

# MASTERING MORTGAGES

Portfolio Lending Strategies  
to Increase Loan Volume

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# Agenda

- Current state of the mortgage market
- Competing with Portfolio Lenders on pricing
- Types of Portfolio Products to offer
- Using Portfolio lending to attract realtor referrals
- Cross selling





# Current State of the Mortgage Market

# Current State of the Mortgage Market

## Black Knight's April 2022 Mortgage Monitor:

*May sees least affordable housing market in 16 years while existing mortgage holders gain record \$1.2 trillion in tappable equity in Q1 2022.*

# Current State of the Mortgage Market

- U.S. home prices are up 42% since the start of the pandemic, with the average home having gained almost 9% in value just since the start of 2022.
- Though the annual rate of appreciation cooled slightly (19.9% in April vs. and upwardly revised 20.4% for March), rising home prices and interest rates have made for the worst affordability since July 2006.
- The monthly principal and interest (P&I) payment on the average-priced home with 20% down is nearly \$600 (+44%) more than it was at the start of the year and \$865 (+79%) more than before the pandemic.
- As of May 19, with 30-year mortgage rates at 5.25%, the share of median income required to make that P&I payment had climbed to 33.7%, just shy of the 34.1% high reached in July 2006.



# Current State of the Mortgage Market

- While tightening affordability is hampering prospective homebuyers, the home price growth at the root of the issue continues to increase the housing wealth of current homeowners with mortgages.
- U.S. mortgage holders saw their collective tappable equity – the amount available to borrow against while retaining at least a 20% equity stake in the home – increased by \$1.2 trillion in Q1 2022 alone.
- In total, mortgage holders gained \$2.8 trillion in tappable equity over the past 12 months – a 34% increase that equates to more than \$207,000 in equity available per borrower.

# Current State of the Mortgage Market

## APRIL NATIONAL STATS



### RATE LOCK VOLUME

Locks decreased across all loan categories, led by a nearly 50% decrease in rate/term refinances



### MARKET MIX

A >40% drop in refinance activity outpaced a smaller decrease in purchase locks, to further reduce the refi share of the market



### AVERAGE LOAN AMOUNT

The average loan amount held relatively steady in April

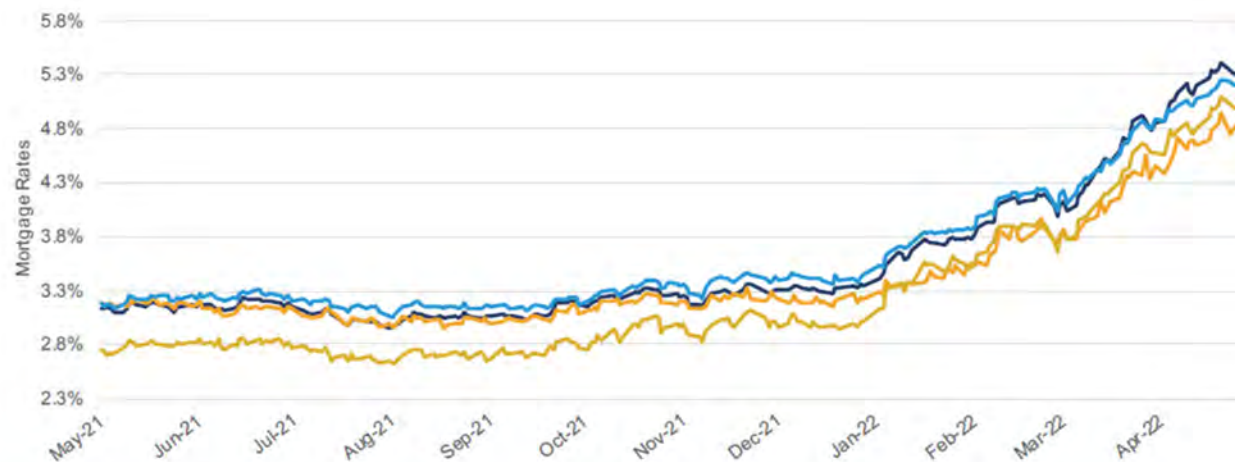


### MONTH-END CONFORMING RATE

Our Optimal Blue Mortgage Market Indices tracked a 63 BPS rise in 30-year rate offerings throughout April

