

Leveraging the Mortgage Event Market Research Results

Prepared for:

Florida CUREN

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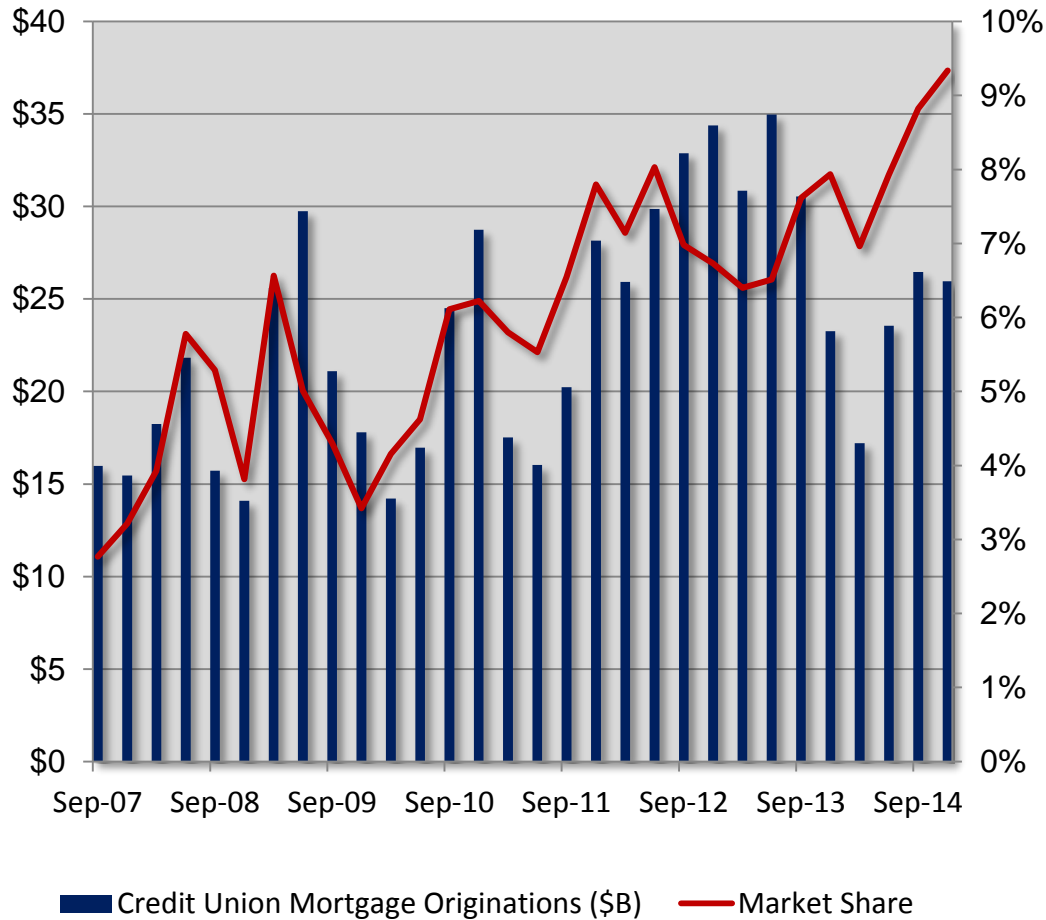
Joey Allen



CURRENT MORTGAGE TRENDS

Credit unions have gained market competitiveness

Credit Union Market Share Trends

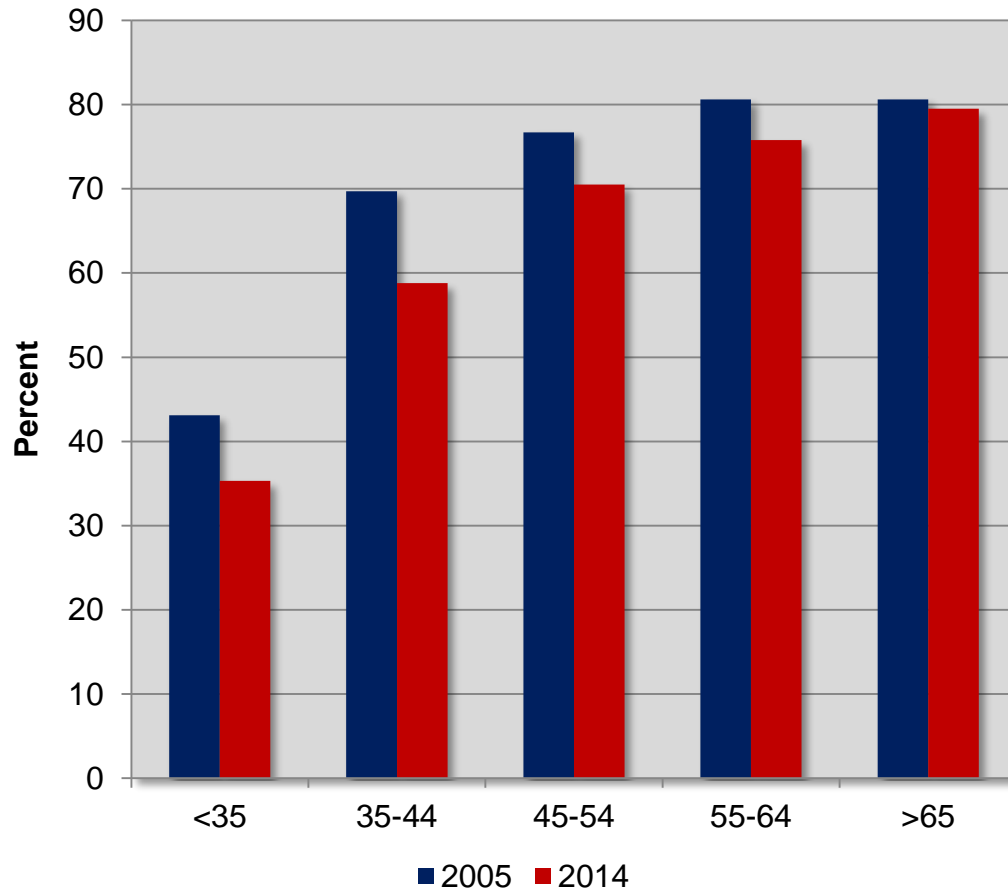


- Balance sheet liquidity can be a powerful tool
- Improved performance in purchase-oriented markets
- Provide products that members need

Source: NCUA, MBA

There has been a delay in household formation

Homeownership Rates by Age



- Young consumers have had difficulty purchasing homes
- According to Moody's Analytics, millennials are increasing consumption
- While only 24% of 18-29 year olds own homes, 60% plan to buy according to the Demand Institute

Source: Census Bureau

Millennials to Enter Housing Market

Goldman Sachs

DATA STORY
MILLENNIALS

✉ f t in G + MORE



HOUSING

As Millennials enter their peak home-buying years, their reluctance to enter the housing market could change. The cohort's sheer size, plus its desire to settle down in the future, could lead to a surge in home sales.

