage CUSO, loan quality is “vastly different” from pre-crisis days. He said when a lender attempts to sell a loan to Fannie Mae or Freddie Mac, there are “significant” reviews from a data standpoint.

“The quality reviews have been moved up in the chain, which should help lower the incidence of bad loans,” he assessed. “Credit unions need to take care not to stretch too much from their underwriting criteria, because that is when you see higher losses over time.”

Mike Jennings, director of mortgage lending for \$1.3 billion Advantis Credit Union, Clackamas, Ore., said, “As clichéd as this may appear, ‘The Five C’s of Credit’ should always be the driving force behind any lending decision.”

When properly applied, Jennings continued, the Five C's of Credit, "Mitigate a litany of problems often associated with a bad mortgage loan."

The Five C's of Credit are:

- Character (of the borrower)
- Capacity (sufficient cash flow)
- Capital (borrower net worth)
- Collateral
- Conditions (of the borrower and overall economy).

"Any time a mortgage lending institution has forgotten or otherwise disregarded the 5 C's of Credit, in almost every case, a bad loan decision has been the result," Jennings asserted.

"While Advantis Credit Union provides mortgage loans that we put into our own portfolio, the vast majority of the loans we have funded are underwritten and sold pursuant to Freddie Mac guidelines. That said, when Advantis underwrites a mortgage loan that we intend on placing into our own portfolio, we incorporate the same common sense underwriting standards as we would with a Freddie Mac loan. This methodology allows us to keep to our mission of providing loans to our members while ensuring the loans we make are of a good quality while at the same time, ensuring the long-term financial health of the credit union."

A solution, not necessarily a mortgage

Vince Salinas, VP of home loans for \$5.3 billion Patelco Credit Union, Pleasanton, Calif., said the solution lies in the mindset of the financial institution.

"At Patelco, we are committed to enriching the financial health of our members," he said.

"We do not push products. We do not offer interest-only loans, negative amortization loans or the other things you see making a comeback."

Salinas said the best way to avoid putting borrowers in a "bad" mortgage is to sit down with people and talk about their goals. People are "seeking a solution," he noted, and a mortgage "might" be that solution.

"It is incumbent on us that if a mortgage is part of that solution, we want to be getting them closer to their goals," he declared. "I do see the industry returning to offering interest-only

first mortgages and equity lending on investment properties. We will see these things come back, because those are part of the cycle of this industry. Those products were created for specific solutions, and they are not necessarily bad for everyone, but we got into trouble by giving those products to the masses. If you lose sight of your members' financial goals, then you could be harming them with the type of loan you place them in."

CU mortgage lending still improving

Numbers as of November 2016

Fixed rate balances grew 1.1% in November

YOY balances grew 8.5%

2nd mortgage balances declined

Home prices rose 1.1% in Nov from Oct

Interest rates expected to more higher in 2017

Source: CUNA Mutual Group

Michael Bartlett



More from this Author

[Landmark Credit Union seeks merger into Greylock FCU](#)

[Miramar FCU members vote 'overwhelmingly' to merge into PenFed](#)

[St. Mary's Credit Union selects COCC for core processing](#)

Comments

Posting as **mrooney**

[Edit name](#)

Add your comments here

Comment Now

WE GAVE AWAY OVER TWO HUNDRED MOBILE WEB PRODUCTS AND OVER ONE HUNDRED IOS AND ANDROID APPS FOR FREE.
 We also returned over \$4 million dollars to our customer-owners; it's a cooperative thing.





[CHECK OUT OUR ANNUAL REPORT >](#)

Refi boom is over, but home equity demand could pick up slack

By **Andy Peters**


Published **January 30 2017, 4:30pm EST**

More in **Mortgage originations ,Consumer lending,Refinancing,Consumer banking,Regions Bank,PNC Bank**

 **Print**

 **Email**

 **Reprints**

 **Share**

The mortgage refinancing boom may be over, but it's not all bad news for home lenders.

Thanks to a confluence of factors, many banks and credit unions are predicting a surge in originations of both home equity loans and home equity lines of credit in 2017. Regional bank companies PNC Financial Services Group in Pittsburgh and Zions Bancorp. in Salt Lake City both said that recently that they expect income from home equity lending to increase this year.

Driving the demand, bankers said, is that homeowners finally seem ready to take advantage of the appreciation in home values and pull the trigger on home-improvement projects they have been putting off, said Logan Pichel, the head of consumer lending at Regions Financial in Birmingham, Ala. "People are looking at their homes and saying, 'I haven't done anything to it in seven or eight or 10 years,' " Pichel said.

While banks' home equity balances have dropped for years, the opposite has been true for credit unions. Total home-equity lines of held by credit unions rose 90% to \$325 billion from the end of 2007 through Sep. 30, 2016, according to FedFis, an Austin, Texas, provider of data on the financial industry. According to the latest Credit Union Trends Report from CUNA Mutual Group, home equity balances at credit unions grew by 9.2% between November 2015 and November 2016, compared with 8.5% growth in fixed-rate first mortgages at CUs during that same time period.

The \$5 billion-asset Patelco Credit Union in Pleasanton, Calif., originated \$125 million of home equity loans and lines of credit in 2016 and it expects that number to increase to about \$188 million this year, said Vince Salinas, vice president of lending.

Patelco is especially well-positioned to capitalize on consumers' increased interest in borrowing, Salinas said. "We have three of the least-affordable real estate markets in the country," Salinas said, referring to San Francisco, Silicon Valley and the East Bay region of California. "That has to be a factor for our members who are looking to buy another home. Instead of moving, they are more likely to going improve what they already have. HELOCs are the most effective way to do that."

