



How to Mitigate Loan Default Risk While Increasing Your Loan Portfolio

Presented by Ted Robinson, Chief Executive Officer

Is your credit union prepared for a shifting housing market?



Every year, the housing market is affected by a number of moving parts i.e., market conditions, consumer behaviors, and economic trends. As a lender, it's important to know what the current state of the housing market is and how you can effectively implement products and services to build your lending portfolio with your borrowers and your bottom line in mind.

What we know today



The prices of homes are on the **rise**



Homeowner equity is the **largest source of wealth** for many Americans AND this will continue into the future



Interest rates will **increase** throughout the year

How will this Affect Your Financial Institution?

Let's take a closer look.

Increased home prices impact the whole economy, and your institution is no exception.

Rising home prices generally encourage consumer spending which in turn leads to higher economic growth.



As consumers' homes increase in value, the more they feel financially secure to spend or invest on other items. Consumer spending habits can have a huge impact on cross-selling efforts for your institution as well as growing your home equity portfolio.

How will this Affect Your Financial Institution? cont.

A rise in home prices generates increased wealth for homeowners. As this occurs, homeowners will typically:

- Gain confidence when it comes to spending and borrowing
- Increase their equity withdrawals



A rise in home prices enables homeowners to take out bigger mortgages

+



Financial institutions can lend more on the basis of increased home values

=



Bigger home equity loans

How will this Affect Your Financial Institution? cont.

Bigger home equity loans
=
households spending on other items
=
increase in consumer spending

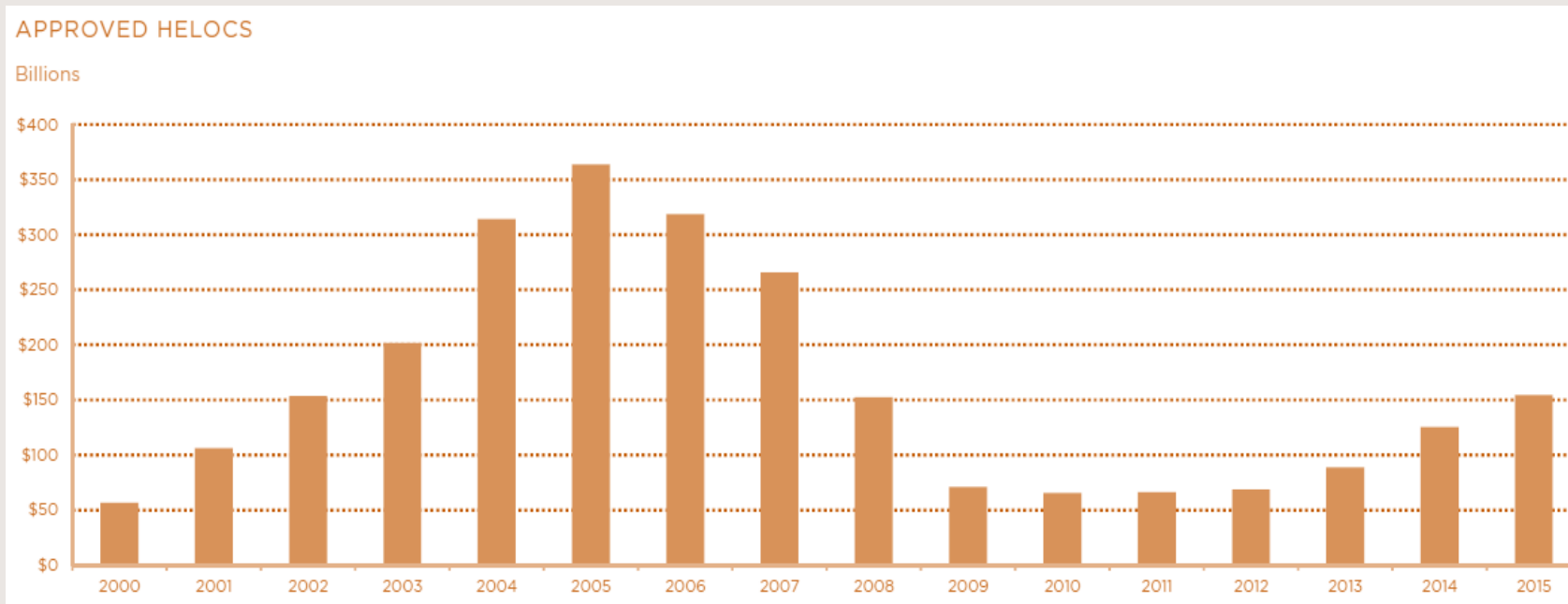


**With the knowledge that
interest rates will increase,
buyers are now taking
advantage of the current rates
in order to save some money.**

The Equity Lending Rebound

The “**Mortgage Crisis**” occurred between the years of 2007–2010. Since then regulatory focus has been conservative.

Going into 2016, home equity lending was up 15% with \$4.5 trillion in untapped home equity. The chart below shows approved home equity line of credit (HELOC) since 2000. We can see that home values are on the rise in recent years.



Source: CoreLogic, Home Equity Lending Landscape, February 2016

Changes in the Lending Mindset



In our technology driven world, borrowers have now become “Google Smart” meaning that they are more familiar than ever of the borrowing process.



In addition to educating themselves, borrowers are also starting to take advantage of the equity in their homes and essentially they are using their home equity as an ATM machine.



Borrowers are also concerned about how to cover major expenses including college expenses, cars, home improvements, and medical bills. Their concerns are affecting their lending outlook.