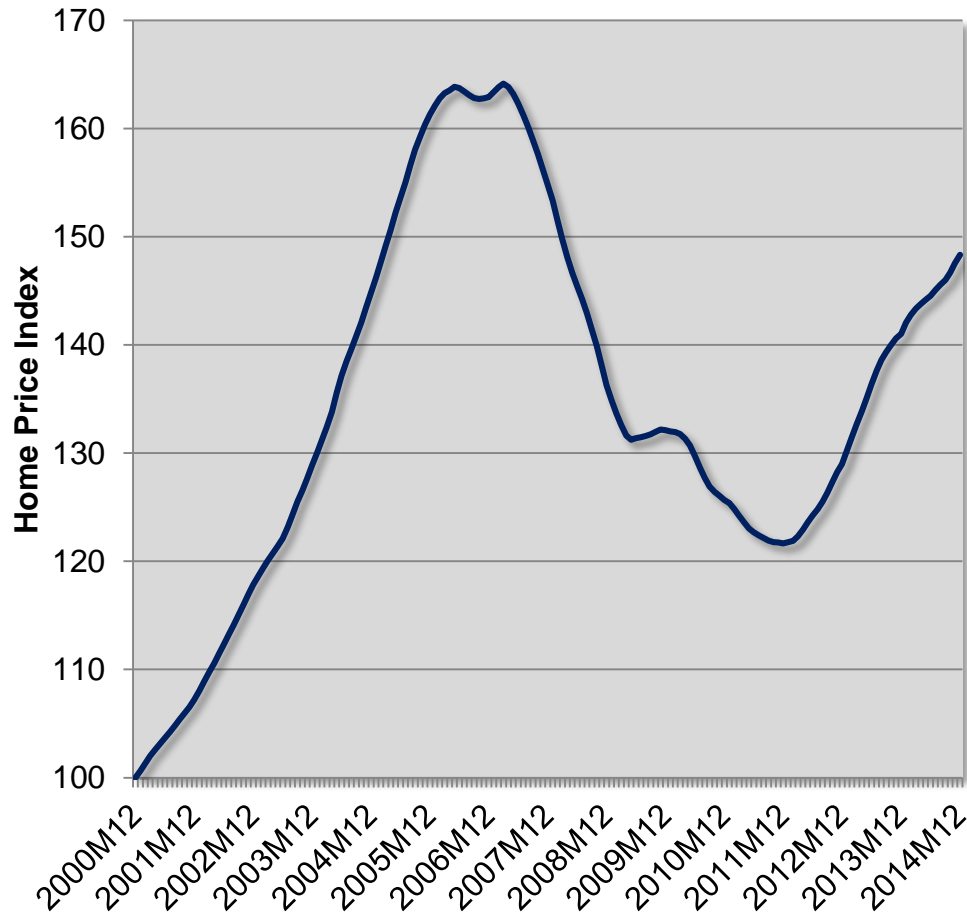
PEAK HOME-BUYING YEARS

25_{y/o} → 45_{y/o}

Source: Goldman Sachs Global Investment Research

Home prices are rising again

Freddie Mac House Price Index



- Home prices are rising and gaining back half of the losses experienced since the Great Recession
- Creating refinance opportunities with still-low rates

A SHORT QUIZ

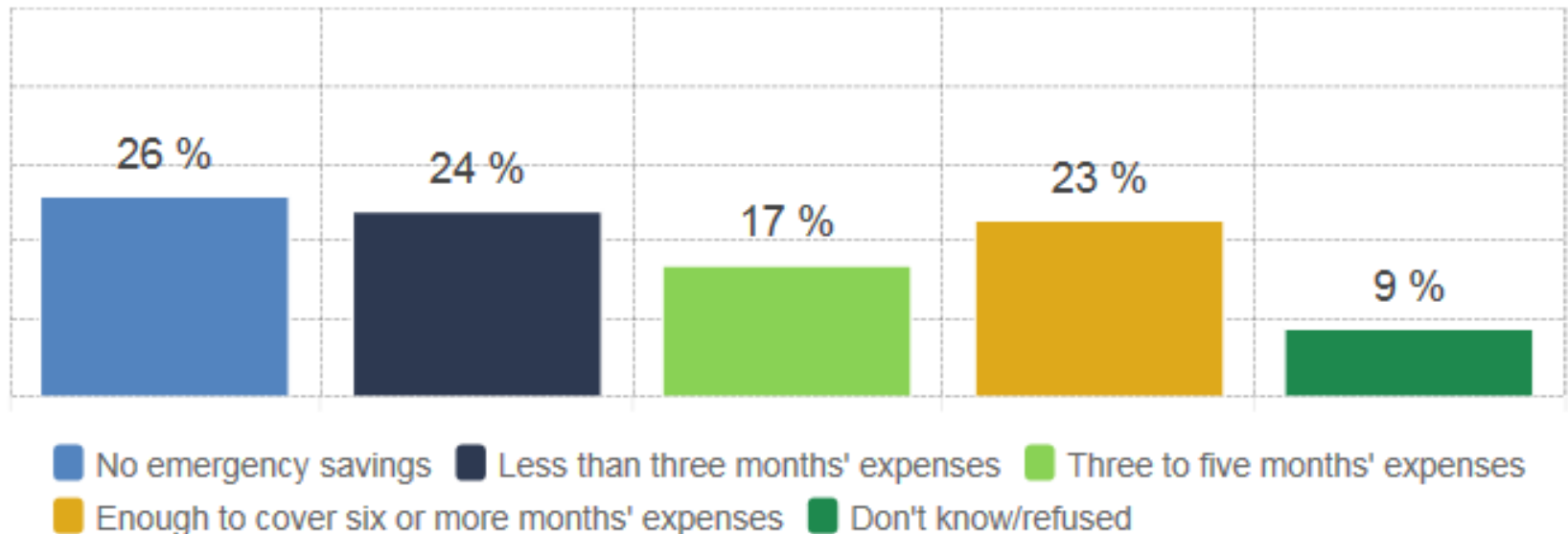
% of Americans who have no emergency fund to fall back on when the unexpected happens:

- a. 5%
- b. 7%
- c. 26%
- d. 47%



Financial Security Index: Saving for a Rainy Day

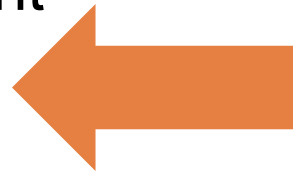
How much do you have in emergency savings (i.e., money that is readily available in either a checking account, savings account or money market)?