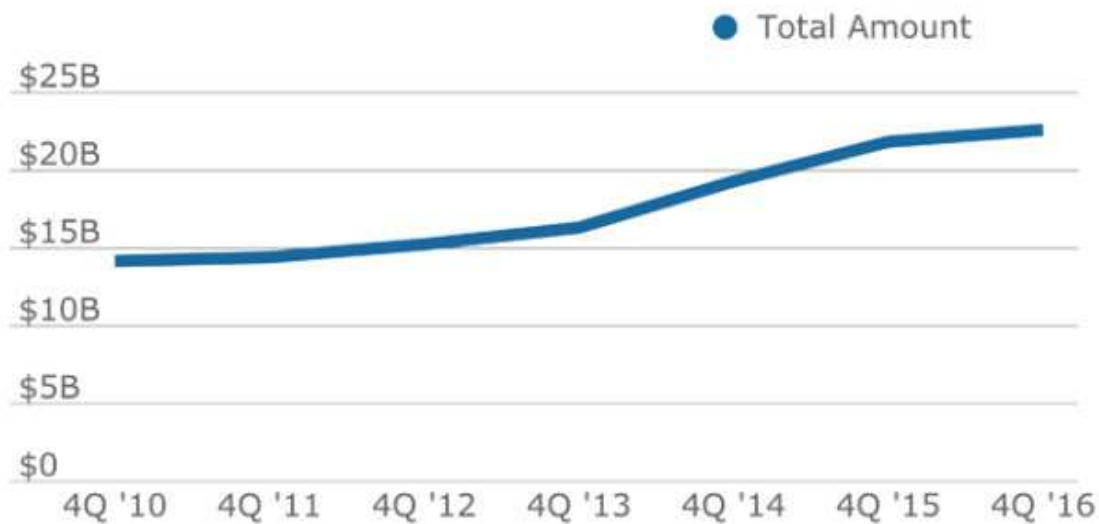
Another contributing factor is that banks are carrying relatively low balances of home equity loans, so they have plenty of room to originate new loans. And though it may seem counterintuitive, rising interest rates could also result in higher demand for home equity loans

or lines of credit. With mortgage rates rising, some homeowners may opt to tap into the increased equity in their homes to build an addition rather than look to buy a new home.

"They've been sitting on projects for years and now they have equity that they can tap into," said Shaun Richardson, senior vice president of products at Icon Advisory Group, a data analytics provider in Dallas.

HELOC rebound

Originations have picked up as home values have increased, and lenders expect the pace to accelerate in 2017



Originations based on 27 banks representing 73% of all outstanding home equity balances. Source: Icon Advisory Group

To be sure, banks' home equity balances have been dropping for years. Many homeowners consolidated home equity loans into first-lien mortgages to take advantage of historically low rates and banks often didn't replace the loans with new ones. Also, the end-of-draw period is approaching, or has passed, for many home equity lines originated in the pre-crisis years using looser underwriting standards. Banks have allowed those HELOCs to run off, to "cleanse their portfolios," Richardson said.

Yet demand is picking up. Though home equity originations are at about half their pre-crisis levels, originations have increased by 38%, to \$22.6 billion, over the last three years at a group of banks that Icon surveys that represents about three-fourths of the home equity

market. The \$63 billion-asset Zions reported that home equity loans increased 9% in the fourth quarter from a year earlier and Chief Financial Officer Paul Burdiss said on a Jan. 24 earnings call that company wants to continue expanding the portfolio.

One big change banks are seeing is borrowers increasingly using home equity lines for carefully planned projects rather than splurge purchases, Pichel said.

It used to be that consumers would use home equity proceeds for nearly anything, including a new car or to pay for college. But increased regulation has lengthened home equity loan closing times, and online lenders can approve an application in a day or less. Thus, there's no need to wait 45 days to get a \$10,000 home-equity loan to pay for a vacation in Tahiti.

But for a \$75,000 loan to finance a new kitchen, consumers are willing to wait longer to close a home-equity loan because the rates are cheaper, Pichel said.

"HELOCs are not for those who need quick money," said Rutger van Faassen, vice president of lending at Nomis Solutions, a provider of lending software in San Bruno, Calif.

The \$126 billion-asset Regions partnered with GreenSky, an Atlanta provider of technology for online lending, to complement its home equity lending, specifically for that reason, Pichel said. GreenSky offers quick approval rates for smaller loans, while Regions retains the business for larger loans.

"More homeowners are thinking twice about using their home equity value to fund things they don't need," Pichel said.

Rising interest rates could spur more originations of home equity loans in other markets as well, Pichel said.

Families that want bigger homes probably shouldn't move if they recently refinanced to a super-low-rate mortgage, said Regions' Pichel. A better option would be to stay in the current home and take out a home equity loan to pay for a new bedroom and bathroom.

"When you're locked into that [sub-4% rate], you're not moving," Pichel said.



Andy Peters



More from this Author

[Smart Financial's Smith retiring after 43 years in CU movement](#)

[Fast-Growing Small Businesses Quick to Switch FIs: J.D. Power](#)

[CUs', Banks' Online Ad Spending Soars in Quest for Trackable Data](#)

Comments

Posting as **mrooney**

[Edit name](#)

Add your comments here

Comment Now

Get CUJ in your inbox

Newsletter/Frequency [Daily Briefing](#) ▼

Email Address

[Subscribe](#)

Like what you see? Make sure you're getting it all

Independent and authoritative analysis and perspective for credit unions

Credit Union Journal



[About Us](#)

[Contact Us](#)

[The Magazine](#)

[Site Map](#)

[RSS Feed](#)

[Privacy Policy](#)

[Content Licensing/Reprints](#)

[Advertising/Marketing Services](#)

SourceMedia

© 2017 SourceMedia. All rights reserved.