

The CMG MI Home Preserver Update for Credit Unions

Helping you and your members navigate through rough seas



MAY 2011 | VOL. 2 | ISSUE 1

Welcome to the *Home Preserver* — your update on loss mitigation and loan workout efforts by CMG Mortgage Insurance Company.

The *Home Preserver* gives a quick snapshot of CMG MI's progress in helping Credit Unions manage delinquencies and members avoid foreclosure.

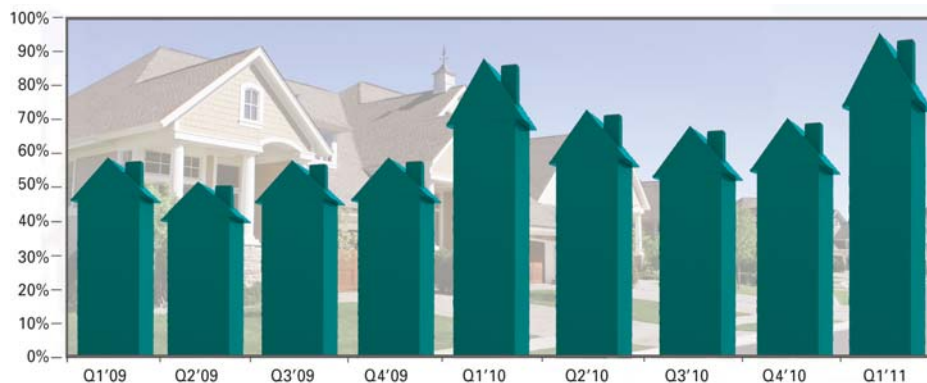
AT A GLANCE

(JAN. 2010 - DEC. 2010)

CMG MI'S HOMEOWNERSHIP PRESERVATION REPORT:

- Helped 1,753 members and their families stay in their homes through loan modification workouts
- Of the loan modifications completed in Q1 2010, 85% remain current after 10 monthly payments
- Aided 1,336 members in receiving refinances through CMG MI's CU Home Preservation Refinance Program
- Enabled 831 members to avoid fore-closure through alternatives such as short sales and deeds-in-lieu

CMG MI'S CURE RATIO¹



CMG MI's Growing Home Preservation Success

In the first quarter of 2011, CMG MI's cure ratio improved 23% over the fourth quarter of 2010. This substantial gain is attributed to both a decline in new delinquencies during the quarter and an increase in the number of cures. A rising cure ratio is an important indicator of a mortgage insurer's future decline in claim payments as well as an indication of an improving housing market.

¹Cure Ratio = number of delinquent loans brought current / number of new delinquencies

TDR Performance and Capital Reserve Reduction

Troubled Debt Restructures

by Chris Eckenroad, Manager, Loss Mitigation and Claims

Troubled Debt Restructures (TDRs) have emerged as an issue for mortgage lenders, including Credit Unions, as a result of the unprecedented foreclosure crisis. Unlike an ordinary restructure of a non-performing loan, a TDR proceeds from a formal agreement between the delinquent mortgagee, the mortgage lender, and any other parties involved, such as the investor.

Under the agreement, the mortgage lender grants the borrower a concession that would not otherwise be considered

— a change of terms, lowering of the interest rate, an extension of the maturity date, or another material alteration.

The National Credit Union Administration (NCUA) considers loan modifications to be TDRs that require concessions. The rules require that the value of a concession be quantified, with the resulting calculation directly impacting the Credit Union's decision on whether to proceed with the modification. If the Credit Union does go ahead

with the loan modification, the NCUA specifies it must establish an "impairment" reserve against the TDR, with that reserve being reduced as the borrower meets their payment schedule.

To be considered "cured" under the guidelines of the National Credit Union Administration, a TDR loan modification requires six months of good performance based on the modified loan terms. At that point, the impairment capital reserve against potential loss is removed and the capital is released.

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Provident Credit Union Shares Its Loss Mitigation Success Story

When the housing market began deteriorating in 2008, Provident Credit Union recognized the need to mount a loss mitigation effort. David Herrera, Vice President of Lending at Provident, recently talked to the *Home Preserver* about the steps his Credit Union took and the help it was able to offer members.