Why Applications Land in the “Dead” Pile

Roadblocks occur in every industry but when it comes to mortgage lending, there are two simple guidelines that drive declinations

Current Standard Lending Guidelines

- Maximum 80% loan-to-value (LTV)—Borrowers are requesting larger loan amounts, taking full advantage of the value in their home
- Minimum 700+ credit score—Credit scores have destabilizing variables that cause fluctuations
- Institutions lending above 80% have set credit parameters to a higher standard making it difficult to initiate loans

The Solution



SWBC Lending Solutions™ has a solution to expand conservative guidelines and grow a lender's home equity portfolio, potentially by 25%–30%, on a fully insured basis.



We have partnered with a nationally recognized A.M. Best rated A+ Superior carrier to create our exclusive program, Protequity.

What is Protequity



Protequity is an Equity Default Insurance (EDI) program designed to protect a lender's home equity portfolio against losses due to borrower default. Our program is 100% fully insured.



Protequity allows lenders the ability to step outside the established standard lending guidelines and generate quality loans to quality borrowers on an insured basis.



Protequity is not a program to make bad loans good. This is a resource to make valued loans available to valued borrowers while gaining a competitive advantage in the market.

Eligible Loan Types

There are a variety of loans that are eligible through Protequity including:

- Closed-End Second Home Equity Loan (Fixed Rate)
- Home Equity Lines of Credit (HELOC)
- Purchase Money Second Mortgage
- Home Improvement Loans (Secured and Unsecured, up to \$25,000)



Ready to pump up your home equity portfolio?

[Click here](#) to learn more about Protequity!

Protequity Standard Lending Guidelines

With expanded guidelines, lenders can grow their home equity portfolios potentially by 25%–30%. Check out the standard lending guidelines for Protequity.

Maximum 100% LTV

- The lender can set internal thresholds (85%, 90%, 100%) and levels of confidence

660 Credit Score

- Lenders are allowed to establish loans with borrowers that may have had a “blip” on their credit score but are still worthy borrowers

New Loan Criteria

Here is a look at the new loan criteria when you have Protequity in place:

	Closed-End Second	HELOC	Purchase Money Second	Secured Home Improvement	Unsecured Home Improvement (up to \$25,000)
Loan Purpose	Any Purpose Other Than Purchase Money Seconds	Any Purpose Other Than Purchase Money Seconds	Purchase Money Second (Combo, Piggyback)	Home Improvement Only	Home Improvement Only
Credit Score	660	660	660	660 (Up to \$10,000) 680 (\$10,001 - \$250,000)	660 (Up to \$10,000) 680 (\$10,001 - \$25,000)
Max Loan Size	\$250,000	\$250,000	\$250,000	\$250,000	\$25,000
Max Term	240 Months	10 Year Draw, 10 Year Amortization	360 Months	240 Months	180 Months
Max LTV	100%	100%	100%	133%	N/A
Max Debt-to-Income (DTI)	45% Gross	40% Gross	40% Gross	45% Gross (Up to \$10,000) 40% Gross (\$10,001 - \$250,000)	45% Gross (Up to \$10,000) 40% Gross (\$10,001 - \$25,000)

See Protequity in Action

Below is an example of the same borrower with and without Protequity. They are unable to obtain a loan when using the standard lending guidelines. With Protequity, they are approved!



Borrower Information	
HELOC Request = \$75,000	
Current Home Value = \$375,000	
Current Mortgage Balance = \$300,000	
Credit Score = 680	
Current Lending Guidelines	Protequity Lending Guidelines
HELOC Request = \$75,000 (FAIL)	HELOC Request = \$75,000 (PASS)
Credit Score = 680 (FAIL)	Credit Score = 680 (PASS)

Protequity Benefits

There are a number of benefits when implementing Protequity. Here are a few:

- Ability to expand LTV thresholds up to 100%
- Eliminate loss loan reserves and free up valued capital
- File for any reason, no foreclosure required 30–60–90
- Improved balance sheet (When claim is paid, loan comes completely off lender's books with no charge-off)
- One rate for all loan types utilized
- Implementation is seamless, utilizing existing documents and loan systems
- Generate cross-selling opportunities
- Potentially add an additional 25%–35% to the portfolio loan balance (based on marketing and usage)

Impact of Protequity

Protequity has many moving parts and as a result impacts the financial institution as a whole. Here are some of the items you can expect to be positively impacted with Protequity.



New Loans



New Cross Selling Opportunities



New Customers



Additional Revenue

Thank you

We hope you found the information in our presentation valuable.

To grow your home equity portfolio with Protequity, [click here](#) or contact us at 888.594.6575.



About SWBC & SWBC Lending Solutions



Headquartered in San Antonio, SWBC is a diversified financial services company providing a wide range of insurance, mortgage, and investment services to financial institutions, businesses, and individuals. With offices across the country, SWBC is committed to providing quality products, outstanding service, and customized solutions in all 50 states. For more information, visit SWBC's website at www.swbc.com.



SWBC Lending Solutions provides cost-effective and compliant lending products for originators, loan servicers, and portfolio managers. With products specifically designed for each lending segment, SWBC Lending Solutions provides an end-to-end solution designed to maximize efficiency while ensuring compliance in today's regulatory environment. SWBC Lending Solutions is a Morningstar Credit Ratings, LLC, Residential Valuation Ranked Company. For more information, visit www.lendingsolutions.swbc.com.



