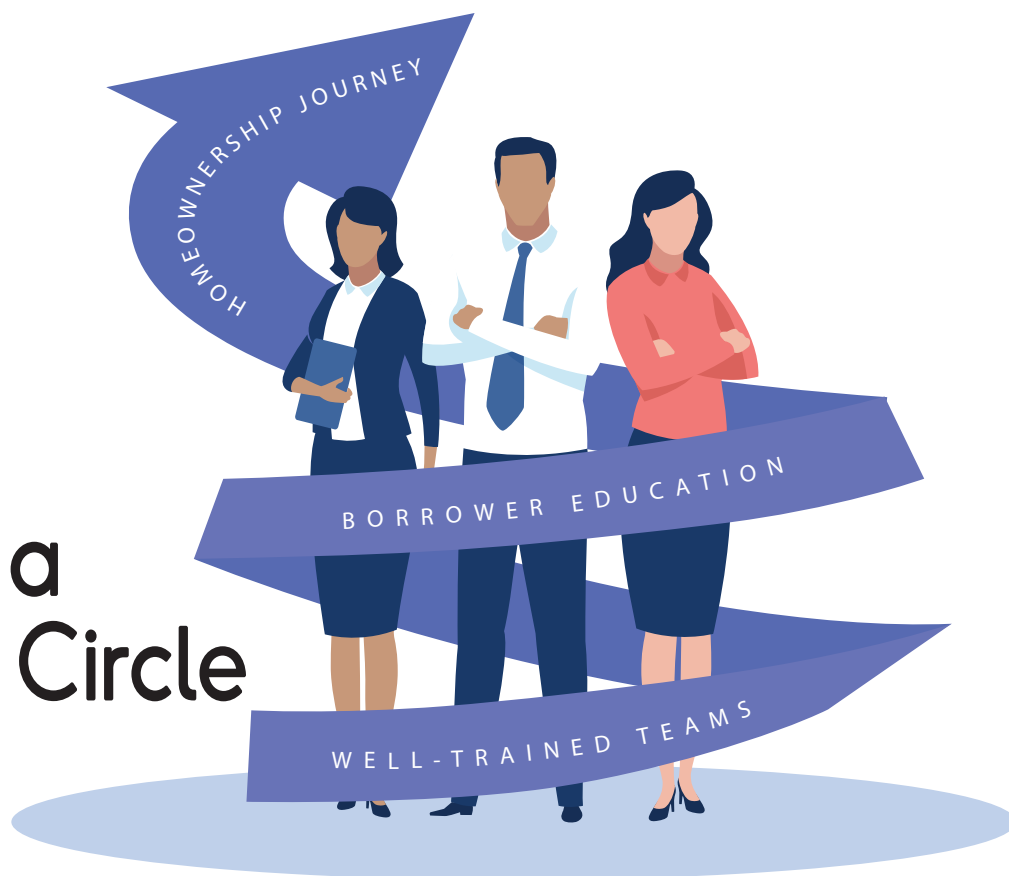


Creating a 'Virtuous' Circle



Helping Underrepresented Households Participate in the American Dream

*By Mary Sexton
LenderSelect Mortgage Groups*

In 1889, around the time that credit unions were forming around the world, the Oklahoma Land Rush created an unprecedented amount of wealth for 50,000 settlers who staked their claims to newly opened land in the ‘unsettled’ and vast American West. Benjamin Keys, a professor at the University of Pennsylvania’s Wharton School of Business, recently compared that event to the historic surge in personal wealth among homeowners during the recent pandemic period.

An eyepopping \$6 trillion dollars of housing wealth was created over the past two years among U.S. homeowners, according to a Federal Reserve report in May 2022. These wealth-gatherers comprise around 65% of American households.

And while this windfall is great news for homeowners, a large segment of American families did not participate, and the dream of homeownership sub-



Because homeownership is a critical component of many members' financial well-being, an increased focus on branch competency in mortgage lending and education must now become a priority for credit unions.



today and in the near future. Zillow recently polled a panel of housing market experts, and the largest group of respondents bullishly predicted that the housing market will return to pre-pandemic levels. But with the daunting challenges facing new entrants to the that market, credit unions need to reach back to their roots and become the heroes to underserved communities. That includes less-affluent and middle-class families who remain outside the focus of both traditional big banks and fin-techs, and whose machine decisioning platforms can intimidate uninitiated buyers.

Because homeownership is a critical component of many members' financial well-being, an increased focus on branch competency in mortgage lending and education must now

sequently moved even further out of reach.

According to Clare Trapasso with Realtor.com, the cost of buying a home has risen 50% from a year ago. The highly constrained housing supply and sharply rising rates have combined to create a challenging market for even the most qualified and courageous buyers.

A MOMENT FOR THE MOVEMENT

The hurdles may seem insurmountable, but there are paths for first-time homeowners to participate in the American Dream,



Your team should know why members should investigate their own credit union as a mortgage borrowing option, while messaging the larger community that the institution also can be of service beyond its front door.



become a priority for credit unions.

It makes great business sense as well. The demographics of the current housing market are a great target market for new members. The National Association of Realtors in its most recent study offered characteristics of the current home-buying market. Among first-time buyers comprising 34% of the market, with an average income of \$67,000, 11% have purchased multi-generational homes to take care of aging parents or to accommodate adult children. Cost savings was an additional priority of multi-generational first timers.

Credit unions have a long record of serving both diverse households and those with modest incomes. Given CUNA Mutual Group's 2016 study showing that 100% of U.S. population growth and 61% of credit union growth from 2011-2016 came from multi-cultural consumers, credit unions' future clearly lies in serving these communities. These financially emerging groups have less experience with banking and finance, and need (as well as value) assistance, education and person-to-person services.