Source: Bankrate.com Financial Security Index survey, June 23, 2014

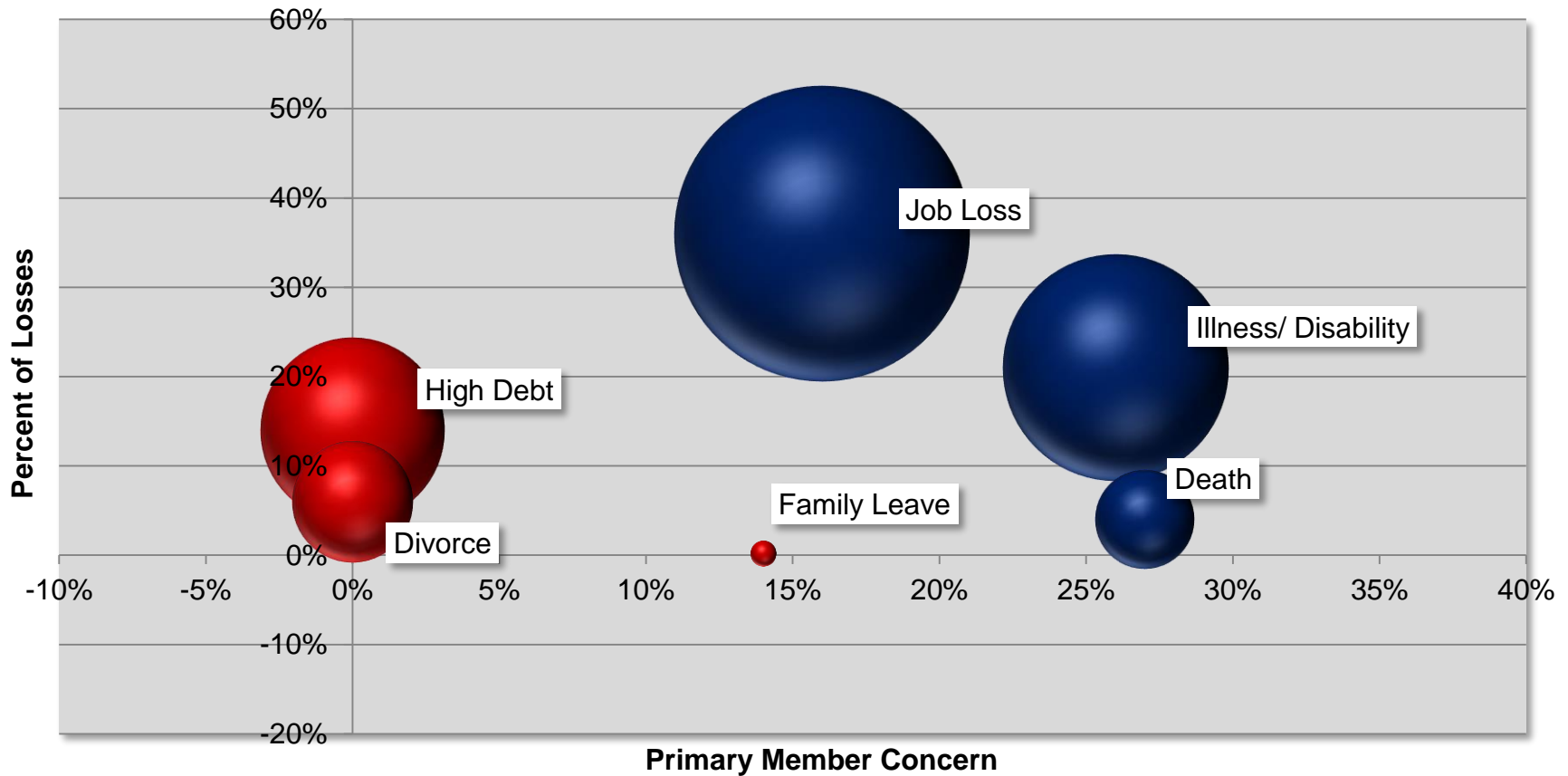
These are among the top most serious life events known to cause borrowers to lose their home.

- a. Disability
- b. Death
- c. Divorce
- d. Involuntary Unemployment
- e. All of the above



Credit Losses and Member Misfortune

Causes of Credit Losses



Source: CUNA Mutual Group, 2008 VOC Study

Q&A

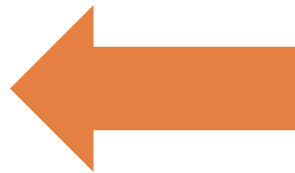
Portion of credit union loan portfolios that are real-estate loans.

