

Retaining Servicing Rights:

Depending on the Membership Model, Credit Unions Have Options on Mortgage Servicing Strategies

So much of credit unions' lending focus has been placed on growing the market share of mortgage originations. During the past 10 years that percentage has increased substantially—from about 2% to nearly 10%—as credit unions have enjoyed a wonderful ride, helped by Big Banking's miscues and the personal member service (along with the best loan fits) CUs consistently provide.

But mortgage originations are not the only thing that has been growing for credit unions. The number of mortgage loans being serviced by CUs has also increased. More and more credit unions have chosen to retain the rights to service loans even when they are sold on the secondary market.

Recently, ACUMA Consultant Tracy Ashfield had the opportunity to talk to the Chief Executive Officers of two of the leading credit unions in mortgage lending. Each CEO has chosen to actively use the secondary market, but each has also decided to retain the rights to service their sold loans.

Both CEOs believe their decision to retain the servicing rights has had a positive impact on growing their mortgage market share and serving more of their members' mortgage needs. Due to their differing fields of membership, each CEO has chosen a different way to handle the operational responsibilities for mortgage loan servicing.

What follows is a Q&A with each CEO, Kim Sponem at Summit Credit Union based in Madison, Wisconsin, and Mike Valentine at Baxter Credit Union, based in Vernon Hills, Illinois. We hope you have the opportunity to read and compare their servicing operations, and find helpful information for your own credit union.



Keeping the Operation In-House—and Local

KIM SPONEM, who answers the questions below, has been the President/CEO of Summit Credit Union for 16 years, leading the credit union in growth from \$210 million in assets to more than \$3 billion. She has led the organization through seven mergers and two name changes while maintaining high employee satisfaction scores as measured by an outside firm. Summit has 180,000 members and 35 branches in Wisconsin. The CU has won awards for best credit union to do business with, best training programs, best place to work and more.



Kim Sponem

Q. I understand that around 1990-2000, you made a very deliberate decision to build a real estate lending model that included local, in-house servicing of your mortgage loans. Can you discuss the reasons for your decision?

A. Selling loans servicing-released was confusing for our members. They thought they were getting their loan from us and instead, they could not

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Two Paths



Outsourcing to a 'Good Fit' Sub-Servicer

MICHAEL G. "MIKE" VALENTINE, who answers our questions below, has been President & CEO of Baxter Credit Union since 1994. Valentine began his credit union career in 1984 when he joined BCU as Manager of Lending & Collections. His collaborative, team-based management style has guided BCU's growth to more than 200,000 members and \$2.5 billion in assets. Topping the list of Valentine's strategic achievements are successfully transitioning BCU from a single corporate sponsor to a select employer group (SEG-based) institution, and setting new standards for bringing together technology and personalized service. He began his career in the financial services industry in 1981 with Household Finance.



Mike Valentine

Q. You have a very successful mortgage program serving members in every state. You have chosen to use a sub-servicer to handle your mortgage loan servicing. Can you discuss the reasons for your decision to outsource this aspect of the business?

A. With operations in all 50 states and in Puerto Rico, we felt that building out the infrastructure and systems needed—along with all the compliance, regulatory and risk management pieces—that it made more sense to leverage others, where all those pieces are in place, and a core busi-

ness. If we only operated in one state, we may have thought differently.

We felt the costs for sub-servicing were still reasonable compared to building out all the systems, staff and processes needed, particularly when you consider all the federal and state regulatory changes that have been implemented over the last several years.

Having an industry-rated servicer has also helped to make it easy to add other investors and have the ability to retain servicing on those loans. Within BCU we outsource other key aspects of other services and product support, so the concept of having other business partners helping us is not new for BCU.

Being part of CU Servnet, which is a CUSO that our loans are serviced

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In-House—and Local

call us with questions once the loan was closed.

We wanted to keep the relationship with the credit union and be able to help our members through their questions. We also wanted to keep a stronger connection with our members for repeat business.

When we looked at how managing a servicing portfolio worked, we realized we needed to build the portfolio quickly to get a level of profitability. We put together an aggressive marketing strategy along with the servicing capability.

It all paid off. We stuck out in the market with local servicing. Members and future members loved it. Word of mouth took off. When a refinance boom hit shortly after our implementation, we were getting members' repeat business.

As rates continued to decrease, we were refinancing our members' loans, keeping the business with us while



Selling loans servicing-released was confusing for our members. They thought they were getting their loan from us and instead, they could not call us with questions once the loan was closed.



it's impacted your cost to service mortgage loans in house?

A. The initial impacts of these changes created a sense of anxiety because of the time and cost to change systems, train our team and educate our members. We have come to expect change and have a good process for identifying upcoming regulatory rule changes.

And we are proactively working with our partners to minimize the costs and member impact.

With that said, it has increased our costs to serve our members, and some of those changes have come with unintended consequences.

We have worked on improvements

to our automation that make the long-term impact less of an issue. As we work to simplify the regulations through grassroots efforts, some of these bigger impacts may become more member- and CU-friendly.

gaining other business with them such as checking and credit cards.

