

## Forum Credit Union: Implementing a First-Time Home Buyer Program

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### Introduction

Andy Mattingly, Chief Operating Officer at Forum Credit Union in Indianapolis, Indiana put down one of a number of studies Forum had on credit unions' potential marketing strategies of mortgage services to first time home buyers (FTHB). Andy had recently returned from Forum's Board Planning Retreat a few weeks earlier. At the retreat the Board had heard a presentation from a consulting firm on how FTHB made up a significant portion of the home purchase market and thus were a prime audience for mortgage loans. However, Forum currently had no mortgage loan program geared towards FTHB and Andy and the Board came away from the retreat with the distinct feeling they were 'behind the curve' in offering such a program. The consulting firm had shown that a significant number of other financial institutions had implemented such a program, many of them with a good degree of success. Andy had spent parts of the previous two days researching what similar financial institutions were offering FTHB and discovered that most did indeed have programs developed especially for this group.

The Board had asked Andy to form a task force charged with the responsibility to design and implement a program for FTHB as the Board felt he was uniquely qualified for this project. Andy had an undergraduate degree in agribusiness from the University of Illinois, an MBA from Butler University, and had been with Forum for twenty-five years. Beginning as a management trainee, Andy had progressed through the ranks of the credit union holding positions in human resources, retail operations, and consumer, commercial, and mortgage lending. He was first promoted to Assistant Vice President, then Vice President of Marketing and Retail Operations, then to Senior VP of marketing, lending, and commercial operations, and finally to his current position of Chief Operating Officer in 2011. Andy had recently worked with an undergraduate marketing class at Butler University which had conducted a study on the feasibility of establishing a FTHB program as well as the programs that other financial institutions had established. The information the student group had provided him had helped to convince him that it was time for Forum to establish such a program.

As Andy surveyed the task ahead of him he knew it was not going to be an easy one. While Forum had been quite busy in the mortgage loan business in recent years, the majority of that business had been in refinancing current loans rather than issuing new mortgages. Andy therefore had several tasks within this main task to accomplish. He had to develop an internal system geared more toward the evaluation and processing of new mortgages rather than refinances. He had to develop the internal capabilities and personnel to manage such a system as well as developing an

understanding of the FTHB and how they established their search processes and preferences in a home mortgages. He also had to develop a plan to recruit new members as well as appealing to their current members. Forum had secured a number of reports and studies about FTHB programs and who the prime target audiences were for such programs. It now was up to Andy to determine the best way to set up a program for FTHB.

### **How Credit Unions Differ from Banks**

In the United States, credit unions were not-for-profit organizations that existed to serve their members rather than to maximize corporate profits. Like banks, credit unions accepted deposits, made loans, and provided a wide array of other financial services. But as member-owned institutions, credit unions focused mainly on providing their members a safe place to save and borrow at reasonable rates. Unlike banks, credit unions returned surplus income to their members in the form of dividends. The fees and loan rates at credit unions were generally lower than commercial banks while deposit dividend and interest rates were generally higher than banks and other for-profit institutions. Credit unions were democratically operated by its members (those who joined the credit union), and allowed account holders an equal say in how the credit union was operated regardless of how much they had on deposit at the credit union. Federally insured credit unions were insured by the National Share Insurance Fund (NCUSIF). The NCUSIF was operated by the National Credit Union Administration (NCUA), a federal government agency, backed by the full faith and credit of the United States government (MyCreditUnion.com 2013).

### **History of the Forum Credit Union**

In December of 1941 the Bureau of Federal Credit Unions granted a Federal Credit Union charter to Hoosier Federal Credit Union of Indianapolis. The field of membership for this credit union initially included only employees of the Indiana Bell Telephone Company and began operations out of a vacant broom closet in the telephone company's facility. The credit union soon was renamed Indiana Telco Federal Credit Union, and in the 1960's Telco Federal became the first credit union in the state to use data processing.

