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Mortgage Assurance

Local Credit Unions See Growing Market For Mortgage, Home Equity Lending
By **MIKE ALLEN**

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Jim Harris, CEO of USE Credit Union, said low interest rates have helped to fuel an increase in mortgage lending. Photo by USE Credit Union

Once known primarily for making auto loans, more credit unions are expanding their mortgage lending, taking up some of the slack created from banks exiting the business.

According to the California Credit Union League, the region’s 22 credit unions extended $5.4 billion in first mortgages and home equity lines through Sept. 30 of last year, a 12.6 percent increase from the same nine-month period of 2013.

San Diego County Credit Union has seen consistent demand for mortgage loans in the past year and has been increasing its market share in this area, said CEO Teresa Halleck.

As of Sept. 30, SDCCU held about $2.8 billion in first mortgages on its books, compared with $2.5 billion in the same category for the like period of 2013. Mortgages made up about 70 percent of SDCCU’s total loans as of Sept. 30.

“SDCCU has also seen an increased demand with home equity loans as Southern California home values continue to increase in specific regions,” Halleck said.

Jim Harris, chief executive officer at USE Credit Union, said his credit union’s first home mortgage balance for September 2014 was about $259 million, compared with $242 million in September 2010.

“It seems interest rates have been so low for so long that more members were taking advantage of that and refinancing,” Harris said. “Last year, in the first part of the year when rates increased a bit, activity slowed.”

Harris said more credit unions are looking to do more real estate lending in recent years as consumer lending (defined as auto, credit cards and personal loans) declined because many consumers tried to reduce their debt loads.

The largest originator among all credit unions nationwide is Virginia-based Navy Federal, which also happens to be the largest credit union with about $62 billion in total assets. As of September, Navy Federal held $19.3 billion in home mortgages on its books, compared with $12.8 billion in September 2010.

Cutler Dawson, Navy Federal’s chief executive officer, said one of the reasons credit unions have increased market share in mortgage lending is the industry is looked upon more favorably when compared to banks.

“The banks got some bad publicity the last few years in how they were servicing mortgages,” Dawson said. “I think folks are returning to a smaller environment that they trust more.”

Calls and emails to the biggest banks that make the most mortgages either were not returned or officials declined to be interviewed.

According to Mortgage Daily, the industry’s main trade paper, the four largest mortgage lenders and their originations for the first half of 2014 were Wells Fargo Bank, $83 billion; JPMorgan Chase, $35 billion; Bank of America, $24.5 billion; and Quicken Loans, $24.3 billion.

Local credit union executives said many credit unions are taking a more creative approach to lending as more traditional avenues of credit became less accessible to customers.

For example, Navy Federal is one of the few lenders in the nation offering a zero down payment mortgage through a program called Homebuyers Choice. To qualify, a borrower has to have a credit score of at least 700, Dawson said.

Because the mortgage doesn’t meet new standards established as part of the Dodd-Frank banking reform law, known as a qualifying mortgage, these mortgages can’t be sold to the two major mortgage buyers, Fannie Mae or Freddie Mac. Instead, the non-qualifying mortgages must be held by the originator.

Vince Nowicki, vice president of real estate originations for San Diego-based Mission Federal Credit Union, said his institution and similar credit unions have been consistently expanding mortgage lending in the last few years because they have the capital base to hold the loans.

“It has to do with credit unions’ ability to put the loans in their portfolio rather than having to sell the loans on the secondary market,” Nowicki said.

As a result of new regulations that took effect last year from the Dodd-Frank banking reform law, many banks are looking to mitigate risks and are making only qualified mortgages that can be sold off, he said.

In fact, many community banks have abandoned making mortgages altogether because of the increased cost of underwriting and increased risk should the loans go bad.

Although credit unions generally offer lower interest rates on loans compared with banks because their nonprofit status excludes paying income taxes, they aren’t necessarily always the lowest.

Mark Goldman, a mortgage broker and lecturer at San Diego State University, said larger credit unions occasionally run promotions where the rate will be a great deal, but often the rates are competitive with what other lenders provide.

Increasingly, credit unions have been good places to obtain home equity lines of credit, Goldman said.

Brad Smith, chief of staff at Pacific Marine Credit Union in Oceanside, said his credit union began doing considerably more mortgage lending starting in 2011.

Smith attributed the increase to an improving housing market and people feeling more confident about their jobs. While the majority of borrowers were already members, a good number were bank customers who were attracted by low rates and some of the products.

Among the adjustable-rate mortgages Pacific Marine Credit Union offers is a 5-5 ARM product that adjusts every five years but remains static until the five-year period elapses.

Although some credit unions, such as SDCCU, do extensive advertising to attract mortgage business, others, such as North Island Credit Union, say the growth in this segment came more from simply promoting programs at its 12 branches and on the website.

Steve O'Connell, CEO at North Island Credit Union, said he expects to see more mortgage lending this year, especially because of the continued constriction and higher costs associated with renting an apartment here. Those higher rental costs will outpace the amount of a monthly mortgage payment, and "create a new market of homebuyers in the marketplace," O'Connell said.

He said the mortgage numbers at North Island Credit Union and other credit unions "reflect the market share gains credit unions are having on banks and (private) mortgage lenders."