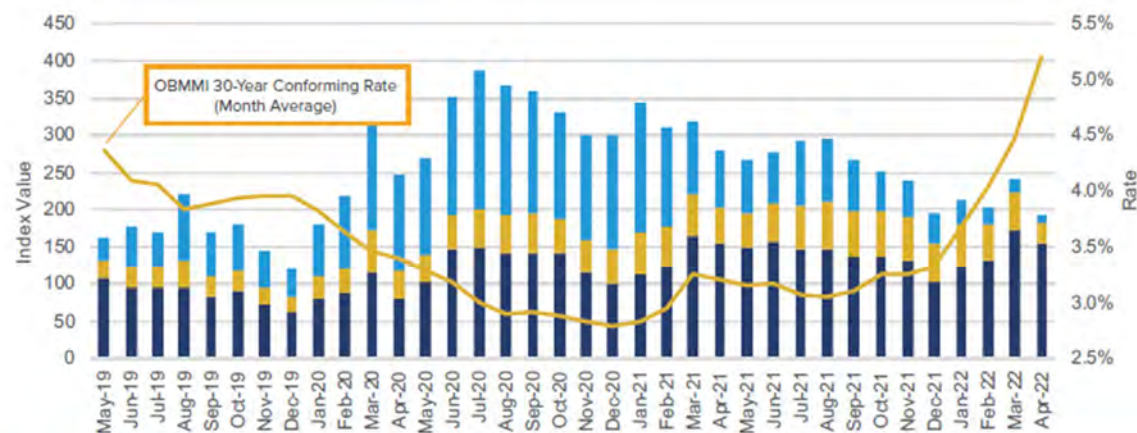






# Current State of the Mortgage Market



	Market Index	Current Rate	1-Month Delta	3-Month Delta	12-Month Delta
—	30-Year Conforming	5.42%	63 BPS	164 BPS	225 BPS
—	30-Year Jumbo	4.89%	52 BPS	144 BPS	168 BPS
—	30-Year FHA	5.28%	47 BPS	141 BPS	208 BPS
—	30-Year VA	5.08%	50 BPS	151 BPS	231 BPS

# Current State of the Mortgage Market

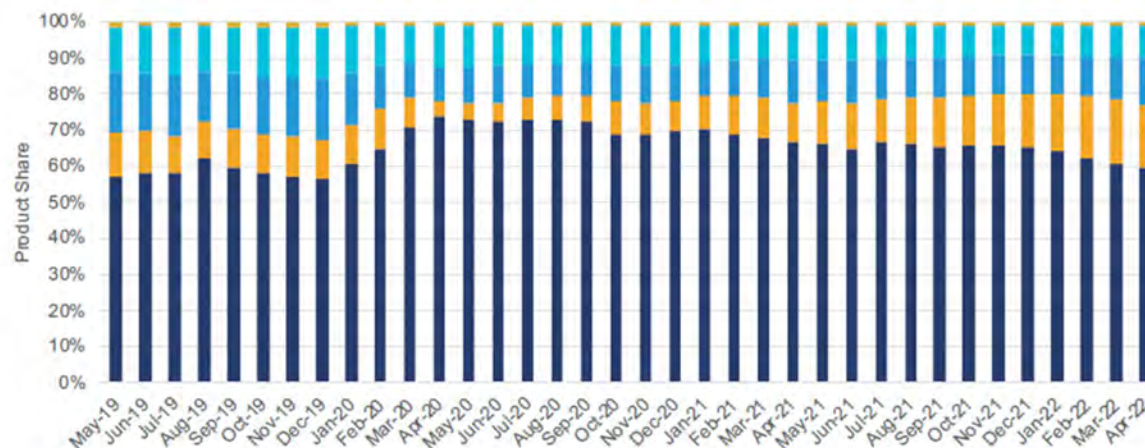







Market Volume Index (Total volume indexed to 100 in April 2018)		Current Value	1-Month % Change	3-Month % Change	12-Month % Change
	Purchase	154	(11.3%)	25.0%	(1.0%)
	Cash-Out Refinance	30	(40.3%)	(48.6%)	(36.7%)
	Rate/Term Refinance	10	(49.5%)	(71.9%)	(87.8%)
	Total	193	(20.3%)	(10.1%)	(31.2%)
Refinance Share*		20%	(804 BPS)	(2238 BPS)	(2432 BPS)