The Telco Credit Union continued to grow in size and membership throughout the 1960's and 1970's and eventually moved to its current headquarters in Fishers, Indiana. In April of 1997, Indiana Telco Federal Credit Union officially changed its charter to a state charter and became Indiana Telco Credit Union. The reason for changing to a state charter was to allow the credit union more flexibility in both its operations and number of eligible members. Due to the increased number of non-telephone industry Select Employee Groups (SEGs), on May 1, 2000, the Board of Directors elected to change the credit union name to something more reflective of the credit union as a whole. The new name, Forum Credit Union, represented a method of conducting business in the new millennium "Your Money. Your Voice. Your Forum". Forum members had a say in their financial well-being as Forum employees constantly listened and strived to meet the needs of their members.

Currently there were more than 140,000 members in 2,000 companies and organizations in the greater Indianapolis area that were Select Employee Groups (SEGs) in Forum's field of membership. At the conclusion of 2017 Forum had \$1.31 billion in assets and serviced their members through thirteen branches in a four-county area in Central Indiana.

## History of Credit Unions and Mortgage Production

Once only responsible for a small percentage of the mortgage market, credit unions had expanded their role in mortgage origination and had filled the demand for more mortgage credit and had enabled more FTHB to purchase a home.

The credit unions' share of mortgage production, which had edged up to 3 percent in the period from 2003 to 2005, rose to 4 percent in 2007, then jumped to 6.75 percent in 2008—where it remained on a plateau between 6 percent and 7 percent until 2013, when it rose to 7.47 percent, according to *Inside Mortgage Finance*. The most recent gains in market share for credit unions had come as the overall mortgage industry's origination volume declined from \$2.1 trillion in 2012 to \$1.89 trillion in 2013, and hit only \$1.1 trillion in 2014 (England 2014). Thus, even though credit unions' share had increased, they were competing for a larger share of a pie that was decreasing in size.

Credit unions, which historically had been more likely to refinance mortgages than initiate new loans, were gaining market share mostly because they were making inroads into home purchase originations (England 2014). They had gained ground with innovative new products that in turn attracted more borrowers. This was especially true for the critical first-time homebuyer, a segment of market demand that traditionally had been weak for credit unions.

The gains by credit unions came in the wake of a shift in the playing field that had removed a lot of the disadvantages that credit unions had traditionally faced in the mortgage market, according to Guy Cecala, president of Inside Mortgage Finance. *"Historically – and that's going back as recently as six or seven years -- credit unions have not been major players in the mortgage markets, and that's been for a variety of reasons,"* said Cecala.

For one thing, the small size of many credit unions had made it relatively difficult to originate mortgages and hold mortgages in their portfolios because *"mortgages eat up so much more dollar amount of your deposits than something like a car loan,"* Cecala explained. *"This is one reason that historically credit unions preferred to be active in the car loan business and less active in the mortgage business"*(England 2014).

### The Current Situation

According to *Mortgage Banking* magazine, since 2010 the competitive landscape had shifted and had created a window of opportunity for America's 6,795 credit unions to take a bigger role in mortgage originations. Credit unions, which historically had originated only about 2 percent of mortgages, had for several years now been taking advantage of new opportunities and expanded their role as mortgage originators.

In the second quarter of 2014, the \$30 billion in mortgage originations by credit unions crossed a watershed when credit unions' share of originations rose to 10.17 percent of overall origination volume, according to *Inside Mortgage Finance*. This marked the first time credit unions had taken a 10 percent share of the mortgage market and had and had gained a real foothold in the mortgage industry. The credit union industry was looking to hold on to that share or possibly even expand it

(England 2014). This information provided further evidence that there was an opportunity for Forum in the FTHB market that should be taken advantage of.