Q. When did Provident begin its special loss mitigation/loan modification effort?

Provident Credit Union established its loss mitigation program in late 2008. Like many Credit Unions, we did not have a need for such a program prior to this time.

The process was not perfect at the start, but we established some fundamental procedures and outlined a philosophy centered around mitigating losses. Over time, we were able to refine the details of our program and the supporting procedures. The result is that we are now proficient in handling our loss mitigation cases.

Q. What were the key problems that needed to be addressed?

We had to define and develop modification packaging and documentation requirements, an internal review process, underwriting standards, compensating-factor guidelines, accounting models and collection procedures, in addition to outlining ongoing reporting requirements.

Q. What resources did you utilize for advice?

We used numerous resources (U.S. Treasury publications, accounting opinions, etc.) that were readily available, but for the most part we custom-designed the program around our own credit and service philosophies.

Q. Did you hire and train specialized staff?

We utilized assets already in place, including our loan processing team and existing loan origination systems. This allowed us to implement a loan workout program without adding more staff. We designated one staff person as the liaison to our members and this allowed us to organize, control and effectively manage the communication around workout loan requests.

Some of the key elements we needed to consider at the beginning were:

- **Determining our goal behind the program.** We needed to outline what we were trying to accomplish from the start and had to always keep that top of mind. Our focus was on loss mitigation.
- **Developing procedures and guidelines for all of our processes.** This was necessary to keep everyone on task. Due to various departments needing to be involved, we had to ensure that everyone was in synch with their responsibilities. It required much more communication from everyone, including collections, loan origination, loan servicing, and accounting.



David Herrera

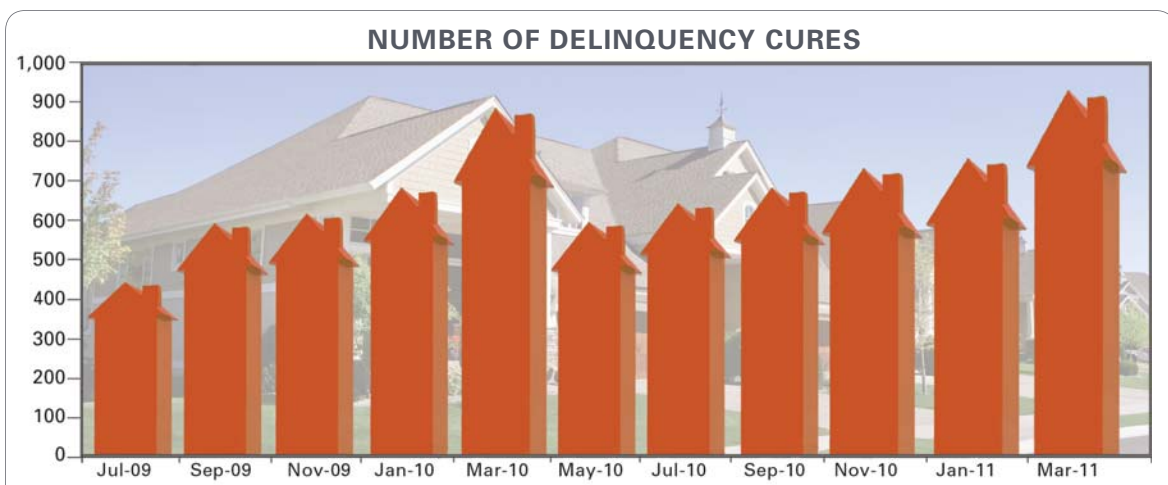
- **Identifying key program parameters.** We needed to develop a temporary hardship program that could bridge temporary unemployment and also a permanent modification program. The two programs serve different needs and have some distinct characteristics.

We tried to provide permanent solutions rather than half-measures. If we felt that providing assistance at a certain point in time would only delay the inevitable delinquency, we did not offer assistance. The borrowers had to reasonably qualify for temporary and permanent offers of assistance.