\*Refinance share changes reflect inter-period delta



# Current State of the Mortgage Market



Loan Product Mix		Current Value	1-Month Delta	3-Month Delta	12-Month Delta
	Conforming	59.7%	(112 BPS)	(436 BPS)	(732 BPS)
	Nonconforming	17.3%	(65 BPS)	110 BPS	671 BPS
	FHA	13.0%	129 BPS	230 BPS	131 BPS
	VA	9.3%	52 BPS	100 BPS	(44 BPS)
	USDA	0.7%	(4 BPS)	(5 BPS)	(26 BPS)





# Current State of the Mortgage Market

## Housing market shifting?

- Mortgage demand falls to the lowest level in 22 years amid rising rates and slowing home sales.
- Applications for a mortgage to purchase a home fell 7% for the week and were 21% lower than the same week one year ago.
- Refinance demand dropped 6% for the week and was down 75% year over year.\*

\*per MBA June 8, 2022



# Competing with Portfolio Lenders

NMLS ID# 149532



# Competing with Portfolio Lenders

## Secondary Market Pricing

- Secondary pricing moves with the market and has risen dramatically and quickly over the last 3 months.
- Competition for a shrinking number of loans means lenders shrink their margins.
- Lenders are doing everything possible to close deals.
- MFM and many credit union partners have already lowered margins.



# Competing with Portfolio Lenders

## Portfolio Pricing

- Portfolio Lenders typically don't go up or down as quickly as secondary market lenders in a chaotic market.
- Portfolio lenders may price off Cost of Funds.
- Secondary market commitments price rates off the 10-year treasury (plus\*).

\*Added margin varies but typically 200-250 basis points

# Competing with Portfolio Lenders

## The Credit Union controls pricing strategy on Portfolio loans

- Typically, Credit Unions working with CUSO's have priced portfolio loans consistent with secondary market pricing.
- In a low and stable rate environment dominated by rate and term refi's this has been a comfortable strategy.
- In an unstable rising rate market, this strategy is ineffective.
- In portfolio transactions in your partnership with MFM as the end investor in the loan you can set your price.



## Credit Union ARM Pricing Examples

NMLS ID# 149532





# Credit Union ARM Pricing Examples



## Note

All pricing examples were done on 6/14/2022 at a 500K Purchase Price, 20% Down Payment, 760 Credit Score and with no margin. The 30-year fixed rate was 5.875% on 6/14/2022.



# Credit Union ARM Pricing Examples



## Secondary Market ARM Rates

Product Description	Rate	Price	Lock Days
FHLMC 5/6 SOFR ARM	5.500%	99.875%	30
FHLMC 7/6 SOFR ARM	5.750%	100.000%	30



# Credit Union ARM Pricing Examples



## CU Portfolio Example 1

Product Description	Interest Rate	APR	Origination Fee
Five Year First-Time Homebuyer SOFR ARM (5yr/6mo) 30-Year Term	3.875%	3.698%	0%
Five Year SOFR ARM (5yr/6mo) 30-Year Term	4.000%	3.743%	0%

On a \$350,000 loan the first 5 years  
Represents \$425 per month savings  
over 30-year fixed rate @ 5.875





# Credit Union ARM Pricing Examples



## CU Portfolio Example 2

Product Description	Rate	Points
5/1 Year ARM	4.625%	0.125
7/1 Year ARM	4.750%	0.125
10/1 Year ARM	5.000%	0.125
5/5 Year ARM	4.625%	0
10/10 Year ARM	5.000%	0



# Credit Union ARM Pricing Examples

## CU Portfolio Example 3

ARM 5/5			
Term	Rate (as low as)	APR (as low as)	Estimated Payment per \$10,000
30 Years	3.875%	3.945%	\$47.02

The Adjustable Rate Mortgage (ARM) begins with a low, fixed initial rate, for the first 5 years (60 months), and then can adjust upward or downward every 60 months thereafter, starting with month 61. The rate can change at each adjustment period by no more than 3 percentage points up or down, never to exceed 5 percentage points above the initial rate. When the rate adjusts, your new rate will be the current index plus margin, as long as it does not exceed the 3 percentage adjustment cap. Your rate will never increase more than 5% from the initial rate.

