In this article, Mortgage Capital Trading (MCT) presents actionable strategies that are designed to reduce expenses and increase revenue to help credit unions ultimately provide more value for members. We will examine a credit union's process flow to identify potential improvements in areas such as secondary marketing, technology, automation, and business processes. The strategies explored in this whitepaper amount to over 50 basis points of potential improvement to margins based on the experiences of credit unions who have put them to use.

Strategies for Credit Unions to Add Value to Members

By Ian Miller
Mortgage Capital Trading

SECONDARY MARKETING STRATEGIES TO IMPROVE PROFITABILITY

Reviewing secondary marketing strategies can have a huge effect on revenue. In order to stay competitive, credit unions should review their existing secondary marketing strategy and consider delivering loans to the agencies on a mandatory basis with hedging.

1. Increase Revenue with Mandatory Loan Sales: 20-40 BPS

If you are delivering all loans on a best-efforts basis, mandatory delivery has the potential to yield material additional revenue in loan sale profitability. However, a sound pipeline hedging strategy is essential to mitigate interest rate risk until the loan closes. The economic incentive for switching to mandatory delivery begins to make more sense when credit unions reach roughly $10 million per month in loan volume.

2. Review & Manage Secondary Exceptions: 20 BPS

The criteria you set for lending to new members impacts your pull-through rate, loan volume, and ultimately the success of your business. In some cases, you may come across members who would like a better price, have a high loan-to-value (LTV) percentage, lower than ideal FICO score, or other characteristics not meeting your criteria for a loan. Reviewing your process for exceptions can reveal areas of improvement.

3. Review Your Servicing Portfolio Strategy

Your mortgage servicing rights portfolio can provide instant cash to your business or a long-term accounts receivable. Credit unions that can analyze different scenarios, such as the effect of rising interest rates on its portfolio will have better insight into its portfolio and a better handle on cash-flows. The ability to run a variety of interest rate scenarios or “shocks” will allow your credit union to better position itself in any rate environment.

4. Consider a Healthy Positive Carry Depending on Your Cost of Funds: 5-10 BPS

In May 2019, conditions in the MBS market created an opportunity for depositories to take advantage of their low funding costs to pick up investment income. By financing loan holdings using low-cost deposits, credit unions are able to earn additional net income by holding and hedging portfolios of closed loans for an extra month or longer. For example, holding and hedging $10 million in 4% loans for 30 days (as opposed to selling them immediately) can earn a depository extra income of between $21,000 and $25,000, depending on their cost of funds.

LEVERAGING TECHNOLOGY AND AUTOMATION

Technological advances have given credit unions the ability to organize departments, streamline processes, and analyze data faster and more efficiently than ever before. The technology available to credit unions has improved tremendously even in the last two years.

5. Digitize & Automate Manual Processes

Critical and heavily ingrained workflows can be hard to change, but committed credit unions can reap significant cost and time savings through new technologies. Digitizing formerly paper- or phone-based workflows saves significant time, while automation frees critical employees to focus on more important tasks instead of rote manual processes. Three areas to consider include loan sale processes, TBA trading, and the member point-of-sale experience.

Bid tape management has come a long way since the days spent sending, receiving, organizing, normalizing, then finally reviewing bid tapes from a range of different investors every time you want to do a loan sale. If your Credit Union sells to multiple outlets, GSEs or FHLB, whole loan trading platforms like MCT’s Bid Auction Manager (BAM) have automated and improved the best execution process. Credit unions have reduced their bid tape processing time, shortened their delivery period and eliminated “fat finger” mistakes.

6. Leverage New Bid Tape Assignment-of-Trade (AOT) Technology: 3-6 BPS

The bid tape process has come a long way in the last five years. Automation and advances in technology have led to the transformation of the loan sale process. One of the biggest innovations has been the development of new bid tape AOT loan sale delivery options by investors.

With this technology, tri-party agreements are executed between the lender (assigner), investor (assignee), and broker/dealer (buyer). The loans are then delivered with the corresponding coupon or product into that trade and then the original price of the initially executed trade (the TBA) that was assigning becomes the basis of the trade price for the loan.

One of the main benefits of AOT execution is the savings on the bid-offer spread. With the new bid tape AOT programs, you don’t have to pair off the corresponding security. You’re going to assign that security to the investor and deliver the loans against that trade. It is a common myth that if you’ve got a $50,000 pair off on a trade and you assign the trade, the pair off disappears. However, that $50,000 is actually wrapped into the purchase price. Clients who are leveraging this technology with providers like MCT are saving 3-6 basis points per loan sale.