a. 20%

b. 30%

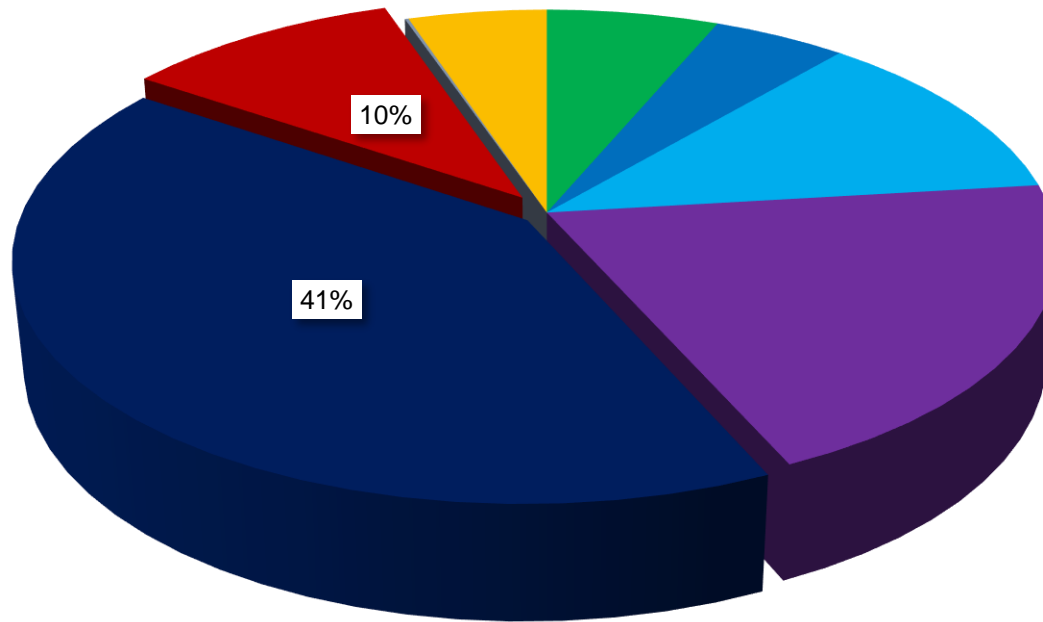
c. 40%

d. 50%



The story of CUs in the Mortgage space

Credit Union Loan Portfolio Composition



- Credit Card
- Unsecured Loans
- New Vehicle
- Used Vehicle
- 1st Mortgage
- Other Real Estate
- Leases
- Other

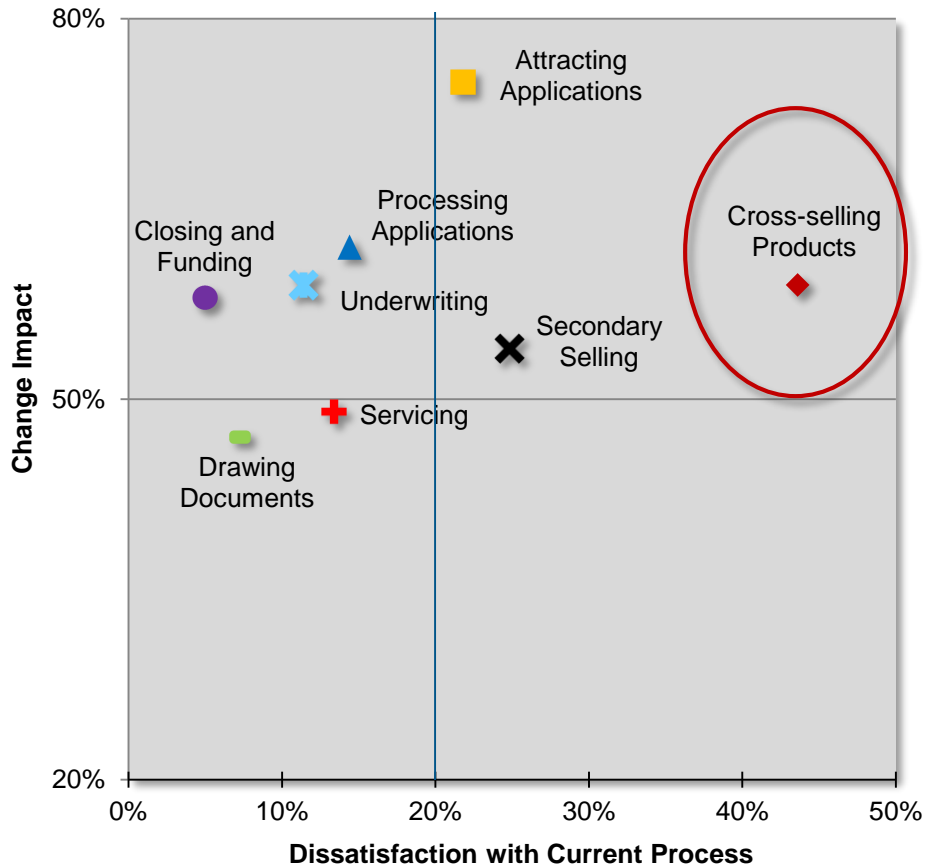
Source: NCUA

MARKET RESEARCH RESULTS

Credit Union Survey: Primary Mortgage Needs

When asked about specific process steps, significant improvement needs were uncovered

