

**Resource – Credit Union National Association [www.cuna.org](http://www.cuna.org)**

## **The Credit Union HLPR\* Mortgage**

\* Home Loan Payment Relief

A “No Gimmicks” low-rate mortgage for first-time homebuyers from their credit union.

### **Reasons for the Program**

- With rising home prices and monthly payments, many first-time and modest means buyers become frozen out of the market.
- Although credit unions can't produce more affordable housing, they can reduce monthly payments, enabling more borrowers to qualify.
- Servicing members of modest means is an integral part of credit unions' mission.

### **Basics of the Program**

- Participating credit unions will offer one or more of the following mortgage products to their qualifying members:
- **The original HLPR** loan is a three-year adjustable rate mortgage, with an interest rate discount of 1% off the nationwide average 3/1 ARM interest rate. The HLPR 3/1 ARM will have its rate fixed for three years, then adjust annually to the 1-Year CMT Treasury with a 2.75% margin. Annual adjustments are capped at 1% with a lifetime cap of 5%.
- **Fixed-rate option** Credit unions may offer their qualifying members a 30-year fixed-rate HLPR loan that features a 3-year 1% buydown. Credit unions may use either their own standard 30-year mortgage rate to apply the 1% discount, or a national average 30-year interest rate that CUNA will publish weekly, using similar calculation methods as the national 3/1 ARM rate.
- **5/1 and 7/1 ARMs** Credit unions may offer longer term ARMs with a 0.50% buydown based off their standard 5/1 and 7/1 ARMs
- **40-Year term loans** Credit unions may offer HLPR loans with a 40-year amortization period.
- Each credit union will grant and fund the loans to its own members.
- Credit union will not make up for the lower rate with higher fees, points or other gimmicks. In fact, credit unions will be encouraged to seek and pass on to members reductions in closing costs and private mortgage insurance costs.

### **Underwriting Criteria**

- Each credit union will use its own underwriting criteria, with the exception of the following two standards:
  1. Required down payments will be no more than 3%, and gifts or grants will be permitted.
  2. Credit unions will permit backend ratios of at least 42%.

## **Borrower Eligibility**

- Borrower's household income will be restricted to 100% or less of the area median income, except for certain "high-cost" areas designated by Freddie Mac and Fannie Mae based on HUD data.
- HLPB loans will be targeted to first-time homebuyers. Credit unions at their option may extend the loans to non-first-time buyers, subject to the income limitation.

## **Benefits of the Program to Members**

- The program will lower mortgage costs and increase eligibility to credit union members of modest means who are contemplating buying a house. This will increase members' opportunities to purchase a home and begin to build wealth as the equity in their homes accumulates.
- These benefits are driven both by the lower interest rate and the higher permitted "back-end" payment ratio. The benefits could be realized in a number of ways:
  1. A lower monthly payment for any given loan size.
  2. Enabling a member to qualify for a larger mortgage for a given income level. The program will allow for approximately a 25% increase in loan size for a given level of household income.
  3. Lowering the income level necessary to qualify for a given mortgage size. The program will allow for approximately a 25% reduction in income necessary to qualify for a given loan size.
- By establishing mortgage relationships with credit unions, new members will be introduced to a variety of other services from a credit union.

## **Benefits of the Program to Credit Unions**

- National and regional publicity surrounding the program will drive members and potential members to credit unions.
- As a national program with a significant dollar amount attached to it, the program will reinforce the positive image credit unions have among policy makers at the state and federal level.
- A credit union will be able to participate in a powerful national program by making loans to its own members using its own underwriting criteria.
- This will be a concrete program that will help credit unions fulfill their mission of serving all their members, including those of modest means.

## **Financial Implications for Credit Unions**

- The suggested commitment amount for the program is between 0.5% and 0.75% of assets per year.
- For the first three years, the loans would carry an interest rate one point below other similar loans, and therefore could likely only be sold at a discount. At the end of three years, the loans will begin to reprice to market rates. For the original HLPB 3/1 ARM, the index after the three-year period will be the one-year constant maturity Treasury, with a

margin set by the credit union between 2.25% and 3%. The time necessary to reach market rates would depend on whether rates had risen or fallen since origination. For this reason, most credit unions would likely hold the loans in portfolio for the first three to five years, until the rates had adjusted to market.

- For credit unions for which HLPB loans would replace investments, the HLPB loan would probably increase interest income. Using market data of the past few years, the HLPB loan yield would have exceeded the yield available on three-year Agency or corporate credit union investments by about 75 basis points.
- For credit unions already making a substantial amount of loans to qualifying borrowers (i.e., credit unions for which HLPB loans would replace other loans the credit union would have made), the lost income of the program would be 1% on the loans for the first three years. At a full 0.75% of assets commitment, that would amount to less than a 1% basis point reduction in net income for each of the first three years of the program.
- The default rate on credit union loans to qualified first-time homebuyers of middle or modest income has been very low.

## **Mechanics of the Program**

- At the beginning of each month, CUNA will announce the HLPB loan interest rates for the month based on the national average on 3/1 ARMs and 30-year FRMs from all lenders for the previous month. Those will be the HLPB loan rates for the month. In the event of rapid changes in market rates, weekly updates in the rate will be announced for the remainder of the month as necessary.
- At the end of each month, credit unions will report on a password protected, secure website the volume of their HLPB loan activity. CUNA and the leagues will use this information for frequent public relations efforts.
- CUNA will consult with participating credit unions about modifications to the program on a regular, annual basis.

## **Additional Considerations**

- Even with the HUD high-cost overrides, there may be some credit unions in markets that just do not have sufficient “affordable” housing even with the HLPB program. Other credit unions are likely to have a larger demand for the program than they can fund under the program. We are looking into ways for credit unions of the first type to participate in or buy loans from credit unions of the second type.
- Some credit unions already have effective programs of specialized lending to first-time buyers or members of modest means that may not involve a 1% reduction in loan rate. On a case-by-case basis we propose to evaluate these programs. If the benefits to members are similar in magnitude to those of the HLPB program, we expect to be able to count the credit union’s program toward the national goal.

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