7. Improve Existing Technology Through Scheduled Training

Rather than a full technology overhaul, it may be best to consider reaching out to your current vendors for additional training to ensure your business flow is incorporating all of their technology functions. In several instances, we have found that there may be recent reporting functionality, software plug-ins, or customer service additions that can dramatically increase the value to your business but which may have been overlooked or undervalued. This “newer” functionality may help reduce data entry, improve accuracy through automation or integration, and allow for data writeback between platforms. In some cases, Credit unions leveraging this technology can save 8 hours per week.

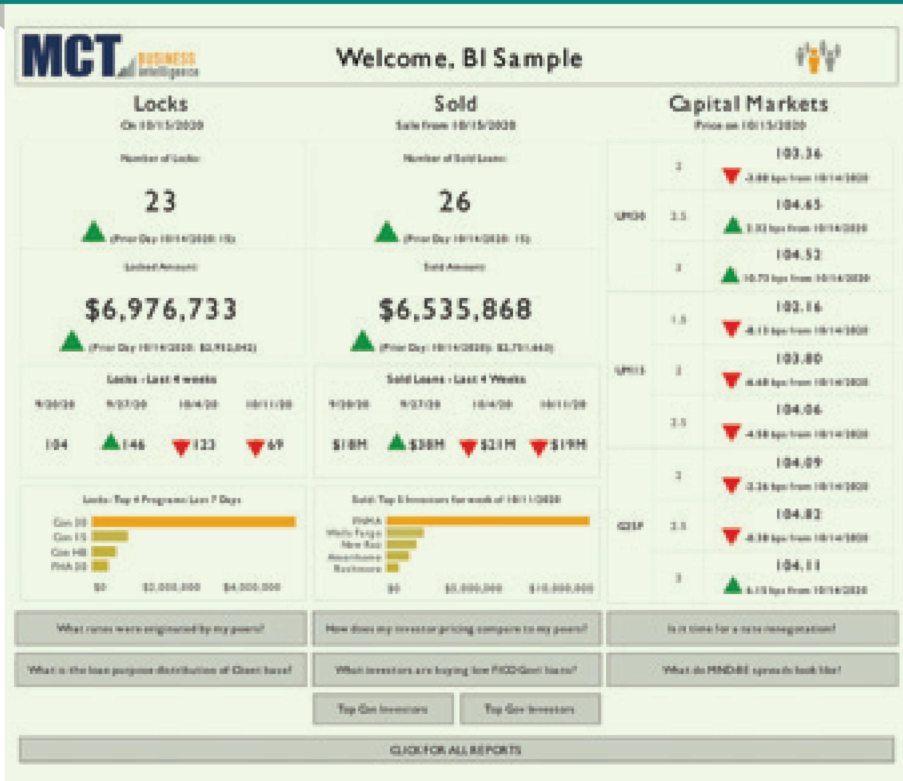
8. Take Advantage of Investor Platforms & Technologies: Save 8 hours/month

Agency take outs such as Freddie Mac or Fannie Mae provide several tools to reduce expenses using their current technology platforms. For example, Freddie Mac’s Loan Product Advisor delivers an enhanced underwriting workflow by automating processes like collateral evaluation, asset and income validation, and assessments for members without credit scores.

9. Review Actionable Secondary Market Analytics

As technology continues to advance, secondary market intelligence software is becoming more valuable and

EXAMPLE: BUSINESS INTELLIGENCE PLATFORM



actionable. Secondary market analytical software can help credit unions aggregate proprietary mortgage pipeline and loan sales data to provide strategic insights in the form of customizable reports and illustrative charts.

These platforms also provide users the opportunity to compare aspects of their secondary market data with peers. For example, in MCT's Business Intelligence Platform, all locked, sold, and capital markets data is aggregated from the diverse MCT mortgage pipeline to give you a client-exclusive view.

10. Evaluate & Improve Loan Origination Software (LOS) or Product & Pricing Engine (PPE)

Evaluating your LOS can identify shortcomings or features you're paying for but not using. First, identify leaders or experts in each department that consistently use the platform. Schedule meetings with these department leaders to reassess their goals for the platform. This meeting can also be used to identify areas of improvement. Next, set up a 'best case scenario' for each department. How would the ideal platform perform, save money, and increase margins? Last, prioritize the wish list from each department. These steps can identify shortcomings within your platform and internal areas of improvement between departments.