NAVIGATING THE WAY HOME

Common sense tells us that front-line literacy in mortgages is the first place to start. Your team should know why members should investigate their own credit union as a mortgage borrowing option, while messaging the larger community that the institution also can be of service beyond its front door. A BankRate.com FAQ lists why consumers should borrow from credit unions, and the benefits include lower fees, more affordable rates, better personalized

service, and sometimes more leeway in the approval process.

Understanding the plethora of mortgage products takes expertise. Some credit unions may have the resources to hire experienced loan officers, while continuing staff education is critical to keeping skills sharp and keeping up with new rules, products, and opportunities for borrowers. Many credit unions lack the wherewithal to undertake the significant complexity and responsibilities that offering mortgages entails, but management has many options to partner with a mortgage fulfillment companies.



The Federal Government has renewed its commitment to expanding homeownership across a more diverse population. Several highly advantaged first-time home buyer programs are available to support this powerful policy initiative.



RESOURCES TO CONSIDER

The government agencies charged with making homeownership a reality offer both educational resources and mortgage programs specifically targeted to first-time homebuyers.

The Federal Government has renewed its commitment to expanding homeownership across a more diverse population. Several highly advantaged first-time home buyer programs are available to support this powerful policy initiative.

Programs targeted to first-time home buyers are available from Fannie Mae, FHA, USDA, and the Community Development Revolving Loan Fund. Other resources and services include partnerships with community lenders in efforts to improve access to homeownership.

■ The Federal Home Loan Bank (FHLB) system has 11 regionally based banks that act as wholesale suppliers of lendable funds to community banks and credit unions. Their mission is to provide their 7,000+ member credit unions and community lenders with reliable short-term liquidity and asset-liability management. The Affordable Housing Program (AHP) of the FHLB was established in 1989 and is one of the largest sources of private

sector grants for housing and community development.

FHLB provides member institutions with liquidity structures including advances, letters of credit and secondary market access.

- Fannie Mae has led the GSEs in developing access to sustainable homeownership options for first-time home buyers. Their signature HomeView is a go-to resource to explain the homeownership journey. HomeReady is targeted to both first-time and repeat low-income buyers that allows lower credit scores, limited down payments with flexible funding. These loans offer better or equal to standard Fannie Mae loan pricing at higher LTVs. Even better, reduced mortgage insurance coverage requirement can reduce monthly payments over time.

- The Federal Housing Administration (FHA) provides mortgage insurance on loans made by approved lenders. In fact, FHA is the largest insurer of residential mortgages in the world.

FHA loan guidelines are the most forgiving among loan programs targeted to borrowers with less cash, lower credit scores and higher debt-to-income ratios. Even borrowers who have suffered bankruptcy and foreclosure may qualify for FHA-backed programs.

Most powerfully, the FHA has down payment assistance programs based on the borrower's location and income that includes non-repayable grants, also known as forgivable loans. Down payments as low as 3.5% for both purchase and refinance transactions, but mortgage insurance is paid up front with FHA.

The FHA website has everything you need to tap

into these options. Housing counselors are available to members by calling 1-800-Call FHA.

- The US Department of Agriculture focuses on rural lending. For properties in eligible areas as designated by the Rural Development Guaranteed Housing Loan Program, loans always carry a \$0 down payment feature.
- Housing and Urban Development (HUD) launched the Good Neighbor Next Door to support revitalization of neighborhoods. Law enforcement officers, firefighters, EMTs, are teachers are offered a 50% discount off the list price of homes available from HUD's inventory. Homes are offered exclusively through HUD and borrow under the GNND program. They must serve as the primary residence and have a 3-year occupancy requirement.

- The Community Development Revolving Loan Fund (CDRLF) provides funding directly to eligible low-income designated credit unions to support both education and staff development to implement impactful programs to support initiatives.

At the state level, there are more than 2,000 down-payment assistance and grant programs across the U.S., sponsored by state housing authorities. Most offer \$0 down payments, forgivable grants, and closing cost assistance.

Many have more favorable terms and competitive market rates. Some states help borrowers in certain profes-

sions, such as educators, first responders or active-duty military and veterans. Many CUs won't have direct access to these programs, but you can find partners who can bring these options to your members.

Responsible credit management improves members' abilities to approach the buyers' market with confidence. Mortgage qualifications are very specific, and borrowers need to come to the table with the ability to evidence good credit and money management. Offer-

ing your members meaningful information on the dos and don'ts, and how to qualify for mortgages will be highly valued and a great way to cement relationships.

Today, it is essential to be pre-approved to be considered as a serious buyer and it has always been a powerful bargaining tool and best practice. That process may also bring forward any issues with qualification that need to be addressed prior to searching for a new home.

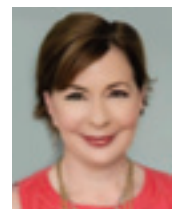
Incorporating well trained teams with borrower education and programs to prepare members for the homeownership journey is a virtuous circle. It allows credit unions to tangibly impact their communities, directly benefit members across

the affluence spectrum, and to grow and thrive capitalizing on the recognition of the changing demographic of credit union membership. ▲

“
Incorporating well trained teams with borrower education and programs to prepare members for the homeownership journey is a virtuous circle.”

“
At the state level, there are more than 2,000 down-payment assistance and grant programs across the U.S., sponsored by state housing authorities. Most offer \$0 down payments, forgivable grants, and closing cost assistance.”

Mary Sexton, SVP Strategic Partnerships for MemberSelect Mortgage Group, has spent her 25-year career working across the financial services spectrum in capital markets, brokerage, banking, and mortgage. Currently, she channels the entirety of her experience into deepening the relationships with clients to create truly collaborative partnerships.



Mary Sexton