### The First Time Home Buyer

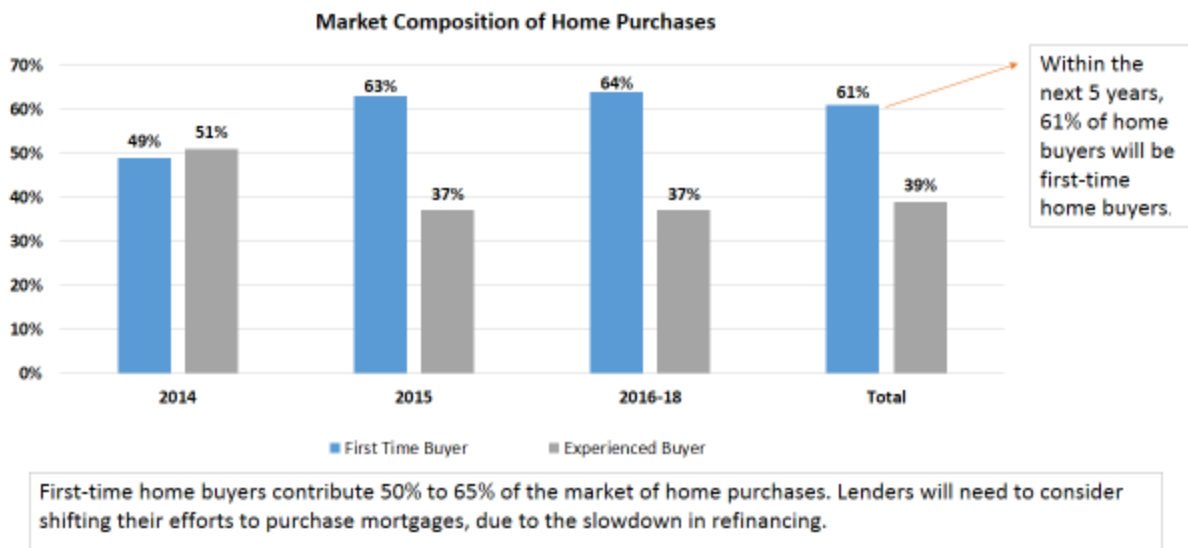
According the United States Department of Housing and Urban Development (HUD 2012), a first time home buyer (FTHB) was an individual who met any of the following criteria:

- An individual who had no ownership in a principal residence during the 3-year period ending on the date of purchase of the property. This included a spouse (if either meets the above test, they were considered first-time homebuyers).
- A single parent who had only owned with a former spouse while married.
- An individual who had become a displaced homemaker and had only owned with a spouse.
- An individual who had only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations.
- An individual who had only owned a property that was not in compliance with state, local or model building codes and which could not be brought into compliance for less than the cost of constructing a permanent structure (HUD 2012).

Figure 1 gives some statistics on the FTHB.

**Figure 1**  
**First Time Home Buyers Presence in the Home Market**

## First-Time Buyers are the Majority of the Home Market



Source: Raddon Financial Group

## The 'Wallet Allocation' Rule Approach to Mortgage Lending

In a study conducted by the Filene Research Institute, Aksoy (2015) applied the Wallet Allocation Rule System to first mortgages that were given by credit unions. The Wallet Allocation Rule linked customer loyalty metrics (e.g., satisfaction, Net Promoter Score) to customers' buying behaviors. The Wallet Allocation Rule was designed to predict the "share" of their income that customers allocated to the brands they used. In polygamous (multi-brand-use) categories, it strongly linked purchases to share of wallet (i.e., the share of business that customers allocate to a brand in an industry category).

In her research, Aksoy surveyed members of ten credit unions and asked them a series of questions as to why they chose their credit union over a bank for a mortgage loan or vice versa. The results of her study found the following general results of how credit union members went about choosing a mortgage loan lender:

- One of the most striking findings of the study was that although some members did conduct some research before deciding on a loan provider, a large percentage of members did not compare options. The majority of credit union members considered only one provider when they decided where to take out their loans, regardless of loan type.
- Moreover, in many of the loan categories investigated, for those members that did do research prior to applying for a loan, the top sources of information originated from the financial institutions themselves. Therefore, credit union websites had to be easy to navigate and up to date. They also had to reflect current market condition and loan officers had to be well informed about their products and about market conditions.
- The Wallet Allocation Rule analysis of why members chose to use a credit union versus a bank revealed stark differences in most loan categories. Since members tended to hold much more positive attitudes toward their credit union than towards a commercial bank, it was not surprising that the study found that relationship was the primary driver of members' decision of choice across most loan categories. That, however, was not the case for members who decided to use a bank for most loan categories.
- In all loan categories investigated, the credit union that respondent members belonged to fared higher on satisfaction levels and Net Promoter Scores when compared to competing institutions. Members indicated they were very satisfied with their credit union and were highly likely to recommend it to others.
- Despite significantly higher satisfaction levels, many credit union members secured loans from competing banks, and the likelihood that members chose a bank tended to increase with the size of the loan.
- What was also clear from this research was that a sizable percentage of credit union members belonged to more than one credit union. So while members generally preferred one credit union, these credit unions were competing not only with banks but with other credit unions as well (Aksoy 2015).

### **The Choice of Mortgage Lender for First Time Home Buyers**

An analysis of why members decided to use their credit union or a bank for their first-time mortgages showed that price (i.e., loan interest rate) was an important factor regardless of the institution chosen. But the Wallet Allocation Rule analysis also revealed stark differences. Among members who chose their own credit union for their mortgage, the most important factor in their choice was their perceived relationship with the institution (see Table 1). Specifically, these members indicated that they “had an existing financial relationship with a provider other than the loan in question (e.g., other currently held account).”

For members who ultimately chose a bank, however, a relationship with the institution was given a much lower priority, ranking ninth in importance. Among members who chose a bank for their mortgage, the second most important factor was the bank’s ability to offer precisely the loan type that best met the member’s needs. Specifically, members indicated that the bank offered the “mortgage type that best met my needs (FHA loan, VA loan, jumbo loan, etc.)” However, for members who ultimately chose their primary credit union, this driver did not even make it into the top 10.

**Table 1**  
**The Top 10 Drivers of Members’ Decision to Use Either Their Own Credit Union or a Bank for a First-Time Mortgage (in order of importance)**

Rating	Their Own Credit Union	Bank
1	I had an existing financial relationship with the provider other than the loan in question (e.g., other currently held account)	Provider offered lowest (fixed) rate on the loan
2	Provider offered lowest (fixed) rate on the loan	Provider offered mortgage type that best met my needs (FHA loan, VA loan, jumbo loan, etc.)
3	I was comfortable with/liked the specific agent assigned to my loan application	Provider was recommended by mortgage broker
4	Offers competitive fees	Provider offered lowest closing costs
5	Provider offered lowest closing costs	Provider was recommended by my realtor
6	Speed of application process	I was comfortable with/liked the specific agent assigned to my loan application
7	Provider was recommended by mortgage broker	Speed of application process
8	Easy application process (e.g., required documentation, forms)	Provider was associated with my realtor (i.e bundled services)
9	Provider offered special incentives (e.g., cash back, reduced closing costs)	I had an existing financial relationship with the provider other than the loan in question (e.g., other currently held account)
10	Provider was recommended by my realtor	Easy application process (e.g., required documentation, forms)

Source: Askoy 2015

These results indicated that credit unions and banks appeared to position themselves to address the needs of different customer segments. While credit unions benefited from generally strong relationships with their members, banks were perceived as offering “better fitting” loan types and appeared to have better relationships with mortgage brokers.

As a result of her research Aksoy came to the conclusion that for first mortgages it was clear that banks were perceived as offering better-fitting loan types and they also appeared to have better relationships with mortgage brokers. She also found that growing the percentage of members who used the credit union for mortgages could not be achieved if credit unions focused solely on member relationships, since they were already winning on this driver.