Mortgage Needs

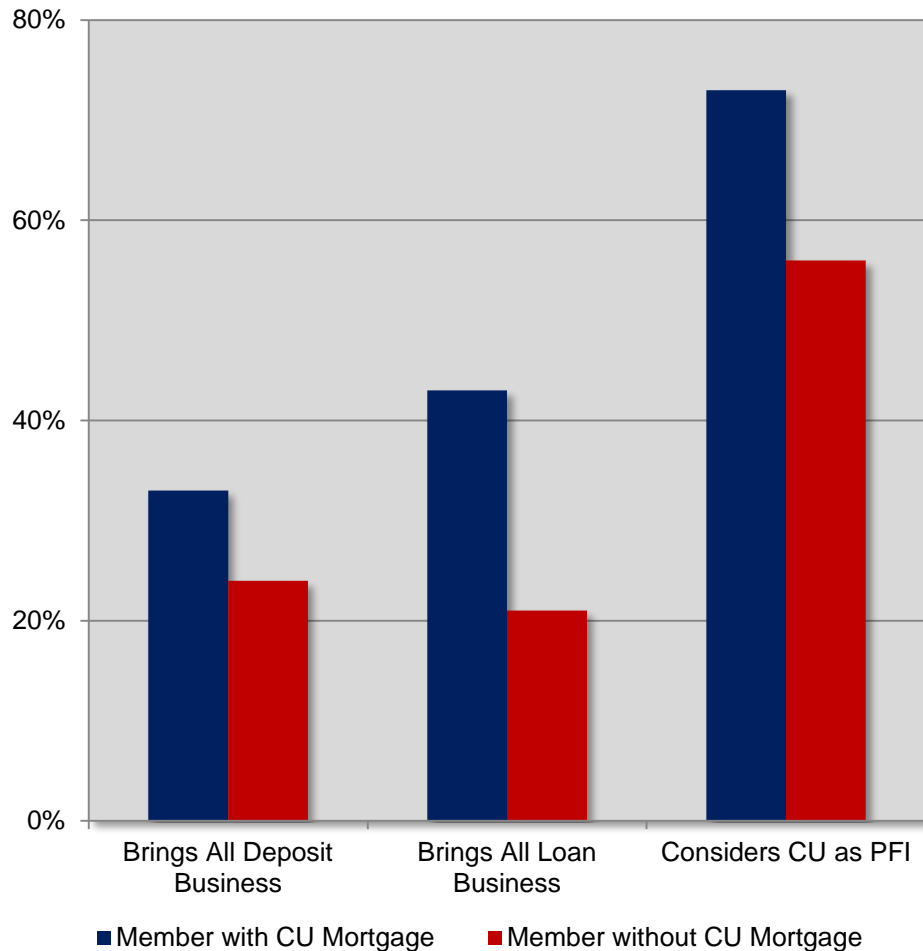


- Cross-sell improvement is the greatest need mentioned by mortgage-lending credit unions
 - Dissatisfaction with current capabilities is highest with this process step
 - Change impact is relatively high with improvement

Source: VOC Research, 2012—Percent of respondents scoring 5-7 (Improvement Very Important) and 5-7 (High Change Impact on Future Business)

Credit Union Survey: Leveraging Mortgage Lending

Importance of Mortgage Transactions



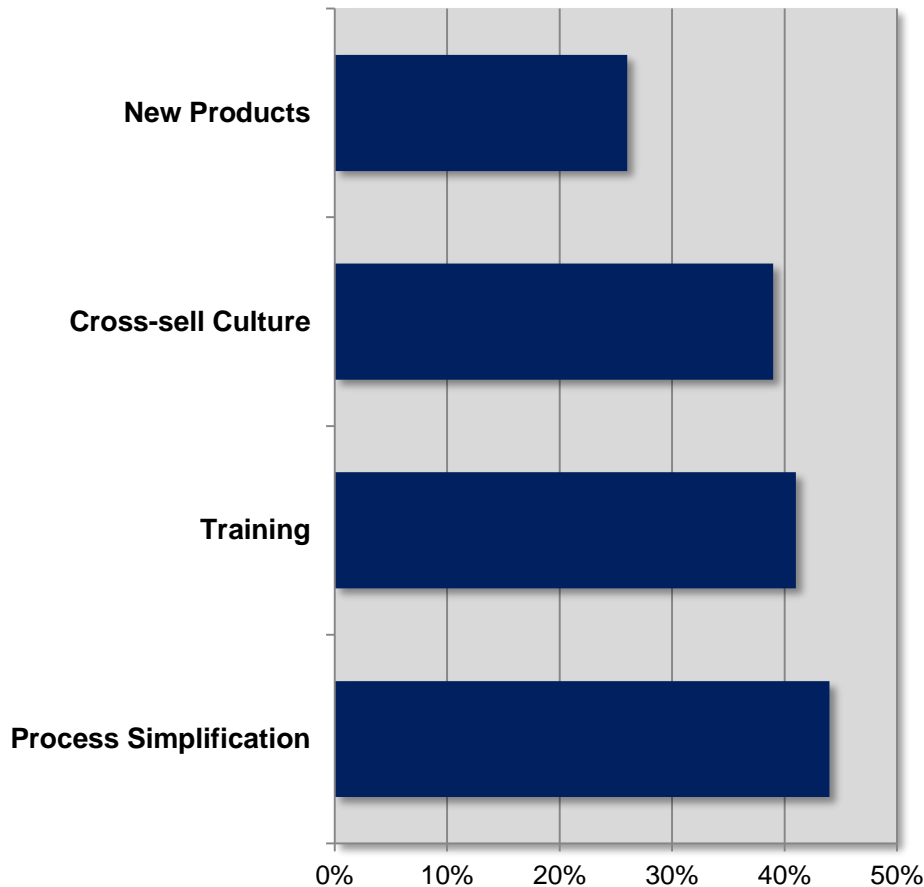
- Mortgage transactions lead to PFI relationships and more business
- Radon's Conclusion: Real estate lending is the most effective platform for cross-selling other products

Source: Radon Financial

Credit Union Survey: Cross-sell Solution Needs

Survey respondents evaluated action steps that could lead to the highest value impact