- **Recognizing that "one size does not fit all" and the right solution is not always obvious.** It is very important that we obtain as much information about the borrower's situation as we can. This helps us design better solutions and also offer some guidance to our members. Some solutions to a member's financial distress may not come from a mortgage loan modification,

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The number of cures reflects delinquent loans brought current by either the borrower bringing their loan current, or by reinstatement, modification or other workout strategy.



Provident Credit Union Shares Its Loss Mitigation Success Story (cont'd)

but rather the paying down of other debt, selling cars, etc.

Q. Were there any issues unique to your region?

I cannot say that any issues would be unique to our region. I would suspect that many of the issues we encountered are being experienced by most other lenders.

Q. How did you develop your strategy?

Our overall strategy is to mitigate potential loan losses. Although some of the member requests are heart-wrenching, you have to stay consistently aware of your goal.

That does not mean that you stop looking for other ways to make things work for your members. It just means that you have to be very resourceful and think outside the box.

Q. What changes did your Credit Union make to its departments, processes or teams in order to manage delinquencies successfully?

We found we needed to focus more attention on real estate delinquencies. So we moved to a weekly real estate delinquency review meeting with all the stakeholders, up to and including our Executive Vice President. That shaped our loss mitigation philosophy and facilitated clear and consistent communica-

tion among all participants. In addition, it provided senior management an up-to-date picture of potential losses.

We understand the risks associated with real estate delinquency and for that reason have always had a designated collector assigned to it. Ineffective real estate loan collections can have disastrous implications if you do not follow certain regulations and so we felt it warranted maintaining a designated specialist on staff.

Over time, we increased the amount of information required at our weekly meetings. We wanted to see estimated property values, status of other liens, a credit report, and we wanted an understanding of each delinquent member's circumstances to help us better understand the risks on the loans. As a result, we were better able to forecast potential losses and possibly mitigate them using different strategies. Our process works very well.

Q. What do you think was key to the success of your effort?

I believe the key to success was our people and our focus on developing a strategy and processes up-front. The people involved in the process are drawn from various departments, yet they understand how important this is

to the Credit Union as a whole and how it impacts the bottom line. Without a strategy, you just don't know what you are trying to accomplish – it is the daily road map.

Q. How many members were you able to help?

Since the program's inception, we have provided temporary or permanent assistance to 51 members.

Q. How does Provident measure success?

We measure success not based on how many modifications we provided or how many foreclosures we prevented. At the end of the day, it is all about loss mitigation.

If you are able to reduce the Credit Union's losses, then you have been successful. I can say with confidence that if you apply that standard on each individual loan, then your overall program will be a success for your Credit Union.

Q. What are your plans for this effort going forward?

We will continue to offer the existing programs to our members. We are always looking for new ways to help those in need and will certainly expand the program when we see viable solutions. We are focused on ensuring that Provident remains healthy and strong for future generations of members.

Troubled Debt Restructures (cont'd)

Most Credit Unions follow this guideline with delinquent and imminent delinquent loan modifications. They should also be aware that at this 6-month point, the cure must be reported to CMG MI.

Report TDR Loan Cures to CMG MI in a Timely Manner

CMG MI is also required to set aside large capital reserves for all delinquent loans reported. As is the case with our Credit Union customers, reducing this capital reserve is an important priority for us, so that we may use the freed capital to insure more loans.

While we are encouraged by the loan modification and delinquent cure activity we have seen over the past few months, we still need our customers to recognize and report loan cures promptly to us via e-cmgmi. We are finding some cases where the delinquency cure is not being updated by the reporting Credit Union in a timely manner.

Managing TDR performance and reporting the results, both internally at the Credit Union and externally to insurers like CMG MI, are vital for both Credit Unions and our own company.

As loan cures are confirmed, capital reserves can be released for both the Credit Union – subject to regulatory guidance as indicated earlier – and CMG MI. Actively engaging members with delinquent mortgages to explore TDR opportunities could be a win-win for everyone. The Credit Union will be able to make more home loans and CMG MI will be able to provide mortgage insurance on those loans – enabling more members to achieve sustainable, long-term homeownership.



CMG Mortgage Insurance Company

A Joint Venture between PMI Mortgage Insurance Co. and CUNA Mutual Insurance Society

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