# Credit Union ARM Pricing Examples



## CU Portfolio Example 3

Jumbo ARM 5/5			
Term	Rate (as low as)	APR (as low as)	Estimated Payment per \$10,000
30 Years	3.875%	3.908%	\$47.02

Loan amounts greater than \$647,200. The Adjustable Rate Mortgage (ARM) begins with a low, fixed initial rate, for the first 5 years (60 months), and then can adjust upward or downward every 60 months thereafter, starting with month 61. The rate can change at each adjustment period by no more than 3 percentage points up or down, never to exceed 5 percentage points above the initial rate. When the rate adjusts, your new rate will be the current index plus margin, as long as it does not exceed the 3 percentage adjustment cap. Your rate will never increase more than 5% from the initial rate.





# Credit Union ARM Pricing Examples



## CU Portfolio Example 4

### 3/1 TREAS ARM

Rate	Points	APR	\$/Month	Closing	Reserves	Available
4.500%	0	5.182%	\$2,027	\$6,998	\$8,891	\$400,000

### 5/1 TREAS ARM

Rate	Points	APR	\$/Month	Closing	Reserves	Available
4.750%	0	5.160%	\$2,087	\$6,998	\$8,977	\$400,000



# Credit Union ARM Pricing Examples

## CU Portfolio Example 4

### 7/1 TREAS ARM

Rate	Points	APR	\$/Month	Closing	Reserves	Available
4.875%	0	5.149%	\$2,117	\$6,998	\$9,020	\$400,000

### 10/1 TREAS ARM

Rate	Points	APR	\$/Month	Closing	Reserves	Available
5.000%	0	5.157%	\$2,147	\$6,998	\$9,063	\$400,000

# Credit Union ARM Pricing Examples



## CU Portfolio Example 4

Member Advantage 5/5 ARM						
Rate	Points	APR	\$/Month	Closing	Reserves	Available
4.875%	0	5.436%	\$2,117	\$7,001	\$8,997	\$400,000







# Types of Portfolio Products

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# Types of Portfolio Products

## Products

- 5/6, 7/6 and 10/6 SOFR ARM's
- 5/5, 10/10 and 15/15 ARM's

# Types of Portfolio Products

## SOFR ARM's

- Secured Overnight Financing Rate
- 30-Day Average SOFR: The 30-day average yield of the cost of borrowing cash overnight collateralized by the U.S. Treasury securities in the repurchase agreement (repo) market as published by the Federal Reserve Bank of New York
- SOFR + 3%
- After initial fixed rate period adjusts once every 6 months
- Initial adjustment 2% maximum
- Additional adjustments 1% maximum
- Lifetime 5%

# Types of Portfolio Products

## Selling SOFR

- Secondary Market SOFR ARMS are not competitively priced
- Portfolio SOFR's priced well can help members have a more affordable payment
- Periodic and Lifetime Caps
- Lower fixed rate can equal a much lower payment for the fixed rate period



# Types of Portfolio Products

## Products

- 5/5 ARMS
- 10/10 ARMS
- 15/15 ARMS\*

Index US treasury

- 5/5      2.2.5
- 10/10    2.2.4
- 15/15    6

\*(15/15 still considered ARM product by Regulators?)

# Types of Portfolio Products

## Selling 5/5, 10/10, 15/15 ARMS

- Lower rate and payment for the initial fixed rate period
- Fewer adjustments than 5/1 treasury ARMS or the SOFR ARMS
- Many CU' are pricing the 15/15 at the same rate as a 15-year fixed rate product
- Typical loan stays on books less than 7 years –more protection for borrowers and rate protection for credit unions



## Attracting Realtors with Portfolio Products

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# Attracting Realtors with Portfolio Products

## Gaining an Audience with Realtors

- Provide the realtor with something they need that they can't get currently
- Don't talk about what you can offer until you know what they need
- Competitive Rates
- Non-saleable products can give the CU a competitive advantage (balance credit risk with a "usable" product by setting your own parameters)
- The goal is to gain the realtors attention with a unique product...then obtain other more conventional product referrals from those realtors



# Attracting Realtors with Portfolio Products



## Product Example: Non-Warrantable Condos

- A large Wisconsin Credit Union in a college town struggled to obtain realtor referrals.
- After inviting realtors to a “wine” meeting they found realtors were struggling to find an outlet for non-warrantable condos.
- The Credit Union put together a portfolio product to solve the issue.
- The loans performed well and now the Credit Union is one of the leading mortgage lenders in the area and very popular with realtors for all types of products.