Stated Improvement Needs

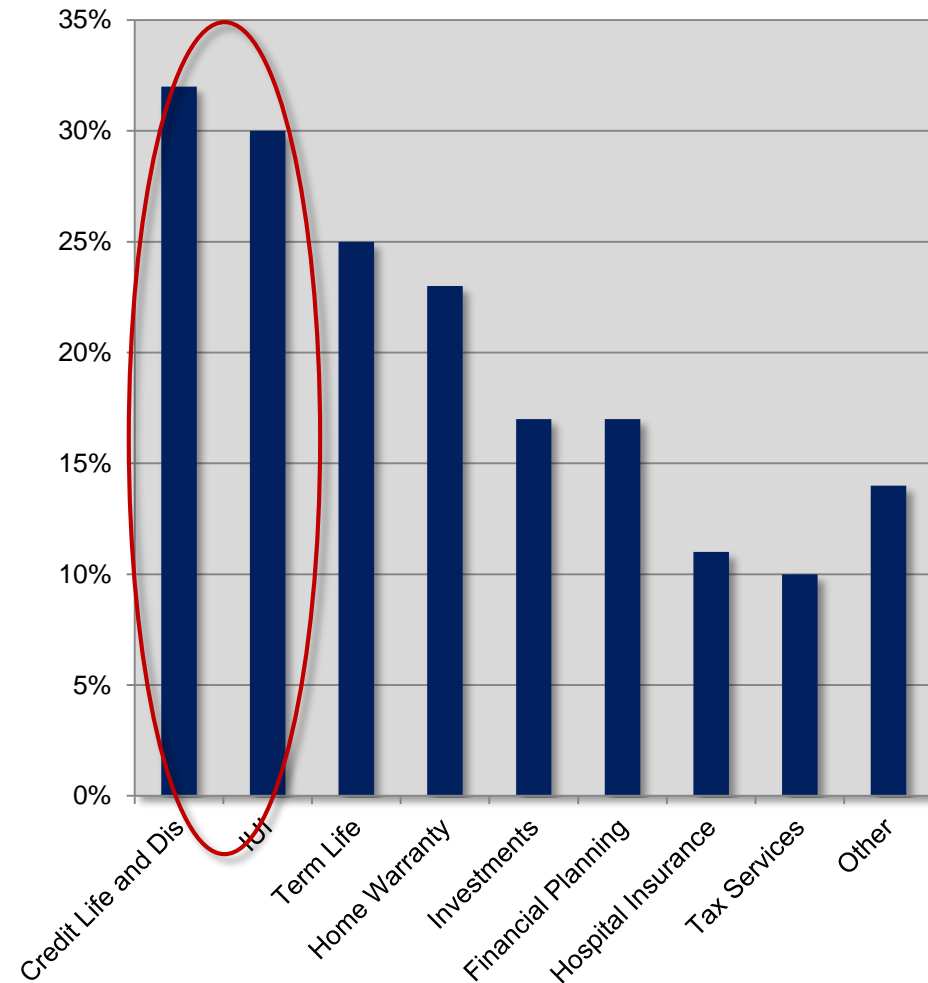


- Improvement requirements that were frequently mentioned received further consideration
- For cross-sell, the most mentioned needs were:
 - Help to simplify, or design, offering processes
 - Loan officer and processor training
 - Establishment of a cross-sell culture
 - New products to cross-sell
- The need is for a solution that incorporates a process, coaching and products to cross-sell

Source: VOC Research, 2012—Percent of respondents scoring 5-7 (Improvement Very Important)

Credit Union Survey: Cross-sell Product Needs

Cross-Sell Products Mentioned



- Most often mentioned product needs were member protection over:
 - Death
 - Disability
 - Involuntary Unemployment

Source: VOC Research, 2012

Secondary Research: Consumer Financial Need

- 44% of borrowers would like to receive information about insurance products when they take out mortgages—half never receive an offer
- 39% of Americans say they “probably” or “certainly” could not come up with \$2,000 if an emergency occurred
- More than 60% of Americans have no emergency funds
- More than seven in ten workers say if they lost their job, they could go no more than four months without experiencing severe hardship
- 77 million Americans, or roughly 35% of consumers with credit files, have a debt in collections

Sources:

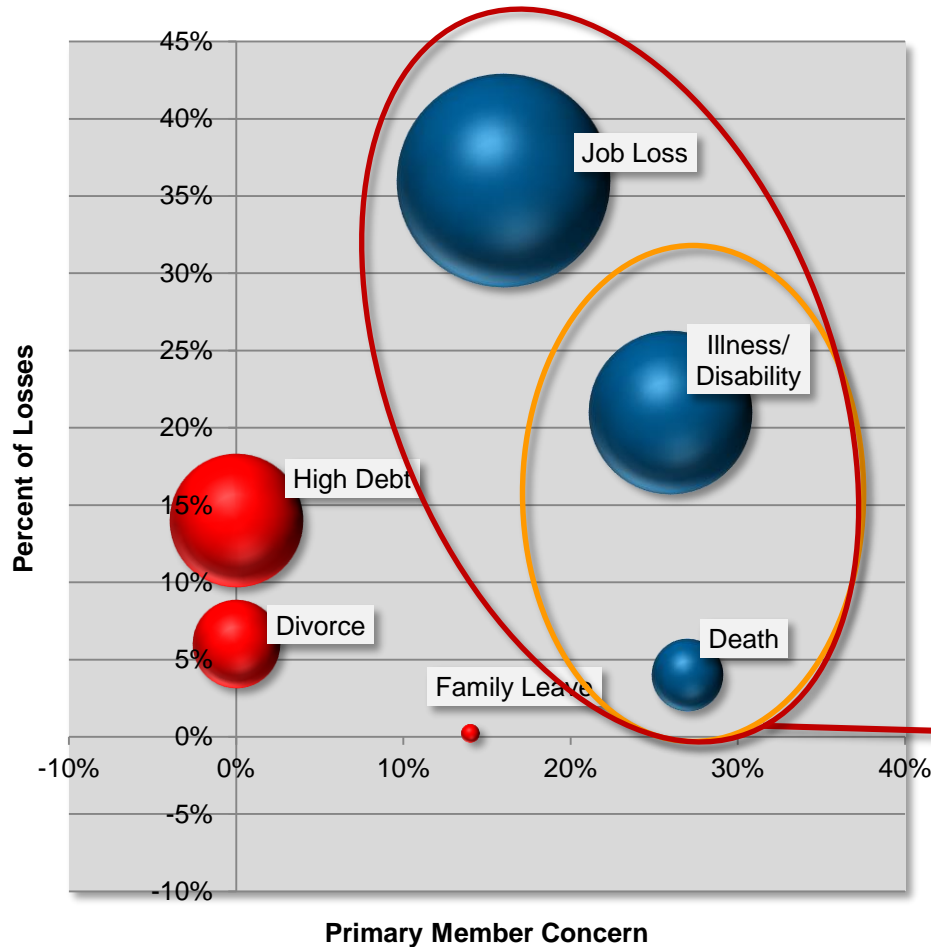
Accenture Digital Banking Survey, 2014
FINRA Investor Education Foundation, 2013
Federal Reserve, 2014
Gallup's Economy and Personal Financial Poll, 2013
Urban Institute Study, 2014

Member Survey: Primary Success Criteria

1. Coverage over the main risks associated with credit losses
2. Easy-to-acquire coverage and a simple offering process
3. Affordable protection

Member Survey: Multiple Event Coverage

Causes of Credit Losses



- While death is a primary concern of many members it doesn't often result in credit losses
- Job loss and disability more often lead to erosion of financial health
- These three risks—death, disability and job loss—are significant concerns to members