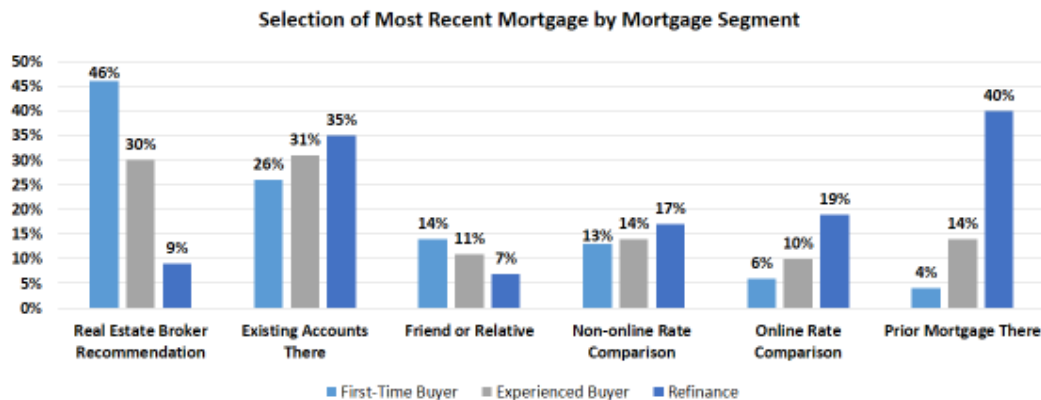
If members' perception that banks were able to offer better-fitting mortgage solutions was accurate, then credit unions needed to broaden their current product offerings. If this perception was incorrect, credit unions needed to do a better job of making their members aware of their ability to offer the loans that best met members' needs.

It was also clear that credit unions needed to work on building strong relationships with mortgage brokers. They first needed to understand why they were not recommended more frequently by brokers. Once they understood why, they needed to actively work to address the issues mortgage brokers had with recommending the credit union.

These findings indicated that credit unions had an opportunity to gain a greater share of loans at the expense of their bank competitors in a number of loan categories. However, this could not be accomplished if the credit unions focused exclusively on the relationship aspect of their offering. This would be especially true since credit unions already tended to be perceived by members as performing significantly better on 'relationships' than their bank competitors. Instead, credit unions needed to identify and minimize the specific reasons that members chose to use a bank for a particular type of loan (Aksoy 2015).

**Figure 2**  
**The Influence of Brokers on FTHB**

## First-Time Mortgage Buyers are Influenced by Brokers



In 46% of mortgage selections by first-time buyers, a real estate broker was involved. Experienced buyers' mortgage selections involved a broker 30% of the time and they were 31% likely to select a mortgage with a lender they already held an existing account relationship. Those with a most recent mortgage that was refinanced claimed to obtain their refinanced mortgage from the same lender as their old mortgage 40% of the time.

Source: Raddon Financial Group



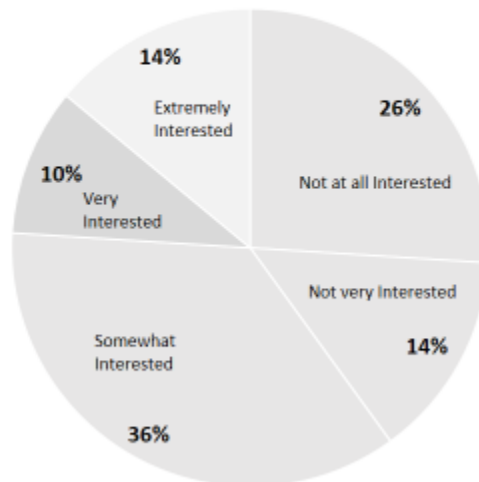
### Forum's Mortgage Business

Forum's mortgage originations had been strong for the past several years fueled by the continual refinance market as every six months mortgage rates seemed to fall to a new record low. In fact, for the last five years, refinance mortgage volume accounted for over 70% of the entire mortgage volume for Forum. Loan originators, processes and products were geared towards capturing this market. However, the need for Forum to expand into the FTHB market is shown by the information contained in Figure 3. Andy also knew that they could not rely on appealing only to current members – they would have to seek and secure new members for their credit union if the program was to be successful.

**Figure 3**  
**Interest in First-Time Home Buyer Programs**

## Strong Interest in First-Time Home Buyer Programs

First-Time Home Buyer Programs Interest Level Results



Survey Question:

"First-time home buyer programs include seminars on how to shop for a home; the overall process of buying a home/condominium; home affordability information; information on types of available mortgages; and personal counseling sessions with estate banking, homeowner insurance, and legal professionals.

