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Member Gateways, Affinity Plus Help PCS Help CUs Make Mortgages to Credit Impaired Members

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EAGAN, Minn. — Sub-prime mortgage lending is an area credit unions typically have shied away from because of the risk. But some credit union partners of Member Gateways have found a way to minimize the risk and offer their credit union impaired members a mortgage loan by partnering with a newly formed company Personal Credit Solutions LLC.

The brainchild of CEO Paul Houdek, PCS is jointly owned by Houdek – one third – and multiple-owned CUSO Member Gateways and Affinity Plus FCU, St. Paul, Minn. – two-thirds ownership. The CUSO and Affinity Plus were introduced to PCS by another company Member Gateways does business with.

"In the traditional subprime lending market, the goal is for the lender to make as much money as they can and keep the borrower oppressed and in the vicious cycle of refinancing their loan," says Affinity Plus President/CEO Kyle Markland. "We like the PCS model because we make only a small return while the lion's share goes to the member in the form of them getting an affordable loan and financial counseling to repair the credit problems that has kept them from the benefits of homeownership.

"Credit unions have a fallacy that if they deny a mortgage to credit impaired members, the member just stops looking for that loan. The fact is that member goes somewhere else like a subprime or predatory lender and gets financing there," says Markland.

The Affinity Plus FCU president says 85% of the CU's 123,000 members are A or high B borrowers. The \$972 million CU does risk-based lending for more traditional lending products, but Markland says APFCU has never done loans for members who are "less than traditional."

"If credit unions can't find a way to make loans to these members, the members get stuck in the predatory lending cycle," says Vic Pantea, president and chief operating officer, Member Gateways LLC. "PCS wants to get these members out of that cycle." Partnering with PCS is a way for the CUSO to develop a non-conforming real estate program and make it available to the entire credit union industry, he said.

Houdek's idea for PCS germinated from an alternative lending program he was hired to develop for US Bank in 1999. Houdek says the bank formed a relationship with New Century, a subprime lender in California, and his responsibilities included "taking a second look" at mortgage applications that had been turned down by around 2,400 banks US Bank had relationships with and identify which borrowers would be good candidates for a subprime loan from New Century.

When US Bank merged with First Star Bank in 2001, Houdek found himself out of a job. But from having belonged to Austin Catholic FCU, Aurora, Colo. for many years, he says, "I knew that credit unions have members' best interest at heart and always want to find a way to say yes to them."

Houdek decided to set out on his own to develop a strategic partnership with credit unions to offer an alternative mortgage lending solution.

He says PCS has two major distinctions from the alternative lending product he developed for US Bank. First, he says, "at US Bank I was limited to New Century products, and if that didn't meet the consumer's needs then I was stuck."

The second distinction – which he says is really an outgrowth of the first – is "at PCS we're always going to retain the ability to take a member's loan anywhere in the secondary market where we can find the best solution."

Houdek formed PCS as a C Corp in March 2000, and converted it to an LLC in June 2004.

The closing rate so far has turned out to be about 19% of files initially referred to PCS by credit

unions. In 2004, PCS closed 96 loans valued as total of \$13.2 million. Between June-December 2004, it closed 60% refis and 40% purchases. Affinity Plus sent the company between 75-100 referrals for its credit impaired members since last June.

Including 2005 leads, Houdek said PCS is working with 281 members looking to purchase a home, and most of these are in a "suspended" status as the company needs to work on credit or income issues with the members before they can get them approved for even a non-conforming mortgage.

Because of licensing issues, PCS has relationships so far with six credit union partners of Member Gateways. Besides Affinity Plus they are: Bellco CU, Greenwood Village, Colo.; ENT FCU, Colorado Springs, Colo.; GTE FCU, Tampa, Fla.; San Antonio FCU, Texas; and Wright-Patt CU, Fairborn, Ohio.

Pantea says credit unions' involvement with PCS distinguishes them from predatory lenders who target the credit impaired market.

"Predatory lenders typically recover their costs of acquisition by charging high fees and prices, but credit unions don't have to charge those points because their cost of acquisition is zero," says Pantea.

For now, Houdek says loans made by PCS are funded by First Franklin, a division of National City Bank of Indiana, or Saxon, both mortgage lenders that specialize in making subprime alternative loans.

Houdek says PCS hasn't hit the scale yet that allows it to warehouse its own line of alternative loans. He hopes to have that available to credit unions by December. Eighty percent of the loans offered to the credit impaired members are 2- year ARMs that gives borrowers a fixed rate for the first 24 months of the loan. Houdek says this type of loan allows credit impaired members time to rebuild their credit while making loan payments without having to lay out huge amounts of money. The common denominator with these borrowers, he says, is they're low on cash savings and have poor credit.

"The 2-year ARM gives these members some breathing room," he says. "It's designed to give them the best chance of succeeding by letting them get some savings in place."

Houdek adds that he doesn't want to get labeled as being "a bad credit guy." PCS also makes loans to the self-employed who typically have difficulty getting credit. He has a hybrid product that's based on the monthly Treasury ARM.

"There are lenders out there that aggressively seek those loans," he says, noting that this type of product is "not for everyone."

PCS isn't just about making loans, it's also about helping members get out of the credit problems that sent them to PCS. That's why the CUSO has developed a relationship with financial education firm Financial Finesse.

Based in Manhattan Beach, Calif., PCS' Web site says it has relationships with 30 credit unions throughout the U.S.

"It's in my best interest to keep my promise that I'll get these members back in financial shape," says Houdek.

He explains that Financial Finesse gives credit impaired members a written roadmap called "Personal Financial Coaching" that includes as series of online tools members can use to help restore their credit integrity and a toll-free hotline they can call for financial advice.

Houdek says PCS is able to monitor if a member has called into the hotline or logged on to Financial Finesse.

"We don't want to position this as being a penalty, we want it to be viewed by the member a benefit of having a financial planner," he says.

"I look at PCS as being a way for a credit union to turn a 'no' into a 'yes,' a way for them to have access to expanded guidelines without the portfolio risks that come with those types of loans," says Houdek.

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