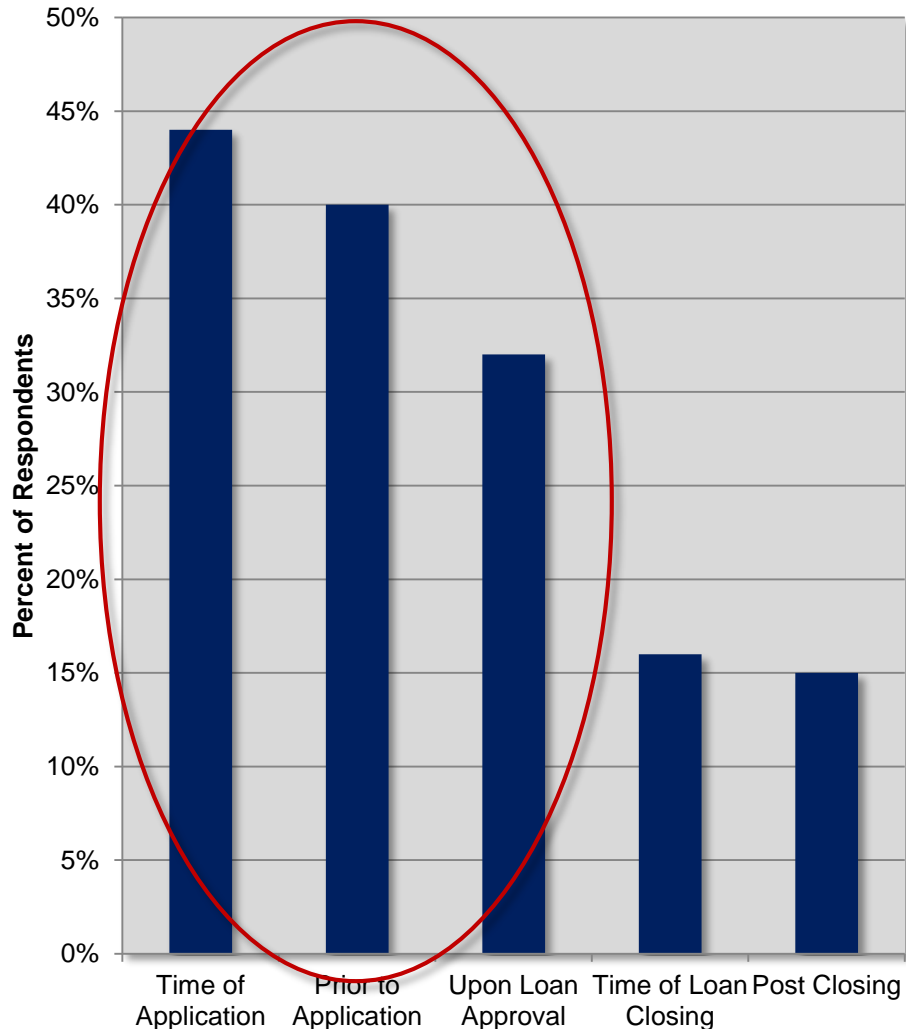
Two-Product Options:

- **Three perils**—Death, Disability, and Involuntary Unemployment
- **Two perils**—Death and Disability only

Source: VOC Research, 2007, 2012

Member Survey: Ease-of-use

Preferred Offering Approaches



“The last thing a loan officer wants to do after taking a mortgage app—which, by the way, can take an hour—is to tell the member there’s another complicated product they have to talk about. The loan officer needs simplicity. The objective is to close a loan and complexity works against that.”

- A Credit Union Loan Officer



- Members prefer to be cross-sold at the point of mortgage application
- However, the application process is complicated and adding complexity can jeopardize loan closings
- Therefore, loan officers have powerful, but limited, opportunities to cross-sell, but only if the product is simple

Source: VOC Research, 2012

Member Survey: Ease-of-use (cont'd)

- One-page insurance application
- No physical exams or health questionnaires
- Rates are easy to determine
- Only four Eligibility Questions (below)

ELIGIBILITY REQUIREMENTS:

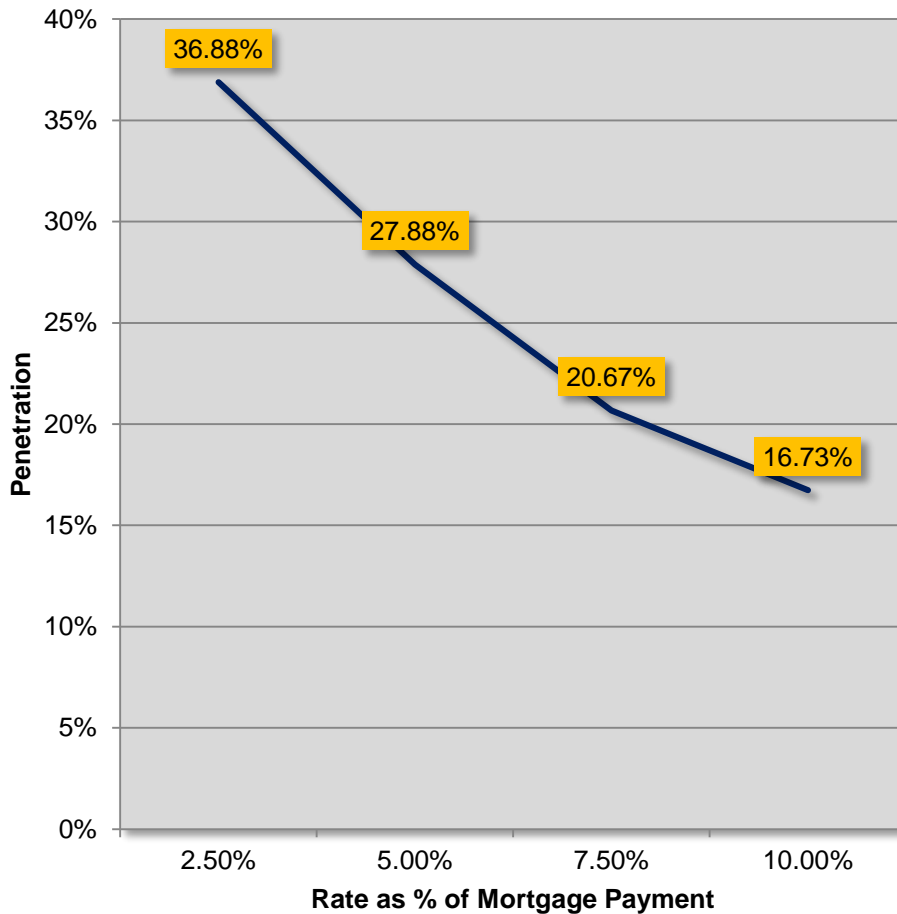
You are eligible for this insurance if You satisfactorily answer the Evidence of Insurability Questions below, and You have not attained the Maximum Issue Age provided in the Schedule as of the date You sign this application.