How interested would you be to participate in a first-time buyer program if it was offered to you by your primary or most important financial institution?"

Source: Raddon Financial Group

## Millennials' Views of Credit Unions

Information provided in a research study by the Raddon Financial Group indicated that Generation 'Y' – the 'Millennials' – were clearly one of the primary target markets of FTHB. Thus, the more Forum Credit Union understood how to appeal to this target audience the better their chances for success would be.

In another study sponsored by the Filene Research Institute, Turner (2015) examined the perception of credit unions in the minds of millennials. Turner's conclusions were that no one study was going to figure out millennials and their preferences. The millennials were a huge generation that faced unique and new challenges. At the same time, all age groups were all hurtling into a new globalized, networked future that very few understood very well. The information, statistics, and results of this study suggested some general strategies for financial institutions:

**Technology was not enough to impress millennials.** Going mobile was effectively meaningless as a differentiator because everyone now and in the future would be doing it. Given that the cell phone was one of the fastest-spreading technologies in history, defining millennials as the "mobile generation" was shortsighted. It defined not only them but everyone.

**Social media was crucial for engagement.** Social media could not be a halfhearted effort or something that did not spring from the authentic nature of the organization. Credit unions that had success with social media used it as a natural extension of their work, not as a pure marketing effort. Credit unions have had more success using social media as a means by which the online young adult community engaged with questions and feedback for the credit union.

**Focusing on price will cost you business.** Credit unions recognized that competitive prices and fair treatment were absolutely essential to successful recruitment and retention of millennials. However, that did not mean that competitive price and fair treatment were the best differentiators when trying to recruit millennials. If honesty and fair treatment were credit unions' only competitive advantage, then a millennial would choose an honest, inexpensive bank. Put another way, credit unions had to be effective at showing that a credit union was something more than an inexpensive and fair bank. If credit unions were unable to do so they would be unable to compete with such institutions (Turner 2015).

Credit unions that captured millennials and held them for the long term were those that spent time and effort to deeply empathize with the problems, challenges, and opportunities that faced this group. They would then focus on finding ways to offer solutions that could only be offered by a credit union. Offering products like low balance requirements, low transaction cost savings accounts, preloaded debit cards, and credit-builder loans was a good way to start. In the end, banks could not become credit unions—and that remained credit unions' challenge to capture millennials.

### Results of the research specific to how millennials perceive credit unions

Many young millennials were unaware of the core principles of the credit union system. Turner's (2015) conclusions were that credit unions could capture this young demographic by providing

them with personalized products of great need and relevance. In an on-line survey conducted with 18-24 year-olds in December 2014 and January 2015, Turner found the following results:

**A Credit Union is a Type of:**

Financial Institution	55.9% (+5%/-5.1)
Labor Union	4% (+2.9/-1.7)
Educational Institution	2.6% (+2.5/-1.2)
Specialty Retailer	1.5% (+2.8/-1.0)
I have no idea	36.0% (5.1/-4.8)

**Do you qualify to be a member of at least one credit union?**

I have no idea	43.7% (+5.3/-5.1)
Probably	29.8% (+4.8/-4.4)
Probably not	26.6% (+4.9/-4.4)

**Why don't you use a credit union instead of a bank?**

Don't know much about them	34.4% (+4.5/-4.2)
I do use a credit union	27.2% (+4.3/-3.9)
Why bother?	18.5% (+3.8/-3.3)
They're inconvenient	13.0% (+3.4/-2.8)
Banks were more sophisticated	5.1% (+2.4/-1.7)
Banks were better	1.8% (+1.7/-0.9)

**Banks were different from credit unions because:**

Are run for profit	18.5% (+4.1/-3.5)
Are more trustworthy	15.8% (+3.9/-3.2)
Have lower fees and charge less	11.8% (+3.5/-2.8)
Are more sophisticated	8.3% (+3.1/-2.3)
Are owned by their clients	8.0% (+3.1/-2.3)
None of the above	52.3% (+4.9/-4.9)