# Attracting Realtors with Portfolio Products

## Product Example: High LTV, No MI

- A mid-size Credit Union offered 90% LTV, no MI and eventually went to 95% NO MI.
  - On a \$300,000 loan could save the borrower approximately \$255 per month on their payment
- Minimum credit score 720/DITI max 43%/3 months reserves.
- The Credit Union reached out to local realtors and began receiving referrals.
- After 3 years the Credit Union delinquency rate for this product was under 1%.

# Attracting Realtors with Portfolio Products



## Product Example: High LTV, With MI

LTV/Loan Amount/Credit Score/DTI Requirements – Fixed-Rate/Fixed-Payment and ARM's ≥ 5 Years

Program	Occupancy	Transaction Type	Property Type	LTV	Max Loan Amount	Minimum Credit Score	Max DTI
Community Experts	Primary Residence	Purchase	1-Unit, Detached, Attached, Condos	97.01% - 100%	Agency Loan Limit	740	41%
Community Heroes				97.01% - 99%			

Exceptions are not allowed to any program underwriting requirements, including DTI and/or credit score.



# Attracting Realtors with Portfolio Products

## Product Example: High LTV, With MI

### Community Experts

- CPA's
- Ph.D's
- Architects
- CMB's (Certified Mortgage Bankers)
- Actuaries

### Community Heroes

- Teachers
- Fire Department
- Law Enforcement
- Medical Care
- Military Personnel

The following coverage options are available: 35%, 30%, 25%, 20% and 18%.



# Attracting Realtors with Portfolio Products



## Product Example: Jumbo Loans with Competitive Rates

- A large Credit Union began offering Jumbo's at .25% in rate below the secondary market rate.
- High credit scores, 80% or less LTV, and used Approved/Ineligible findings with DU documentation.
- After time, the real estate community in that Jumbo market began referring their clients.



# Attracting Realtors with Portfolio Products

## Product Example: One Time Close Construction Product

- One Closing for both interim construction & Permanent loan
- Less overall closing fees
- Interest only on draws made during interim phase
- Modification after construction is complete

# Adding Portfolio Products to your Blue Sage Profile



- **Standard ARM products or pricing adjustments can “usually” be added in 10 days or less**
- **5/5, 10/10, 15/15 and SOFR ARMS are already built**
- **“unique non-saleable products may take 30-60 days to add**

Reach out to your Sales Executives  
for more information or to discuss  
product and pricing strategies





## Cross Selling & Asking For Business



# Cross Selling & Asking for Business

## Cross Selling

- Share information with your other departments.
- Offer HELOC's/Refi Car Loans/Credit Cards/Deposit Accounts/Investments.
- Expect other departments to reciprocate.

# Cross Selling & Asking for Business

## Ask for Business

- Best time for member referrals is after a successful mortgage transaction.
- Thank the realtors (both listing and selling) and ask for more referrals.
  - Good opportunity to mention any unique products or features you have
- Utilize the Realtor Report in MFT site.



Reach out to your Sales Executives  
for more information or to discuss  
product and pricing strategies

**THANK YOU!**

# Our Mission and Cores Values

## Mission

- **At Member First Mortgage our mission is simple: Deliver expert mortgage solutions!** We aim to provide communication that creates a proactive, efficient environment to anticipate changes within the market, support growth, and better the communities we serve.

## Core Values

- **HONEST AND ETHICAL:** Consistently Striving to achieve the highest standards.
- **UNITED, SUPPORTIVE, RESPECTFUL COMMUNICATION:** Working collaboratively to support decisions and each other, while practicing active listening and transparent communication
- **LEVERAGING OUR EXPERTISE:** Achieving operational excellence through continuous education efficiencies.
- **OFFERING THE BEST EXPERIENCE AND A COMPLETE SOLUTION:** Being the Mortgage lender of choice for our members and Credit Union partners.

# Contact Me

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