Credit unions may also consider the relationship between their LOS platform and product and pricing engine (PPE). Chris Anderson, chief administration officer at MCT, explains that "Over the last year we have seen a migration of clients away from standalone PPEs to native PPEs within their LOS system. Clients have noted that they not only experience significant direct fiscal savings, but the tighter data flows within a native LOS/PPE combination save a dramatic amount of time and have fewer errors, resulting in a more efficient overall workflow."

ANALYZE BUSINESS PROCESSES FOR NEW OPPORTUNITIES

While credit unions are looking for strategies to increase revenue, they are also considering ideas to reduce expenses. Evaluating your processes from origination to post-closing can help you identify strategies to improve your bottom line.

11. Consider Outsourcing to Save Time & Resources

A review of your business strategy will identify core competencies within your business. For example, loan officers who have just made the jump to mortgage bankers may have a depth of knowledge in handling loans, but may lack in areas such as accounting, payroll, marketing and other functional areas of business.

For these reasons, credit unions may consider outsourcing certain areas to a trusted third party. Credit unions should seek third party solutions that reduce costs, offer continuous support, require minimal supervision, and will protect your company against unseen liabilities.

12. White Label Your Rate Sheets

As markets change and fluctuate so does investor pricing. Daily white label rate sheets help ensure your team is aware of these changes and the margins for each loan type. Passing these rate sheets to your loan officers helps ensure you are optimized for profitability.

A daily white label rate sheet is created after a best execution analysis for each loan type and investor, then adapted to include your unique loan sale preferences. The best execution analysis reviews mandatory and best efforts delivery methods, loan level and bulk bids, as well as GSE's and co-issue. The rate sheet is then sent to your loan officers daily and can be used as a benchmark for the success of your secondary marketing operations.

13. Review Loan Originator Performance & Consider Compensation Structure Changes

Evaluating your loan originators can

help identify weak points. To do this, consider metrics like applications submitted, accuracy of information, percentage of applications that close, new members versus existing members and more. You can then evaluate how loan originators are performing in each area of the loan process. The results will identify patterns of incomplete applications, missing information, or low close rates.

From there, establish standards for loan applications and hold your loan originators accountable for meeting these objectives.

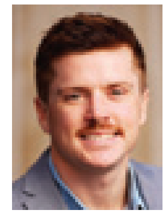
14. Loan Processor Evaluations

Loan processors and the software they use can also be an area of improvement for your business. For example, software can be set up to identify missing information that is still required from the loan originator. Make sure you are taking advantage of LOS features to identify missing information and set up deadlines.

The order of operations can also affect the processing timeline. If inspections or appraisals need to be completed, it is important to order these processes as soon as possible. Checklists can be used to guarantee incomplete files are not passed along to underwriters. The loan processor and the underwriter should work together to make sure each file is organized and consistent. The effectiveness of each loan processor can be measured in the average time from receipt to submission to underwriter.

15. Referral Process & Tracking

It's important to setup a tracking system to discover the source of your new members. Make sure your loan originators are asking "How did you hear about us?" From there, look at your top performing loan officers and identify where their new customers heard about them. Learn what makes that loan officer successful and implement new referral strategies for the rest of the team.



Ian Miller

Ian Miller is chief marketing officer for MCT. His core competencies include commercialization strategy, performance analysis, technical copywriting, CRM database development, and event production. He has won multiple awards from mortgage and housing industry publications.

KEY TAKEAWAYS

In this whitepaper, we've discussed strategies that improve profitability by reducing expenses, increasing revenue, or a combination of both. The power of technology has now given credit unions the leverage needed to analyze business strategy, discover new opportunities for growth, and review your current business processes to identify areas of improvement.

1

SECONDARY STRATEGIES

Implementing mandatory loan sales or optimizing your investor set can have huge impacts on your profitability. Other improvements, such as bid tape AOT or managing secondary exceptions, can also improve your bottom line.

2

LEVERAGE TECHNOLOGY

Replacing manual processes with automation is helping credit unions vastly improve accuracy and efficiency. Evaluating new software and additional training can also provide the extra edge your team needs to stay ahead.

3

PROCESS IMPROVEMENT

Performance evaluations and outsourcing help identify growth opportunities and reduce expenses. Other process enhancements, like white label rate sheets and referral tacking, help identify new areas of profitability.

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IMPROVED PROFITABILITY

Credit unions who are able to take advantage of these fifteen strategies will provide more value for members. A review of your secondary strategies, technology, and processes will help determine which strategies will be most impactful.