Our servicing portfolio grew quickly and reached a level of profitability, and the growth has continued ever since.

Q. Over the past five years we have seen an unprecedented level of servicing-related regulations coupled with increasingly intense requirements for servicing secondary market loans. How has this impacted the credit union, and do you feel

Q. You are a real estate market-share leader in your market. Do most of your competitors offer local servicing, and if not, do you think it's a differentiator for you?

A. We are the number one mortgage lender in two counties now, and we are the third leading lender in one county. We were one of the few in our market for a long time with servicing-retained mortgages.

Slowly, competitors followed. Some did a combination of servicing-released and servicing-retained. We wanted to be able to assure our members we were not releasing the servicing and we were servicing in-house rather than using a sub-servicer. That is a differentiator.

Local servicing for our mortgages is now one of many advantages members receive when they get their loan through Summit Credit Union.

Q. Do you focus on your local servicing in your home-loan marketing and messaging?

A. Absolutely. For those who have had the frustration of their mortgage servicing being sold, they look for this language and understand the frustration that can happen when their mortgage is bounced around, often sold many times during the life of the loan.

For new homeowners, we explain the benefit of local servicing. This is part of our mortgage loan officer dialogue with our members.

Q. Lastly, what is your total servicing volume, broken down between loans serviced for others and those you service for secondary market investors?

A. We currently service 12,484 member loans for Fannie Mae and our in-house portfolio of member mortgages is 5,686. We love servicing the mortgage loans for these 18,000 members, and doing it locally.



For new homeowners, we explain the benefit of local servicing. This is part of our mortgage loan officer dialogue with our members.



Outsourcing—with CUSO

under, has also allowed us to focus on tailoring the servicing experience to be member-friendly. This benefits the credit union, and all the credit unions that use the CUSO.

The CUSO has a dedicated call center specifically for CU loans that provides broader coverage across time zones, allowing us to serve members from 6 a.m. EST to 10 p.m. PST. We are also looking at expanding that dedicated group to include loss drafts on insurance claims, and a member experience team that calls to close the loop on items that don't get resolved on the first call. The CUSO also supports private label servicing as we have multiple brands for the SEGs we serve. BCU is very committed to personalizing our services to individual SEG needs.

The CUSO uses the Net Promoter Score (NPS) survey process which helps to give us ongoing feedback from the members and serves up the ideas for what we need to be working on next.

Q. How has this servicing model been perceived by your members?

A. It has been well-received. I think many members know that we have a partner helping us to service the loans even though it is branded as BCU. They also know they can get help directly from our branch staff and real estate servicing group, as well.

Q. How much involvement does your staff have with members on servicing-related issues?

A. We have a real estate servicing group in our office, as we service all

“We felt the costs for sub-servicing were still reasonable compared to building out all the systems, staff and processes needed, particularly when you consider all the federal and state regulatory changes that have been implemented over the last several years.”

of our home equity loans in-house, so they also get some first mortgage questions. We have a great working relationship with CU Servnet and access to the first mortgage servicing system. This allows us to see loan details and the status of loans. We don't get a lot of calls, but we can help our members that do call and ask us for help or to verify information on their account.

Q. Do you feel that by outsourcing servicing, you have been able to focus more on origination and fulfillment? In other words, do you think it has helped you grow market share?

A. Yes, I do. I also think that it has helped us to provide the experience our members expect, and it improves retention, as well. Being able to move into new markets quickly and not be worried over any unique or state-specific laws or compliance issues has been great. Adding new products is also something that has not been a concern or slowed us down due to learning or building out any specific servicing requirements.

Q. What advice would you give other credit unions that are thinking about using this servicing model?

A. Pick whatever path you feel is right for your organization. With operations in many states we felt that it would have just been too much for us to build this out as fully as you need to, and that we could leverage those who do it exclusively.

Servicing has become a very regulated side of the business, and we wanted to minimize our risks on that side to allow us to focus more on the origination side.

Q. Lastly, what is your total servicing volume, broken down between loans serviced for others and those you service for secondary market investors?

A. Our total first mortgage servicing today is 16,300 loans for \$3.4 billion. We have 12,800 loans that we have sold to Fannie Mae and a few other investors, where we have retained servicing rights. We have 3,500 in-portfolio first mortgage loans. ▲

SERVICING TERMS

Here are definitions of terms used in mortgage servicing.

SERVICING: The tasks a lender performs to protect the mortgage investment, including collecting monthly payments, managing the escrow accounts, monitoring and dealing with delinquencies, and overseeing foreclosures.

SECONDARY MARKET: A market where existing mortgages are bought and sold. The two largest players are the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). There are also individual mortgage conduits to the secondary market. Loans sold to the secondary market must meet certain requirements.

SERVICING RELEASED: Sale of the rights to service a loan when the loan is sold into the secondary market.

INVESTOR: The party that owns the mortgage loan.

SALE OF LOAN: The selling of the mortgage in the secondary market.

SALE OF SERVICING: The sale of the servicing rights.

SUBSERVICING: An arrangement whereby the lender retains ownership of the servicing rights but enters into an agreement with a mortgage servicer to perform the servicing function.