CMG MI Signals

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Expanding Markets Generate Expanding Business

Mortgage Insurance Can Help Credit Unions Explore New Opportunities with Confidence

By Kathy Schroeder, Senior Vice President and General Manager, CMG Mortgage Insurance Company

It's well-known in the mortgage lending industry that the down payment is often the biggest obstacle for first-time homebuyers. But some borrowers from underserved segments — among them ethnic minorities, single mothers, rural residents, low- and moderate-income families — often find the requirements for down payments to be practically impossible to meet.

This is an important issue for credit unions. Bank interests have lobbied Congress to revoke the tax-free status of credit unions on the grounds that they make too few loans to members of modest means. In regard to real estate lending, there's a belief that credit unions make little effort to reach out to those who fall outside the standard homebuyer profile. Many of these families need extra help when it comes to qualifying for a mortgage loan, especially in regard to the down payment.

Learning About Expanding Markets

Whether this belief is founded in fact or not, credit unions need to recognize a real opportunity. With homeownership rates approaching saturation levels — 76% — among non-Hispanic Caucasians (76%) in the United States, credit unions involved in real estate lending must understand how critical it is for them to broaden their horizons and start exploring "Expanding Markets."

What are Expanding Markets?

They're multicultural or minority borrowers. They're often new immigrants. They have low or moderate incomes. They're looking to purchase inner-city or rural properties, or properties located in low-income census tracts.

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Any of these characteristics could define your Expanding Markets member. It's important to understand, however, that each subsegment has its own well-defined focus and concerns, so your approach will need to take these differences into account. Here are some basics:

African-Americans currently represent approximately 13% of the overall American population, with a rate of homeownership at about 50%. As the median age of this population is 29.5, African-Americans are clearly poised to enter the homebuying market in a big way. Keep in mind that 55% of African-Americans live in the South, with 52% living in the central city of a metropolitan area.*

Hispanics or Latinos currently represent about 15% of the U.S. population, about 40% of them being foreign-born. This market segment is particularly interesting to lenders and credit unions because of its recent rapid growth in homeownership:

- In 1994, the Hispanic rate of homeownership was 41%.
- In 2004, the Hispanic rate of homeownership was 48.1%.*

In other words, Hispanics represent one of the fastest-growing homebuyer groups in the country. Both Hispanics and African-Americans still lag behind the rate of homeownership for non-Hispanic Caucasians, but it's clear that the gap is narrowing. The push is on, driven by government and community interests, as well as by major banking institutions. Credit unions have a unique opportunity by helping to close the gap — and reaching out to a whole new world of potential members.

Problems and Solutions

The issues these potential homebuyers confront can go beyond the already formidable one of the down payment. Often they struggle with credit issues, including alternative documentation rather than a FICO® score, or a preference for using cash in their transactions. In addition, they may face problems of financial literacy. They may not have been exposed to many of the financial concepts involved in the

*SOURCE: U.S. Census

homebuying process, and many foreign-born Hispanics also face the additional challenge of a language barrier.

Credit unions are beginning to recognize the potential. In 2003, the National Credit Union Administration (NCUA), in Letter 03-FCU-04, highlighted the progress of its "Access Across America" initiative, comprising loan programs and partnerships designed to "foster business development of credit unions and to create economic empowerment for people from all walks of life by providing access to affordable credit union services and products especially in underserved neighborhoods and communities." More recently, the Credit Union National Association (CUNA) has created the Home Loan Payment Relief (HLPR) program, which makes below-market-rate mortgages available to borrowers with household incomes at or below the median in their markets.

However, more needs to be done. This can take the form of developing loan programs that specifically target these underserved groups. There are also some relatively simple steps that a credit union can take to position itself as a friendly lender in the community:

- Hire loan officers who speak Spanish or other foreign languages
- Print marketing materials and other communications in the languages of the members you hope to attract (but first, have loan officers on hand who speak these languages)
- Network with Realtors® who retain a large minority clientele
- Host homebuyer fairs that spotlight issues typically encountered by first-time homebuyers from these segments and provide training and counseling

Manage the Risk with Mortgage Insurance

At the same time, credit unions need to consider the risk issues involved and the potential impact on their resources, and develop an Expanding Markets approach that incorporates prudent lending practices. Private mortgage insurance (MI) is a valuable and flexible tool that credit unions can use to safely explore Expanding Markets.

Helping You Qualify More Members

At its most basic, MI can ease your customers over the hurdle of the down payment as home prices continue to escalate throughout much of the country. Typically, MI is required when a member is unable to offer a down payment equal to 20% of the purchase price of the home. Mortgage insurers have developed a range of products that can help credit unions qualify homebuyers of modest means — so that down payments can be as low as 3% of the purchase price, or even 0% in some circumstances!

CMG Mortgage Insurance Company (CMG MI) supports the mission to expand homeownership across America — through products and services that enable lenders to make low-down-payment loans with confidence. What are the challenges to homeownership in your community — and how can we help? Let us know what you think and what we can do for you by contacting your CMG MI Account Executive or sending an e-mail to CMGMortgage.InsuranceCo@cmgmi.com

Other MI products are structured to allow for lower monthly payments, third-party funding of premium (such as from builders or government agencies), or flexible guidelines that may accelerate the approval process.

In addition, most mortgage insurers offer the prepurchase counseling that is often required by loan programs sponsored by Fannie Mae® or Freddie Mac®. CMG Mortgage Insurance Company (CMG MI), for instance, offers homebuyer education in both English and Spanish, available both by phone and online. (For more information, see our Web site at www.cmgmi.com, under "MI Services.")

Reducing Your Liquidity Risk

The support that MI provides does more than make it possible for more members to buy homes. By insuring these loans, the credit union is able to protect its portfolio and consequently its resources. In addition, MI is an acceptable form of credit enhancement that makes these loans saleable to investors, such as Fannie Mae or Freddie Mac — reducing the credit union's liquidity risk and giving it alternative resources with which to make future loans. Instead of maintaining unsaleable loans in portfolio that could increase exposure to risk in a rising-rate environment, a credit union can insure those loans and turn them into easily transferable assets.

Homeownership is a key stepping-stone in modern American society, opening doors not only to enhanced standards of living, better quality of family life, and more stable communities, but also to increased family wealth. A home can form the core of an overall financial structure that allows a family to prepare for future emergencies, save for retirement, pay for college expenses or start a new business.

Credit unions can play a key role in making homeownership more available to those who often feel shut out of the homebuying process — whether immigrants, minorities, low-income borrowers or other underserved segments. At the same time, credit unions can position themselves as a viable and more accessible alternative to the major banks — thereby increasing their own membership and future lending opportunities. While Expanding Markets represent an exciting way for credit unions to establish themselves in the heart of growing populations eager to join the mainstream, credit unions also need to consider their responsibilities to their current members. Private MI can be a valuable ally in new ventures involving Expanding Markets — giving credit unions scope without sacrificing safety.