**Credit Unions were different from banks because**

Have lower fees and charge less	25.8% (+4.5/-4.0)
Are owned by their Clients	20.5% (+4.2/-3.7)
Are more trustworthy	19.0% (+4.1/-3.5)
Are run for profit	8.5% (+3.1/-2.4)
Are more Sophisticated	7.3% (+3.0/-2.2)
None of the above	49.0% (+4.9/-4.9)

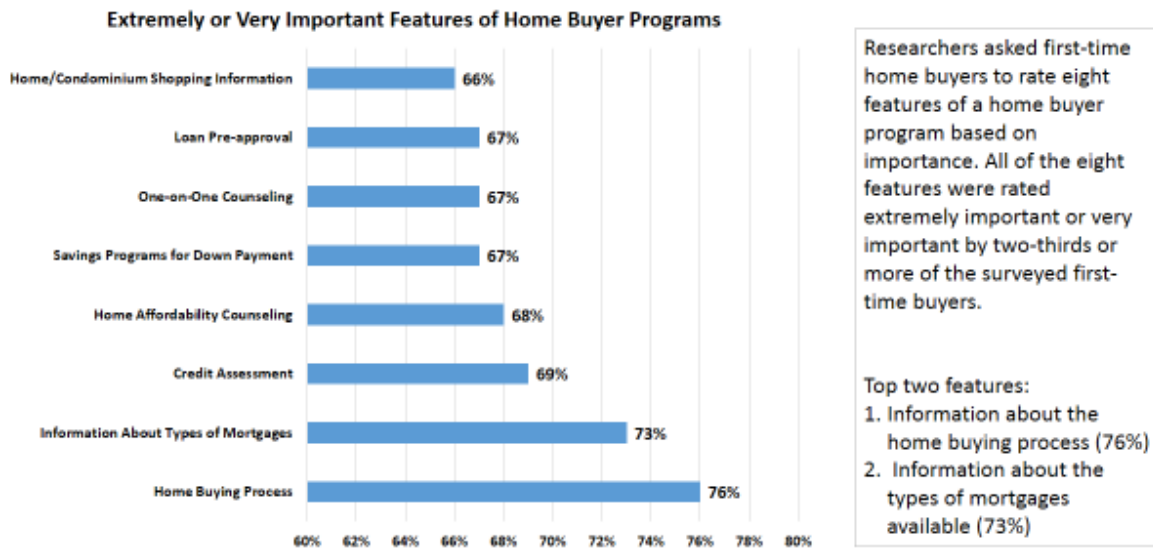
**Which of the following describes large national banks like Citibank or Wells Fargo?**

Cutthroat	20.4% (+5.4/-4.5)
Fast and efficient	18.4% (+5.3/-4.3)
Friendly	13.2% (+4.8/-3.6)
Technologically advanced	11.2% (+4.3/-3.3)
"My kind of people"	4.4% (+3.3/1.9)

### Which type of financial organization do you prefer for car loans, mortgages, and other large transactions?

Whoever is cheapest	24.1% (+4.4/-3.0)
Large national bank	19.1% (+4.2/-3.6)
Community bank	18.3% (+4.0/-3.4)
Community credit union	12.3% (+3.5/-2.8)
Most convenient (ATM, apps)	10.0% (+3.3/2.6)
Large national credit union	8.7% (+3.2/-2.4)
Other alternative (e.g., online)	7.4% (+3.1/-2.2)

## Customers Want Info on Purchase Process & Loan Types



### What Now?

Andy stood up and walked over to his window. As he gazed absent-mindedly at the cars whizzing by on the interstate, he pondered the direction that Forum should take in establishing a program for first-time home buyers. The issue was not having *enough* information – it was *what* information Forum needed to use and *how* to use that information that was the issue. He also knew that Forum was going to have to attract new members as well as current members for this program. He had already put together a task force to design and implement a program for first-time home buyers. His task now was to guide the process to a successful conclusion.

He sat back down at this desk. He felt the information he had in front of him could guide him in his efforts. He now had to decide what direction Forum should take in establishing a program for first time home buyers.

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