EVIDENCE OF INSURABILITY QUESTIONS	Mark Each Box as Appropriate	
	Borrower	Co-Borrower
1. In the past [3] years, have You been treated for, or told by a licensed physician that You have or had cancer, heart disease, a stroke, diabetes, lung disorder, kidney failure, Acquired Immune Deficiency Syndrome (AIDS), or AIDS Related Complex?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. In the past [3] years, have You been treated by a licensed physician for alcohol or drug use, a back disorder, or any mental or nervous disorder?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
3. Have You received verbal or written notice before the Effective Date of Insurance shown in the Schedule of Your impending termination of employment?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Have You been actively at work, in the full performance of all the essential functions of Your own regular occupation, for one employer, for which You are not a Controlling Stockholder, for wages or profit, for at least [30] hours or more per week for [12] consecutive months prior to and on the Effective Date of Insurance?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

IF YOU ANSWERED “YES” TO QUESTION 1, 2 or 3 or “NO” TO QUESTION 4, YOU ARE NOT ELIGIBLE FOR INSURANCE

Member Survey: Affordability

Life and Disability



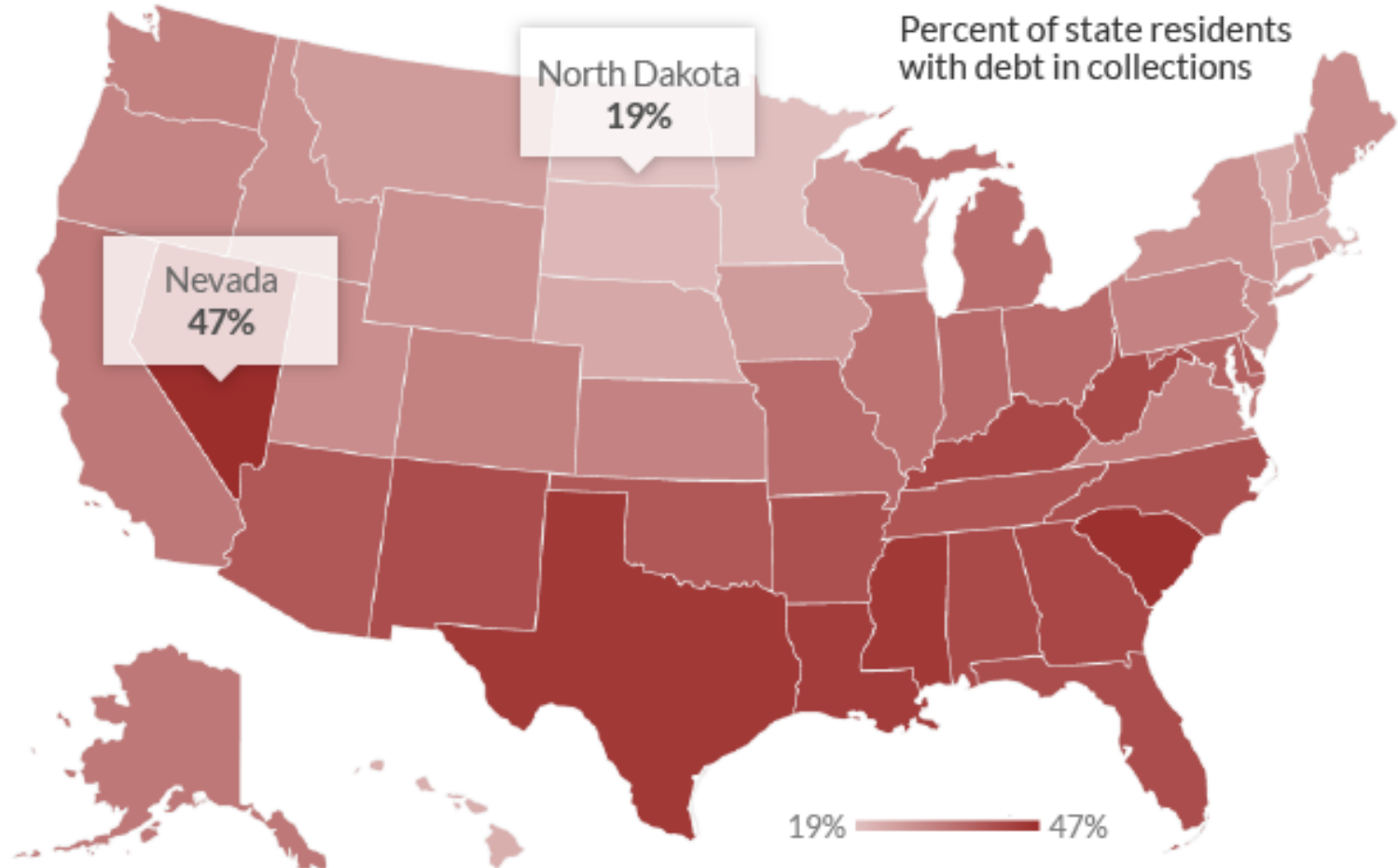
- ❑ Members shop and forgo coverage at higher rates
- ❑ High target benefit ratio – 60%
- ❑ Targeting rates between 2%-5% of monthly mortgage payment

Source: VOC Research, 2012

Product Terms

- Covered Events—Two product versions:
 - Three-peril: Death, Disability and Involuntary Unemployment
 - Two-peril: Death and Disability
- Critical Period Coverage—Makes mortgage payments:
 - Three-peril: varies per peril, anywhere from 6-12 months
 - Two-peril: without Involuntary Unemployment, able to extend Death and Disability
- Simplified Underwriting—Limited number of Eligibility Questions:
 - Two health-related questions
 - One or two employment-related questions, depending on coverage
- One-page Application—Easy to understand terms so that offers can be made during the time of application
- Rates will be based upon a percentage of the monthly mortgage payment—target is 2% - 5%

Consumer Need is Real



SOURCE: URBAN INSTITUTE; DATA AS OF 2013.

The Mortgage Payment Protection Value Proposition

- **Benefits to Members**

- Offers an affordable resource for weathering unforeseen life events
- Pays an extraordinarily high benefit to members
- Provides a component of an estate plan that is especially valuable for members who:
 - May not afford other types of insurance protection
 - May not qualify for coverage that requires extensive underwriting

- **Benefits to Credit Unions**

- Mitigates loan losses associated with primary drivers of credit risk
- Provides a new source of non-interest income
- Strengthens member relationships with a touch point into the most impactful consumer transaction of most peoples' lives—the mortgage

Questions?
